UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2021

or

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

For the transition period from _____ to _____

Commission File Number 1-13953

W. R. GRACE & CO.

(Exact name of registrant as specified in its charter)

Delaware	**65-0773649**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7500 Grace Drive, Columbia, Maryland 21044-4098
(Address of principal executive offices) (Zip Code)

(410) 531-4000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	GRA	New York Stock Exchange

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 has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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 July 31, 2021
Common Stock, $0.01 par value per share	66,269,338 shares

TABLE OF CONTENTS

Notes on references that we use in our disclosure. Unless the context indicates otherwise, the terms “Grace,” the “Company,” “we,” “us,” or “our” mean (i) W. R. Grace & Co. itself, or (ii) W. R. Grace & Co. and/or one or more of its consolidated subsidiaries and affiliates and, in certain cases, their respective predecessors. Unless otherwise indicated, the contents of websites that we mention are not incorporated by reference or otherwise made a part of this Report.

We refer to the U.S. Securities and Exchange Commission as the “SEC.” We refer to the Financial Accounting Standards Board as the “FASB.” The FASB issues, among other things, the Accounting Standards Codification (which we refer to as “ASC”) and Accounting Standards Updates (which we refer to as “ASU”). We refer to the U.S. Internal Revenue Service as the “IRS.”

Trademarks and other intellectual property that we discuss in this Report. GRACE®, the GRACE® logo (and any other use of the term “Grace” as a trade name) as well as the other trademarks, service marks, or trade names used in this Report are trademarks, service marks, or trade names of Grace or its operating units, except as otherwise indicated. ART® and ADVANCED REFINING TECHNOLOGIES® are trademarks, registered in the United States and/or other countries, of Advanced Refining Technologies LLC, a Delaware limited liability company, 50% owned by Grace and 50% owned by Chevron U.S.A. Inc.

FORWARD-LOOKING STATEMENTS

This report contains 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, statements regarding: financial positions; results of operations; cash flows; financing plans; business strategy; operating plans; capital and other expenditures; impact of COVID-19 on Grace’s business; competitive positions; growth opportunities for existing products; benefits from new technology; benefits from cost reduction initiatives; succession planning; markets for securities; the anticipated timing of closing of the Merger pursuant to the Merger Agreement with affiliates of Standard Industries, and the potential benefits of the Merger. For these statements, Grace claims the protections of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Grace is subject to risks and uncertainties that could cause actual results or events to differ materially from its projections or that could cause forward-looking statements to prove incorrect. Factors that could cause actual results or events to differ materially from those contained in the forward-looking statements include, without limitation: risks related to foreign operations, especially in areas of active conflicts and in emerging regions; the costs and availability of raw materials, energy, and transportation; the effectiveness of Grace’s research and development and growth investments; acquisitions and divestitures of assets and businesses; developments affecting Grace’s outstanding indebtedness; developments affecting Grace’s pension obligations; legacy matters (including product, environmental, and other legacy liabilities) relating to past activities of Grace; its legal and environmental proceedings; environmental compliance matters (including existing and potential laws and regulations pertaining to climate change, or our products and services); the inability to establish or maintain certain business relationships; the inability to hire or retain key personnel; natural disasters such as storms and floods; fires and force majeure events; the economics of its customers’ industries, including the petroleum refining, petrochemicals, and plastics industries, and shifting consumer preferences; public health and safety concerns, including pandemics and quarantines; changes in tax laws and regulations; international trade disputes, tariffs, and sanctions; the potential effects of cyberattacks; the occurrence of any event, change or other circumstance that could give rise to the termination of the Merger Agreement; the failure to obtain Grace stockholder approval of the Merger or the failure to satisfy any of the other conditions to the completion thereof; risks relating to the financing required to complete the Merger; the effect of the announcement of the Merger Agreement on the ability of Grace to retain and hire key personnel and maintain relationships with its customers, vendors and others with whom it does business, or on its operating results and businesses generally; risks associated with the disruption of management’s attention from ongoing business operations due to the Merger Agreement; the ability to meet expectations regarding the timing and completion of the Merger; significant costs, fees, expenses and charges related to the Merger; the risks from litigation and/or regulatory actions related to the Merger; other business effects, including the effects of industry, market, economic, political, regulatory or world health conditions (including new or ongoing effects of the COVID-19 pandemic), and other factors detailed in Grace’s Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2020, and Grace’s other filings with the SEC, which are available at http://www.sec.gov and on Grace’s website at www.grace.com. Grace’s reported results should not be considered as an indication of its future performance. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Grace undertakes no obligation to release publicly any revisions to its forward-looking statements, or to update them to reflect events or circumstances occurring after the dates those statements are made.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share amounts)	**2021**	**2020**	**2021**	**2020**
Net sales	**$ 512.9**	$ 418.7	**$ 969.6**	$ 840.2
Cost of goods sold	**318.2**	299.4	**604.9**	561.3
Gross profit	**194.7**	119.3	**364.7**	278.9
Selling, general and administrative expenses	**78.7**	71.9	**153.3**	143.0
Research and development expenses	**17.8**	16.7	**35.2**	33.7
Costs related to legacy matters	**4.6**	2.8	**9.2**	5.5
Equity in earnings of unconsolidated affiliate	**(5.1)**	(3.4)	**(8.3)**	(4.6)
Restructuring and repositioning expenses	**11.8**	23.9	**24.6**	26.6
Interest expense and related financing costs	**19.8**	19.2	**38.8**	37.5
Other (income) expense, net	**3.4**	(8.6)	**(38.7)**	(17.4)
Total costs and expenses	**131.0**	122.5	**214.1**	224.3
Income (loss) before income taxes	**63.7**	(3.2)	**150.6**	54.6
(Provision for) benefit from income taxes	**(18.2)**	(6.4)	**(36.5)**	(22.1)
Net income (loss)	**45.5**	(9.6)	**114.1**	32.5
Less: Net (income) loss attributable to noncontrolling interests	**(0.1)**	2.3	**(0.3)**	2.2
Net income (loss) attributable to W. R. Grace & Co. shareholders	**$ 45.4**	$ (7.3)	**$ 113.8**	$ 34.7
Earnings Per Share Attributable to W. R. Grace & Co. Common Shareholders				
Basic earnings per share:				
Net income (loss)	**$ 0.68**	$ (0.11)	**$ 1.71**	$ 0.52
Weighted average number of basic shares	**66.3**	66.2	**66.2**	66.3
Diluted earnings per share:				
Net income (loss)	**$ 0.68**	$ (0.11)	**$ 1.71**	$ 0.52
Weighted average number of diluted shares	**66.4**	66.2	**66.3**	66.4
Dividends per common share	**$ —**	$ 0.30	**$ 0.33**	$ 0.60

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

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

(In millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net income (loss)	**$ 45.5**	$ (9.6)	**$ 114.1**	$ 32.5
Other comprehensive income (loss), net of income taxes:				
Defined benefit pension and other postretirement plans	**—**	(0.1)	**(0.1)**	(0.2)
Currency translation adjustments	**(6.3)**	(7.5)	**18.8**	(5.0)
Gain (loss) from hedging activities	**3.0**	(0.8)	**5.0**	(1.8)
Total other comprehensive income (loss)	**(3.3)**	(8.4)	**23.7**	(7.0)
Comprehensive income (loss)	**42.2**	(18.0)	**137.8**	25.5
Less: comprehensive (income) loss attributable to noncontrolling interests	**(0.1)**	2.3	**(0.3)**	2.2
Comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	**$ 42.1**	$ (15.7)	**$ 137.5**	$ 27.7

