W R GRACE & CO
Form 10-Q
November 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-13953

W. R. GRACE & CO.

Delaware	65-0773649
(State of Incorporation)	(I.R.S. Employer Identification No.)

7500 Grace Drive
Columbia, Maryland 21044
(410) 531-4000
(Address and phone number of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2014
Common Stock, $0.01 par value per share	73,822,213 shares

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Unless the context otherwise indicates, in this Report the terms "Grace," "we," "us," "our" or "the Company" mean W. R. Grace & Co. and/or its consolidated subsidiaries and affiliates. Unless otherwise indicated, the contents of websites mentioned in this report are not incorporated by reference or otherwise made a part of this Report. GRACE®, the GRACE® logo and, except as otherwise indicated, the other product names used in the text of this Report are trademarks, service marks, and/or trade names of operating units of W. R. Grace & Co. or its affiliates and/or subsidiaries. UNIPOL® is a trademark of The Dow Chemical Company or an affiliated company of Dow. W. R. Grace & Co.-Conn., a subsidiary of the Company, and/or its affiliates are licensed to use the UNIPOL® trademark in the area of polypropylene.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Review by Independent Registered Public Accounting Firm

With respect to the interim consolidated financial statements included in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, PricewaterhouseCoopers LLP, the company's independent registered public accounting firm, has applied limited procedures in accordance with professional standards for a review of such information. Their report on the interim consolidated financial statements, which follows, states that they did not audit and they do not express an opinion on the unaudited interim consolidated financial statements. Accordingly, the degree of reliance on their report on the unaudited interim consolidated financial statements should be restricted in light of the limited nature of the review procedures applied. This report is not considered a "report" within the meaning of Sections 7 and 11 of the Securities Act of 1933, and, therefore, the independent accountants' liability under Section 11 does not extend to it.

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Report of Independent Registered Public Accounting Firm
To the Shareholders and Board of Directors of W. R. Grace & Co.:

We have reviewed the accompanying consolidated balance sheet of W.R. Grace & Co. and its subsidiaries as of September 30, 2014, and the related consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2014 and 2013 and the consolidated statements of cash flows and equity for the nine-month periods ended September 30, 2014 and 2013. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, comprehensive income, equity (deficit), and of cash flows for the year then ended (not presented herein), and in our report dated February 27, 2014, we expressed an unqualified opinion on those consolidated financial statements with an explanatory paragraph relating to the Company's emergence from bankruptcy and change in the manner in which it accounts for defined benefit pension plans. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2013, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Baltimore, Maryland
November 6, 2014

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W. R. Grace & Co. and Subsidiaries
Consolidated Statements of Operations (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share amounts)	2014	2013	2014	2013
Net sales	$856.4	$771.3	$2,438.9	$2,284.0
Cost of goods sold	528.6	488.9	1,521.0	1,441.7
Gross profit	327.8	282.4	917.9	842.3
Selling, general and administrative expenses	147.7	129.7	428.5	405.1
Research and development expenses	20.5	15.0	61.3	48.5
Interest expense and related financing costs	14.7	10.7	37.0	32.1
Interest accretion on deferred payment obligations	43.7	—	65.5	—
Gain on termination of postretirement plans	(23.7)	—	(31.6)	—
Chapter 11 expenses, net of interest income	1.7	2.9	10.8	11.0
Equity in earnings of unconsolidated affiliate	(6.4)	(2.8)	(13.2)	(17.1)
Other expense, net	10.0	6.0	30.9	17.8
Total costs and expenses	208.2	161.5	589.2	497.4
Income before income taxes	119.6	120.9	328.7	344.9
Provision for income taxes	(44.6)	(43.6)	(66.7)	(117.4)
Net income	75.0	77.3	262.0	227.5
Less: Net income attributable to noncontrolling interests	(0.5)	(0.3)	(1.2)	(1.1)
Net income attributable to W. R. Grace & Co. shareholders	$74.5	$77.0	$260.8	$226.4
Earnings Per Share Attributable to W. R. Grace & Co. Shareholders				
Basic earnings per share:				
Net income attributable to W. R. Grace & Co. shareholders	$1.00	$1.00	$3.44	$2.97
Weighted average number of basic shares	74.7	76.7	75.9	76.2
Diluted earnings per share:				
Net income attributable to W. R. Grace & Co. shareholders	$0.99	$0.99	$3.40	$2.92
Weighted average number of diluted shares	75.6	77.9	76.8	77.6

The Notes to Consolidated Financial Statements are an integral part of these statements.

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W. R. Grace & Co. and Subsidiaries
Consolidated Statements of Comprehensive Income (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Net income	$75.0	$77.3	$262.0	$227.5
Other comprehensive income (loss):				
Defined benefit pension and other postretirement plans, net of income taxes	(18.6)	0.2	3.2	3.4
Currency translation adjustments	(12.7)	4.8	(7.5)	(18.5)
Gain (loss) from hedging activities, net of income taxes	0.7	—	(1.0)	(0.4)
Other than temporary impairment of investment	0.8	—	0.8	—
Gain (loss) on securities available for sale, net of income taxes	0.4	—	(0.1)	—
Total other comprehensive income (loss) attributable to noncontrolling interests	0.7	(0.7)	0.8	(0.9)
Total other comprehensive income (loss)	(28.7)	4.3	(3.8)	(16.4)
Comprehensive income	46.3	81.6	258.2	211.1
Less: comprehensive (income) loss attributable to noncontrolling interests	(1.2)	0.4	(2.0)	(0.2)
Comprehensive income attributable to W. R. Grace & Co. shareholders	$45.1	$82.0	$256.2	$210.9

The Notes to Consolidated Financial Statements are an integral part of these statements.

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W. R. Grace & Co. and Subsidiaries
Consolidated Statements of Cash Flows (unaudited)

(In millions)	Nine Months Ended September 30, 2014	2013
OPERATING ACTIVITIES		
Net income	$262.0	$227.5
Reconciliation to net cash (used for) provided by operating activities:		
Depreciation and amortization	102.3	91.8
Equity in earnings of unconsolidated affiliate	(13.2)	(17.1)
Dividends received from unconsolidated affiliate	11.2	2.8
Chapter 11 expenses, net of interest income	10.8	11.0
Chapter 11 expenses paid	(29.0)	(11.2)
Asbestos and bankruptcy related charges, net	6.8	—
Cash paid to resolve liabilities subject to Chapter 11	(1,315.6)	—
Cash paid to settle deferred payment obligation	(632.0)	—
Provision for income taxes	66.7	117.4
Income taxes paid, net of refunds	(21.7)	(65.6)
Excess tax benefits from stock-based compensation	(0.7)	33.7
Interest accretion on deferred payment obligations	65.5	—
Interest accrued on bonds	2.2	—
Interest accrued on credit arrangements	3.9	—
Interest accrued on pre-petition liabilities subject to compromise	3.4	28.1
Defined benefit pension expense	19.5	22.9
Payments under defined benefit pension arrangements	(94.1)	(63.6)
Expenditures for environmental remediation	(9.7)	(11.2)
Changes in assets and liabilities, excluding effect of currency translation:		
Trade accounts receivable	(51.4)	5.2
Inventories	(49.9)	(35.2)
Accounts payable	18.6	6.8
All other items, net	8.0	(0.7)
Net cash (used for) provided by operating activities	(1,636.4)	342.6
INVESTING ACTIVITIES		
Capital expenditures	(121.7)	(117.9)
Businesses acquired, net of cash acquired	—	(15.8)
Transfer to short-term investments	—	(500.0)
Transfer from restricted cash and cash equivalents	395.4	12.4
Proceeds from sale of business	—	1.8
Other investing activities	5.7	4.2
Net cash provided by (used for) investing activities	279.4	(615.3)
FINANCING ACTIVITIES		
Borrowings under credit arrangements	1,114.4	43.0
Repayments under credit arrangements	(750.0)	(46.0)
Proceeds from issuance of bonds	1,000.0	—
Payments for debt financing costs	(38.6)	—
Proceeds from exercise of stock options	17.6	30.9
Payments for repurchase of common stock	(334.4)	—
Excess tax benefits from stock-based compensation	0.7	(33.7)
Other financing activities	0.2	6.1

Net cash provided by financing activities	1,009.9	0.3
Effect of currency exchange rate changes on cash and cash equivalents	(9.7)	(9.8)
Decrease in cash and cash equivalents	(356.8)	(282.2)
Cash and cash equivalents, beginning of period	964.8	1,336.9
Cash and cash equivalents, end of period	$608.0	$1,054.7

The Notes to Consolidated Financial Statements are an integral part of these statements.

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W. R. Grace & Co. and Subsidiaries
Consolidated Balance Sheets (unaudited)

(In millions, except par value and shares)	September 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$608.0	$964.8
Restricted cash and cash equivalents	—	395.4
Trade accounts receivable, less allowance of $6.2 (2013—$6.0)	527.3	481.8
Inventories	337.3	295.3
Deferred income taxes	227.3	58.1
Other current assets	100.0	99.0
Total Current Assets	1,799.9	2,294.4
Properties and equipment, net of accumulated depreciation and amortization of $1,897.4 (2013—$1,876.8)	826.4	829.9
Goodwill	460.2	457.5
Technology and other intangible assets, net	296.2	315.5
Deferred income taxes	587.9	845.9
Asbestos-related insurance	—	500.0
Overfunded defined benefit pension plans	44.0	16.7
Investment in unconsolidated affiliate	108.8	96.2
Other assets	57.0	40.0
Total Assets	$4,180.4	$5,396.1
LIABILITIES AND EQUITY		
Liabilities Not Subject to Compromise		
Current Liabilities		
Debt payable within one year	$97.7	$81.1
Accounts payable	298.5	262.5
PI warrant liability	490.0	—
Other current liabilities	344.1	292.0
Total Current Liabilities	1,230.3	635.6
Debt payable after one year	1,929.3	29.6
Deferred income taxes	16.8	18.2
Income tax contingencies	18.9	5.0
Underfunded and unfunded defined benefit pension plans	328.9	299.6
Other liabilities	131.8	60.8
Total Liabilities Not Subject to Compromise	3,656.0	1,048.8
Liabilities Subject to Compromise—Note 2	—	3,776.1
Total Liabilities	3,656.0	4,824.9
Commitments and Contingencies—Note 9		
Equity		
Common stock issued, par value $0.01; 300,000,000 shares authorized; outstanding: 74,207,115 (2013—77,046,143)	0.7	0.8
Paid-in capital	538.8	533.4
Retained earnings	276.6	15.8
Treasury stock, at cost: shares: 3,240,132 (2013—0)	(309.6)	—
Accumulated other comprehensive income	6.0	10.6
Total W. R. Grace & Co. Shareholders' Equity	512.5	560.6
Noncontrolling interests	11.9	10.6

Total Equity	524.4	571.2
Total Liabilities and Equity	$4,180.4	$5,396.1

The Notes to Consolidated Financial Statements are an integral part of these statements.

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W. R. Grace & Co. and Subsidiaries
Consolidated Statements of Equity (unaudited)

(In millions)	Common Stock and Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Equity
Balance, December 31, 2012	$537.3	$(240.3)	$(16.8)	$29.7	$9.9	$319.8
Net income	—	226.4	—	—	1.1	227.5
Stock based compensation	10.7	—	—	—	—	10.7
Exercise of stock options	15.8	—	15.1	—	—	30.9
Tax benefit related to stock plans	(33.7)	—	—	—	—	(33.7)
Shares issued	0.8	—	—	—	—	0.8
Other comprehensive loss	—	—	—	(15.5)	(0.9)	(16.4)
Balance, September 30, 2013	$530.9	$(13.9)	$(1.7)	$14.2	$10.1	$539.6
Balance, December 31, 2013	$534.2	$15.8	$—	$10.6	$10.6	$571.2
Net income	—	260.8	—	—	1.2	262.0
Repurchase of common stock	—	—	(334.4)	—	—	(334.4)
Purchase of noncontrolling interest	—	—	—	—	(0.7)	(0.7)
Stock based compensation	9.9	—	—	—	—	9.9
Exercise of stock options	(7.2)	—	24.8	—	—	17.6
Tax benefit related to stock plans	0.7	—	—	—	—	0.7
Shares issued	1.9	—	—	—	—	1.9
Other comprehensive income (loss)	—	—	—	(4.6)	0.8	(3.8)
Balance, September 30, 2014	$539.5	$276.6	$(309.6)	$6.0	$11.9	$524.4

The Notes to Consolidated Financial Statements are an integral part of these statements.

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Notes to Consolidated Financial Statements

1. Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies

W. R. Grace & Co., through its subsidiaries, is engaged in specialty chemicals and specialty materials businesses on a global basis through three operating segments: Grace Catalysts Technologies, which includes catalysts and related products and technologies used in refining, petrochemical and other chemical manufacturing applications; Grace Materials Technologies, which includes packaging technologies and engineered materials used in consumer, industrial, coatings, and pharmaceutical applications; and Grace Construction Products, which includes specialty construction chemicals and specialty building materials used in commercial, infrastructure and residential construction.

W. R. Grace & Co. conducts all of its business through a single wholly owned subsidiary, W. R. Grace & Co.—Conn. ("Grace—Conn."). Grace—Conn. owns all of the assets, properties and rights of W. R. Grace & Co. on a consolidated basis, either directly or through subsidiaries.

As used in these notes, the term "Company" refers to W. R. Grace & Co. The term "Grace" refers to the Company and/or one or more of its subsidiaries and, in certain cases, their respective predecessors.

Chapter 11 Proceedings On April 2, 2001 (the "Filing Date"), Grace and 61 of its United States subsidiaries and affiliates filed voluntary petitions for reorganization (the "Filing") under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") in order to resolve outstanding asbestos personal injury and property damage claims, including class-action lawsuits alleging damages from Zonolite® Attic Insulation ("ZAI"), a former Grace attic insulation product. In 2008, Grace and other parties filed a joint plan of reorganization with the Bankruptcy Court (as subsequently amended, the "Joint Plan"). Following the confirmation of the Joint Plan in 2011 by the Bankruptcy Court and in 2012 by a U.S. District Court, and the resolution of all appeals, Grace emerged from bankruptcy on February 3, 2014. (See Note 2 for Chapter 11 information.)

Basis of Presentation The interim Consolidated Financial Statements presented herein are unaudited and should be read in conjunction with the Consolidated Financial Statements presented in the Company's 2013 Annual Report on Form 10-K. Such interim Consolidated Financial Statements reflect all adjustments that, in the opinion of management, are necessary for a fair statement of the results of the interim periods presented; all such adjustments are of a normal recurring nature except for the impacts of adopting new accounting standards as discussed below. All significant intercompany accounts and transactions have been eliminated.

The results of operations for the nine-month interim period ended September 30, 2014, are not necessarily indicative of the results of operations for the year ending December 31, 2014.

Use of Estimates The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and the reported amounts of revenues and expenses for the periods presented. Actual amounts could differ from those estimates, and the differences could be material. Changes in estimates are recorded in the period identified.

Grace's accounting measurements that are most affected by management's estimates of future events are:

- Contingent liabilities, which depend on an assessment of the probability of loss and an estimate of ultimate resolution cost, such as litigation (see Note 2), income taxes (see Note 6), and environmental remediation (see Note 9);
- Pension and postretirement liabilities that depend on assumptions regarding participant life spans, future inflation, discount rates and total returns on invested funds (see Note 7); and
- Realization values of net deferred tax assets, which depend on projections of future taxable income (see Note 6).

Currency Translation On February 8, 2013, the Venezuelan government announced that, effective February 13, 2013, the official exchange rate of the bolivar to U.S. dollar would devalue from 4.3 to 6.3. As a

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Notes to Consolidated Financial Statements (Continued)

1. Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies (Continued)

result of this currency devaluation, Grace incurred a charge to net income of $8.5 million in the 2013 first quarter. Of this amount, $1.6 million was included in segment operating income.

Licensing Revenue Recognition Grace typically bundles the license, the basic process design package, and training and consulting-type services into one fixed price contract. The fixed price contract revenue is recognized on a straight-line basis over the period of performance of the contract, except for contingent revenue associated with a final performance guarantee. Revenue associated with the performance guarantee is considered contingent; therefore, revenue is recognized when customer acceptance is obtained. Other services that are sold in connection with license arrangements and billed on a variable basis, and process control software, generally qualify for separate accounting, with revenue recognized as earned.

Reclassifications and Revisions Certain amounts in prior years' Consolidated Financial Statements have been reclassified to conform to the current year presentation. Such reclassifications have not materially affected previously reported amounts in the Consolidated Financial Statements.

Certain pension costs previously reported as a separate line item in the Consolidated Statements of Operations are now reported in "cost of goods sold" and in "selling, general and administrative expenses" based upon the functions of the employees to which the pension costs relate. Grace has revised its accounting such that a portion of the defined benefit pension expense has been and will continue to be capitalized into inventories prior to being reported in "cost of goods sold." Grace believes that the change in classification of defined benefit pension costs and the change to inventory capitalization are not material to all prior periods.

Certain prior period amounts related to borrowings and repayments under credit arrangements reported as financing activities on the Consolidated Statements of Cash Flows have been revised. These amounts were originally presented on a net basis and are now being presented on a gross basis. Grace concluded that these revisions were not material to the prior-year Consolidated Financial Statements.

Change in Accounting Principle Regarding Pension Benefits During 2013, Grace changed its method of accounting for actuarial gains and losses relating to its global defined benefit pension plans to a more preferable method under U.S. GAAP. Grace's new method of accounting is referred to as "mark-to-market accounting" and includes immediate recognition of actuarial gains and losses in the period in which they occur. Under Grace's previous accounting method, such amounts were deferred and amortized. In addition, Grace will no longer update the balance sheet funded status of its pension plans each quarter for changes in discount rates and actual returns on assets, but rather will perform such update annually as of the end of each year. Should a significant event occur, Grace's pension obligation and plan assets would be remeasured at an interim period, and the gains or losses on remeasurement would be recognized in that period. This new accounting method was adopted in the 2013 fourth quarter and retrospectively applied to Grace's financial results for all periods presented.

Under mark-to-market accounting, Grace's pension costs consist of two elements: 1) ongoing costs recognized quarterly, which include service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; and 2) mark-to-market gains and losses recognized annually in the fourth quarter resulting from changes in actuarial assumptions, such as discount rates and the difference between actual and expected returns on plan assets. In order to better reflect the nature of pension costs in Grace's operating results, Grace also retrospectively revised the classification of defined benefit pension expense. See "Reclassifications and Revisions" above for further discussion related to these revisions.

