

W R GRACE & CO
Form 10-Q
August 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

OR

**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
(State of Incorporation)

65-0773649
(I.R.S. Employer
Identification No.)

7500 Grace Drive

Columbia, Maryland 21044

(410) 531-4000

(Address and phone number of
principal executive offices)

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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

No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

70,133,018 shares of Common Stock, \$0.01 par value, were outstanding at July 31, 2007.

W. R. GRACE & CO. AND SUBSIDIARIES

Table of Contents

	Page No.
<u>Part I.</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements</u>	I-1
<u>Report of Independent Registered Public Accounting Firm</u>	I-2
<u>Consolidated Statements of Operations</u>	I-3
<u>Consolidated Statements of Cash Flows</u>	I-4
<u>Consolidated Balance Sheets</u>	I-5
<u>Consolidated Statements of Shareholders' Equity (Deficit)</u>	I-6
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	I-6
<u>Notes to Consolidated Financial Statements</u>	I-7
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	I-32
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	I-52
<u>Item 4.</u>	
<u>Controls and Procedures</u>	I-52
<u>Part II.</u>	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	II-1
<u>Item 1A.</u>	
<u>Risk Factors</u>	II-2
<u>Item 6.</u>	
<u>Exhibits</u>	II-2

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Review by Independent Registered Public Accounting Firm

A review of the interim consolidated financial statements included in this Quarterly Report on Form 10-Q for the three and six months ended June 30, 2007 and 2006 has been performed by PricewaterhouseCoopers LLP, the company's independent registered public accounting firm. Their report on the interim consolidated financial statements follows. 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.

I-1

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 June 30, 2007, and the related consolidated statements of operations, shareholders' equity (deficit) and comprehensive income (loss) for each of the three-month and six-month periods ended June 30, 2007 and June 30, 2006 and the consolidated statements of cash flows for the six-month periods ended June 30, 2007 and June 30, 2006. 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 interim consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

The accompanying interim consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Notes 1 and 2 to the interim consolidated financial statements, on April 2, 2001, the Company and substantially all of its domestic subsidiaries voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code, which raises substantial doubt about the Company's ability to continue as a going concern in its present form. Management's intentions with respect to this matter are also described in Notes 1 and 2. The accompanying interim consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of operations, cash flows, shareholders' equity (deficit) and comprehensive income (loss) for the year then ended, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2006; and in our report dated March 1, 2007, we expressed (i) an unqualified opinion on those consolidated financial statements with an explanatory paragraph relating to the Company's ability to continue as a going concern and, (ii) unqualified opinions on management's assessment of the effectiveness of the Company's internal control over financial reporting and on the effectiveness of the Company's internal control over financial reporting. The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2006, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia

August 8, 2007

I-2

W. R. Grace & Co. and Subsidiaries
Consolidated Statements of Operations (Unaudited)
 In millions, except per share amounts

	Three Months Ended		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Net sales	\$ 812.8	\$ 729.1	\$ 1,528.4	\$ 1,387.7
Cost of goods sold, exclusive of depreciation and amortization shown separately below	533.9	470.0	1,012.6	907.8
Selling, general and administrative expenses, exclusive of net pension expense and depreciation and amortization shown separately below	138.4	142.3	265.9	271.3
Depreciation and amortization	27.6	28.4	55.2	56.5
Research and development expenses	17.7	14.5	35.5	29.4
Net pension expense	13.1	16.8	25.8	31.6
Interest expense and related financing costs	20.3	19.9	39.7	35.7
Provision for environmental remediation	12.0	30.0	12.0	30.0
Chapter 11 expenses, net of interest income	23.6	11.5	41.4	20.2
Other (income) expense, net	(7.7)	(13.9)	(15.7)	(15.8)
	778.9	719.5	1,472.4	1,366.7
Income (loss) before income taxes and minority interest	33.9	9.6	56.0	21.0
Benefit from (provision for) income taxes	(9.3)	(3.3)	(24.2)	(7.8)
Minority interest in consolidated entities	(4.1)	(11.5)	(6.5)	(18.3)
Net income (loss)	\$ 20.5	\$ (5.2)	\$ 25.3	\$ (5.1)
Basic earnings (loss) per share:				
Net income (loss)	\$ 0.29	\$ (0.08)	\$ 0.36	\$ (0.08)
Weighted average number of basic shares	70.1	67.9	69.8	67.5
Diluted earnings (loss) per share:				
Net income (loss)	\$ 0.29	\$ (0.08)	\$ 0.35	\$ (0.08)
Weighted average number of diluted shares	71.8	67.9	71.4	67.5