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

Table of Contents

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

(In millions)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
OPERATING ACTIVITIES		
Net income (loss)	**$ 114.1**	$ 32.5
Reconciliation to net cash provided by (used for) operating activities:		
Depreciation and amortization	**57.4**	50.9
Equity in earnings of unconsolidated affiliate	**(8.3)**	(4.6)
Dividends received from unconsolidated affiliate	**7.5**	—
Costs related to legacy matters	**9.2**	5.5
Cash paid for legacy matters	**(13.9)**	(12.3)
Provision for (benefit from) income taxes	**36.5**	22.1
Cash paid for income taxes	**(23.8)**	(24.4)
Income tax refunds received	**0.9**	7.3
Defined benefit pension (income) expense	**(9.5)**	6.6
Gain on curtailment of U.S. salaried pension plan	**(25.6)**	—
Cash paid under defined benefit pension arrangements	**(10.6)**	(8.4)
Loss on disposal of assets	**2.5**	20.9
Changes in assets and liabilities, excluding effect of currency translation and acquisitions:		
Trade accounts receivable	**(33.0)**	84.7
Inventories	**(49.3)**	41.7
Accounts payable	**52.2**	(38.0)
All other items, net	**9.2**	0.1
Net cash provided by (used for) operating activities	**115.5**	184.6
INVESTING ACTIVITIES		
Cash paid for capital expenditures	**(76.1)**	(95.0)
Business acquired, net of cash acquired	**(297.9)**	—
Other investing activities, net	**2.2**	(24.2)
Net cash provided by (used for) investing activities	**(371.8)**	(119.2)
FINANCING ACTIVITIES		
Borrowings under credit arrangements	**305.0**	9.1
Repayments under credit arrangements	**(8.5)**	(12.8)
Proceeds from issuance of notes	**—**	750.0
Cash paid for debt financing costs	**(7.4)**	(10.3)
Cash paid for repurchases of common stock	**—**	(40.4)
Proceeds from exercise of stock options	**0.5**	—
Dividends paid to shareholders	**(22.0)**	(40.4)
Other financing activities, net	**(2.3)**	(4.2)
Net cash provided by (used for) financing activities	**265.3**	651.0
Effect of currency exchange rate changes on cash, cash equivalents, and restricted cash	**(2.5)**	(1.5)
Net increase (decrease) in cash, cash equivalents, and restricted cash	**6.5**	714.9
Cash, cash equivalents, and restricted cash, beginning of period	**306.2**	282.9
Cash, cash equivalents, and restricted cash, end of period	**$ 312.7**	$ 997.8
Supplemental disclosure of cash flow information		
Issuance of convertible preferred stock	**$ 258.0**	$ —
Cash paid for interest, net of amounts capitalized	**34.4**	32.6
Capital expenditures in accounts payable	**28.8**	18.5
Expenditures for other investing activities included in accounts payable	**—**	3.7

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

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

(In millions, except par value and shares)	June 30, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 312.0**	$ 304.5
Restricted cash and cash equivalents	**0.7**	1.7
Trade accounts receivable, less allowance of $2.3 (2020—$2.2)	**297.0**	264.1
Inventories	**358.0**	253.8
Other current assets	**50.8**	51.2
Total Current Assets	**1,018.5**	875.3
Properties and equipment, net of accumulated depreciation and amortization of $1,574.4 (2020—$1,550.1)	**1,267.4**	1,208.8
Goodwill	**791.9**	562.7
Technology and other intangible assets, net	**517.5**	320.8
Deferred income taxes	**550.5**	567.1
Investment in unconsolidated affiliate	**174.7**	175.5
Other assets	**67.3**	55.3
Total Assets	**$ 4,387.8**	$ 3,765.5
LIABILITIES AND EQUITY		
Current Liabilities		
Debt payable within one year	**$ 17.2**	$ 15.3
Accounts payable	**290.1**	262.1
Other current liabilities	**289.5**	281.9
Total Current Liabilities	**596.8**	559.3
Debt payable after one year	**2,268.2**	1,975.1
Unfunded defined benefit pension plans	**504.9**	520.7
Underfunded defined benefit pension plans	**89.1**	128.3
Other liabilities	**320.3**	347.6
Total Liabilities	**3,779.3**	3,531.0
Commitments and Contingencies—Note 8		
Convertible preferred stock, par value $100,000; aggregate liquidation preference $270.0; 2,700 shares authorized, issued, and outstanding	**258.5**	—
Equity		
Common stock issued, par value $0.01; 300,000,000 shares authorized; outstanding: 66,269,318 (2020—66,190,410)	**0.7**	0.7
Paid-in capital	**465.7**	473.2
Retained earnings	**740.3**	648.8
Treasury stock, at cost: shares: 11,187,315 (2020—11,266,223)	**(913.1)**	(920.6)
Accumulated other comprehensive income (loss)	**53.0**	29.3
Total W. R. Grace & Co. Shareholders' Equity	**346.6**	231.4
Noncontrolling interests	**3.4**	3.1
Total Equity	**350.0**	234.5
Total Liabilities and Equity	**$ 4,387.8**	**$ 3,765.5**

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

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

(In millions)	Common Stock and Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance, December 31, 2020	**$ 473.9**	**$ 648.8**	**$ (920.6)**	**$ 29.3**	**$ 3.1**	**$ 234.5**
Net income (loss)	—	68.4	—	—	0.2	68.6
Payments in consideration of employee tax obligations related to stock-based compensation	(2.2)	—	—	—	—	(2.2)
Stock-based compensation	2.1	—	—	—	—	2.1
Exercise of stock options	(0.1)	—	0.1	—	—	—
Shares issued	(5.3)	—	5.4	—	—	0.1
Dividends declared	—	(21.8)	—	—	—	(21.8)
Other comprehensive (loss) income	—	—	—	27.0	—	27.0
Balance, March 31, 2021	**$ 468.4**	**$ 695.4**	**$ (915.1)**	**$ 56.3**	**$ 3.3**	**$ 308.3**
Net income (loss)	—	45.4	—	—	0.1	45.5
Stock-based compensation	(1.2)	—	—	—	—	(1.2)
Exercise of stock options	(0.2)	—	0.7	—	—	0.5
Shares issued	(0.6)	—	1.3	—	—	0.7
Other comprehensive (loss) income	—	—	—	(3.3)	—	(3.3)
Accretion on convertible preferred stock	—	(0.5)	—	—	—	(0.5)
Balance, June 30, 2021	**$ 466.4**	**$ 740.3**	**$ (913.1)**	**$ 53.0**	**$ 3.4**	**$ 350.0**

(In millions)	Common Stock and Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance, December 31, 2019	**$ 478.6**	**$ 730.5**	**$ (892.2)**	**$ 78.8**	**$ 6.5**	**$ 402.2**
Net income (loss)	—	42.0	—	—	0.1	42.1
Repurchase of common stock	—	—	(40.4)	—	—	(40.4)
Payments in consideration of employee tax obligations related to stock-based compensation	(4.1)	—	—	—	—	(4.1)
Stock-based compensation	2.9	—	—	—	—	2.9
Shares issued	(10.3)	—	10.3	—	—	—
Dividends declared	—	(20.2)	—	—	—	(20.2)
Other comprehensive (loss) income	—	—	—	1.4	—	1.4
Balance, March 31, 2020	**$ 467.1**	**$ 752.3**	**$ (922.3)**	**$ 80.2**	**$ 6.6**	**$ 383.9**
Net income (loss)	—	(7.3)	—	—	(2.3)	(9.6)
Stock-based compensation	2.9	—	—	—	—	2.9
Shares issued	(0.7)	—	1.5	—	—	0.8
Dividends declared	—	(20.0)	—	—	—	(20.0)
Other comprehensive (loss) income	—	—	—	(8.4)	—	(8.4)
Balance, June 30, 2020	**$ 469.3**	**$ 725.0**	**$ (920.8)**	**$ 71.8**	**$ 4.3**	**$ 349.6**

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

W. R. Grace & Co. and Subsidiaries
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 the production and sale of specialty chemicals and specialty materials on a global basis through two reportable segments: Grace Catalysts Technologies, which includes catalysts and related products and technologies used in petrochemical, refining, and other chemical manufacturing applications; and Grace Materials Technologies, which includes specialty materials, including silica-based and complex organic molecules, used in pharma & consumer, coatings, and chemical process applications.