These changes have been reported through retrospective application of the new policies to all periods presented. The impacts of all adjustments made to the financial statements are summarized below:

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Notes to Consolidated Financial Statements (Continued)

1. Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies (Continued)

Consolidated Statements of Operations

	Three months ended September 30, 2013		
(In millions, except per share amounts)	Previously Reported	Revised	Effect of Change
Cost of goods sold	$486.6	$488.9	$2.3
Gross profit	284.7	282.4	(2.3)
Selling, general and administrative expenses	125.2	129.7	4.5
Defined benefit pension expense	18.2	—	(18.2)
Total costs and expenses	175.2	161.5	(13.7)
Income before income taxes	109.5	120.9	11.4
Provision for income taxes	(39.8)	(43.6)	(3.8)
Net income	69.7	77.3	7.6
Net income attributable to W. R. Grace & Co. shareholders	69.4	77.0	7.6
Basic earnings per share			
Net income attributable to W. R. Grace & Co. shareholders	0.90	1.00	0.10
Diluted earnings per share			
Net income attributable to W. R. Grace & Co. shareholders	0.89	0.99	0.10

	Nine months ended September 30, 2013		
(In millions, except per share amounts)	Previously Reported	Revised	Effect of Change
Cost of goods sold	$1,432.2	$1,441.7	$9.5
Gross profit	851.8	842.3	(9.5)
Selling, general and administrative expenses	391.7	405.1	13.4
Defined benefit pension expense	54.9	—	(54.9)
Total costs and expenses	538.9	497.4	(41.5)
Income before income taxes	312.9	344.9	32.0
Provision for income taxes	(106.7)	(117.4)	(10.7)
Net income	206.2	227.5	21.3
Net income attributable to W. R. Grace & Co. shareholders	205.1	226.4	21.3
Basic earnings per share			
Net income attributable to W. R. Grace & Co. shareholders	2.69	2.97	0.28
Diluted earnings per share			
Net income attributable to W. R. Grace & Co. shareholders	2.64	2.92	0.28

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Notes to Consolidated Financial Statements (Continued)

1. Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies (Continued)

Consolidated Statements of Cash Flows

(In millions)	Nine months ended September 30, 2013 Previously Reported	Revised	Effect of Change
Cash flows from operating activities:			
Net income	$206.2	$227.5	$21.3
Provision for income taxes	106.7	117.4	10.7
Defined benefit pension expense	54.9	22.9	(32.0)
Inventories	(37.7)	(35.2)	2.5
All other items, net(1)	(7.1)	(9.6)	(2.5)

(1) Includes only those items which relate to the change in accounting method to mark-to-market accounting.

Consolidated Statements of Equity

(In millions)	September 30, 2013 Previously Reported	Revised	Effect of Change
Retained earnings (Accumulated Deficit)			
Beginning balance	$395.2	$(240.3)	$(635.5)
Net income	205.1	226.4	21.3
Ending balance	600.3	(13.9)	(614.2)
Accumulated other comprehensive income (loss)			
Beginning balance	$(607.3)	$29.7	$637.0
Other comprehensive income (loss)	79.6	(15.5)	(95.1)
Ending balance	(527.7)	14.2	541.9
Total equity	$611.9	$539.6	$(72.3)

Consolidated Statements of Comprehensive Income

(In millions)	Three months ended September 30, 2013 Previously Reported	Revised	Effect of Change
Net income	$69.7	$77.3	$7.6
Defined benefit pension and other postretirement plans, net of income taxes	28.8	0.2	(28.6)
Currency translation adjustments	5.0	4.8	(0.2)
Total other comprehensive income (loss)	33.1	4.3	(28.8)
Comprehensive income	102.8	81.6	(21.2)
Comprehensive income attributable to W. R. Grace & Co. shareholders	103.2	82.0	(21.2)

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Notes to Consolidated Financial Statements (Continued)

1. Basis of Presentation and Summary of Significant Accounting and Financial Reporting Policies (Continued)

	Nine months ended September 30, 2013		
(In millions)	Previously Reported	Revised	Effect of Change
Net income	$206.2	$227.5	$21.3
Defined benefit pension and other postretirement plans, net of income taxes	98.3	3.4	(94.9)
Currency translation adjustments	(18.3)	(18.5)	(0.2)
Total other comprehensive income (loss)	78.7	(16.4)	(95.1)
Comprehensive income	284.9	211.1	(73.8)
Comprehensive income attributable to W. R. Grace & Co. shareholders	284.7	210.9	(73.8)

Effect of New Accounting Standards In July 2013, the FASB issued ASU 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This update is intended to improve the consistency surrounding the presentation of an unrecognized tax benefit when a net operating loss carryforward exists, requiring the unrecognized tax benefit to` be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The new requirements are effective for fiscal years beginning after December 15, 2013, and for interim periods within those fiscal years, with early adoption permitted. Grace adopted this standard for the 2014 first quarter, and it did not have a material effect on the Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers." This update is intended to remove inconsistencies and weaknesses in revenue requirements; provide a more robust framework for addressing revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets; provide more useful information to users of financial statements through improved disclosure requirements; and simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The new requirements are effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years, with early adoption not permitted. Grace is currently evaluating its effect on the Consolidated Financial Statements and will adopt this standard when it becomes applicable.

2. Chapter 11 and Joint Plan of Reorganization

On April 2, 2001, Grace and 61 of its United States subsidiaries and affiliates filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code. The cases were consolidated under case number 01-01139 (the "Chapter 11 Cases"). Grace's non-U.S. subsidiaries and certain of its U.S. subsidiaries were not included in the filing.

In September 2008, Grace and other parties filed the Joint Plan with the Bankruptcy Court to address all pending and future asbestos-related claims and all other pre-petition claims as outlined therein. On January 31, 2011, the Bankruptcy Court issued an order (the "Confirmation Order") confirming the Joint Plan. On January 31, 2012, the United States District Court for the District of Delaware (the "District Court") issued an order affirming the Confirmation Order and confirming the Joint Plan in its entirety. On February 3, 2014 (the "Effective Date"), the U.S. Court of Appeals for the Third Circuit (the "Third Circuit") dismissed the sole remaining appeal challenging the Confirmation Order and the Joint Plan became effective.

Under the Joint Plan, two asbestos trusts were established and funded under Section 524(g) of the Bankruptcy Code. The Confirmation Order contains a channeling injunction which provides that all pending and future asbestos-related personal injury claims and demands ("PI Claims") have been channeled for resolution to an asbestos personal injury trust (the "PI Trust") and all pending and future asbestos-related property damage claims and demands ("PD Claims"), including PD Claims related to Grace’s former attic insulation product ("ZAI PD Claims"), have been channeled to a separate asbestos property damage trust (the "PD Trust"). Canadian ZAI PD Claims have been channeled to a separate

Canadian claims fund. The trusts are the sole recourse for holders

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 and Joint Plan of Reorganization (Continued)

of asbestos-related claims; the channeling injunctions prohibit holders of asbestos-related claims from asserting such claims directly against Grace.

Under the terms of the Joint Plan, claims under the Chapter 11 Cases were satisfied as follows:

Asbestos-Related Personal Injury Claims Asbestos personal injury claimants allege adverse health effects from exposure to asbestos-containing products formerly manufactured by Grace.

As of the Filing Date, 129,191 PI Claims were pending against Grace. Grace believes that a substantial number of additional PI Claims would have been received between the Filing Date and the Effective Date had such PI Claims not been stayed by the Bankruptcy Court.

Under the Joint Plan, all PI Claims were channeled to the PI Trust for resolution. The PI Trust will use specified trust distribution procedures to satisfy allowed PI Claims.

On the Effective Date, the PI Trust was funded with:

- $557.7 million in cash from Grace (includes $464.1 million of cash from Grace and $93.6 million of cash from insurance proceeds that were held in escrow);
- A warrant to acquire 10 million shares of Company common stock at an exercise price of $17.00 per share, expiring one year after the Effective Date (the "PI Warrant") (this obligation is expected to be settled in cash with the PI Trust as discussed below);
- Rights to all proceeds under all of Grace's insurance policies that are available for payment of PI Claims;
- $42.1 million in cash from a subsidiary of Fresenius AG, pursuant to the terms of a settlement agreement resolving asbestos-related, successor liability and fraudulent transfer claims against Fresenius; and
- $856.8 million in cash and 18 million shares of Sealed Air Corporation common stock paid by Cryovac, Inc., a wholly owned subsidiary of Sealed Air, pursuant to the terms of a settlement agreement resolving asbestos-related, successor liability and fraudulent transfer claims against Cryovac and Sealed Air.

Under the Joint Plan Grace was also obligated to make deferred payments to the PI Trust of $110 million per year for 5 years beginning in 2019, and $100 million per year for 10 years beginning in 2024, which obligation was secured by the Company's obligation to issue 77,372,257 shares of Company common stock to the asbestos trusts in the event of default, subject to customary anti-dilution provisions. However, in August 2014, Grace and the PI Trust entered into an agreement to settle the deferred payment obligation in exchange for a cash payment of $632 million. Grace made such payment on September 18, 2014, and has no further obligation to make any additional payments to the PI Trust in respect of the deferred payment obligation.

Asbestos-Related Property Damage Claims The plaintiffs in asbestos property damage lawsuits generally seek to have the defendants pay for the cost of removing, containing or repairing the asbestos-containing materials in commercial and public buildings. Various factors can affect the merit and value of PD Claims, including legal defenses, product identification, the amount and type of product involved, the age, type, size and use of the building, the legal status of the claimant, the jurisdictional history of prior cases, the court in which the case is pending, and the difficulty of asbestos abatement, if necessary.

Several class action lawsuits also were filed on behalf of homeowners alleging damage from ZAI. Based on Grace's investigation of the claims described in these lawsuits, and testing and analysis of this product by Grace and others, Grace believes that ZAI was and continues to be safe for its intended purpose and poses little or no threat to human health. The plaintiffs in the ZAI lawsuits dispute Grace's position on the safety of ZAI. In December 2006 the Bankruptcy Court issued an opinion and order holding that, although ZAI is contaminated with asbestos and can release asbestos fibers when disturbed, there is no unreasonable risk of harm from ZAI.

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 and Joint Plan of Reorganization (Continued)

At Grace's request, in July 2008, the Bankruptcy Court established a claims bar date for U.S. ZAI PD Claims and approved a related notice program that required any person with a U.S. ZAI PD Claim to submit an individual proof of claim no later than October 31, 2008. Approximately 17,960 U.S. ZAI PD Claims were filed prior to the October 31, 2008, claims bar date and, as of the Effective Date, an additional 1,310 U.S. ZAI PD Claims were filed.

Under the Joint Plan, all PD Claims have been channeled to the PD Trust for resolution. The PD Trust contains two accounts, the PD Account and the ZAI PD Account. U.S. ZAI PD Claims are to be paid from the ZAI PD Account and non-ZAI PD Claims are to be paid from the PD Account. Canadian ZAI PD Claims are to be paid by a separate fund established in Canada. Each account has a separate trustee and the assets of the accounts may not be commingled.

PD Account

On the Effective Date, the PD Account of the PD Trust was funded with $39.9 million in cash from Grace and $111.4 million in cash from Cryovac and Fresenius to pay allowed non-ZAI PD Claims settled as of the Effective Date, and CDN$8.6 million in cash from Grace to fund the Canadian ZAI PD Claims fund.

Following the Effective Date, unresolved non-ZAI PD Claims are to be litigated in the Bankruptcy Court and any future non-ZAI PD Claims are to be litigated in a federal district court, in each case pursuant to procedures to be approved by the Bankruptcy Court. To the extent any such PD Claims are determined to be allowed claims, they are to be paid in cash by the PD Trust. Grace is obligated to make a payment to the PD Trust every six months in the amount of any non-ZAI PD Claims allowed during the preceding six months plus interest (if applicable) and, except for the first six months, the amount of PD Trust expenses for the preceding six months (the "PD Obligation"). The aggregate amount to be paid under the PD Obligation is not capped and Grace may be obligated to make additional payments to the PD Account in respect of the PD Obligation. Grace has accrued for those unresolved non-ZAI PD Claims that it believes are probable and estimable. Grace has not accrued for other unresolved or unasserted non-ZAI PD Claims, as it does not believe that payment on any such claims is probable. As of September 30, 2014, Grace paid $0.4 million to the PD Trust since the Effective Date to fund the payment of two non-ZAI PD Claims that were filed in the Chapter 11 Cases but not resolved until after the Effective Date.

On the Effective Date, the PD Trust contributed CDN$8.6 million to a separate Canadian ZAI PD Claims fund through which Canadian ZAI PD Claims are to be resolved. Grace has no continuing or contingent obligations to make additional payments into this fund.

ZAI PD Account

On the Effective Date, the ZAI PD Account was funded with $34.4 million in cash from Cryovac and Fresenius. Grace is obligated to make a payment of $30 million in cash to the ZAI PD Account on the third anniversary of the Effective Date, and Grace is obligated to make up to 10 contingent deferred payments of $8 million per year to the ZAI PD Account during the 20-year period beginning on the fifth anniversary of the Effective Date, with each such payment due only if the assets of the ZAI PD Account fall below $10 million during the preceding year. The amounts that Grace will be obligated to pay to the ZAI PD Account under the Joint Plan are capped amounts. Grace is not obligated to make additional payments to the PD Trust in respect of the ZAI PD Account beyond the payments described above. Grace has accrued for the $30 million payment due on the third anniversary of the Effective Date, but has not accrued for the 10 additional payments since Grace does not currently believe they are probable.

The PD Trust is to resolve U.S. ZAI PD Claims that qualify for payment under specified trust distribution procedures by paying 55% of the claimed amount, but in no event is the PD Trust to pay more per claim than $4,125 (as adjusted for inflation each year after the fifth anniversary of the Effective Date).

All payments to the PD Trust required after the Effective Date are secured by the Company's obligation to issue 77,372,257 shares of Company common stock to the asbestos trusts in the event of default, subject to

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 and Joint Plan of Reorganization (Continued)

customary anti-dilution provisions. Grace has the right to conduct annual audits of the books, records and claim processing procedures of the PD Trust.

Asbestos-Related Liability The recorded asbestos-related liability as of December 31, 2013, was $2,092.4 million, and was included in "liabilities subject to compromise" in the accompanying Consolidated Balance Sheets. The asbestos-related liability was settled at the recorded amount on the Effective Date, including payment of cash of $499.5 million at the Effective Date, issuance of deferred payment obligations of $594.5 million and the warrant of $490.0 million, and transfer of all cash and rights with respect to Grace's insurance policies that provide coverage for asbestos-related claims.

The PI Trust deferred payment obligation of $110 million per year for 5 years beginning January 2, 2019, and of $100 million per year for 10 years beginning January 2, 2024, was recorded at fair value of $567 million on the Effective Date. The value of the deferred payment obligation was estimated based on (i) interest rates; (ii) the Company's credit standing and the payment period of the deferred payments; (iii) restrictive covenants and terms of the Company's other credit facilities; (iv) assessment of the risk of a default, which if default were to occur would require Grace to issue shares of Company common stock; and (v) the subordination provisions of the deferred payment agreement. In August 2014, Grace and the PI Trust entered into an agreement to settle the deferred payment obligation in exchange for a cash payment of $632 million. Grace made such payment on September 18, 2014, and has no further obligation to make any additional payments to the PI Trust in respect of the deferred payment obligation.

Grace also recorded a deferred payment obligation of $27.5 million representing the present value of the $30 million payment due to the ZAI PD Account on February 3, 2017. This amount is included in "debt payable after one year" in the accompanying September 30, 2014, Consolidated Balance Sheet.

The warrant to acquire 10 million shares of the Company's common stock for $17.00 per share was recorded at its estimated value of $490 million on the Effective Date based on the current trading range of Company common stock, other valuation factors, and the settlement described below.

PI Warrant Settlement In October 2012, Grace entered into an agreement with interested parties to settle the PI Warrant in cash during the one-year period after the Effective Date. Under the terms of the settlement agreement, Grace will repurchase the PI Warrant for a price equal to the average of the daily closing prices of Company common stock during the period commencing one day after the Effective Date and ending on the day prior to the date the PI Trust elects to sell the PI Warrant back to Grace, multiplied by 10 million (the number of shares issuable under the PI Warrant), less $170 million (the aggregate exercise price of the PI Warrant), provided that if the average of the daily closing prices is less than $54.50 per share, then the repurchase price would be $375 million, and if the average of the daily closing prices exceeds $66.00 per share, then the repurchase price would be $490 million. The settlement agreement is terminable by the PI Trust in the event a tender offer, or other proposed transaction that would result in a change in control of the Company, is announced during the one-year period after the Effective Date. In such event, the PI Warrant would be settled in shares of Company common stock.

Other Claims As provided for in the Joint Plan, Grace paid substantially all other allowed pre-petition claims in full on or within 10 days after the Effective Date. All allowed administrative claims and all allowed priority claims were paid in cash with interest as provided in the Joint Plan. Secured claims were paid in cash with interest or by reinstatement. Allowed general unsecured claims were paid in cash, including post-petition interest in accordance with the Joint Plan. The Joint Plan further provided that Grace, subject to certain non-bankruptcy limitations, satisfy all pension, retirement medical, and similar employee-related obligations and pay workers’ compensation claims.

Unresolved Claims The Bankruptcy Court established a claims bar date of March 31, 2003, for claims of general unsecured creditors, PD Claims (other than ZAI PD Claims) and medical monitoring claims related to asbestos. The bar date did not apply to PI Claims or claims related to ZAI PD Claims. Unresolved claims are to be addressed through the claims objection process and the dispute resolution procedures approved by the Bankruptcy Court.

Medical monitoring claims have been channeled to the PI Trust.

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 and Joint Plan of Reorganization (Continued)

Grace believes that its recorded liabilities for unresolved claims represent a reasonable estimate of the ultimate allowable amount for such claims, where sufficient information is available to determine whether liability is probable and estimable. If it is ultimately determined that any amounts are owed on these claims, they are to be paid in full, with interest as required. While the ultimate outcome of these claims cannot be predicted with certainty, Grace believes that the resolution of these matters will not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

After the Effective Date, all persons and entities generally are forever barred from asserting against Grace any claims or demands that are based upon any act or omission, transaction, or other activity, event or occurrence that occurred prior to the Effective Date, except as expressly provided in the Joint Plan.

Effect on Company Common Stock Under the Joint Plan holders of Company common stock as of the Effective Date retained their shares, but the interests of shareholders are subject to dilution in the event of default with respect to the deferred payment obligation to the PD Trust under the Company's security obligation.