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

W. R. Grace & Co. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
In millions

	Six Months Ended	
	June 30,	
	2007	2006
OPERATING ACTIVITIES		
Net income (loss)	\$ 25.3	\$ (5.1)
Reconciliation to net cash provided by (used for) operating activities:		
Chapter 11 expenses, net of interest income	41.4	20.2
(Benefit from) provision for income taxes	24.2	7.8
Minority interest in consolidated entities	6.5	18.3
Depreciation and amortization	55.2	56.5
Interest accrued on pre-petition liabilities subject to compromise	38.8	34.7
Net (gain) loss on sales of investments and disposals of assets	(3.6)	(2.8)
Net pension expense	25.8	31.6
Payments under defined benefit pension arrangements	(57.0)	(39.6)
Payments under postretirement benefit plans	(3.1)	(6.5)
Net income from life insurance policies	(2.5)	(1.7)
Provision for uncollectible receivables	1.4	0.5
Provision for environmental remediation	12.0	30.0
Expenditures for environmental remediation	(4.8)	(3.4)
Expenditures for retained obligations of divested businesses	(0.8)	(1.3)
Dividends paid to minority interests in consolidated entities	(11.8)	
Changes in assets and liabilities, excluding effect of businesses acquired/divested and foreign currency translation:		
Working capital items (trade accounts receivable, inventories and accounts payable)	(34.2)	(86.2)
Other accruals and non-cash items	(43.3)	(3.7)
Income taxes paid, net of refunds	(18.5)	(17.8)
Net cash provided by (used for) operating activities before Chapter 11 expenses and settlements	51.0	31.5
Cash paid to resolve contingencies subject to Chapter 11	(10.3)	
Chapter 11 expenses paid	(35.5)	(20.4)
Net cash provided by (used for) operating activities	5.2	11.1
INVESTING ACTIVITIES		
Capital expenditures	(52.3)	(51.9)
Purchase of short-term investment	(25.0)	
Purchase of equity investment	(6.3)	
Proceeds from sales of investments and disposals of assets	3.0	7.2
Businesses acquired, net of cash acquired		(20.0)
Net investment in life insurance policies	0.2	(0.1)
Net cash provided by (used for) investing activities	(80.4)	(64.8)
FINANCING ACTIVITIES		
Net (repayments) borrowings under credit arrangements	9.6	0.6
Fees under debtor-in-possession credit facility	(1.3)	(1.1)
Proceeds from exercise of stock options	19.4	15.8
Net cash provided by (used for) financing activities	27.7	15.3
Effect of currency exchange rate changes on cash and cash equivalents	5.5	6.9
Increase (decrease) in cash and cash equivalents	(42.0)	(31.5)
Cash and cash equivalents, beginning of period	536.3	474.7
Cash and cash equivalents, end of period	\$ 494.3	\$ 443.2

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

W. R. Grace & Co. and Subsidiaries
Consolidated Balance Sheets

In millions, except par value and shares

	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 494.3	\$ 536.3
Marketable securities	28.1	3.3
Trade accounts receivable, less allowance of \$7.7 (2006 \$6.6)	493.8	426.3
Inventories	287.0	284.6
Deferred income taxes	36.8	37.8
Other current assets	71.4	80.5
Total Current Assets	1,411.4	1,368.8
Properties and equipment, net of accumulated depreciation and amortization of \$1,565.3 (2006 \$1,510.5)	671.1	664.5
Goodwill	117.8	116.5
Cash value of life insurance policies, net of policy loans	91.5	89.2
Deferred income taxes	712.8	728.5
Asbestos-related insurance	500.0	500.0
Overfunded defined benefit pension plans	62.5	38.4
Other assets	139.3	131.5
Total Assets	\$ 3,706.4	\$ 3,637.4
LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIT)		
Liabilities Not Subject to Compromise		
Current Liabilities		
Debt payable within one year	\$ 12.8	\$ 3.3
Accounts payable	200.2	172.7
Other current liabilities	276.4	272.6
Total Current Liabilities	489.4	