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.

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 2020 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 six-month interim period ended June 30, 2021, are not necessarily indicative of the results of operations to be attained for the year ending December 31, 2021.

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 amounts 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:

- The effective tax rate and realization values of net deferred tax assets, which depend on projections of future taxable income;
- Pension and postretirement liabilities, which depend on assumptions regarding participant life spans, future inflation, discount rates and total returns on invested funds (see Note 6);
- Carrying values of goodwill and other intangible assets, which depend on assumptions of future earnings and cash flows (see Note 16); and
- Contingent liabilities, which depend on an assessment of the probability of loss and an estimate of ultimate obligation, such as litigation and arbitration; and product, environmental, and other legacy liabilities (see Note 8).

Reclassifications Certain amounts in the prior year's 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.

Recently Adopted Accounting Standards In December 2019, the FASB issued ASU 2019-12 "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This update clarifies and amends existing guidance, including removing certain exceptions to the general principles in Topic 740, and improves consistent application of and simplifies U.S. GAAP for other areas of Topic 740. Grace adopted this update on January 1, 2021, and it did not have a material impact on the Consolidated Financial Statements.

Notes to Consolidated Financial Statements (Continued)

2. Inventories

Inventories are stated at the lower of cost or net realizable value, and cost is determined using FIFO. Inventories consisted of the following at June 30, 2021, and December 31, 2020:

(In millions)	June 30, 2021	December 31, 2020
Raw materials	**$ 68.1**	$ 57.0
In process	**61.6**	38.2
Finished products	**193.0**	126.6
Other	**35.3**	32.0
Total inventory	**$ 358.0**	$ 253.8

The acquisition of the FCS business, completed on June 1, 2021, included $55.7 million of inventory. See Note 16 for further detail about this acquisition.

3. Debt

Components of Debt

(In millions)	June 30, 2021	December 31, 2020
2018 U.S. dollar term loan, net of unamortized debt issuance costs of $5.4 (2020—$6.0)	**$ 918.5**	$ 922.6
Senior notes due 2027, net of unamortized debt issuance costs of $9.3 (2020—$10.1)	**740.7**	739.9
Senior notes due 2024, net of unamortized debt issuance costs of $1.6 (2020—$1.9)	**298.4**	298.1
2021 U.S. dollar term loan, net of unamortized debt issuance costs of $7.3	**292.7**	—
Debt payable to unconsolidated affiliate	**28.8**	25.6
Other borrowings	**6.3**	4.2
Total debt	**2,285.4**	1,990.4
Less debt payable within one year	**17.2**	15.3
Debt payable after one year	**$ 2,268.2**	$ 1,975.1
Weighted average interest rates on total debt	**3.3 %**	3.5 %

See Note 4 for a discussion of the fair value of Grace's debt.

Grace also maintains a $400 million revolving credit facility. As of June 30, 2021, the available credit under this facility was reduced to $391.8 million by outstanding letters of credit.

2021 Amendment to the 2018 Credit Agreement

The 2018 Credit Agreement, entered into on April 3, 2018, and amended on June 1, 2021, as amended, provides for senior secured credit facilities, consisting of:

(a) a $950 million term loan due in 2025, with interest at LIBOR +175 basis points,

(b) a $400 million revolving credit facility due in 2023, with interest at LIBOR +175 basis points, and

(c) a $300 million term loan due in 2028, with interest at LIBOR +200 basis points.

On June 1, 2021, Grace, Grace–Conn. (as the "U.S. Borrower"), certain other subsidiaries of Grace, Goldman Sachs Bank USA, as the administrative agent, and the lenders party thereto, entered into Incremental Facility Amendment No. 1 to Credit Agreement (the "2021 Amendment"), which amended the 2018 Credit Agreement. The 2018 Credit Agreement, as amended to date, including by the 2021 Amendment, is hereinafter referred to as the "Credit Agreement." Pursuant to the 2021 Amendment, the U.S. Borrower borrowed incremental

3. Debt (Continued)

term B loans in an aggregate principal amount of $300 million (the “Incremental Loans”). The Incremental Loans constitute a new class of dollar term loans under the Credit Agreement and are generally subject to the same terms as are applicable to the term B-1 loans outstanding under the Credit Agreement. The Incremental Loans bear interest at a rate per annum equal to the eurocurrency rate (currently LIBOR) plus 2.00% or, at Grace’s option, the base rate plus 1.00%. The Incremental Loans amortize in equal quarterly installments in aggregate annual amounts of $3.0 million and mature on June 1, 2028. The proceeds of the Incremental Loans were used to fund the cash portion of the purchase price of the acquisition of the Fine Chemistry Services business of Albemarle Corporation (see Note 16) and to pay the fees and costs related to the acquisition and the 2021 Amendment.

The Credit Agreement contains customary affirmative covenants, including, but not limited to: (i) maintenance of existence, and compliance with laws; (ii) delivery of consolidated financial statements and other information; (iii) payment of taxes; (iv) delivery of notices of defaults and certain other material events; and (v) maintenance of adequate insurance. The Credit Agreement also contains customary negative covenants, including but not limited to restrictions on: (i) dividends on, and redemptions of, equity interests and other restricted payments; (ii) liens; (iii) loans and investments; (iv) the sale, transfer or disposition of assets and businesses; (v) transactions with affiliates; and (vi) a maximum first lien leverage ratio. Grace–Conn. has also agreed in the 2021 Amendment to additional covenants regarding its subsidiary, Fine Chemical Manufacturing Services LLC, in connection with that subsidiary’s acquisition of assets of the Fine Chemistry Services business of Albemarle Corporation (see Note 16).

Events of default under the Credit Agreement include, but are not limited to: (i) failure to pay principal, interest, fees or other amounts under the Credit Agreement when due, taking into account any applicable grace period; (ii) any representation or warranty proving to have been incorrect in any material respect when made; (iii) failure to perform or observe covenants or other terms of the Credit Agreement subject to certain grace periods; (iv) a cross-default and cross-acceleration with certain other material debt; (v) bankruptcy events; (vi) certain defaults under ERISA; and (vii) the invalidity or impairment of security interests.

To secure its obligations under the Credit Agreement, Grace and certain of its U.S. subsidiaries have granted security interests in substantially all equity and debt interests in Grace–Conn. or any other Grace subsidiary owned by them and in substantially all their non-real estate assets and property.

4. 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 Measurement” 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 Debt payable is recorded at carrying value. Fair value is determined based on Level 2 inputs, including expected future cash flows (discounted at market interest rates), estimated current market prices and quotes from financial institutions.

Notes to Consolidated Financial Statements (Continued)

4. Fair Value Measurements and Risk (Continued)

At June 30, 2021, and December 31, 2020, the carrying amounts, net of unamortized debt issuance costs and discounts (see Note 3), and fair values of Grace's debt were as follows:

	June 30, 2021		December 31, 2020	
(In millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
2018 U.S. dollar term loan	**$ 918.5**	**$ 915.0**	$ 922.6	$ 904.1
Senior notes due 2027	**740.7**	**786.6**	739.9	784.7
Senior notes due 2024	**298.4**	**332.0**	298.1	322.4
2021 U.S. dollar term loan	**292.7**	**291.6**	—	—
Other borrowings	**35.1**	**35.1**	29.8	29.8
Total debt	**$ 2,285.4**	**$ 2,360.3**	$ 1,990.4	$ 2,041.0

At June 30, 2021, 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.