Debt Capital As of December 31, 2013, all of the Debtors' pre-petition debt was in default due to the Filing. The accompanying December 31, 2013, Consolidated Balance Sheet reflects the classification of the Debtors' pre-petition debt within "liabilities subject to compromise." All debt subject to compromise was paid in full. See Note 4 for a discussion of Grace's emergence financing.

Accounting Impact The accompanying Consolidated Financial Statements have been prepared in accordance with ASC 852 "Reorganizations." ASC 852 requires that financial statements of debtors-in-possession be prepared on a going concern basis, which contemplates continuity of operations and realization of assets and liquidation of liabilities in the ordinary course of business.

Pursuant to ASC 852, Grace's pre-petition and post-petition liabilities that were subject to compromise were required to be reported separately on the balance sheet at an estimate of the amount that would ultimately be allowed by the Bankruptcy Court. As of December 31, 2013, such pre-petition liabilities included fixed obligations (such as debt and contractual commitments), as well as estimates of costs related to contingent liabilities (such as asbestos-related litigation, environmental remediation and other claims). Obligations of Grace subsidiaries not covered by the Filing were required to be classified on the Consolidated Balance Sheets based upon maturity dates or the expected dates of payment. ASC 852 also requires separate reporting of certain expenses, realized gains and losses, and provisions for losses related to the Filing as reorganization items. Grace presents reorganization items as "Chapter 11 expenses, net of interest income," a separate caption in its Consolidated Statements of Operations.

Grace's December 31, 2013, Consolidated Balance Sheet separately identifies the liabilities that were "subject to compromise" as a result of the Chapter 11 proceedings. In Grace's case, "liabilities subject to compromise" represented both pre-petition and post-petition liabilities as determined under U.S. GAAP. Changes to pre-petition liabilities subsequent to the Filing Date reflect: (1) cash payments under approved court orders; (2) the terms of the Joint Plan, as discussed above, including the accrual of interest on pre-petition debt and other fixed obligations; (3) accruals for employee-related programs; and (4) changes in estimates related to other pre-petition contingent liabilities.

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 and Joint Plan of Reorganization (Continued)

The table below sets forth the components of liabilities subject to compromise as of December 31, 2013:

(In millions)	December 31, 2013
Asbestos-related contingencies	$2,092.4
Pre-petition bank debt plus accrued interest	1,100.0
Environmental contingencies	134.5
Unfunded special pension arrangements	129.4
Income tax contingencies	76.6
Postretirement benefits other than pension	57.2
Drawn letters of credit plus accrued interest	37.8
Accounts payable	34.3
Retained obligations of divested businesses	29.9
Other accrued liabilities	94.3
Reclassification to current liabilities(1)	(10.3)
Total Liabilities Subject to Compromise	$3,776.1

(1) As of December 31, 2013, $10.3 million of certain pension and postretirement benefit obligations subject to compromise have been presented in "other current liabilities" in the accompanying Consolidated Balance Sheets in accordance with ASC 715 "Compensation—Retirement Benefits."

The unfunded special pension arrangements reflected above exclude non-U.S. pension plans and qualified U.S. pension plans that became underfunded subsequent to the Filing.

Upon emergence from bankruptcy, Grace paid $1,340.6 million to settle certain liabilities subject to compromise. All other balances previously classified as liabilities subject to compromise have been reclassified as either current or long term liabilities based on maturity dates or expected dates of payment.

Chapter 11 Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Legal and financial advisory fees	$1.7	$3.6	$10.9	$12.4
Interest income	—	(0.7)	(0.1)	(1.4)
Chapter 11 expenses, net of interest income	$1.7	$2.9	$10.8	$11.0

Pursuant to ASC 852, interest income earned on the Debtors' cash balances while in bankruptcy was offset against Chapter 11 expenses.

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 and Joint Plan of Reorganization (Continued)

Condensed Financial Information of the Debtors
W. R. Grace & Co.—Chapter 11 Filing Entities
Debtor-in-Possession Statement of Operations

(In millions) (Unaudited)	Nine Months Ended September 30, 2013
Net sales, including intercompany	$1,077.1
Cost of goods sold, including intercompany, exclusive of depreciation and amortization shown separately below	668.4
Selling, general and administrative expenses	176.0
Depreciation and amortization	51.4
Chapter 11 expenses, net of interest income	11.0
Research and development expenses	27.8
Interest expense and related financing costs	28.1
Other income, net	(43.6)
	919.1
Income before income taxes and equity in net income of non-filing entities	158.0
Provision for income taxes	(63.4)
Income before equity in net income of non-filing entities	94.6
Equity in net income of non-filing entities	131.8
Net income attributable to W. R. Grace & Co. shareholders	$226.4

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 and Joint Plan of Reorganization (Continued)

W. R. Grace & Co.—Chapter 11 Filing Entities
Debtor-in-Possession Statement of Cash Flows

(In millions) (Unaudited)	Nine Months Ended September 30, 2013
Operating Activities	
Net income attributable to W. R. Grace & Co. shareholders	$226.4
Reconciliation to net cash provided by operating activities:	
Depreciation and amortization	51.4
Equity in net income of non-filing entities	(131.8)
Provision for income taxes	63.4
Income taxes paid, net of refunds	(3.6)
Excess tax benefits from stock-based compensation	33.7
Interest accrued on pre-petition liabilities subject to compromise	28.1
Defined benefit pension expense	9.9
Payments under defined benefit pension arrangements	(54.2)
Changes in assets and liabilities, excluding the effect of foreign currency translation:	
Trade accounts receivable	(7.5)
Inventories	(34.2)
Accounts payable	7.5
All other items, net	17.2
Net cash provided by operating activities	206.3
Investing Activities	
Capital expenditures	(68.6)
Transfer to short-term investments	(500.0)
Transfer to restricted cash and cash equivalents	(11.2)
Net cash used for investing activities	(579.8)
Financing Activities	
Borrowings under credit arrangements	0.3
Repayments under credit arrangements	(0.6)
Proceeds from exercise of stock options	31.7
Excess tax benefits from stock-based compensation	(33.7)
Net cash used for financing activities	(2.3)
Net decrease in cash and cash equivalents	(375.8)
Cash and cash equivalents, beginning of period	1,064.2
Cash and cash equivalents, end of period	$688.4

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Notes to Consolidated Financial Statements (Continued)

2. Chapter 11 and Joint Plan of Reorganization (Continued)

W. R. Grace & Co.—Chapter 11 Filing Entities
Debtor-in-Possession Balance Sheet

(In millions) (Unaudited)	December 31, 2013
ASSETS	
Current Assets	
Cash and cash equivalents	$585.1
Restricted cash and cash equivalents	340.5
Trade accounts receivable, net	149.7
Receivables from non-filing entities, net	173.0
Inventories	138.9
Other current assets	69.3
Total Current Assets	1,456.5
Properties and equipment, net	484.5
Goodwill	279.9
Technology and other intangible assets, net	249.1
Deferred income taxes	817.3
Asbestos-related insurance	500.0
Loans receivable from non-filing entities, net	283.8
Investment in non-filing entities	531.3
Investment in unconsolidated affiliate	96.2
Other assets	16.5
Total Assets	$4,715.1
LIABILITIES AND EQUITY	
Liabilities Not Subject to Compromise	
Current liabilities	$247.4
Underfunded defined benefit pension plans	52.2
Other liabilities	78.7
Total Liabilities Not Subject to Compromise	378.3
Liabilities Subject to Compromise	3,776.1
Total Liabilities	4,154.4
Total W. R. Grace & Co. Shareholders' Equity	560.6
Noncontrolling interests in Chapter 11 filing entities	0.1
Total Equity	560.7
Total Liabilities and Equity	$4,715.1

This summary of the terms of various agreements does not purport to be complete and is qualified in its entirety by reference to the Joint Plan, the Confirmation Order, the Asbestos Trust Agreements, the Asbestos Insurance Transfer Agreement, the Deferred Payment Agreements, the Guarantee Agreements, the Share Issuance Agreement, the Warrant Agreement, the Warrant Implementation Letter, the Warrant Registration Rights Agreement, and the PI Deferred Payment Obligation Termination Agreement, which have been filed with the SEC.

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Notes to Consolidated Financial Statements (Continued)

3. Inventories

Inventories are stated at the lower of cost or market, and cost is determined using FIFO. Inventories consisted of the following at September 30, 2014, and December 31, 2013:

(In millions)	September 30, 2014	December 31, 2013
Raw materials	$89.2	$69.7
In process	50.8	41.8
Finished products	165.8	152.4
Other	31.5	31.4
	$337.3	$295.3

4. Debt

Components of Debt

(In millions)	September 30, 2014	December 31, 2013
5.125% senior notes due 2021	$700.0	$—
U.S. dollar term loan, net of unamortized discount of $2.1 at September 30, 2014	694.4	—
5.625% senior notes due 2024	300.0	—
Euro term loan, net of unamortized discount of $0.5 at September 30, 2014	189.5	—
Debt payable—unconsolidated affiliate	31.0	28.8
Deferred payment obligation	28.0	—
Other borrowings	84.1	81.9
Total debt	2,027.0	110.7
Less debt payable within one year	97.7	81.1
Debt payable after one year	$1,929.3	$29.6
Debt Subject to Compromise		
Bank borrowings	$—	$500.0
Accrued interest on bank borrowings	—	471.0
Default interest settlement	—	129.0
Drawn letters of credit	—	26.7
Accrued interest on drawn letters of credit	—	11.1
	$—	$1,137.8
Weighted average interest rates on total debt	4.3 %	3.6 %

At September 30, 2014, the fair value of Grace's debt payable approximated the recorded value of $2,027.0 million. Fair value is determined based on Level 2 inputs, including expected future cash flows (discounted at market interest rates), quotes from financial institutions and other appropriate valuation methodologies. Grace's debt subject to compromise was paid in full.

Credit Agreement

On the Effective Date, Grace entered into a Credit Agreement (the "Credit Agreement") in connection with its exit financing. The Credit Agreement provides for:

(a) $700 million term loan due in 2021, with interest at LIBOR +225 bps with a 75 bps floor;

(b) €150 million term loan due in 2021, with interest at EURIBOR +250 bps with a 75 bps floor;

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Notes to Consolidated Financial Statements (Continued)

4. Debt (Continued)

(c) $400 million revolving credit facility due in 2019, with interest at LIBOR +175 bps; and
(d) $250 million delayed draw term loan facility available for 12 months, with amounts drawn due in 2021, with interest at LIBOR +225 bps with a 75 bps floor.

The term loans will amortize in equal monthly installments in aggregate annual amounts equal to 1.00% of the original principal amount thereof.

The Credit Agreement contains customary negative and affirmative covenants and events of default. To secure its obligations under the Credit Agreement, the Company has granted security interests in the shares of its Grace—Conn. and Alltech Associates, Inc. subsidiaries, substantially all of its U.S. non-real estate assets and property, and certain U.S. real estate.

This summary of the Credit Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of such agreement, a copy of which has been filed with the SEC.

Senior Notes

On September 16, 2014, Grace—Conn. (the "Issuer") issued $1,000.0 million of senior unsecured notes (the "Notes") in two tranches:

(a) $700 million in aggregate principal amount of Notes due 2021 at a coupon rate of 5.125%, and
(b) $300 million in aggregate principal amount of Notes due 2024 at a coupon rate of 5.625%.

The Notes were priced at 100% of par and were offered and sold pursuant to exemptions from registration under the Securities Act of 1933, as amended, (the "Securities Act"). The net proceeds received from issuance were $985.5 million, a portion of which was used to terminate Grace's obligations under the deferred payment agreement with the PI Trust for $632.0 million and to repay amounts outstanding under Grace's revolving credit facility. The remaining proceeds from the Notes will be used to partially fund the settlement of the warrant issued to the PI Trust and for other general corporate purposes. Interest is payable on the Notes on each April 1 and October 1, commencing April 1, 2015.

Grace may redeem some or all of the Notes at any time at a price equal to the greater of (i) 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest to, but excluding, the redemption date and (ii) the sum, as determined by an independent investment banker, of the present values of the remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the treasury rate plus 50 basis points, in each case, accrued and unpaid interest to, but excluding, the date of redemption. In the event of a change in control, Grace will be required to offer to purchase the Notes at a price equal to 101% of the aggregate principal amount outstanding plus accrued and unpaid interest.

The Notes are jointly and severally guaranteed on a full and unconditional senior unsecured basis by the Company and Alltech Associates, Inc., a wholly-owned subsidiary of the Issuer (the "Guarantors"). The Notes and guarantees are senior obligations of the Issuer and the Guarantors, respectively, and will rank equally with all of the existing and future unsubordinated obligations of the Issuer and the Guarantors, respectively. The Notes are effectively subordinated to any secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to the debt and other liabilities of Grace’s non-guarantor subsidiaries.

The Notes were issued subject to customary negative covenants and events of default. Generally, if any event of default occurs, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding series of Notes may declare all the Notes of such series to be due and payable immediately.

This summary of the indentures and the Notes does not purport to be complete and is qualified in its entirety by reference to the full text of such agreements, copies of which have been filed with the SEC.

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Notes to Consolidated Financial Statements (Continued)

5. Fair Value Measurements and Risk

Certain of Grace's assets and liabilities are reported at fair value on a gross basis. ASC 820 "Fair Value Measurements and Disclosures" defines fair value as the value that would be received at the measurement date in the principal or "most advantageous" market. Grace uses principal market data, whenever available, to value assets and liabilities that are required to be reported at fair value.

Grace has identified the following financial assets and liabilities that are subject to the fair value analysis required by ASC 820:

Fair Value of Debt and Other Financial Instruments

See Note 4 for a discussion of the fair value of Grace's debt. At September 30, 2014, the recorded values of other financial instruments such as cash equivalents and trade receivables and payables approximated their fair values, based on the short-term maturities and floating rate characteristics of these instruments.

Derivatives

From time to time, Grace enters into commodity derivatives such as fixed-rate swaps or options with financial institutions to mitigate the risk of volatility of prices of natural gas or other commodities. Under fixed-rate swaps, Grace locks in a fixed rate with a financial institution for future purchases, purchases its commodity from a supplier at the prevailing market rate, and then settles with the bank for any difference in the rates, thereby "swapping" a variable rate for a fixed rate.

The valuation of Grace's fixed-rate natural gas swaps was determined using a market approach, based on natural gas futures trading prices quoted on the New York Mercantile Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of natural gas. The effective portion of the gain or loss on the commodity contracts is recorded in "accumulated other comprehensive income" and reclassified into income in the same period or periods that the underlying commodity purchase affects income. At September 30, 2014, there were no current open swap contracts.

The valuation of Grace's natural gas call options was determined using a market approach, based on the strike price of the options and the natural gas futures trading prices quoted on the New York Mercantile Exchange. Commodity option contracts with maturities of not more than 24 months are used and designated as cash flow hedges of forecasted purchases of natural gas. Current open option contracts hedge forecasted transactions until June 2015. The effective portion of the gain or loss on the commodity contracts is recorded in "accumulated other comprehensive income" and reclassified into income in the same period or periods that the underlying purchases affect income. At September 30, 2014, the contract volume, or notional amount, of the commodity option contracts was 3.3 million MMBtu and the natural gas futures trading price of option contracts was less than the strike price.

The valuation of Grace's fixed-rate aluminum swaps was determined using a market approach, based on aluminum futures trading prices quoted on the London Metal Exchange. Commodity fixed-rate swaps with maturities of not more than 12 months are used and designated as cash flow hedges of forecasted purchases of aluminum. Current open contracts hedge forecasted transactions until August 2015. The effective portion of the gain or loss on the commodity contracts is recorded in "accumulated other comprehensive income" and reclassified into income in the same period or periods that the underlying commodity purchase affects income. At September 30, 2014, the contract volume, or notional amount, of the commodity contracts was 1.4 million pounds with a total contract value of $1.2 million.

Because Grace does business in over 40 countries and in more than 50 currencies, results are exposed to fluctuations in currency exchange rates. Grace seeks to minimize exposure to these fluctuations by matching sales in volatile currencies with expenditures in the same currencies, but it is not always possible to do so. From time to time Grace will use financial instruments such as currency forward contracts, options, or combinations of the two to reduce the risk of certain specific transactions. However, Grace does not have a policy of hedging all exposures, because management does not believe that such a level of hedging would be cost-effective.

The valuation of Grace's currency exchange rate forward contracts is determined using both a market approach and an income approach. Inputs used to value currency exchange rate forward contracts consist of:

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Notes to Consolidated Financial Statements (Continued)

5. Fair Value Measurements and Risk (Continued)

(1) spot rates, which are quoted by various financial institutions; (2) forward points, which are primarily affected by changes in interest rates; and (3) discount rates used to present value future cash flows, which are based on the London Interbank Offered Rate (LIBOR) curve or overnight indexed swap rates.

In November 2007, Grace purchased currency forward contracts to mitigate the effect of currency risk with respect to intercompany loans between its principal U.S. subsidiary and a German subsidiary. These derivatives were not designated as hedging instruments under ASC 815 "Derivatives and Hedging." These contracts were settled upon Grace's emergence from bankruptcy during the 2014 first quarter.

Grace uses interest rate swaps designated as cash flow hedges to manage fluctuations in interest rates on variable rate debt. The effective portion of gains and losses on these interest rate cash flow hedges is recorded in "accumulated other comprehensive income" and reclassified into "interest expense and related financing costs" during the period in which the underlying interest payments occur.

In connection with its emergence financing, Grace entered into an interest rate swap beginning on February 3, 2015, and maturing on February 3, 2020, fixing the interest on $250 million of Grace's term debt at a rate of 4.643%. The valuation of this interest rate swap is determined using both a market approach and an income approach, using prevailing market interest rates and discount rates to present value future cash flows based on the forward LIBOR yield curves.

The following tables present the fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2014, and December 31, 2013:

	Fair Value Measurements at September 30, 2014, Using			
(In millions)	Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Currency derivatives	$5.6	$—	$5.6	$—
Interest rate derivatives	0.2	—	0.2	—
Commodity derivatives	0.1	—	0.1	—
Total Assets	$5.9	$—	$5.9	$—
Liabilities				
Currency derivatives	$0.8	$—	$0.8	$—
Interest rate derivatives	2.1	—	2.1	—
Total Liabilities	$2.9	$—	$2.9	$—

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Notes to Consolidated Financial Statements (Continued)

5. Fair Value Measurements and Risk (Continued)

	Fair Value Measurements at December 31, 2013, Using			
(In millions)	Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Currency derivatives	$2.1	$—	$2.1	$—
Total Assets	$2.1	$—	$2.1	$—
Liabilities				
Currency derivatives	$6.9	$—	$6.9	$—
Commodity derivatives	0.1	—	0.1	—
Total Liabilities	$7.0	$—	$7.0	$—

The following tables present the location and fair values of derivative instruments included in the Consolidated Balance Sheets as of September 30, 2014, and December 31, 2013:

	Asset Derivatives		Liability Derivatives	
September 30, 2014 (In millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under ASC 815:				
Commodity contracts	Other current assets	$0.1	Other current liabilities	$—
Currency contracts	Other current assets	0.7	Other current liabilities	0.1
Interest rate contracts	Other current assets	—	Other current liabilities	2.1
Currency contracts	Other assets	1.4	Other liabilities	—
Interest rate contracts	Other assets	0.2	Other liabilities	—
Derivatives not designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	3.5	Other current liabilities	0.7
Total derivatives		$5.9		$2.9

	Asset Derivatives		Liability Derivatives	
December 31, 2013 (In millions)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under ASC 815:				
Commodity contracts	Other current assets	$—	Other current liabilities	$0.1
Currency contracts	Other current assets	1.0	Other current liabilities	—

Currency contracts	Other assets	1.0	Other liabilities	—
Derivatives not designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	0.1	Other current liabilities	6.9
Total derivatives		$2.1		$7.0

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Notes to Consolidated Financial Statements (Continued)

5. Fair Value Measurements and Risk (Continued)

The following tables present the location and amount of gains and losses on derivative instruments included in the Consolidated Statements of Operations or, when applicable, gains and losses initially recognized in other comprehensive income ("OCI") for the three and nine months ended September 30, 2014 and 2013:

Three Months Ended September 30, 2014 (In millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	$1.1	Interest expense	$—
Currency contracts	0.2	Other expense	0.2
Total derivatives	$1.3		$0.2

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Derivatives not designated as hedging instruments under ASC 815:		
Currency contracts	Other expense	$2.6

Nine Months Ended September 30, 2014 (In millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	$(1.8)	Interest expense	$—
Currency contracts	0.1	Other expense	—
Commodity contracts	0.4	Cost of goods sold	0.2
Total derivatives	$(1.3)		$0.2

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Derivatives not designated as hedging instruments under ASC 815:		
Currency contracts	Other expense	$7.4

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Notes to Consolidated Financial Statements (Continued)

5. Fair Value Measurements and Risk (Continued)

Three Months Ended September 30, 2013 (In millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:			
Currency contracts	$0.3	Other expense	$0.5
Currency contracts	—	Cost of goods sold	(0.1)
Commodity contracts	(0.1)	Cost of goods sold	(0.3)
Total derivatives	$0.2		$0.1

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Derivatives not designated as hedging instruments under ASC 815:		
Currency contracts	Other expense	$(9.9)

Nine Months Ended September 30, 2013 (In millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from OCI into Income (Effective Portion)
Derivatives in ASC 815 cash flow hedging relationships:			
Currency contracts	$1.0	Other expense	$1.3
Currency contracts	(0.2)	Cost of goods sold	(0.2)
Commodity contracts	(0.4)	Cost of goods sold	(0.1)
Total derivatives	$0.4		$1.0

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Derivatives not designated as hedging instruments under ASC 815:		
Currency contracts	Other expense	$(5.8)

Net Investment Hedges

Grace uses foreign currency denominated debt as nonderivative hedging instruments in certain net investment hedges. The effective portion of gains and losses attributable to these net investment hedges is recorded to "currency translation adjustments" within "accumulated other comprehensive income." Recognition in earnings of amounts previously recorded to "currency translation adjustments" is limited to circumstances such as complete or substantially complete liquidation of the net investment in the hedged foreign operation. During 2014, Grace designated its €149.3 million term loan principal as a hedging instrument of its net investment in European subsidiaries.

The following tables present the location and amount of gains and losses on nonderivative instruments designated as net investment hedges. There were no reclassifications of the effective portion of net investment hedges out of OCI and into earnings for the periods presented in the tables below.

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Notes to Consolidated Financial Statements (Continued)

5. Fair Value Measurements and Risk (Continued)

Three Months Ended September 30, 2014 (In millions)	Amount of Gain (Loss) Recognized in OCI in Currency Translation Adjustments (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Ineffective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Ineffective Portion)
Nonderivatives in ASC 815 net investment hedging relationships:			
Foreign currency denominated debt	$13.0	Not applicable	$—
Total nonderivatives	$13.0		$—

Nine Months Ended September 30, 2014 (In millions)	Amount of Gain or (Loss) Recognized in OCI in Currency Translation Adjustments (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Ineffective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Ineffective Portion)
Nonderivatives in ASC 815 net investment hedging relationships:			
Foreign currency denominated debt	$14.8	Not applicable	$—
Total nonderivatives	$14.8		$—

Credit Risk

Grace is exposed to credit risk in its trade accounts receivable. Customers in the petroleum refining and construction industries represent the greatest exposure. Grace's credit evaluation policies, relatively short collection terms and history of minimal credit losses mitigate credit risk exposures. Grace does not generally require collateral for its trade accounts receivable, but may require a bank letter of credit in certain instances, particularly when selling to customers in cash restricted countries.

Grace may also be exposed to credit risk in its derivatives contracts. Grace monitors counterparty credit risk and currently does not anticipate nonperformance by counterparties to its derivatives. Grace's derivative contracts are with internationally recognized commercial financial institutions.

6. Income Taxes

The annualized effective tax rate on 2014 forecasted income is estimated to be 24.6% as of September 30, 2014, compared with 28.5% for the year ended December 31, 2013. The decrease in the rate compared with the prior year primarily relates to higher discrete tax benefits in 2014, including a benefit for the release of reserves related to uncertain tax positions.

Grace has generally not paid U.S. Federal income taxes in cash in recent years since available tax deductions and credits have fully offset U.S. taxable income. Grace generated approximately $1,300 million in U.S. Federal net operating losses during 2014, including approximately $670 million upon emergence from bankruptcy and $632 million upon payment of the PI deferred payment obligation in the third quarter. These items, a significant portion of which were previously recorded as deferred tax assets for temporary differences, will be available to reduce U.S. Federal taxable income in 2014 and future years. In addition, Grace expects to receive U.S. Federal income tax deductions upon settlement of the warrant held by the PI Trust and upon payment of the PD deferred payment obligation. The expected settlement amounts have already been recorded as deferred tax assets for temporary differences. Grace expects to carryforward most of its NOLs. Under U.S. Federal income tax law, a corporation is generally permitted to carryforward NOLs for a 20-year period for deduction against future taxable income.

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Notes to Consolidated Financial Statements (Continued)

6. Income Taxes (Continued)

The following table summarizes the balance of deferred tax assets, net of deferred tax liabilities, at September 30, 2014, of $803.4 million:

	Deferred Tax Asset (Net of Liabilities)	Valuation Allowance	Net Deferred Tax Asset(2)
United States—Federal(1)	$705.4	$(2.3)	$703.1
United States—States(1)	78.8	(10.0)	68.8
Germany	24.3	—	24.3
Other Foreign	8.5	(1.3)	7.2
Total	$817.0	$(13.6)	$803.4

(1) The U.S. Federal deductions generated during 2014 relating to emergence of $670 million and settlement of the PI deferred payment obligation of $632 million, plus the future $490 million warrant settlement and $28 million PD deferred payment obligation, account for a significant portion of the U.S. Federal and State deferred tax assets.

(2) The noncurrent deferred tax asset of $587.9 million reflected in the September 30, 2014, Consolidated Balance Sheet is net of $5.1 million of income tax contingencies related to these deferred tax assets.

Grace will need to generate approximately $2,000 million of U.S. Federal taxable income by 2035 (or approximately $100 million per year during the carryforward period) to fully realize the U.S. Federal and a majority of the U.S. State net deferred tax assets.

The following table summarizes expiration dates in jurisdictions where we have, or will have, material tax loss carryforwards:

	Expiration Dates
United States—Federal	2034 - 2035
United States—States	2014 - 2035
Brazil	Unlimited Carryforward
Spain	2029 - 2030
India	2015 - 2021

In evaluating Grace's ability to realize its deferred tax assets, Grace considers all reasonably available positive and negative evidence, including recent earnings experience, expectations of future taxable income and the tax character of that income, the extended period of time over which the temporary differences become deductible and the carryforward and/or carryback periods available to Grace for tax reporting purposes in the related jurisdiction. In estimating future taxable income, Grace develops assumptions, including the amount of future federal, state and international pretax operating income that Grace can reasonably expect to generate, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. Grace records a valuation allowance to reduce deferred tax assets to the amount that it believes is more likely than not to be realized.

Based on the status of examinations in taxing jurisdictions and relevant statutes and regulatory guidance, in the 2014 second quarter Grace recognized $59.6 million of benefits associated with reserves related to uncertain tax positions. Grace believes it is reasonably possible that in the next 12 months the amount of the liability for unrecognized tax benefits could decrease by approximately $1 million.

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Notes to Consolidated Financial Statements (Continued)

7. Pension Plans and Other Postretirement Benefit Plans

Pension Plans The following table presents the funded status of Grace's fully-funded, underfunded, and unfunded pension plans:

(In millions)	September 30, 2014	December 31, 2013
Overfunded defined benefit pension plans	$44.0	$16.7
Underfunded defined benefit pension plans	(18.6)	(66.2)
Unfunded defined benefit pension plans(1)	(310.3)	(233.4)
Total underfunded and unfunded defined benefit pension plans	(328.9)	(299.6)
Unfunded defined benefit pension plans included in liabilities subject to compromise(1)	—	(123.6)
Pension liabilities included in other current liabilities	(15.5)	(15.0)
Net funded status	$(300.4)	$(421.5)

(1) At emergence, Grace paid approximately $27 million of the unfunded defined benefit pension plan liability included in liabilities subject to compromise and reclassified the remaining balance to unfunded defined benefit pension plans.

Fully-funded plans include several advance-funded plans where the fair value of the plan assets exceeds the projected benefit obligation ("PBO"). This group of plans was overfunded by $44.0 million as of September 30, 2014, and the overfunded status is reflected as "overfunded defined benefit pension plans" in the Consolidated Balance Sheets. Underfunded plans include a group of advance-funded plans that are underfunded on a PBO basis. Unfunded plans include several plans that are funded on a pay-as-you-go basis, and therefore, the entire PBO is unfunded. The combined balance of the underfunded and unfunded plans was $344.4 million as of September 30, 2014.

Postretirement Benefits Other Than Pensions Grace has provided postretirement health care and life insurance benefits for retired employees of certain U.S. business units and certain divested business units. The postretirement medical plan provides various levels of benefits to employees hired before 1993 who retire from Grace after age 55 with at least 10 years of service. These plans are unfunded and Grace pays a portion of the costs of benefits under these plans as they are incurred. Grace applies ASC 715 to these plans, which requires that the future costs of postretirement health care and life insurance benefits be accrued over the employees' years of service. Actuarial gains and losses are recognized in the Consolidated Balance Sheets as a component of Shareholders' Equity, with amortization of the net actuarial gains and losses that exceed 10 percent of the accumulated postretirement benefit obligation recognized each quarter in the Consolidated Statements of Operations over the average future service period of active employees.

In June 2014, Grace announced plans to discontinue its postretirement medical plan for all U.S. employees effective October 31, 2014, and to eliminate certain postretirement life insurance benefits. As a result of these actions, Grace recognized a gain of $41.9 million in other comprehensive income in the 2014 second quarter. Grace will amortize $39.5 million from accumulated other comprehensive income into the Consolidated Statement of Operations during the five-month period from June to October 2014. The $31.6 million gain recognized during the nine months ended September 30, 2014, is reported as a separate line item in the Consolidated Statement of Operations.

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Notes to Consolidated Financial Statements (Continued)

7. Pension Plans and Other Postretirement Benefit Plans (Continued)

Components of Net Periodic Benefit Cost (Income)

	Three Months Ended September 30,					
	2014			2013		
	Pension		Other Post	Pension		Other Post
(In millions)	U.S.	Non-U.S.	Retirement	U.S.	Non-U.S.	Retirement
Service cost	$5.8	$2.7	$—	$6.3	$2.8	$—
Interest cost	15.0	5.7	0.1	12.9	5.0	0.5
Expected return on plan assets	(17.4)	(3.9)	—	(17.0)	(3.4)	—
Amortization of prior service cost (credit)	0.1	—	(0.9)	0.2	—	—
Amortization of net deferred actuarial loss	—	—	0.2	—	—	0.2
Gain on termination of postretirement plans	—	—	(23.7)	—	—	—
Net periodic benefit cost (income)	$3.5	$4.5	$(24.3)	$2.4	$4.4	$0.7

	Nine Months Ended September 30,					
	2014			2013		
	Pension		Other Post	Pension		Other Post
(In millions)	U.S.	Non-U.S.	Retirement	U.S.	Non-U.S.	Retirement
Service cost	$17.6	$8.2	$0.1	$18.9	$8.2	$0.1
Interest cost	45.1	17.0	1.0	38.9	15.2	1.6
Expected return on plan assets	(52.4)	(11.7)	—	(51.0)	(10.4)	—
Amortization of prior service cost (credit)	0.5	—	(1.4)	0.6	—	—
Amortization of net deferred actuarial (gain) loss	—	—	(0.1)	—	—	0.4
Mark-to-market adjustment	(3.1)	—	—	—	—	—
Gain on termination of postretirement plans	—	—	(31.6)	—	—	—
Net periodic benefit cost (income)	$7.7	$13.5	$(32.0)	$7.4	$13.0	$2.1

At emergence, benefit payments of approximately $27 million were paid from a U.S. nonqualified pension plan in connection with Grace's emergence from bankruptcy. As a result, that plan was remeasured as of March 1, 2014, using a discount rate of 4.43%. The remeasurement resulted in a mark-to-market gain of $3.1 million.

Plan Contributions and Funding Grace intends to satisfy its funding obligations under the U.S. qualified pension plans and to comply with all of the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). For ERISA purposes, funded status is calculated on a different basis than under U.S. GAAP. In April 2014, Grace made an accelerated contribution to the trusts that hold assets of the U.S. qualified pension plans of approximately $75 million.

Grace intends to fund non-U.S. pension plans based on applicable legal requirements and actuarial and trustee recommendations.

Grace plans to pay benefits as they become due under the pay-as-you-go plans and to maintain compliance with federal funding laws for its U.S. qualified pension plans.

Defined Contribution Retirement Plan Grace sponsors a defined contribution retirement plan for its employees in the United States. This plan is qualified under section 401(k) of the U.S. tax code. Currently, Grace contributes an amount equal to 100% of employee contributions, up to 6% of an individual employee's salary or wages. Grace's costs related to this benefit plan for the three and nine months ended September 30, 2014, were $3.6 million and $10.2 million compared with $3.2 million and $9.9 million for the corresponding prior-year periods.

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Notes to Consolidated Financial Statements (Continued)

8. Other Balance Sheet Accounts

(In millions)	September 30, 2014	December 31, 2013
Other Current Liabilities		
Accrued compensation	$70.2	$62.4
Income tax payable	43.2	32.0
Customer volume rebates	37.2	33.3
Environmental contingencies	22.7	1.3
Deferred revenue	15.8	14.3
Pension liabilities	15.5	15.0
Deferred tax liability	0.1	0.1
Other accrued liabilities	139.4	133.6
	$344.1	$292.0

Accrued compensation in the table above includes salaries and wages as well as estimated current amounts due under the annual and long-term incentive programs. Environmental contingencies and other accrued liabilities in the table above include certain amounts reclassified at emergence from liabilities subject to compromise.

9. Commitments and Contingent Liabilities

Asbestos-Related Liability See Note 2 for a discussion of Grace's asbestos-related liability and future obligations and contingencies following the effectiveness of the Joint Plan.

Environmental Remediation Grace is subject to loss contingencies resulting from extensive and evolving federal, state, local and foreign environmental laws and regulations relating to the generation, storage, handling, discharge, disposition and stewardship of hazardous wastes and other materials. Grace accrues for anticipated costs associated with response efforts where an assessment has indicated that a probable liability has been incurred and the cost can be reasonably estimated. These accruals do not take into account any discounting for the time value of money.

Grace's environmental liabilities are reassessed whenever circumstances become better defined or response efforts and their costs can be better estimated. These liabilities are evaluated based on currently available information, including the progress of remedial investigation at each site, the current status of discussions with regulatory authorities regarding the method and extent of remediation at each site, existing technology, prior experience in contaminated site remediation and the apportionment of costs among potentially responsible parties.

Estimated Investigation and Remediation Costs

At September 30, 2014, Grace's estimated liability for environmental investigation and remediation costs (non-asbestos and asbestos-related) totaled $60.0 million, compared with $135.9 million at December 31, 2013. These amounts are based on funding and/or remediation agreements in place and Grace's estimate of costs for sites not subject to a formal remediation plan for which sufficient information is available to estimate response costs. These amounts do not include certain response costs for the Libby vermiculite mine area or certain vermiculite expansion facilities, which may be material but are not currently estimable. Due to these vermiculite-related matters, it is probable that Grace's actual response costs will exceed Grace's current estimates by material amounts. As of September 30, 2014, claim payments of $75.9 million were made in connection with Grace's emergence from Chapter 11. Net cash paid against previously established reserves for the nine months ended September 30, 2014 and 2013, were $9.7 million and $11.2 million, respectively.

Vermiculite-Related Matters

Grace purchased a vermiculite mine in Libby, Montana, in 1963 and operated it until 1990. Vermiculite concentrate from the Libby mine was used in the manufacture of attic insulation and other products. Some of the

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Notes to Consolidated Financial Statements (Continued)

9. Commitments and Contingent Liabilities (Continued)

vermiculite ore that was mined at the Libby mine contained naturally occurring asbestos. The U.S. Environmental Protection Agency (EPA) has identified sites, including some owned by Grace, which used, stored or processed vermiculite concentrate from the Libby mine. EPA, Grace and/or other potentially responsible parties have conducted response actions at the mine and those sites identified by EPA as requiring remedial action. With respect to the Grace-owned Libby vermiculite mine and the surrounding area, EPA and Grace are engaged in a remedial investigation of these areas, and EPA will determine an appropriate cleanup standard and remedy.