Currency Derivatives Because Grace operates and/or sells to customers in over 60 countries and in over 30 currencies, its results are exposed to fluctuations in currency exchange rates. Grace seeks to minimize exposure to these fluctuations by matching sales with expenditures in the same currencies, but it is not always possible to do so. From time to time, Grace uses financial instruments such as currency forward contracts, options, swaps, or combinations thereof 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. Forward contracts with maturities of not more than 36 months are used and designated as cash flow hedges of forecasted repayments of intercompany loans. The effective portion of gains and losses on these currency hedges is recorded in "accumulated other comprehensive income (loss)" and reclassified into "other (income) expense, net" to offset the remeasurement of the underlying hedged loans. Forward points are excluded from the assessment of effectiveness and amortized to income on a systematic basis.

Grace also enters into foreign currency forward contracts and swaps to hedge a portion of its net outstanding monetary assets and liabilities. These forward contracts and swaps are not designated as hedging instruments under applicable accounting guidance, and therefore all changes in their fair value are recorded in "other (income) expense, net," in the Consolidated Statements of Operations. These forward contracts and swaps are intended to offset the foreign currency gains or losses associated with the underlying monetary assets and liabilities.

The valuation of Grace's currency exchange rate forward contracts and swaps is determined using an income approach. Inputs used to value currency exchange rate forward contracts and swaps consist of: (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. Total notional amounts for forward contracts and swaps outstanding as of June 30, 2021, were $407.3 million.

Cross-Currency Swap Agreements Grace uses cross-currency swaps designated as cash flow hedges to manage fluctuations in currency exchange rates and interest rates on variable rate debt. Gains and losses on these cash flow hedges are recorded in "accumulated other comprehensive income (loss)" and reclassified into "other (income) expense, net" and "interest expense and related financing costs" during the hedged period.

In connection with the 2018 U.S. dollar term loan, Grace entered into cross-currency swaps beginning on November 5, 2018, and maturing on March 31, 2023, to synthetically convert $600.0 million of U.S. dollar-denominated floating rate debt into €525.9 million of euro-denominated debt fixed at 1.785%. The valuation of these cross-currency swaps is determined using an income approach, using LIBOR and EURIBOR (Euro Interbank Offered Rate) swap curves, currency basis spreads, and euro/U.S. dollar exchange rates.

4. Fair Value Measurements and Risk (Continued)

Debt and Interest Rate Swap Agreements 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 (loss)" and reclassified into "interest expense and related financing costs" during the hedged interest period.

In connection with the 2018 U.S. dollar term loan, Grace entered into interest rate swaps beginning on April 3, 2018, and maturing on March 31, 2023, fixing the LIBOR component of the interest on $100.0 million of term debt at 2.775%. The valuation of these interest rate swaps is determined using an income approach, using prevailing market interest rates and discount rates to present value future cash flows based on the forward LIBOR yield curves. Credit risk is also incorporated into derivative valuations.

The following tables present the fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2021, and December 31, 2020:

	Fair Value Measurements at June 30, 2021, 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	$ 2.9	—	$ 2.9	—
Total Assets	**$ 2.9**	**$ —**	**$ 2.9**	**$ —**
Liabilities				
Variable-to-fixed cross-currency derivatives	$ 33.5	$ —	$ 33.5	$ —
Currency derivatives	12.9	—	12.9	—
Interest rate derivatives	4.4	—	4.4	—
Total Liabilities	**$ 50.8**	**$ —**	**$ 50.8**	**$ —**

	Fair Value Measurements at December 31, 2020, 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	$ 1.6	$ —	$ 1.6	$ —
Total Assets	**$ 1.6**	**$ —**	**$ 1.6**	**$ —**
Liabilities				
Variable-to-fixed cross-currency derivatives	$ 51.0	$ —	$ 51.0	$ —
Currency derivatives	17.8	—	17.8	—
Interest rate derivatives	5.5	—	5.5	—
Total Liabilities	**$ 74.3**	**$ —**	**$ 74.3**	**$ —**

Notes to Consolidated Financial Statements (Continued)

4. Fair Value Measurements and Risk (Continued)

The following tables present the location and fair values of derivative instruments included in the Consolidated Balance Sheets as of June 30, 2021, and December 31, 2020:

	Asset Derivatives		Liability Derivatives	
June 30, 2021 (In millions)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	$ 3.1	Other current liabilities	$ 12.2
Currency contracts	Other liabilities	(0.2)	Other liabilities	—
Interest rate contracts	Other current assets	—	Other current liabilities	2.6
Interest rate contracts	Other assets	—	Other liabilities	1.8
Variable-to-fixed cross-currency derivatives	Other current assets	—	Other current assets	(0.1)
Variable-to-fixed cross-currency derivatives	Other assets	—	Other liabilities	33.6
Derivatives not designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	—	Other current assets	(0.2)
Currency contracts	Other assets	—	Other current liabilities	0.9
Total derivatives		**$ 2.9**		**$ 50.8**

	Asset Derivatives		Liability Derivatives	
December 31, 2020 (In millions)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	$ —	Other current liabilities	$ 17.7
Currency contracts	Other assets	—	Other liabilities	0.1
Interest rate contracts	Other current assets	—	Other current liabilities	2.5
Interest rate contracts	Other assets	—	Other liabilities	3.0
Variable-to-fixed cross-currency swaps	Other current assets	—	Other current liabilities	0.2
Variable-to-fixed cross-currency swaps	Other assets	—	Other liabilities	50.8
Derivatives not designated as hedging instruments under ASC 815:				
Currency contracts	Other current assets	1.9	Other current liabilities	—
Currency contracts	Other current liabilities	(0.3)	Other current liabilities	—
Total derivatives		**$ 1.6**		**$ 74.3**

Table of Contents

4. 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 (loss) ("OCI") for the three and six months ended June 30, 2021 and 2020:

Three Months Ended June 30, 2021 (In millions)	**Amount of Gain (Loss) Recognized in OCI on Derivatives**	**Location of Gain (Loss) Reclassified from Accumulated OCI into Income**	**Amount of Gain (Loss) Reclassified from OCI into Income**
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	$ (0.1)	Interest expense	$ (0.7)
Currency contracts(1)	(2.0)	Other expense	(2.0)
Variable-to-fixed cross-currency swaps	2.0	Interest expense	(0.3)
Variable-to-fixed cross-currency swaps	(7.3)	Other expense	(7.3)
Total derivatives	**$ (7.4)**		**$ (10.3)**

	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	**$ 1.4**

(1) Amount of gain (loss) recognized in OCI includes $0.3 million excluded from the assessment of effectiveness for which the difference between changes in fair value and periodic amortization is recorded in OCI.

Six Months Ended June 30, 2021 (In millions)	**Amount of Gain (Loss) Recognized in OCI on Derivatives**	**Location of Gain (Loss) Reclassified from Accumulated OCI into Income**	**Amount of Gain (Loss) Reclassified from OCI into Income**
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	$ (0.1)	Interest expense	$ (1.3)
Currency contracts	3.8	Other expense	3.8
Variable-to-fixed cross-currency swaps	3.1	Interest expense	(0.5)
Variable-to-fixed cross-currency swaps	14.6	Other expense	14.6
Total derivatives	**$ 21.4**		**$ 16.6**

	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	**$ 0.9**

(1) Amount of gain (loss) recognized in OCI includes $0.6 million excluded from the assessment of effectiveness for which the difference between changes in fair value and periodic amortization is recorded in OCI.

Notes to Consolidated Financial Statements (Continued)

4. Fair Value Measurements and Risk (Continued)

Three Months Ended June 30, 2020 (In millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from OCI into Income
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	$ (0.4)	Interest expense	$ (0.3)
Currency contracts(1)	0.2	Other expense	1.9
Variable-to-fixed cross-currency swaps	2.1	Interest expense	1.8
Variable-to-fixed cross-currency swaps	(10.1)	Other expense	(10.1)
Total derivatives	**$ (8.2)**		**$ (6.7)**

	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	**$ 1.1**

(1) Amount of gain (loss) recognized in OCI includes $(1.7) million excluded from the assessment of effectiveness for which the difference between changes in fair value and periodic amortization is recorded in OCI.