During 2010, EPA began reinvestigating certain facilities on a list of 105 facilities where vermiculite concentrate from the Libby mine may have been processed. Grace is cooperating with EPA on this reinvestigation. EPA has requested that Grace perform remediation at eight of these facilities. In 2011, Grace performed preliminary evaluations to estimate the cost of remediating these sites based on revised criteria and recorded an aggregate charge of $16.0 million. It is probable that EPA will request additional remediation at other facilities. Grace does not have sufficient information to identify either the sites that might require additional remediation or the cost of any additional remediation. Grace will continue to monitor EPA's reinvestigation of the remaining sites and assess any information received from EPA. A liability will be recorded in the future should Grace determine that an obligation is probable and reasonably estimable.

Grace's total estimated liability for response costs that are currently estimable related to its former vermiculite operations in Libby and vermiculite processing sites outside of Libby at September 30, 2014, and December 31, 2013, was $16.6 million and $60.4 million, respectively, excluding interest where applicable. It is probable that Grace's ultimate liability will exceed current estimates by material amounts. Grace's current recorded liability will be adjusted as Grace receives new information and amounts become reasonably estimable.

Non-Vermiculite-Related Matters

At September 30, 2014, and December 31, 2013, Grace's estimated liability for response costs at sites not related to its former vermiculite mining and processing activities was $43.4 million and $75.5 million, respectively. This liability relates to Grace's current and former operations, including its share of liability for off-site disposal at facilities where it has been identified as a potentially responsible party. Grace's estimated liability is based upon regulatory requirements and environmental conditions at each site. As Grace receives new information its estimated liability may change materially.

Purchase Commitments Grace uses purchase commitments to ensure supply and to minimize the volatility of major components of direct manufacturing costs including natural gas, certain metals, rare earths, asphalt, amines and other materials. Such commitments are for quantities that Grace fully expects to use in its normal operations.

Guarantees and Indemnification Obligations Grace is a party to many contracts containing guarantees and indemnification obligations. These contracts primarily consist of:

- Product warranties with respect to certain products sold to customers in the ordinary course of business. These warranties typically provide that products will conform to specifications. Grace generally does not establish a liability for product warranty based on a percentage of sales or other formula. Grace accrues a warranty liability on a transaction-specific basis depending on the individual facts and circumstances related to each sale. Both the liability and annual expense related to product warranties are immaterial to the Consolidated Financial Statements.
- Performance guarantees are offered to customers under certain licensing arrangements. Grace has not established a liability for these arrangements based on past performance.
- Licenses of intellectual property by Grace to third parties in which Grace has agreed to indemnify the licensee against third party infringement claims.
- Contracts providing for the sale of a former business unit or product line in which Grace has agreed to indemnify the buyer against liabilities arising prior to the closing of the transaction, including environmental liabilities.

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Notes to Consolidated Financial Statements (Continued)

9. Commitments and Contingent Liabilities (Continued)

- Guarantees of real property lease obligations of third parties, typically arising out of (a) leases entered into by former subsidiaries of Grace, or (b) the assignment or sublease of a lease by Grace to a third party.

Financial Assurances Financial assurances have been established for a variety of purposes, including insurance and environmental matters, trade-related commitments and other matters. At September 30, 2014, Grace had gross financial assurances issued and outstanding of $143.2 million, composed of $39.2 million of surety bonds issued by various insurance companies and $104.0 million of standby letters of credit and other financial assurances issued by various banks.

Accounting for Contingencies Although the outcome of each of the matters discussed above cannot be predicted with certainty, Grace has assessed its risk and has made accounting estimates as required under U.S. GAAP. Claims related to certain of the items discussed above were addressed as part of Grace's Chapter 11 proceedings. Accruals for such contingencies were included in "liabilities subject to compromise" in the accompanying December 31, 2013, Consolidated Balance Sheet.

10. Restructuring Expenses and Asset Impairments

In the third quarter, Grace incurred costs from restructuring actions as a result of changes in its business environment and business structure. Grace incurred $0.8 million ($0.1 million in Construction Products, $0.1 million in Materials Technologies, and $0.6 million in Catalysts Technologies) of restructuring expenses during the third quarter, compared with $3.6 million during the prior-year quarter. These costs are not included in segment operating income. Substantially all costs related to the restructuring programs are expected to be paid by December 31, 2015.

Also in the third quarter, Grace incurred an asset impairment charge of $4.5 million related to an unconsolidated investment.

Restructuring Expenses and Asset Impairments (In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Restructuring expenses	$0.8	$3.6	$3.5	$8.7
Asset impairments	4.6	—	14.3	—
Total restructuring expenses and asset impairments	$5.4	$3.6	$17.8	$8.7

Restructuring Liability (In millions)	Total
Balance, December 31, 2013	$4.4
Accruals for severance and other costs	3.5
Payments	(4.8)
Currency translation adjustments and other	(0.3)
Balance, September 30, 2014	$2.8

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Notes to Consolidated Financial Statements (Continued)

11. Other Expense, net

Components of other expense, net are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Restructuring expenses and asset impairments	$5.4	$3.6	$17.8	$8.7
Provision for environmental remediation	4.2	1.7	8.8	4.0
Asbestos and bankruptcy-related charges, net	0.4	—	6.8	—
Interest income	(0.3)	(0.2)	(1.3)	(0.5)
Net loss on sales of investments and disposals of assets	0.3	1.1	1.0	—
Currency and other financial losses in Venezuela	1.0	—	1.0	8.5
Currency transaction effects	(1.6)	1.3	(0.9)	2.1
Other miscellaneous (income) expense	0.6	(1.5)	(2.3)	(5.0)
Total other expense, net	$10.0	$6.0	$30.9	$17.8

12. Other Comprehensive Income (Loss)

The following tables present the pre-tax, tax, and after-tax components of Grace's other comprehensive income (loss) for the three and nine months ended September 30, 2014 and 2013:

Three Months Ended September 30, 2014 (In millions)	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
Defined benefit pension and other postretirement plans:			
Gain on termination of postretirement plans	$(23.7)	$5.5	$(18.2)
Amortization of net prior service credit included in net periodic benefit cost	(0.8)	0.3	(0.5)
Amortization of net deferred actuarial loss included in net periodic benefit cost	0.2	(0.1)	0.1
Benefit plans, net	(24.3)	5.7	(18.6)
Currency translation adjustments	(12.7)	—	(12.7)
Gain from hedging activities	1.1	(0.4)	0.7
Other than temporary impairment of investment	0.8	—	0.8
Gain on securities available for sale	0.7	(0.3)	0.4
Other comprehensive loss attributable to W. R. Grace & Co. shareholders	$(34.4)	$5.0	$(29.4)

Nine Months Ended September 30, 2014 (In millions)	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
Defined benefit pension and other postretirement plans:			
Net gain due to postretirement plan changes	$41.9	$(14.7)	$27.2
Gain on termination of postretirement plans	(31.6)	8.3	(23.3)
Amortization of net prior service credit included in net periodic benefit cost	(0.9)	0.3	(0.6)
Amortization of net deferred actuarial gain included in net periodic benefit cost	(0.1)	—	(0.1)
Benefit plans, net	9.3	(6.1)	3.2
Currency translation adjustments	(7.5)	—	(7.5)
Loss from hedging activities	(1.5)	0.5	(1.0)
Other than temporary impairment of investment	0.8	—	0.8
Loss on securities available for sale	(0.1)	—	(0.1)
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	$1.0	$(5.6)	$(4.6)

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Notes to Consolidated Financial Statements (Continued)

12. Other Comprehensive Income (Loss) (Continued)

Three Months Ended September 30, 2013 (In millions)	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
Defined benefit pension and other postretirement plans:			
Amortization of net prior service cost included in net periodic benefit cost	$0.2	$(0.2)	$—
Amortization of net deferred actuarial loss included in net periodic benefit cost	0.2	(0.1)	0.1
Other changes in funded status	—	0.1	0.1
Benefit plans, net	0.4	(0.2)	0.2
Currency translation adjustments	4.8	—	4.8
Gain from hedging activities	0.1	(0.1)	—
Other comprehensive income attributable to W. R. Grace & Co. shareholders	$5.3	$(0.3)	$5.0

Nine Months Ended September 30, 2013 (In millions)	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
Defined benefit pension and other postretirement plans:			
Amortization of net prior service cost included in net periodic benefit cost	$0.6	$(0.3)	$0.3
Amortization of net deferred actuarial loss included in net periodic benefit cost	0.4	(0.2)	0.2
Other changes in funded status	4.4	(1.5)	2.9
Benefit plans, net	5.4	(2.0)	3.4
Currency translation adjustments	(18.5)	—	(18.5)
Loss from hedging activities	(0.6)	0.2	(0.4)
Other comprehensive loss attributable to W. R. Grace & Co. shareholders	$(13.7)	$(1.8)	$(15.5)

The following tables present the changes in accumulated other comprehensive income, net of tax, for the nine months ended September 30, 2014 and 2013:

Nine Months Ended September 30, 2014 (In millions)	Defined Benefit Pension and Other Postretirement Plans	Currency Translation Adjustments	Gain (Loss) from Hedging Activities	Unrealized Loss on Investment	Gain (Loss) on Securities Available for Sale	Total
Beginning balance	$6.6	$5.2	$(0.5)	$(0.8)	$0.1	$10.6
Other comprehensive income (loss) before reclassifications	27.2	(7.5)	(0.8)	—	(0.7)	18.2
Amounts reclassified from accumulated other comprehensive income	(24.0)	—	(0.2)	0.8	0.6	(22.8)
Net current-period other comprehensive income (loss)	3.2	(7.5)	(1.0)	0.8	(0.1)	(4.6)
Ending balance	$9.8	$(2.3)	$(1.5)	$—	$—	$6.0

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Notes to Consolidated Financial Statements (Continued)

12. Other Comprehensive Income (Loss) (Continued)

Nine Months Ended September 30, 2013 (In millions)	Defined Benefit Pension and Other Postretirement Plans	Currency Translation Adjustments	Gain (Loss) from Hedging Activities	Unrealized Loss on Investment	Total
Beginning balance	$2.0	$28.8	$(0.3)	$(0.8)	$29.7
Other comprehensive income (loss) before reclassifications	2.9	(18.5)	0.4	—	(15.2)
Amounts reclassified from accumulated other comprehensive income	0.5	—	(0.8)	—	(0.3)
Net current-period other comprehensive income (loss)	3.4	(18.5)	(0.4)	—	(15.5)
Ending balance	$5.4	$10.3	$(0.7)	$(0.8)	$14.2

Grace is a global enterprise operating in over 40 countries with local currency generally deemed to be the functional currency for accounting purposes. The currency translation amount represents the adjustments necessary to translate the balance sheets valued in local currencies to the U.S. dollar as of the end of each period presented, and to translate revenues and expenses at average exchange rates for each period presented.

See Note 5 for a discussion of hedging activities.

See Note 7 for a discussion of pension plans and other postretirement benefit plans.

13. Earnings Per Share

The following table shows a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share amounts)	2014	2013	2014	2013
Numerators				
Net income attributable to W. R. Grace & Co. shareholders	$74.5	$77.0	$260.8	$226.4
Denominators				
Weighted average common shares—basic calculation	74.7	76.7	75.9	76.2
Dilutive effect of employee stock options	0.9	1.2	0.9	1.4
Weighted average common shares—diluted calculation	75.6	77.9	76.8	77.6
Basic earnings per share	$1.00	$1.00	$3.44	$2.97
Diluted earnings per share	$0.99	$0.99	$3.40	$2.92

There were approximately 0.4 million and 0.3 million anti-dilutive options outstanding for the three and nine months ended September 30, 2014 and 2013. The effect of the warrant for 10 million shares issued under the Joint Plan, as discussed in Note 2, is not included in diluted earnings per share.

On February 4, 2014, Grace announced that the Grace Board of Directors had authorized a share repurchase program of up to $500 million expected to be completed over the following 12 to 24 months at the discretion of management. During the nine months ended September 30, 2014, Grace repurchased 3,489,819 shares of Company common stock for $334.4 million pursuant to the terms of the share repurchase program.

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Notes to Consolidated Financial Statements (Continued)

14. Operating Segment Information

Grace is a global producer of specialty chemicals and specialty materials. Grace manages its business through three operating segments: Grace Catalysts Technologies, Grace Materials Technologies, and Grace Construction Products. Grace Catalysts Technologies includes catalysts and related products and technologies used in refining, petrochemical and other chemical manufacturing applications. Grace's Advanced Refining Technologies (ART) joint venture is managed in this segment. ART is an unconsolidated affiliate, and Grace accounts for ART using the equity method as discussed in Note 15. Grace Materials Technologies includes packaging technologies and engineered materials, coatings and sealants used in consumer, industrial, and pharmaceutical applications. Grace Construction Products includes specialty construction chemicals and specialty building materials used in commercial, infrastructure and residential construction. Intersegment sales are eliminated in consolidation. The table below presents information related to Grace's operating segments. Only those corporate expenses directly related to the operating segments are allocated for reporting purposes. All remaining corporate items are reported separately and labeled as such.

Grace excludes defined benefit pension expense from the calculation of segment operating income. Grace believes that the exclusion of defined benefit pension expense provides a better indicator of its operating segment performance as defined benefit pension expense is not managed at an operating segment level.

Grace defines Adjusted EBIT (a non-GAAP financial measure) to be net income adjusted for interest income and expense, income taxes, costs related to Chapter 11, asbestos-related costs, restructuring expenses and asset impairments, pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits, certain income and expense items related to divested businesses, product lines, and certain other investments and gains and losses on sales of businesses, product lines, and certain other investments. In the 2013 first quarter, Grace also adjusted for the currency transaction loss incurred on its Venezuelan cash balances of $6.9 million before taxes.

Operating Segment Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Net Sales				
Catalysts Technologies	$329.3	$273.7	$927.0	$831.1
Materials Technologies	229.1	220.1	685.0	663.7
Construction Products	298.0	277.5	826.9	789.2
Total	$856.4	$771.3	$2,438.9	$2,284.0
Adjusted EBIT				
Catalysts Technologies segment operating income	$100.9	$77.4	$269.6	$248.4
Materials Technologies segment operating income	48.7	46.8	143.9	135.9
Construction Products segment operating income	48.9	45.6	119.3	113.7
Corporate costs	(23.8)	(20.9)	(69.1)	(65.4)
Gain on termination of postretirement plans related to current businesses	14.2	—	18.9	—
Certain pension costs	(8.0)	(6.8)	(24.3)	(20.4)
Total	$180.9	$142.1	$458.3	$412.2

Corporate costs include corporate support function costs and other corporate costs such as professional fees and insurance premiums.

Grace Adjusted EBIT for the three and nine months ended September 30, 2014 and 2013, is reconciled below to income before income taxes presented in the accompanying Consolidated Statements of Operations.

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Notes to Consolidated Financial Statements (Continued)

14. Operating Segment Information (Continued)

Reconciliation of Operating Segment Data to Financial Statements

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Grace Adjusted EBIT	$180.9	$142.1	$458.3	$412.2
Costs related to Chapter 11	(1.8)	(3.9)	(11.1)	(11.0)
Asbestos-related costs	(2.5)	(1.3)	(3.8)	(4.0)
Asbestos and bankruptcy-related charges, net	(0.4)	—	(6.8)	—
Pension MTM adjustment and other related costs, net	—	—	4.8	(2.5)
Gain on termination of postretirement plans related to divested businesses	9.5	—	12.7	—
Restructuring expenses and asset impairments	(5.4)	(3.6)	(17.8)	(8.7)
Gain on sale of product line	—	—	0.2	—
Income and expense items related to divested businesses	(2.1)	(2.2)	(6.8)	(3.7)
Interest expense and related financing costs	(14.7)	(10.7)	(37.0)	(32.1)
Interest accretion on deferred payment obligations	(43.7)	—	(65.5)	—
Currency and other financial losses in Venezuela	(1.0)	—	(1.0)	(6.9)
Interest income	0.3	0.2	1.3	0.5
Net income attributable to noncontrolling interests	0.5	0.3	1.2	1.1
Income before income taxes	$119.6	$120.9	$328.7	$344.9

The table below presents information related to the geographic areas in which Grace operates. Sales are attributed to geographic areas based on customer location.

Geographic Area Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Net Sales				
United States	$265.4	$227.6	$735.6	$668.7
Canada and Puerto Rico	22.2	20.5	60.4	54.0
Total North America	287.6	248.1	796.0	722.7
Europe Middle East Africa	280.8	273.7	839.2	816.2
Asia Pacific	192.6	155.0	529.5	478.7
Latin America	95.4	94.5	274.2	266.4
Total	$856.4	$771.3	$2,438.9	$2,284.0

15. Unconsolidated Affiliate

Grace accounts for its 50% ownership interest in ART using the equity method of accounting. Grace's investment in ART amounted to $108.8 million and $96.2 million as of September 30, 2014, and December 31, 2013, respectively, and the amount included in "equity in earnings of unconsolidated affiliate" in the accompanying Consolidated Statements of Operations totaled $6.4 million and $13.2 million for the three and nine months ended September 30, 2014, compared with $2.8 million and $17.1 million for the three and nine months ended September 30, 2013, respectively.

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Notes to Consolidated Financial Statements (Continued)

15. Unconsolidated Affiliate (Continued)

Grace and ART transact business on a regular basis and maintain several agreements in order to operate the joint venture. These agreements are treated as related party activities with an unconsolidated affiliate. The table below presents summary financial data related to transactions between Grace and ART.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Grace sales of catalysts to ART	$67.8	$69.2	$197.8	$174.2
Charges for fixed costs, research and development and selling, general and administrative services to ART	6.1	7.0	20.7	22.5

Grace and Chevron provide lines of credit in the amount of $15.0 million each at a commitment fee of 0.1% of the credit amount. These agreements expire on February 27, 2015. No amounts were outstanding at September 30, 2014, and December 31, 2013.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We generally refer to the quarter ended September 30, 2014, as the "third quarter", the quarter ended September 30, 2013, as the "prior-year quarter," the quarter ended March 31, 2014, as the "2014 first quarter," the quarter ended June 30, 2014, as the "2014 second quarter," the nine months ended September 30, 2014, as the "nine months," and the nine months ended September 30, 2013, as the "prior-year period." Our references to "advanced economies" and "emerging regions" refer to classifications established by the International Monetary Fund. See Analysis of Operations for a discussion of our non-GAAP performance measures.

Results of Operations

Third Quarter Performance Summary

Following is a summary of our financial performance for the third quarter compared with the prior-year quarter.

- Net sales increased 11.0% to $856.4 million.
- Adjusted EBIT increased 27.3% to $180.9 million.
- Grace net income decreased 3.2% to $74.5 million or $0.99 per diluted share. Adjusted EPS was $1.07 per diluted share.
- Adjusted EBIT Return On Invested Capital was 29.8% on a trailing four quarters basis compared with 27.4% for the 2013 fourth quarter.

Summary Description of Business

We are engaged in specialty chemicals and specialty materials businesses on a worldwide basis through our three operating segments.

Grace Catalysts Technologies produces and sells catalysts and related products and technologies used in refining, petrochemical and other chemical manufacturing applications including:

- Fluid catalytic cracking catalysts, also called FCC catalysts, that help to "crack" the hydrocarbon chain in distilled crude oil to produce transportation fuels, such as gasoline and diesel fuels, and other petroleum-based products; and
- FCC additives used to reduce sulfur in gasoline, maximize propylene production from refinery FCC units, and reduce emissions of sulfur oxides, nitrogen oxides and carbon monoxide from refinery FCC units;
- Hydroprocessing catalysts, most of which are marketed through our ART joint venture with Chevron Products Company in which we hold a 50% economic interest, that are used in process reactors to upgrade heavy oils into lighter, more useful products by removing impurities such as nitrogen, sulfur and heavy metals, allowing less expensive feedstocks to be used in the petroleum refining process (ART is not consolidated in our financial statements, so ART's sales are excluded from our sales);
- Polyolefin catalysts and catalyst supports, for the production of polypropylene and polyethylene thermoplastic resins, which can be customized to enhance the performance of a wide range of industrial and consumer end-use applications including high pressure pipe, geomembranes, food packaging, automotive parts, medical devices, and textiles; and chemical catalysts used in a variety of industrial, environmental and consumer applications; and
- Gas-phase polypropylene process technology, which provides our licensees with a reliable capability to manufacture polypropylene products for a broad array of end-use applications.

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Grace Materials Technologies produces and sells specialty materials, coatings and sealants and related products used in coatings, consumer, industrial, pharmaceutical, and packaging applications including:

- Silica-based engineered materials, including silica-based and silica-alumina-based materials, used in:
- Coatings and print media applications, including functional additives that provide matting effects and corrosion protection for industrial and consumer coatings and media and paper products to enhance quality in ink jet coatings;
- Consumer applications, as a free-flow agent, carrier or processing aid in food and personal care products; as a toothpaste abrasive and thickener; and for the processing and stabilization of edible oils and beverages;
- Industrial applications, such as tires and rubber, precision investment casting, refractory, insulating glass windows, biofuels, and drying applications, fulfilling various functions such as reinforcement, high temperature binding and moisture scavenging;
- Pharmaceutical, life science and related applications including silica-based separation media, excipients and pharmaceutical intermediates; complementary purification products, chromatography consumables, and instruments; and CO_2 absorbents used in anesthesiology and mine safety applications; and
- Packaging materials, including can and closure sealants used to seal and enhance the shelf life of can and bottle contents; coatings for cans and closures that prevent metal corrosion, protect package contents from the influence of metal and ensure proper adhesion of sealing compounds; and scavenging technologies designed to reduce off-taste and extend the shelf-life of packaged products.

Grace Construction Products produces and sells specialty construction chemicals and specialty building materials, including:

- Construction chemicals including concrete admixtures and fibers used to modify the rheology, improve the durability and enhance various other properties of concrete, mortar, masonry and other cementitious construction materials; and additives used in cement processing to improve energy efficiency in manufacturing, enhance the characteristics of finished cement and improve ease of use; and
- Building materials used in both new construction and renovation/repair projects. The products protect buildings and civil engineering structures from water, vapor and air penetration. The portfolio includes waterproofing membranes for commercial and residential buildings, specialty grouts for use in waterproofing and soil stabilization applications, air and vapor barriers, and other products to solve the specialized needs of preventative and repair applications.

Global Scope

We operate our business on a global scale with approximately 71% of our annual 2013 sales and 70% of our nine months sales outside the United States. We conduct business in over 40 countries and in more than 50 currencies. We manage our operating segments on a global basis, to serve global markets. Currency fluctuations affect our reported results of operations, cash flows, and financial position.

Analysis of Operations

We have set forth in the table below our key operating statistics with percentage changes for the third quarter compared with the prior-year quarter and the nine months compared with the prior-year period. Please refer to this Analysis of Operations when reviewing this Management's Discussion and Analysis of Financial Condition and Results of Operations.

In 2013 we elected to change our method of accounting for deferred actuarial gains and losses relating to our global defined benefit pension plans. The new accounting method, referred to as mark-to-market accounting, was adopted in the 2013 fourth quarter and retrospectively applied to our financial results for all periods presented in this report. See Note 1 to the Consolidated Financial Statements under the caption "Change in Accounting Principle Regarding Pension Benefits" for additional information.

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We define Adjusted EBIT (a non-GAAP financial measure) to be net income adjusted for interest income and expense, income taxes, costs related to Chapter 11, asbestos-related costs, restructuring expenses and asset impairments, pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits, certain income and expense items related to divested businesses, product lines and certain other investments and gains and losses on sales of businesses, product lines and certain other investments. In the 2013 first quarter, we also adjusted for the currency transaction loss incurred on our Venezuelan cash balances of $6.9 million before taxes.

We define Adjusted EBITDA (a non-GAAP financial measure) to be Adjusted EBIT adjusted for depreciation and amortization.

We define Adjusted Earnings Per Share (EPS) (a non-GAAP financial measure) to be diluted EPS adjusted for costs related to Chapter 11, asbestos-related costs, restructuring expenses and asset impairments, pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits, certain income and expense items related to divested businesses, product lines and certain other investments, gains and losses on sales of businesses, product lines and certain other investments, and certain discrete tax items. In the 2013 first quarter, we also adjusted for the currency transaction loss incurred on our Venezuelan cash balances of $0.09 per share.

We define Adjusted EBIT Return On Invested Capital (a non-GAAP financial measure) to be Adjusted EBIT (on a trailing four quarters basis) divided by the sum of net working capital, properties and equipment and certain other assets and liabilities.

We define Segment Gross Margin (a non-GAAP financial measure) to be gross margin adjusted for pension-related costs included in cost of goods sold.

We use Adjusted EBIT as a performance measure in significant business decisions and in determining certain incentive compensation. We use Adjusted EBIT as a performance measure because it provides improved period-to-period comparability for decision making and compensation purposes, and because it better measures the ongoing earnings results of our strategic and operating decisions by excluding the earnings effects of our Chapter 11 proceedings, asbestos liabilities, restructuring activities, and divested businesses.

Adjusted EBIT, Adjusted EBITDA, Adjusted EPS, Adjusted EBIT Return On Invested Capital and Segment Gross Margin do not purport to represent income measures as defined under U.S. GAAP, and should not be used as alternatives to such measures as an indicator of our performance. These measures are provided to investors and others to improve the period-to-period comparability and peer-to-peer comparability of our financial results, and to ensure that investors understand the information we use to evaluate the performance of our businesses. We have provided in the following tables a reconciliation of these non-GAAP measures to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP.

Adjusted EBIT has material limitations as an operating performance measure because it excludes Chapter 11- and asbestos-related costs and may exclude income and expenses from restructuring activities and divested businesses, which historically have been material components of our net income. Adjusted EBITDA also has material limitations as an operating performance measure because it excludes the impact of depreciation and amortization expense. Our business is substantially dependent on the successful deployment of capital, and depreciation and amortization expense is a necessary element of our costs. We compensate for the limitations of these measurements by using these indicators together with net income as measured under U.S. GAAP to present a complete analysis of our results of operations. Adjusted EBIT and Adjusted EBITDA should be evaluated together with net income measured under U.S. GAAP for a complete understanding of our results of operations.

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Analysis of Operations (In millions, except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	% Change	2014	2013	% Change
Net sales:						
Catalysts Technologies	$329.3	$273.7	20.3 %	$927.0	$831.1	11.5 %
Materials Technologies	229.1	220.1	4.1 %	685.0	663.7	3.2 %
Construction Products	298.0	277.5	7.4 %	826.9	789.2	4.8 %
Total Grace net sales	$856.4	$771.3	11.0 %	$2,438.9	$2,284.0	6.8 %
Net sales by region:						
North America	$287.6	$248.1	15.9 %	$796.0	$722.7	10.1 %
Europe Middle East Africa	280.8	273.7	2.6 %	839.2	816.2	2.8 %
Asia Pacific	192.6	155.0	24.3 %	529.5	478.7	10.6 %
Latin America	95.4	94.5	1.0 %	274.2	266.4	2.9 %
Total net sales by region	$856.4	$771.3	11.0 %	$2,438.9	$2,284.0	6.8 %
Profitability performance measures:						
Adjusted EBIT(A):						
Catalysts Technologies segment operating income	$100.9	$77.4	30.4 %	$269.6	$248.4	8.5 %
Materials Technologies segment operating income	48.7	46.8	4.1 %	143.9	135.9	5.9 %
Construction Products segment operating income	48.9	45.6	7.2 %	119.3	113.7	4.9 %
Corporate costs	(23.8)	(20.9)	(13.9)%	(69.1)	(65.4)	(5.7)%
Gain on termination of postretirement plans related to current businesses	14.2	—	NM	18.9	—	NM
Certain pension costs(B)	(8.0)	(6.8)	(17.6)%	(24.3)	(20.4)	(19.1)%
Adjusted EBIT	180.9	142.1	27.3 %	458.3	412.2	11.2 %
Costs related to Chapter 11	(1.8)	(3.9)	53.8 %	(11.1)	(11.0)	(0.9)%
Asbestos-related costs	(2.5)	(1.3)	(92.3)%	(3.8)	(4.0)	5.0 %
Asbestos and bankruptcy-related charges, net	(0.4)	—	NM	(6.8)	—	NM
Pension MTM adjustment and other related costs, net	—	—	— %	4.8	(2.5)	NM
Gain on termination of postretirement plans related to divested businesses	9.5	—	NM	12.7	—	NM
Restructuring expenses and asset impairments	(5.4)	(3.6)	(50.0)%	(17.8)	(8.7)	(104.6)%
Gain on sale of product line	—	—	— %	0.2	—	NM
Income and expense items related to divested businesses	(2.1)	(2.2)	4.5 %	(6.8)	(3.7)	(83.8)%
Interest expense and related financing costs	(14.7)	(10.7)	(37.4)%	(37.0)	(32.1)	(15.3)%
Interest accretion on deferred payment obligations	(43.7)	—	NM	(65.5)	—	NM
Currency and other financial losses in Venezuela	(1.0)	—	NM	(1.0)	(6.9)	NM
Interest income	0.3	0.2	50.0 %	1.3	0.5	160.0 %
Provision for income taxes	(44.6)	(43.6)	(2.3)%	(66.7)	(117.4)	43.2 %
Net income attributable to W. R. Grace & Co. shareholders	$74.5	$77.0	(3.2)%	$260.8	$226.4	15.2 %
Diluted EPS (GAAP)	$0.99	$0.99	— %	$3.40	$2.92	16.4 %

Adjusted EPS (non-GAAP)	$1.07	$1.17	(8.5)%	$3.06	$3.30	(7.3)%

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Analysis of Operations	Three Months Ended September 30,			Nine Months Ended September 30,		
(In millions)	2014	2013	% Change	2014	2013	% Change
Profitability performance measures:						
Gross margin:						
Catalysts Technologies	42.5 %	39.2 %	3.3 pts	41.8 %	40.5 %	1.3 pts
Materials Technologies	35.3 %	34.8 %	0.5 pts	35.1 %	34.5 %	0.6 pts
Construction Products	36.8 %	36.3 %	0.5 pts	35.9 %	36.2 %	(0.3) pts
Segment Gross Margin	38.6 %	36.9 %	1.7 pts	37.9 %	37.3 %	0.6 pts
Certain pension costs in cost of goods sold	(0.3)%	(0.3)%	0.0 pts	(0.3)%	(0.4)%	0.1 pts
Total Grace	38.3 %	36.6 %	1.7 pts	37.6 %	36.9 %	0.7 pts
Adjusted profitability performance measures:						
Adjusted EBIT:						
Catalysts Technologies	$100.9	$77.4	30.4 %	$269.6	$248.4	8.5 %
Materials Technologies	48.7	46.8	4.1 %	143.9	135.9	5.9 %
Construction Products	48.9	45.6	7.2 %	119.3	113.7	4.9 %
Corporate	(17.6)	(27.7)	36.5 %	(74.5)	(85.8)	13.2 %
Total Grace	180.9	142.1	27.3 %	458.3	412.2	11.2 %
Depreciation and amortization:						
Catalysts Technologies	$16.7	$13.2	26.5 %	$49.7	$40.0	24.3 %
Materials Technologies	8.2	7.8	5.1 %	24.3	23.6	3.0 %
Construction Products	7.6	7.6	— %	23.0	24.0	(4.2)%
Corporate	1.8	1.4	28.6 %	5.3	4.2	26.2 %
Total Grace	34.3	30.0	14.3 %	102.3	91.8	11.4 %
Adjusted EBITDA:						
Catalysts Technologies	$117.6	$90.6	29.8 %	$319.3	$288.4	10.7 %
Materials Technologies	56.9	54.6	4.2 %	168.2	159.5	5.5 %
Construction Products	56.5	53.2	6.2 %	142.3	137.7	3.3 %
Corporate	(15.8)	(26.3)	39.9 %	(69.2)	(81.6)	15.2 %
Total Grace	215.2	172.1	25.0 %	560.6	504.0	11.2 %
Operating margin:						
Catalysts Technologies	30.6 %	28.3 %	2.3 pts	29.1 %	29.9 %	(0.8) pts
Materials Technologies	21.3 %	21.3 %	0.0 pts	21.0 %	20.5 %	0.5 pts
Construction Products	16.4 %	16.4 %	0.0 pts	14.4 %	14.4 %	0.0 pts
Total Grace	21.1 %	18.4 %	2.7 pts	18.8 %	18.0 %	0.8 pts
Adjusted EBITDA margin:						
Catalysts Technologies	35.7 %	33.1 %	2.6 pts	34.4 %	34.7 %	(0.3) pts
Materials Technologies	24.8 %	24.8 %	0.0 pts	24.6 %	24.0 %	0.6 pts
Construction Products	19.0 %	19.2 %	(0.2) pts	17.2 %	17.4 %	(0.2) pts
Total Grace	25.1 %	22.3 %	2.8 pts	23.0 %	22.1 %	0.9 pts

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Analysis of Operations (In millions)	Four Quarters Ended September 30, 2014		December 31, 2013	
Calculation of Adjusted EBIT Return On Invested Capital (trailing four quarters):				
Adjusted EBIT	$596.9		$550.8	
Invested Capital:				
Trade accounts receivable	527.3		481.8	
Inventories	337.3		295.3	
Accounts payable	(298.5	)	(262.5	)
	566.1		514.6	
Other current assets (excluding income taxes and capitalized financing fees)	87.4		81.2	
Properties and equipment, net	826.4		829.9	
Goodwill	460.2		457.5	
Technology and other intangible assets, net	296.2		315.5	
Investment in unconsolidated affiliate	108.8		96.2	
Other assets (excluding capitalized financing fees)	24.3		40.0	
Other current liabilities (excluding income taxes, environmental remediation related to asbestos and divested businesses, Chapter 11, and restructuring)	(272.8	)	(248.6	)
Other liabilities (excluding environmental remediation related to asbestos and divested businesses)	(93.3	)	(72.7	)
Total invested capital	$2,003.3		$2,013.6	
Adjusted EBIT Return On Invested Capital	29.8	%	27.4	%

Amounts may not add due to rounding.

(A) Grace's segment operating income includes only Grace's share of income of consolidated and unconsolidated joint ventures.

(B) Certain pension costs include only ongoing costs recognized quarterly, which include service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits. Catalysts Technologies, Materials Technologies, and Construction Products segment operating income and corporate costs do not include any amounts for pension expense. Other pension related costs including annual mark-to-market adjustments and actuarial gains and losses are excluded from Adjusted EBIT. These amounts are not used by management to evaluate the performance of Grace's businesses and significantly affect the peer-to-peer and period-to-period comparability of our financial results. Mark-to-market adjustments and actuarial gains and losses relate primarily to changes in financial market values and actuarial assumptions and are not directly related to the operation of Grace's businesses.

NM—Not Meaningful

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Grace Overview

Following is an overview of our financial performance for the third quarter and nine months compared with the corresponding prior-year periods.

Net Sales and Gross Margin

The following tables identify the year-over-year increase or decrease in sales attributable to changes in sales volume and/or mix, product price, and the impact of currency translation.

	Three Months Ended September 30, 2014 as a Percentage Increase (Decrease) from Three Months Ended September 30, 2013								
Net Sales Variance Analysis	Volume		Price		Currency Translation		Total		
Catalysts Technologies	22.0	%	(2.0	)%	0.3	%	20.3	%	
Materials Technologies	3.1	%	0.8	%	0.2	%	4.1	%	
Construction Products	4.5	%	2.9	%	—	%	7.4	%	
Net sales	10.2	%	0.6	%	0.2	%	11.0	%	
By Region:									
North America	14.8	%	1.2	%	(0.1	)%	15.9	%	
Europe Middle East Africa	2.5	%	(0.9	)%	1.0	%	2.6	%	
Asia Pacific	25.5	%	(1.5	)%	0.3	%	24.3	%	
Latin America	(3.7	)%	6.4	%	(1.7	)%	1.0	%	

Sales for the third quarter increased 11.0% overall compared with the prior-year quarter. The sales increase was due to higher sales volumes (+10.2%), improved pricing (+0.6%) and favorable currency translation (+0.2%) . The polypropylene catalysts and licensing acquisition in Catalysts Technologies contributed 4.0% to volume growth.

Gross margin was 38.3% for the third quarter compared with 36.6% for the prior-year quarter. The increase in gross margin was primarily due to higher margins related to the acquisition and lower manufacturing costs in Catalysts Technologies, and improved pricing in Construction Products and Materials Technologies.

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	Nine Months Ended September 30, 2014 as a Percentage Increase (Decrease) from Nine Months Ended September 30, 2013		
Net Sales Variance Analysis	Volume	Price	Currency Translation	Total
Catalysts Technologies	13.3%	(2.8)%	1.0%	11.5%
Materials Technologies	2.3%	0.9%	—%	3.2%
Construction Products	4.4%	2.4%	(2.0)%	4.8%
Net sales	7.0%	0.1%	(0.3)%	6.8%
By Region:				
North America	10.8%	(0.5)%	(0.2)%	10.1%
Europe Middle East Africa	1.4%	(0.9)%	2.3%	2.8%
Asia Pacific	13.5%	(1.2)%	(1.7)%	10.6%
Latin America	2.5%	6.6%	(6.2)%	2.9%

Sales for the nine months increased 6.8% overall compared with the prior-year period. The sales increase was due to higher sales volumes (+7.0%) and improved pricing (0.1%), partially offset by unfavorable currency translation (-0.3%). The polypropylene catalysts and licensing acquisition contributed 3.9% to sales growth.