Six Months Ended June 30, 2020 (In millions)	Amount of Gain (Loss) Recognized in OCI on Derivatives	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from OCI into Income
Derivatives in ASC 815 cash flow hedging relationships:			
Interest rate contracts	$ (3.5)	Interest expense	$ (0.5)
Currency contracts(1)	2.7	Other expense	3.2
Variable-to-fixed cross-currency swaps	5.6	Interest expense	4.3
Variable-to-fixed cross-currency swaps	(2.5)	Other expense	(2.5)
Total derivatives	**$ 2.3**		**$ 4.5**

	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	**$ (0.8)**

(1) Amount of gain (loss) recognized in OCI includes $(0.6) million excluded from the assessment of effectiveness for which the difference between changes in fair value and periodic amortization is recorded in OCI.

Notes to Consolidated Financial Statements (Continued)

4. Fair Value Measurements and Risk (Continued)

The following tables present the total amounts of income and expense line items presented in the Consolidated Statements of Operations in which the effects of cash flow hedges are reported.

	Three Months Ended June 30,			
	2021		2020	
(In millions)	Interest expense	Other income (expense)	Interest expense	Other income (expense)
Total amounts of income and expense line items in the Consolidated Statements of Operations in which the effects of cash flow hedges are recorded	**$ (19.8)**	**$ (3.4)**	$ (19.2)	$ 8.6
Gain (loss) on cash flow hedging relationships in ASC 815				
Interest rate contracts				
Gain (loss) reclassified from accumulated OCI into income	**$ (0.7)**	**$ —**	$ (0.3)	$ —
Variable-to-fixed cross-currency swaps				
Gain (loss) reclassified from accumulated OCI into income	**(0.3)**	**(7.3)**	1.8	(10.1)
Currency contracts				
Gain (loss) reclassified from accumulated OCI into income	**—**	**(2.0)**	—	1.9
Amount excluded from effectiveness testing recognized in earnings based on amortization approach (included in above)	**—**	**0.3**	—	0.4

	Six Months Ended June 30,			
	2021		2020	
(In millions)	Interest expense	Other income (expense)	Interest expense	Other income (expense)
Total amounts of income and expense line items in the Consolidated Statements of Operations in which the effects of cash flow hedges are recorded	**$ (38.8)**	**$ 38.7**	$ (37.5)	$ 17.4
Gain (loss) on cash flow hedging relationships in ASC 815				
Interest rate contracts				
Gain (loss) reclassified from accumulated OCI into income	**$ (1.3)**	**$ —**	$ (0.5)	$ —
Variable-to-fixed cross-currency swaps				
Gain (loss) reclassified from accumulated OCI into income	**(0.5)**	**14.6**	4.3	(2.5)
Currency contracts				
Gain (loss) reclassified from accumulated OCI into income	**—**	**3.8**	—	3.2
Amount excluded from effectiveness testing recognized in earnings based on amortization approach (included in above)	**—**	**0.6**	—	1.1

Net Investment Hedges Grace uses cross-currency swaps as derivative hedging instruments in certain net investment hedges of its non-U.S. subsidiaries. The gains and losses attributable to these net investment hedges, adjusted for the impact of excluded components, are recorded net of tax to “currency translation adjustments” within “accumulated other comprehensive income (loss)” to offset the change in the carrying value of the net investment being hedged. 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. Changes in the fair value of the hedging instrument related to time value, which are excluded from the assessment of hedge effectiveness, are recorded directly to interest expense on a systematic basis. These gains were $0.7 million and $1.5 million for the three and six months ended June 30, 2021, and $0.8 million and $1.7 million for the corresponding prior-year periods. At June 30, 2021, the notional amount of €170.0 million of Grace’s cross-currency swaps was designated as a hedging instrument of its net investment in its European subsidiaries.

4. Fair Value Measurements and Risk (Continued)

The following table presents the amount of gains and losses on financial instruments designated as net investment hedges, recorded to “currency translation adjustments” within “accumulated other comprehensive income (loss)” for the three and six months ended June 30, 2021 and 2020. There were no reclassifications of the effective portion of net investment hedges out of OCI and into earnings for the periods presented.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2021**	**2020**	**2021**	**2020**
Derivatives in ASC 815 net investment hedging relationships:				
Cross-currency swap	**$ (2.0)**	$ (3.7)	**$ 4.6**	$ 2.4

Credit Risk Grace is exposed to credit risk in its trade accounts receivable. Grace’s credit evaluation policies mitigate credit risk exposures, and it has a history of minimal credit losses. 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.

5. Income Taxes

Grace’s effective tax rates for the six months ended June 30, 2021 and 2020, were 24.2% and 40.5%, respectively.

Grace’s effective tax rate for the six months ended June 30, 2021, was higher than the U.S. federal statutory rate primarily due to income taxed in jurisdictions with higher statutory tax rates than the U.S., partially offset by discrete benefits related to the Global Intangible Low-Taxed Income (“GILTI”) high-tax exclusion recorded for the filing of the 2018 and 2019 federal amended returns and to the write-off of historical uncertain tax positions.

Grace’s effective tax rate for the six months ended June 30, 2020, was higher than the U.S. federal statutory rate primarily due to income taxed in jurisdictions with higher statutory tax rates than the U.S., the net impact of the GILTI tax in the U.S., the expiration of stock options during the 2020 second quarter, and the impact of a write-off of previously capitalized engineering and site costs.

As of June 30, 2021, and December 31, 2020, Grace had $317.8 million and $317.4 million, respectively, in federal tax credit carryforwards before unrecognized tax benefits.

6. Pension Plans and Other Retirement Plans

Pension Plans The following table presents the funded status of Grace’s pension plans:

(In millions)	**June 30, 2021**	**December 31, 2020**
Overfunded defined benefit pension plans	**$ 12.2**	$ 11.4
Underfunded defined benefit pension plans	**(89.1)**	(128.3)
Unfunded defined benefit pension plans	**(504.9)**	(520.7)
Total underfunded and unfunded defined benefit pension plans	**(594.0)**	(649.0)
Pension liabilities included in other current liabilities	**(15.5)**	(15.7)
Net funded status	**$ (597.3)**	$ (653.3)

Fully funded plans include several advance-funded plans where the fair value of the plan assets exceeds the projected benefit obligation (“PBO”). 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.

Notes to Consolidated Financial Statements (Continued)

6. Pension Plans and Other Retirement Plans (Continued)

The following tables present the components of net periodic benefit cost (income).

	Three Months Ended June 30,			
	2021		2020	
(In millions)	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	**$ 4.3**	**$ 3.5**	$ 4.7	$ 2.7
Interest cost	**5.4**	**0.7**	7.5	1.0
Expected return on plan assets	**(11.3)**	**(0.2)**	(12.1)	(0.2)
Amortization of prior service credit	**(0.2)**	**—**	(0.1)	—
Net periodic benefit cost (income)	**$ (1.8)**	**$ 4.0**	$ —	$ 3.5

	Six Months Ended June 30,			
	2021		2020	
(In millions)	U.S.	Non-U.S.	U.S.	Non-U.S.
Service cost	**$ 8.6**	**$ 7.0**	$ 9.4	$ 5.4
Interest cost	**10.8**	**1.4**	15.1	2.0
Expected return on plan assets	**(22.6)**	**(0.5)**	(24.1)	(0.5)
Amortization of prior service credit	**(0.3)**	**—**	(0.3)	—
Mark-to-market adjustment	**(13.7)**	**—**	—	—
Curtailment gain	**(25.6)**	**—**	—	—
Net periodic benefit cost (income)	**$ (42.8)**	**$ 7.9**	$ 0.1	$ 6.9

In the 2021 first quarter, Grace announced to employees that the U.S. salaried plan will be frozen effective January 1, 2025. Grace recorded a $13.7 million mark-to-market gain on remeasurement of the liability as a result of an increase in discount rates since December 31, 2020, partially offset by actual asset performance less than expected through the remeasurement date. Additionally, Grace recorded a $25.6 million gain on the plan curtailment, which is attributable to the elimination of future pay recognition in the pension benefit after 2024.