Gross margin was 37.6% for the nine months compared with 36.9% for the prior-year period. The increase in gross margin was primarily due to higher margins from the acquisition, improved pricing in Construction Products and Materials Technologies, and higher sales volumes in all segments.

Adjusted EBIT

Adjusted EBIT was $180.9 million for the third quarter, an increase of 27.3% compared with the prior-year quarter. The increase was primarily due to higher segment operating income, including from acquisitions, and a gain related to the termination of certain retiree benefit plans.

Adjusted EBIT was $458.3 million for the nine months, an increase of 11.2% compared with the prior-year period. The increase was primarily due to higher segment operating income, including from acquisitions, and a gain related to the termination of certain retiree benefit plans.

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Grace Net Income

Grace net income was $74.5 million for the third quarter, a decrease of 3.2% compared with $77.0 million for the prior-year quarter. The decrease was primarily due to interest accretion on deferred payment obligations, higher interest expense and related financing costs, an asset impairment charge related to an unconsolidated investment, and higher corporate operating expenses, partially offset by higher segment operating income, including from acquisitions, and the gain on termination of certain retiree benefit plans.

Grace net income was $260.8 million for the nine months, an increase of 15.2% compared with $226.4 million for the prior-year period. The increase was primarily due to a lower provision for income taxes, higher segment operating income, including from acquisitions, and the gain on termination of certain retiree benefit plans, partially offset by interest accretion on the deferred payment obligations.

Adjusted EPS

The following table reconciles our Diluted EPS (GAAP) to our Adjusted EPS (non-GAAP):

	Three Months Ended September 30,							
	2014				2013			
(In millions, except per share amounts)	Pre-Tax	Tax Effect	After-Tax	Per Share	Pre-Tax	Tax Effect	After-Tax	Per Share
Diluted Earnings Per Share (GAAP)				$0.99				$0.99
Costs related to Chapter 11	$1.8	$(0.5)	$2.3	0.03	$3.9	$1.1	$2.8	0.04
Asbestos-related costs	2.5	(0.6)	3.1	0.04	1.3	(0.1)	1.4	0.02
Asbestos and bankruptcy-related charges, net	0.4	0.3	0.1	—	—	—	—	—
Gain on termination of postretirement plans related to divested businesses	(9.5)	(3.7)	(5.8)	(0.08)	—	—	—	—
Restructuring expenses and asset impairments	5.4	3.5	1.9	0.03	3.6	1.2	2.4	0.03
Currency and other financial losses in Venezuela	1.0	—	1.0	0.01	—	—	—	—
Income and expense items related to divested businesses	2.1	2.4	(0.3)	—	2.2	1.0	1.2	0.02
Discrete tax items:								
Discrete tax items, including adjustments to uncertain tax positions		(4.1)	4.1	0.05		(5.4)	5.4	0.07
Adjusted EPS (non-GAAP)				$1.07				$1.17

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(In millions, except per share amounts)	Nine Months Ended September 30, 2014 Pre-Tax	Tax Effect	After-Tax	Per Share	2013 Pre-Tax	Tax Effect	After-Tax	Per Share
Diluted Earnings Per Share (GAAP)				$3.40				$2.92
Costs related to Chapter 11	$11.1	$2.2	$8.9	0.12	$11.0	$2.0	$9.0	0.12
Asbestos-related costs	3.8	1.4	2.4	0.03	4.0	1.5	2.5	0.03
Asbestos and bankruptcy-related charges, net	6.8	2.5	4.3	0.06	—	—	—	—
Pension MTM adjustment and other related costs, net	(4.8)	(1.8)	(3.0)	(0.04)	2.5	0.9	1.6	0.02
Gain on termination of postretirement plans related to divested businesses	(12.7)	(4.8)	(7.9)	(0.10)	—	—	—	—
Restructuring expenses and asset impairments	17.8	7.5	10.3	0.13	8.7	2.8	5.9	0.08
Currency and other financial losses in Venezuela	1.0	—	1.0	0.01	6.9	—	6.9	0.09
Gain on sale of product line	(0.2)	(0.1)	(0.1)	—	—	—	—	—
Income and expense items related to divested businesses	6.8	2.5	4.3	0.06	3.7	1.0	2.7	0.03
Discrete tax items:								
Discrete tax items, including adjustments to uncertain tax positions		47.1	(47.1)	(0.61)		(1.0)	1.0	0.01
Adjusted EPS (non-GAAP)				$3.06				$3.30

Adjusted EBIT Return On Invested Capital

Adjusted EBIT Return On Invested Capital for the third quarter was 29.8% on a trailing four quarters basis, compared with 27.4% on the same basis for the 2013 fourth quarter. We manage our operations with the objective of maximizing sales, earnings and cash flow over time. Doing so requires that we successfully balance our growth, profitability and working capital and other investments to support sustainable, long-term financial performance. We use Adjusted EBIT Return On Invested Capital as a performance measure in evaluating operating results, in making operating and investment decisions and in balancing the growth and profitability of our operations. Generally, we favor those businesses and investments that provide the highest return on invested capital.

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Operating Segment Overview—Grace Catalysts Technologies

Following is an overview of the financial performance of Catalysts Technologies for the third quarter and nine months compared with the corresponding prior-year periods.

Net Sales—Grace Catalysts Technologies

Sales were $329.3 million for the third quarter, an increase of 20.3% compared with the prior-year quarter. The increase was due to higher sales volumes (+22.0%) and favorable currency translation (+0.3%), partially offset by lower pricing (-2.0%). The polypropylene catalyst and licensing acquisition contributed 11.3% to sales for the third quarter compared with the prior-year quarter. Sales volumes increased due to new product introductions, higher demand for refining catalysts in North America and Asia, and favorable order patterns in Specialty Catalysts, partially offset by lower pricing in refining catalysts.

Sales were $927.0 million for the nine months, an increase of 11.5% compared with the prior-year period. The increase was due to higher sales volumes (+13.3%) and favorable currency translation (+1.0%), partially offset by lower pricing (-2.8%). The polypropylene catalyst and licensing acquisition contributed 10.7% to sales for the nine months. Increased sales volumes in refining catalysts were partially offset by the scheduled conclusion of a multi-year toll manufacturing contract for a polyolefin catalyst customer in the 2013 second quarter.

Segment Operating Income (SOI) and Margin—Grace Catalysts Technologies

Gross profit was $140.0 million for the third quarter, an increase of 30.4% compared with the prior-year quarter. Segment gross margin was 42.5% compared with 39.2% for the prior-year quarter. The increase in gross margin was primarily due to higher margin polypropylene catalysts and licensing sales and lower manufacturing costs.

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Segment operating income was $100.9 million for the third quarter, an increase of 30.4% compared with the prior-year quarter. Segment operating margin for the third quarter increased to 30.6%, an improvement of 230 basis points compared with the prior-year quarter, primarily due to higher gross margins from the polypropylene licensing and catalysts acquisition, sales volume growth, and higher earnings from the ART joint venture.

Gross profit was $387.5 million for the nine months, an increase of 15.0% compared with the prior-year period. Segment gross margin was 41.8% compared with 40.5% for the prior-year period. The increase in gross margin was primarily due to higher margin polypropylene catalysts and licensing sales and lower manufacturing costs, partially offset by lower pricing.

Segment operating income was $269.6 million for the nine months, an increase of 8.5% compared with the prior-year period. Segment operating margin for the nine months decreased to 29.1%, a decline of 80 basis points compared with the prior-year period, primarily due to lower pricing, higher operating costs, and reduced ART earnings, partially offset by higher gross margins.

Operating Segment Overview—Grace Materials Technologies

Following is an overview of the financial performance of Materials Technologies for the third quarter and nine months compared with the corresponding prior-year periods.

Net Sales—Grace Materials Technologies

Sales were $229.1 million for the third quarter, an increase of 4.1% compared with the prior-year quarter. The increase was due to higher sales volumes (+3.1%), improved pricing (+0.8%) and favorable currency translation (+0.2%). Sales volumes increased 5.4% in Engineered Materials led by growth in North America and Asia, and pricing improved in both product groups.

Sales were $685.0 million for the nine months, an increase of 3.2% compared with the prior-year period. The increase was due to higher sales volumes (+2.3%) and improved pricing (+0.9%).

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Segment Operating Income (SOI) and Margin—Grace Materials Technologies

Gross profit was $80.9 million for the third quarter, an increase of 5.6% compared with the prior-year quarter.
Segment gross margin was 35.3% compared with 34.8% for the prior-year quarter. The increase in gross margin was primarily due to improved pricing in both product groups.
Segment operating income was $48.7 million for the third quarter, an increase of 4.1% compared with the prior-year quarter primarily due to higher sales volumes in Engineered Materials and improved pricing in both product groups.
Segment operating margin for the third quarter was 21.3%, flat compared with the prior-year quarter.
Gross profit was $240.2 million for the nine months, an increase of 4.9% compared with the prior-year period.
Segment gross margin was 35.1% compared with 34.5% for the prior-year period. The increase in gross margin was primarily due to improved pricing in both product groups.
Segment operating income was $143.9 million for the nine months, an increase of 5.9% compared with the prior-year period primarily due to higher gross margins, partially offset by higher operating expenses. Segment operating margin for the nine months increased to 21.0%, an improvement of 50 basis points compared with the prior-year period.
Operating Segment Overview—Grace Construction Products
Following is an overview of the financial performance of Construction Products for the third quarter and nine months compared with the corresponding prior-year periods.
Net Sales—Grace Construction Products

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Sales were $298.0 million for the third quarter, an increase of 7.4% compared with the prior-year quarter. The increase was due to higher sales volumes (+4.5%) and improved pricing (+2.9%). Sales volumes and pricing improved in both Specialty Construction Chemicals and Specialty Building Materials. Sales grew 10% or more in North America and Asia in Specialty Construction Chemicals and non-residential Specialty Building Materials.

Sales were $826.9 million for the nine months, an increase of 4.8% compared with the prior-year period. The increase was due to higher sales volumes (+4.4%) and improved pricing (+2.4%), partially offset by unfavorable currency translation (-2.0%). Sales volumes improved in Specialty Construction Chemicals, while pricing improved in both product groups.

Segment Operating Income (SOI) and Margin—Grace Construction Products

Gross profit was $109.8 million for the third quarter, an increase of 8.9% compared with the prior-year quarter. Segment gross margin was 36.8% compared with 36.3% for the prior-year quarter. The increase was primarily due to improved pricing and sales volumes in both product groups, partially offset by higher manufacturing costs.

Segment operating income was $48.9 million for the third quarter, an increase of 7.2% compared with the prior-year quarter primarily due to higher gross margins, partially offset by higher operating expenses. Segment operating margin for the third quarter was 16.4%, flat compared with the prior-year quarter.

Gross profit was $297.1 million for the nine months, an increase of 3.9% compared with the prior-year period. Segment gross margin was 35.9% compared with 36.2% for the prior-year period. The decrease was primarily due to higher manufacturing costs and unfavorable currency translation, partially offset by improved pricing and sales volumes.

Segment operating income was $119.3 million for the nine months, an increase of 4.9% compared with the prior-year period primarily due to higher gross margins, partially offset by higher operating expenses. Segment operating margin for the nine months was 14.4%, flat compared with the prior-year period.

In the 2014 second quarter, we incurred an asset impairment charge of $9.7 million, as well as a small restructuring charge, related to the repositioning of our ready-mix process control solutions business. In the third quarter, we incurred an asset impairment charge of $4.5 million related to an unconsolidated investment. These charges are not included in segment operating income.

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Corporate Overview

Corporate costs include corporate functional costs and other corporate costs such as professional fees and insurance premiums. Corporate costs for the third quarter increased $2.9 million compared with the prior-year quarter, primarily due to higher operating expenses including incentive compensation. Corporate costs for the nine months increased $3.7 million compared with the prior-year period.

Defined Benefit Pension Expense

Certain pension costs for the third quarter and nine months were $8.0 million and $24.3 million compared with $6.8 million and $20.4 million for the corresponding prior-year periods. The increase was primarily due to higher interest costs.

Costs Related to Chapter 11

The following table presents costs related to Chapter 11:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
Chapter 11 expenses, net of interest income	$1.7	$2.9	$10.8	$11.0
D&O insurance costs related to Chapter 11	—	0.1	0.1	0.2
Translation effects—intercompany loans	—	(10.1)	4.6	(6.6)
Value of currency forward contracts—intercompany loans	—	9.9	(4.5)	5.7
Certain other currency translation costs, net	0.1	1.1	0.1	0.7
Costs related to Chapter 11	$1.8	$3.9	$11.1	$11.0

The decrease in costs related to Chapter 11 for the third quarter was primarily due to our emergence from bankruptcy in the 2014 first quarter. We expect to continue to incur Chapter 11 expenses in connection with the resolution of pre-petition claims that were unresolved at the time of emergence. We present the net costs of our reorganization under Chapter 11 as "Chapter 11 expenses, net of interest income," a separate caption in our Consolidated Statements of Operations.

Interest and Financing Expenses

Interest and financing expenses were $14.7 million for the third quarter, an increase of 37.4% compared with the prior-year quarter, and $37.0 million for the nine months, an increase of 15.3% compared with the prior-year period, primarily due to interest expense and amortization of financing costs, partially offset by the elimination of interest accruals on certain liabilities subject to compromise following our emergence from bankruptcy. Interest

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accretion on deferred payment obligations was $43.7 million and $65.5 million for the third quarter and nine months, respectively.

Income Taxes

The income tax provision at the U.S. Federal corporate rate of 35% for the nine months and the prior-year period would have been $115.0 million and $120.7 million, respectively. The primary differences between these amounts and the recorded provision for income taxes of $66.7 million and $117.4 million, respectively, are adjustments primarily related to changes in prior tax contingencies, certain nondeductible expenses including Chapter 11 expenses, tax rate differences in foreign and U.S. state and local jurisdictions and other discrete adjustments. For the nine months, the income tax provision includes a benefit of $59.6 million related to the recognition of benefits associated with the release of reserves related to uncertain tax positions.

We generally have not paid U.S. Federal income taxes in cash in recent years since available tax deductions and credits have fully offset U.S. taxable income. We generated approximately $1,300 million in U.S. Federal net operating losses during 2014, including approximately $670 million upon emergence from bankruptcy and $632 million upon payment of the PI deferred payment obligation in the third quarter. These items, a significant portion of which were previously recorded as deferred tax assets for temporary differences, will be available to reduce U.S. Federal taxable income in 2014 and future years. In addition, we expect to receive U.S. Federal income tax deductions upon settlement of the warrant held by the PI Trust and upon payment of the PD deferred payment obligation. The expected settlement amounts have already been recorded as deferred tax assets for temporary differences. We expect to carryforward most of our NOLs. Under U.S. Federal income tax law, a corporation is generally permitted to carryforward NOLs for a 20-year period for deduction against future taxable income. We believe that we will generate sufficient domestic taxable income to use all of our U.S. Federal NOLs prior to expiration.

We pay cash taxes in foreign jurisdictions and a limited number of states. Income taxes paid in cash, net of refunds and settlements, were $21.7 million for the nine months, or approximately 7% of income before income taxes. Our annual cash tax rate is expected to be approximately 8%.

See Note 6 to the Consolidated Financial Statements for additional information regarding income taxes.

Financial Condition, Liquidity, and Capital Resources

Following is an analysis of our financial condition, liquidity and capital resources at September 30, 2014, together with a description of our emergence financing and post-emergence liquidity. For additional information regarding our Chapter 11 cases and asbestos-related litigation, see Note 2 to the Consolidated Financial Statements. For additional information regarding environmental matters, see Note 9 to the Consolidated Financial Statements.

On February 3, 2014, we emerged from Chapter 11. We paid approximately $1,900 million in claims and other costs. We funded these payments through a combination of approximately $1,360 million in cash on hand and $900 million in exit financing. Total liquidity under the exit financing consists of:

- $700 million term loan due in 2021, with interest at LIBOR +225 bps with a 75 bps floor;
- €150 million term loan due in 2021, with interest at EURIBOR +250 bps with a 75 bps floor;
- $400 million revolving credit facility due in 2019, with interest at LIBOR +175 bps; and
- $250 million delayed draw term loan facility available for 12 months, with amounts drawn due in 2021, with interest at LIBOR +225 bps with a 75 bps floor.

Approximately $100 million of the revolving credit facility replaces the cash-collateralized letter of credit facility in effect during the bankruptcy. At emergence, we entered into an interest rate swap beginning on February 3, 2015, and maturing on February 3, 2020, fixing $250 million of the term loan at 4.643%.

On September 16, 2014, we issued $1,000 million of senior unsecured notes in two tranches:

- $700 million in aggregate principal amount of notes due 2021 at a coupon rate of 5.125%; and
- $300 million in aggregate principal amount of notes due 2024 at a coupon rate of 5.625%.

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A portion of the net proceeds from issuance was used to terminate our obligations under the deferred payment agreement with the PI Trust for $632 million.

The remaining proceeds from the notes and the delayed draw term loan facility, provide the liquidity required to cash settle the warrant issued to the PI Trust, that we currently expect to cost $490 million. We expect to make this payment in the 2015 first quarter.

The cash we expect to generate during 2014, together with the revolving credit facility, provide the liquidity required to repurchase shares of Company common stock pursuant to the $500 million share repurchase program authorized by our Board of Directors following emergence. During the nine months we repurchased 3,489,819 shares of Company common stock for $334.4 million.

We believe that our credit facilities, together with cash we expect to generate during 2014 and thereafter, are sufficient to finance our operations.

Cash Resources and Available Credit Facilities

At September 30, 2014, we had available liquidity of $1,278.5 million, consisting of $608.0 million in cash and cash equivalents ($356.0 million in the U.S.), $348.3 million available under the revolving credit facility, $250.0 million available on the delayed draw term loan, and $72.2 million of available liquidity under various non-U.S. credit facilities. The $400 million revolving credit facility includes a $150 million sublimit for letters of credit.

Our non-U.S. credit facilities are extended to various subsidiaries that use them primarily to issue bank guarantees supporting trade activity and to provide working capital during occasional cash shortfalls. The credit facility in Germany is secured by third-party accounts receivable, with availability determined on the basis of eligible outstanding receivables. We generally renew these credit facilities as they expire.