Plan Contributions and Funding Grace intends to continue 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.

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

Defined Contribution Retirement Plans 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 cost related to this benefit plan for the three and six months ended June 30, 2021, was $4.2 million and $7.7 million, respectively, compared with $3.6 million and $6.9 million for the corresponding prior-year periods.

U.S. salaried employees and certain U.S. hourly employees hired on or after January 1, 2017, participate in an enhanced defined contribution plan instead of a defined benefit pension plan. Grace contributes 4% of an individual employee’s salary or wages. Grace’s cost related to this enhanced defined contribution plan for the three and six months ended June 30, 2021, was $1.0 million and $2.2 million, respectively, compared with $0.8 million and $1.8 million for the corresponding prior-year periods.

Notes to Consolidated Financial Statements (Continued)

7. Other Balance Sheet Accounts

(In millions)	June 30, 2021	December 31, 2020
Other Current Liabilities		
Accrued compensation	**$ 59.3**	$ 60.6
Deferred revenue (see Note 13)	**37.7**	33.8
Liability for dam spillway replacement (see Note 8)	**26.8**	20.3
Fair value of currency, interest rate, and commodity contracts (see Note 4)	**15.9**	21.6
Pension liabilities (see Note 6)	**15.5**	15.7
Environmental contingencies (see Note 8)	**14.0**	13.8
Operating lease liabilities	**11.8**	10.1
Income taxes payable (see Note 5)	**7.7**	5.1
Accrued interest (see Note 3)	**5.8**	5.8
Other accrued liabilities	**95.0**	95.1
	$ 289.5	$ 281.9

Accrued compensation includes salaries and wages as well as estimated current amounts due under the annual and long-term incentive programs.

(In millions)	June 30, 2021	December 31, 2020
Other Liabilities		
Environmental contingencies (see Note 8)	**$ 95.4**	$ 95.4
Liability for dam spillway replacement (see Note 8)	**54.1**	69.3
Operating lease liabilities	**36.2**	25.8
Fair value of currency and interest rate contracts (see Note 4)	**35.6**	53.9
Legacy product liability (see Note 8)	**24.0**	24.0
Deferred revenue (see Note 13)	**20.4**	23.4
Retained obligations of divested businesses	**11.0**	12.2
Deferred income taxes	**10.1**	10.4
Asset retirement obligations	**9.3**	9.6
Unrecognized tax benefits	**3.9**	3.9
Other noncurrent liabilities	**20.3**	19.7
	$ 320.3	$ 347.6

8. Commitments and Contingent Liabilities

Legacy Matters

Over the years, Grace operated numerous types of businesses that are no longer part of its ongoing operations. As Grace divested or otherwise ceased operating these businesses, it retained certain liabilities and obligations, which Grace refers to as legacy liabilities. These liabilities include product, environmental and other liabilities. Although the outcome of each of the matters discussed below cannot be predicted with certainty, Grace has assessed its risk and has recorded estimated liabilities as required under U.S. GAAP.

Legacy Product Liabilities Grace emerged from an asbestos-related Chapter 11 bankruptcy on February 3, 2014 (the “Effective Date”). Under its plan of reorganization, all pending and future asbestos-related claims are channeled for resolution to either a personal injury trust (the “PI Trust”) or a property damage trust (the “PD Trust”). The trusts are the sole recourse for holders of asbestos-related claims. The channeling injunctions issued by the bankruptcy court prohibit holders of asbestos-related claims from asserting such claims directly against Grace.

Grace has satisfied all of its financial obligations to the PI Trust. Grace has contingent financial obligations remaining to the PD Trust. With respect to property damage claims related to Grace's former Zonolite attic insulation product ("ZAI PD Claims"), the PD Trust was funded with $49.4 million (net of $15 million of attorneys' fees) to pay claims and expenses. Grace is also obligated to make up to 10 contingent deferred payments of $8 million per year to the PD Trust during the 20-year period beginning on February 3, 2019, with each such payment due only if the assets of the PD Trust in respect of ZAI PD Claims fall below $10 million during the preceding year. As of June 30, 2021, the PD Trust has paid out approximately $42 million in ZAI PD Claims and expenses, leaving a balance of approximately $16 million, including the benefit of net investment gains.

Due to the limited claims history, the unique nature of this product, and the uncertainty of future claims patterns, an actuarial analysis was completed to estimate the range of possible future payments. The analysis was conducted by a third-party actuarial firm directed by Grace and using historical claims data provided by the ZAI trustee. Certain key assumptions employed in the analysis were (1) projections of the future number of filed claims, assuming a percentage increase in claims during earlier years and annual decreases in later years; (2) application of historical percentages of claims closed with indemnity payment compared to total closed claims, applied on a regional basis; and (3) application of the average claim payout, which reflects the average indemnity cost per claim closing with payment. As a result of the analysis and taking into account the relative uncertainty of future claims activity, Grace determined that contingent funding obligations beyond 2025 are not reasonably estimable. Grace estimates that the reasonable range of payments over the period of 2021 to 2025 is expected to be between $16 million and $24 million and projects that the first payment could be due as early as 2022. In the 2019 fourth quarter, Grace recorded a $24.0 million liability related to probable future obligations to fund the PD Trust for ZAI PD Claims. Grace's maximum financial obligation over the next 18 years is $80.0 million, and no single year's payment can exceed $8.0 million.

With respect to other asbestos property damage claims ("Other PD Claims"), claims unresolved as of the Effective Date are to be litigated in the bankruptcy court and any future claims are to be litigated in a federal district court, in each case pursuant to procedures approved by the bankruptcy court. To the extent any such Other 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 Other PD Claims allowed during the preceding six months plus interest (if applicable) and the amount of PD Trust expenses for the preceding six months (the "PD Obligation"). Grace has not paid any Other PD Claims since emergence. Annual expenses have been approximately $0.2 million per year. 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 Trust in respect of the PD Obligation. Grace has accrued for those unresolved Other PD Claims that it believes are probable and estimable. Grace has not accrued for other unresolved or unasserted Other PD Claims as it does not believe that payment is probable.

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 PD Trust in the event of default, subject to customary anti-dilution provisions.

This summary of the commitments and contingencies related to the Chapter 11 proceeding does not purport to be complete and is qualified in its entirety by reference to the plan of reorganization and the exhibits and documents related thereto, which have been filed with the SEC and are readily available on the internet at www.sec.gov.

Legacy Environmental Liabilities Grace is subject to loss contingencies resulting from extensive and evolving federal, state, local and foreign environmental laws and regulations relating to its manufacturing operations. Grace has procedures in place to minimize such contingencies; nevertheless, it has liabilities associated with past operations and additional claims may arise in the future, which may be material. To address its legacy liabilities, Grace accrues for anticipated costs of response efforts where an assessment has indicated

8. Commitments and Contingent Liabilities (Continued)

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 regularly and adjusted when circumstances become better defined or response efforts and their costs can be better estimated, typically as a matter moves through the life-cycle of environmental investigation and remediation. These liabilities are evaluated based on currently available information relating to the nature and extent of contamination, risk assessments, feasibility of response actions, and apportionment amongst other potentially responsible parties, all evaluated in light of prior experience.

At June 30, 2021, Grace's estimated liability for legacy environmental response costs totaled $109.4 million, compared with $109.2 million at December 31, 2020, and was included in "other current liabilities" and "other liabilities" in the Consolidated Balance Sheets. These amounts are based on agreements in place or on Grace's estimate of costs where no formal remediation plan or agreement to pay exists, yet there is sufficient information to estimate response costs.

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 vermiculite ore contained naturally occurring asbestos.

Grace is engaged with the U.S. Environmental Protection Agency (the "EPA") and other federal, state, and local governmental agencies in a remedial investigation and feasibility study ("RI/FS") of the Libby mine and the surrounding area, known as Operable Unit 3 ("OU3"). The RI/FS will study the specific areas within OU3 requiring remediation and will identify possible remedial action alternatives. Possible remedial actions within OU3 are wide-ranging, from institutional controls such as land use restrictions, to more active measures involving soil removal, containment projects, or other protective measures.

As part of the RI/FS process, Grace contracted an engineering and consulting firm to develop a range of possible remedial alternatives and associated cost estimates for OU3. Based on this work, Grace recorded a pre-tax charge of $70.0 million during the three months ended September 30, 2018, for the estimated costs of remediation of OU3. Grace believes that this amount should provide for a protective remedy meeting the statutory requirements of the Comprehensive Environmental Response, Compensation, and Liability Act.

The estimated costs of remediation are preliminary and consist of several components, each of which may vary significantly as the remedial alternatives are further developed. It is reasonably possible that the ultimate costs of remediation could range between $30 million and $170 million. Grace is working closely with the EPA, and the ultimate remedy will be determined by the EPA after the RI/FS is finalized. Such remedy will be set forth in a Record of Decision ("ROD") that is currently expected to be issued by the EPA no earlier than 2024. Costs associated with the more active remedial alternatives would be expected to be incurred over a decade or more. Grace will reevaluate its estimated liability as remedial alternatives evolve based on further work by the engineering and consulting firm and discussions with the EPA as the RI/FS process moves toward a ROD. Technical memoranda expected prior to the issuance of the ROD may provide insight into the likely remedial alternatives ultimately selected, allowing Grace to update its cost of remediation estimate. Depending on the remedial alternatives that the EPA selects in the ROD, the total cost of remediating OU3 may exceed Grace's current estimate by material amounts. The amounts set forth above do not include possible liability for natural resources damage. Based on ecological studies conducted by the EPA, Grace does not believe that natural resources damage has occurred. However, if a party were to be successful in asserting a natural resources damage claim, liability related to such obligation could be material.

Grace has cooperated with the EPA in investigating and remediating a number of formerly owned or operated sites that processed Libby vermiculite into finished products. Grace has recorded a liability for remaining expected response costs, including costs for EPA oversight and potential future site remediation, where a review has indicated that liability is probable and the cost is estimable. The EPA may commence additional investigations in the future at other sites that processed Libby vermiculite. Liability for unaccrued additional investigation and remediation costs is probable but not yet estimable, and could be material.

Notes to Consolidated Financial Statements (Continued)

8. Commitments and Contingent Liabilities (Continued)

Grace's estimated liability for response costs that are currently estimable for OU3 and vermiculite processing sites outside of Libby at June 30, 2021, and December 31, 2020, totaled $69.6 million and $71.2 million, respectively. It is possible that Grace's ultimate liability for these vermiculite-related matters will exceed current estimates by material amounts.

Non-Vermiculite-Related Environmental Matters

At June 30, 2021, and December 31, 2020, Grace's estimated legacy environmental liability for response costs at sites not related to its former vermiculite mining and processing activities totaled $39.8 million and $38.0 million, respectively. This liability relates to Grace's former businesses or operations, including its share of liability at off-site disposal facilities. 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.

Other Legacy Liabilities Beginning in 1971, as part of implementing a wet milling process at the Libby, Montana, vermiculite mine, Grace constructed a dam at the mine property that now prevents vermiculite ore tailings from moving into nearby creeks and rivers. Ongoing operation of the dam is regulated by the Montana Department of Natural Resources and Conservation ("DNRC"). In April 2019, the DNRC renewed the permit necessary for operation of the dam. Grace is legally obligated to operate the dam and construct a new spillway in accordance with the latest permit conditions.

Construction of the new dam spillway at the former mine site is a key element of Grace's overall remediation strategy. The project includes both an upper spillway and a lower spillway that are being managed as two separate projects with different engineering design and construction timelines. In 2019, Grace contracted a third-party engineering and consulting firm to develop an initial range of cost estimates for the total project. Based on this work, Grace recorded a liability of $68.0 million in 2019 for the estimated costs of the project. These costs were preliminary and subject to change as new information becomes available, including defining the final scope of the projects through the contract bidding process. During the three months ended September 30, 2020, Grace completed a review of contractor bids for the replacement of the upper spillway and increased its cost estimate for this portion of the project by $27.0 million, bringing the estimate for the total project to $95.0 million. Regarding the lower spillway, final engineering will be completed and submitted to the state of Montana for design approval in 2022, after which Grace will seek contract bids for this portion of the project. Grace believes it is reasonably possible that the ultimate costs of the two spillway projects could range between $80 million and $120 million. As Grace receives new information, its estimated liability may change materially. Construction will begin in 2021 and is expected to take three to four years.

Commercial and Financial Commitments and Contingencies

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, 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 accrues a warranty liability on a transaction-specific basis depending on the individual facts and circumstances related to each sale.
- Performance guarantees 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.

Notes to Consolidated Financial Statements (Continued)

8. Commitments and Contingent Liabilities (Continued)

- Contracts providing for the sale or spin-off of a former business unit or product line in which Grace has agreed to indemnify the buyer or resulting entity against certain liabilities related to activities prior to the closing of the transaction, including environmental, tax, and employee liabilities.
- Indemnification obligations of Grace as a tenant of real property leases; and 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. As of June 30, 2021, Grace had gross financial assurances issued and outstanding of $145.2 million, composed of $79.5 million of surety bonds issued by various insurance companies and $65.7 million of standby letters of credit and other financial assurances issued by various banks.

9. Restructuring Expenses and Repositioning Expenses

Restructuring Expenses Restructuring costs for the six months ended June 30, 2021, were due to the adjustment of the estimated asset write-off in connection with the idling of our methanol-to-olefins ("MTO") manufacturing facility. Costs for the three and six months ended June 30, 2020, primarily related to an increase in estimated contractual costs related to a 2018 plant exit. These costs are included in "restructuring and repositioning expenses" in the Consolidated Statements of Operations, and are not included in segment operating income.

The following table presents restructuring activity by reportable segment for the three and six months ended June 30, 2021 and 2020.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2021**	**2020**	**2021**	**2020**
Catalysts Technologies	**$ —**	$ 2.8	**$ (0.1)**	$ 2.8
Materials Technologies	**—**	0.1	**—**	0.3
Total restructuring (income) expense	**$ —**	$ 2.9	**$ (0.1)**	$ 3.1

The following table presents components of the change in the restructuring liability from December 31, 2020, to June 30, 2021.

	(In millions)
Balance, December 31, 2020	**$ 3.9**
Accruals for severance and other costs	—
Payments	(1.1)
Balance, June 30, 2021	**$ 2.8**

Substantially all costs related to the restructuring programs are expected to be paid by June 30, 2023, but could be paid earlier subject to negotiations around certain plant exit costs.

Repositioning Expenses Repositioning expenses for the three and six months ended June 30, 2021, were $11.8 million and $24.7 million, respectively, and primarily related to Grace's review of strategic alternatives and the Merger. Repositioning expenses for the three and six months ended June 30, 2020, were $21.0 million and $23.5 million, respectively. During the three months ended June 30, 2020, Grace implemented changes to its Refining Technologies manufacturing operations and global footprint to drive capital and operating efficiencies and to support global growth. Grace, in agreement with its joint venture partner, discontinued its project to build a full-scale fluid cracking catalysts plant in the Middle East. As a result, repositioning expenses for the three and six months ended June 30, 2020, included a charge of $19.7 million ($2.5 million of which was attributable to Grace's joint venture partner) to write off engineering and site costs.