The following table summarizes our non-U.S. credit facilities as of September 30, 2014:

(In millions)	Maximum Borrowing Amount	Available Liquidity	Expiration Date
Germany	$63.7	$8.0	12/31/2014
Other countries	125.9	64.2	Various through 2015
Total	$189.6	$72.2	

Analysis of Cash Flows

The following table summarizes our cash flows for the nine months and prior-year period:

	Nine Months Ended September 30,	
(In millions)	2014	2013
Net cash (used for) provided by operating activities	$(1,636.4)	$342.6
Net cash provided by (used for) investing activities	279.4	(615.3)
Net cash provided by financing activities	1,009.9	0.3
Effect of currency exchange rate changes on cash and cash equivalents	(9.7)	(9.8)
Decrease in cash and cash equivalents	(356.8)	(282.2)
Cash and cash equivalents, beginning of period	964.8	1,336.9
Cash and cash equivalents, end of period	$608.0	$1,054.7

Net cash used for operating activities for the nine months was $1,636.4 million, compared with net cash provided by operating activities of $342.6 million for the prior-year period. The year-over-year change in cash flow was primarily due to the payment of $1,315.6 million to resolve liabilities subject to Chapter 11 and $632.0 million to settle the deferred payment obligation to the PI Trust.

Net cash provided by investing activities for the nine months was $279.4 million, compared with net cash used for investing activities of $615.3 million for the prior-year period. The year-over-year change in cash flow was

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primarily due to the prior-year use of cash for the December 2013 polypropylene catalysts and licensing acquisition and the current-year transfer of restricted cash and cash equivalents to cash as a result of our emergence from Chapter 11.

Net cash provided by financing activities for the nine months was $1,009.9 million, compared with $0.3 million in the prior-year period. The year-over-year change in cash flow was primarily due to an increase in net borrowings under credit arrangements and issuance of bonds, partially offset by the repurchase of 3,489,819 shares under the share repurchase program.

Included in net cash (used for) provided by operating activities are Chapter 11 emergence payments of $1,347.8 million and payment for the deferred payment obligation related to the PI Trust of $632.0 million for the nine months and accelerated defined benefit pension plan contributions of $75.0 million and $50.0 million, Chapter 11 expenses paid of $29.0 million and $11.2 million and expenditures for asbestos-related environmental remediation of $4.6 million and $4.4 million for the nine months and prior-year period, respectively. These cash flows totaled $2,088.4 million and $65.6 million for the nine months and prior-year period, respectively. We do not include these cash flows when evaluating the performance of our businesses.

Debt and Other Contractual Obligations

Total debt outstanding at September 30, 2014, was $2,027.0 million. All pre-petition debt, including interest thereon, was paid upon emergence from bankruptcy.

On September 16, 2014, we issued $1,000.0 million of senior unsecured notes. See Note 4 to the Consolidated Financial Statements for a discussion of our debt.

See Note 9 to the Consolidated Financial Statements for a discussion of Financial Assurances.

Employee Benefit Plans

See Note 7 to the Consolidated Financial Statements for further discussion of Pension Plans and Other Postretirement Benefit Plans.

Defined Benefit Pension Plans

The following table presents the components of cash contributions for the advance-funded and pay-as-you-go plans:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2014	2013	2014	2013
U.S. advance-funded plans	$—	$—	$75.0	$50.0
U.S. pay-as-you-go plans(1)	1.8	1.4	5.1	4.2
Non-U.S. advance-funded plans	1.2	2.1	7.1	3.3
Non-U.S. pay-as-you-go plans	2.0	2.1	6.9	6.1
Total Cash Contributions	$5.0	$5.6	$94.1	$63.6

(1) Excludes benefit payments of approximately $28 million which were paid from a U.S. nonqualified pension plan in connection with our emergence from bankruptcy.

We made an accelerated contribution to our U.S. advance-funded plans of approximately $75 million in the 2014 second quarter.

We intend to fund non-U.S. pension plans based upon applicable legal requirements and actuarial and trustee recommendations. We contributed $14.0 million to these plans during the nine months compared with $9.4 million during the prior-year period.

Postretirement Benefits Other Than Pensions

We have provided postretirement health care and life insurance benefits for retired employees of certain U.S. business units and certain divested business units. These plans are unfunded, and we pay the costs of

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benefits under these plans as they are incurred. Our share of the net cost of benefits under this program for the third quarter and nine months was $0.7 million and $2.9 million compared with $1.2 million and $3.2 million for the corresponding prior-year periods. We received Medicare subsidy payments of $0.2 million during the nine months and $0.3 million during the prior-year period.

In June 2014, we announced plans to discontinue our postretirement medical plan for all U.S. employees effective October 31, 2014, and to eliminate certain postretirement life insurance benefits. As a result of these actions, we recognized a gain of $41.9 million in other comprehensive income in the 2014 second quarter. We will amortize $39.5 million from accumulated other comprehensive income into the Consolidated Statement of Operations during the five-month period from June to October 2014. The $31.6 million gain recognized during the nine months is reported as a separate line item in the Consolidated Statement of Operations. The remaining gain of $7.9 million will be recognized in the 2014 fourth quarter. The gain attributable to our current businesses is included in Adjusted EBIT, and the portion attributable to divested businesses is excluded from Adjusted EBIT. Our recorded liability for postretirement benefits is $3.2 million as of September 30, 2014.

Other Contingencies

See Note 9 to the Consolidated Financial Statements for a discussion of our other contingent matters.

Inflation

We recognize that inflationary pressures may have an adverse effect on us through higher asset replacement costs and higher raw materials and other operating costs. We try to minimize these impacts through effective control of operating expenses and productivity improvements as well as price increases to customers.

We estimate that the cost of replacing our property and equipment today is greater than its historical cost. Accordingly, our depreciation expense would be greater if the expense were stated on a current cost basis.

Highly Inflationary Economy

Effective January 1, 2010, we began to account for Venezuela as a highly inflationary economy. As a result, the functional currency of our Venezuelan subsidiary became the U.S. dollar; therefore, all translation adjustments are reflected in net income in the accompanying Consolidated Statements of Operations. The exchange rate of 4.3 was used to remeasure our financial statements from bolivars to U.S. dollars upon Venezuela's designation as a highly inflationary economy.

Effective February 13, 2013, the official exchange rate of the bolivar to the U.S. dollar devalued from 4.3 to 6.3. As a result of this currency devaluation, we incurred a charge to net income of $8.5 million in the 2013 first quarter. Of this amount, $1.6 million was included in Adjusted EBIT.

In March 2013, the Venezuelan government launched a new foreign exchange mechanism called the "Complimentary System of Foreign Currency Acquirement" (or SICAD1, which stands for Sistema Complimentario de Administración de Divisas). The SICAD1 operates similarly to an auction system and allows entities in specific sectors to bid for U.S. dollars to be used for specified import transactions. In March 2014, the Venezuelan government launched another foreign exchange mechanism, known as the SICAD2. The SICAD2 operates similarly to the SICAD1. Neither the SICAD1 nor the SICAD2 have changed or eliminated the official exchange rate of the bolivar to the U.S. dollar.

The exchange rates published by the Central Bank of Venezuela at September 30, 2014, for the three legal exchange mechanisms administered by the Venezuelan government were as follows:

(a) CENCOEX (successor of CADIVI): 6.3 bolivars to 1 U.S. dollar (fixed, official rate);
(b) SICAD1: 12.0 bolivars to 1 U.S. dollar (variable);
(c) SICAD2: 50.0 bolivars to 1 U.S. dollar (variable).

As of September 30, 2014, we have exchanged bolivars for $0.1 million through the SICAD1 and have not exchanged bolivars through the SICAD2. Based on current market conditions and the needs of the business, we expect to purchase materials through one or more of these alternative exchange mechanisms in the future on a limited basis to support our operations in Venezuela.

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Materials Technologies and Construction Products have operated in Venezuela for several decades with sales in that country of approximately 2 percent of each segment’s respective sales in 2013. In the 2014 first quarter, we began seeing a significant impact to our sales and earnings as a result of Venezuela's difficult economic conditions. During 2014, it has become increasingly difficult for us and our customers to operate normally in the country as currency and import controls have impacted our ability to import necessary raw materials for production. If we or our customers are unable to resume normal operations, we may experience further reductions to our sales and earnings.

There have been no changes in the official exchange rate of the bolivar to the U.S. dollar since February 13, 2013. We continue to use the official exchange rate of 6.3 bolivars to U.S. dollars for remeasurement purposes. As of September 30, 2014, our bolivar-denominated net monetary asset position was $35.1 million, and bolivar-denominated sales represented approximately 1% of total sales for the nine months.

Critical Accounting Estimates

See the "Critical Accounting Estimates" heading in Item 7 of our Form 10-K for the year ended December 31, 2013, for a discussion of our critical accounting estimates.

Recent Accounting Pronouncements

See Note 1 to the Consolidated Financial Statements for a discussion of recent accounting pronouncements and their effect on us.

Forward Looking Statements

This document contains, and our other public communications may contain, forward-looking statements, that is, information related to future, not past, events. Such statements generally include the words "believes," "plans," "intends," "targets," "will," "expects," "suggests," "anticipates," "outlook," "continues" or similar expressions. Forward-looking statements include, without limitation, expected financial positions; results of operations; cash flows; financing plans; business strategy; budgets; capital and other expenditures; competitive positions; growth opportunities for existing products; benefits from new technology and cost reduction initiatives, plans and objectives; and markets for securities. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Exchange Act. Like other businesses, we are subject to risks and uncertainties that could cause our actual results to differ materially from our projections or that could cause other forward-looking statements to prove incorrect. Factors that could cause actual events to materially differ from those contained in the forward-looking statements include, without limitation: the cost and availability of raw materials and energy, developments affecting our outstanding indebtedness, developments affecting our underfunded and unfunded pension obligations, risks related to foreign operations, especially in emerging regions, acquisitions and divestitures of assets and gains and losses from dispositions or impairments, the effectiveness of our research and development and growth investments, our legal and environmental proceedings, costs of compliance with environmental regulation, developments with respect to unresolved pre-petition claims, and those factors set forth in our most recent Annual Report on Form 10-K, this quarterly report on Form 10-Q and current reports on Form 8-K, which have been filed with the Securities and Exchange Commission and are readily available on the Internet at www.sec.gov. Our reported results should not be considered as an indication of our future performance. Readers are cautioned not to place undue reliance on our projections and forward-looking statements, which speak only as of the date thereof. We undertake no obligation to publicly release any revisions to the projections and forward-looking statements contained in this document, or to update them to reflect events or circumstances occurring after the date of this document.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

With respect to information disclosed in the "Quantitative and Qualitative Disclosures About Market Risk" section of our Annual Report on Form 10-K for the year ended December 31, 2013, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, more recent numerical measures and other information are available in the "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this Report. These more recent measures and information are incorporated herein by reference. See Note 4 for a discussion of our debt.

Item 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of September 30, 2014, Grace carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon that evaluation, Grace's Chief Executive Officer and Chief Financial Officer concluded that Grace's disclosure controls and procedures are effective to ensure that information required to be disclosed in Grace's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that material information relating to Grace is made known to management, including Grace's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in Grace's internal control over financial reporting during the quarter ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, Grace's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Notes 2 and 9 to the interim Consolidated Financial Statements in Part I of this Report are incorporated herein by reference.

Item 1A. RISK FACTORS

In addition to the other information set forth in this Report and below, you should carefully consider the risk factors discussed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results. The risks described in this Report and in our Annual Report on Form 10-K are not the only risks facing Grace. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. With respect to certain risk factors discussed in our Annual Report on Form 10-K, more recent numerical measures and other information are available in the "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this Report. These more recent measures and information are incorporated herein by reference.

Our indebtedness may materially affect our business, including our ability to fulfill our obligations, react to changes in our business and incur additional debt to fund future needs.

We have a substantial amount of debt. As of September 30, 2014, we had $1,031.0 million of unsecured indebtedness outstanding and $996.0 million of secured indebtedness outstanding. Our indebtedness may have material effects on our business, including to:

- require us to dedicate a substantial portion of our cash flow to debt payments, thereby reducing funds available for working capital, capital expenditures, acquisitions, research and development, distributions to stockholders and other purposes;
- restrict us from making strategic acquisitions or taking advantage of favorable business opportunities;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- increase our vulnerability to adverse economic, credit and industry conditions, including recessions;
- make it more difficult for us to satisfy our debt service and other obligations;
- place us at a competitive disadvantage compared to our competitors that have relatively less debt; and
- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions, research and development and other purposes.

If we incur additional debt, the risks related to our indebtedness may intensify.

Restrictions imposed by agreements governing our indebtedness may limit our ability to operate our business, finance our future operations or capital needs or engage in other business activities. If we fail to comply with certain restrictions under these agreements, our debt could be accelerated and we may not have sufficient cash to pay our accelerated debt.

The agreements governing our indebtedness contain various covenants that limit, among other things, our ability, and the ability of certain of our subsidiaries, to:

- incur certain liens;
- enter into sale and leaseback transactions; and
- consolidate, merge or sell all or substantially all of our assets or the assets of our guarantors.

As a result of these covenants, we will be limited in the manner in which we can conduct our business, and may be unable to engage in favorable business activities or finance future operations or capital needs. Accordingly, these restrictions may limit our flexibility to operate our business. A failure to comply with the restrictions contained in these agreements, including maintaining the financial ratios required by our credit facilities, could lead to an event of default which could result in an acceleration of the indebtedness. We cannot assure you that our future operating results will be sufficient to enable us to comply with the covenants contained

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in the agreements governing our indebtedness or to remedy any such default. In addition, in the event of an acceleration, we may not have or be able to obtain sufficient funds to make any accelerated payments.

Our indebtedness exposes us to interest expense increases if interest rates increase.

As of September 30, 2014, $983.0 million or approximately 48%, of our borrowings, were at variable interest rates and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed would remain the same, and our net income would decrease. An increase of 1% in the interest rates payable on our variable rate indebtedness would increase our annual estimated debt-service requirements by $9.8 million, assuming our consolidated variable interest rate indebtedness outstanding as of September 30, 2014, remains the same.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchase Program

On February 4, 2014, Grace announced that the Grace Board of Directors authorized a share repurchase program of up to $500 million expected to be completed over the following 12 to 24 months at the discretion of management. Repurchases under the program may be made through one or more open market transactions at prevailing market prices; unsolicited or solicited privately negotiated transactions; accelerated share repurchase programs; or through any combination of the foregoing, or in such other manner as determined by management. The timing of the repurchases and the actual amount repurchased will depend on a variety of factors, including the market price of Grace’s shares and general market and economic conditions. Repurchased shares will be held in treasury. There is no guarantee as to the number of shares that will be repurchased and the share repurchase program may be extended, suspended or discontinued at any time without notice.

The following table presents information regarding the repurchase of Grace common stock by Grace or any "affiliated purchaser" of Grace during the three months ended September 30, 2014:

	Total number of shares purchased (#)	Average price paid per share ($/share)	Total number of shares purchased as part of publicly announced plans or programs (#)	Approximate dollar value of shares that may yet be purchased under the plans or programs ($ in millions)
7/1/2014 - 7/31/2014	291,825	94.87	291,825	233.8
8/1/2014 - 8/31/2014	374,000	96.17	374,000	197.9
9/1/2014 - 9/30/2014	406,700	95.31	406,700	159.1
Total	1,072,525	95.49	1,072,525	159.1

Item 5. OTHER INFORMATION

2015 Annual Meeting of Stockholders

The Board of Directors has determined that the 2015 Annual Meeting of Stockholders will be held at Grace’s global headquarters at 7500 Grace Drive, Columbia, Maryland 21044 at 9:00 a.m. on Thursday, May 7, 2015, for stockholders of record on March 10, 2015. Pursuant to the Company’s Bylaws, in order for a stockholder to nominate someone to be elected as a director by the stockholders at the 2015 Annual Meeting or to propose business at the 2015 Annual Meeting, other than pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended, notice of such nomination or business must be received by the Company’s Secretary no sooner than January 7, 2015, and no later than February 6, 2015.

Item 6. EXHIBITS

In reviewing the agreements included as exhibits to this and other Reports filed by Grace with the Securities and Exchange Commission, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about Grace or other parties to the agreements. The agreements generally contain representations and warranties by each of the parties to the

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applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement. These representations and warranties:

- Are not statements of fact, but rather are used to allocate risk to one of the parties if the statements prove to be inaccurate;
- May have been qualified by disclosures that were made to the other parties in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- May apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- Were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and do not reflect more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about Grace may be found elsewhere in this report and Grace's other public filings, which are available without charge through the Securities and Exchange Commission's website at http://www.sec.gov.

The following is a list of Exhibits filed as part of this Quarterly Report on Form 10-Q:

Exhibit No.	Description of Exhibit	Location
4.1	Indenture, dated as of September 16, 2014, by and among W. R. Grace & Co.—Conn., the guarantors party there to and Wilmington Trust, National Association, as trustee	Exhibit 4.1 to Form 8-K (filed 9/19/14) SEC File No.: 001-13953
4.2	First Supplemental Indenture, dated as of September 16, 2014, by and among W. R. Grace & Co.—Conn., the guarantors party thereto and Wilmington Trust, National Association, as trustee	Exhibit 4.2 to Form 8-K (filed 9/19/14) SEC File No.: 001-13953
4.3	Form of 5.125% Note due 2021 (included as Exhibit A-1 to Exhibit 4.2)	Exhibit 4.3 to Form 8-K (filed 9/19/14) SEC File No.: 001-13953
4.4	Form of 5.625% Note due 2024 (included as Exhibit A-2 to Exhibit 4.2)	Exhibit 4.4 to Form 8-K (filed 9/19/14) SEC File No.: 001-13953
4.5	Termination Agreement dated August 1, 2014	Exhibit 10.1 to Form 8-K (filed 9/9/14) SEC File No.: 001-13953
10.1	Letter Agreement dated September 24, 2014, between Fred Festa, on behalf of Grace, and Pamela K. Wagoner	Filed herewith
15	Accountants' Awareness Letter	Filed herewith
31(i).1	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(i).2	Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

W. R. GRACE & CO.
(Registrant)

Date: 11/6/2014	By: /s/ ALFRED E. FESTA Alfred E. Festa (Chairman and Chief Executive Officer)
Date: 11/6/2014	By: /s/ HUDSON LA FORCE III Hudson La Force III (Senior Vice President and Chief Financial Officer)
Date: 11/6/2014	By: /s/ WILLIAM C. DOCKMAN William C. Dockman (Vice President and Controller)

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101.LAB	XBRL Taxonomy Extension Label Linkbase	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	Filed herewith