Notes to Consolidated Financial Statements (Continued)

10. Other (Income) Expense, net

Components of other (income) expense, net are as follows:

(In millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Gain on curtailment of U.S. salaried pension plan (see Note 6)	**$ —**	$ —	**$ (25.6)**	$ —
Defined benefit pension (income) expense other than service cost	**(5.6)**	(3.9)	**(24.9)**	(7.8)
Third-party acquisition-related costs	**6.7**	2.0	**8.0**	3.5
Net (gain) loss on sales of investments and disposals of assets	**1.8**	2.1	**2.5**	2.6
Weather-related impacts	**0.2**	—	**1.9**	—
Currency transaction effects	**(0.8)**	(1.1)	**(0.9)**	(2.0)
Business interruption insurance recoveries	**—**	(8.3)	**—**	(16.3)
Other miscellaneous (income) expense	**1.1**	0.6	**0.3**	2.6
Total other (income) expense, net	**$ 3.4**	$ (8.6)	**$ (38.7)**	$ (17.4)

In February 2021, Winter Storm Uri caused widespread manufacturing disruption across Texas and Louisiana. Grace operates four manufacturing facilities in the region. All sites experienced interruptions, with extended downtime at three plants ranging from 8 to 24 days. All Grace sites have resumed operations; however, operating costs remained higher than normal while some maintenance and repair activity was ongoing through the second quarter. The total weather-related costs were $18.8 million, with $8.5 million in the first quarter and $10.3 million in the second quarter. The weather-related costs were primarily due to lower fixed cost absorption during the downtime, increased costs to supply customers from other Grace manufacturing plants, and costs to repair plants impacted by the weather.

The weather-related costs in other (income) expense of $1.9 million primarily related to the costs to repair the plants in order to resume operations. Cost of goods sold for the three and six months ended June 30, 2021, includes weather-related impacts of $10.1 million and $16.3 million, respectively. In addition, Grace's equity in earnings from unconsolidated affiliate was reduced by $0.6 million in the first quarter due to weather-related costs incurred by the joint venture.

In July 2019, a North American FCC catalysts customer filed for bankruptcy protection after announcing it would not resume refinery operations following a fire in its refinery. Grace received $16.3 million during the six months ended June 30, 2020, under its business interruption insurance policy. Including the $8.0 million received in the 2019 fourth quarter, Grace received $24.3 million of insurance recoveries related to this event, reflecting approximately eight quarters of the impact of the incident on earnings. This claim has been fully resolved.

11. 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 six months ended June 30, 2021 and 2020:

Three Months Ended June 30, 2021 (In millions)	Pre-Tax Amount	Tax Benefit/ (Expense)	After-Tax Amount
Amortization of net prior service credit included in net periodic benefit cost and other costs (credits), net	**$ (0.1)**	**$ 0.1**	**$ —**
Currency translation adjustments	**(6.9)**	**0.6**	**(6.3)**
Gain (loss) from hedging activities	**4.2**	**(1.2)**	**3.0**
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	**$ (2.8)**	**$ (0.5)**	**$ (3.3)**

Notes to Consolidated Financial Statements (Continued)

11. Other Comprehensive Income (Loss) (Continued)

Six Months Ended June 30, 2021 (In millions)	**Pre-Tax Amount**	**Tax Benefit/ (Expense)**	**After-Tax Amount**
Amortization of net prior service credit included in net periodic benefit cost and other costs (credits), net	**$ (0.2)**	**$ 0.1**	**$ (0.1)**
Currency translation adjustments	**20.4**	**(1.6)**	**18.8**
Gain (loss) from hedging activities	**6.9**	**(1.9)**	**5.0**
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	**$ 27.1**	**$ (3.4)**	**$ 23.7**

Three Months Ended June 30, 2020 (In millions)	**Pre-Tax Amount**	**Tax Benefit/ (Expense)**	**After-Tax Amount**
Amortization of net prior service credit included in net periodic benefit cost and other costs (credits), net	$ (0.1)	$ —	$ (0.1)
Currency translation adjustments	(8.4)	0.9	(7.5)
Gain (loss) from hedging activities	(0.6)	(0.2)	(0.8)
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	$ (9.1)	$ 0.7	$ (8.4)

Six Months Ended June 30, 2020 (In millions)	**Pre-Tax Amount**	**Tax Benefit/ (Expense)**	**After-Tax Amount**
Amortization of net prior service credit included in net periodic benefit cost and other costs (credits), net	$ (0.2)	$ —	$ (0.2)
Currency translation adjustments	(4.5)	(0.5)	(5.0)
Gain (loss) from hedging activities	(2.0)	0.2	(1.8)
Other comprehensive income (loss) attributable to W. R. Grace & Co. shareholders	$ (6.7)	$ (0.3)	$ (7.0)

The following tables present the changes in accumulated other comprehensive income (loss), net of tax, for the six months ended June 30, 2021 and 2020:

Six Months Ended June 30, 2021 (In millions)	**Defined Benefit Pension and Other Postretirement Plans**	**Currency Translation Adjustments**	**Gain (Loss) from Hedging Activities**	**Total**
Balance, December 31, 2020	**$ (0.9)**	**$ 42.8**	**$ (12.6)**	**$ 29.3**
Other comprehensive income (loss) before reclassifications	—	18.8	16.6	35.4
Amounts reclassified from accumulated other comprehensive income (loss)	(0.1)	—	(11.6)	(11.7)
Net current-period other comprehensive income (loss)	(0.1)	18.8	5.0	23.7
Balance, June 30, 2021	**$ (1.0)**	**$ 61.6**	**$ (7.6)**	**$ 53.0**

Notes to Consolidated Financial Statements (Continued)

11. Other Comprehensive Income (Loss) (Continued)

Six Months Ended June 30, 2020 (In millions)	Defined Benefit Pension and Other Postretirement Plans	Currency Translation Adjustments	Gain (Loss) from Hedging Activities	Total
Balance, December 31, 2019	**$ (0.5)**	**$ 92.7**	**$ (13.4)**	**$ 78.8**
Other comprehensive income (loss) before reclassifications	—	(5.0)	2.2	(2.8)
Amounts reclassified from accumulated other comprehensive income (loss)	(0.2)	—	(4.0)	(4.2)
Net current-period other comprehensive income (loss)	(0.2)	(5.0)	(1.8)	(7.0)
Balance, June 30, 2020	**$ (0.7)**	**$ 87.7**	**$ (15.2)**	**$ 71.8**

Grace is a global enterprise operating in many 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, as well as amounts related to net investment hedges. See Note 4 for a discussion of hedging activities. See Note 6 for a discussion of pension plans.

12. Earnings Per Share

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

(In millions, except per share amounts)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Numerators				
Net income (loss) attributable to W. R. Grace & Co. shareholders	**$ 45.4**	$ (7.3)	**$ 113.8**	$ 34.7
Less: accretion on convertible preferred stock (see Note 16)	**(0.5)**	—	**(0.5)**	—
Net income (loss) attributable to W. R. Grace & Co. common shareholders	**$ 44.9**	**$ (7.3)**	**$ 113.3**	**$ 34.7**
Denominators				
Weighted average common shares—basic calculation	**66.3**	66.2	**66.2**	66.3
Dilutive effect of employee stock options	**0.1**	—	**0.1**	0.1
Weighted average common shares—diluted calculation	**66.4**	66.2	**66.3**	66.4
Basic earnings per share	**$ 0.68**	$ (0.11)	**$ 1.71**	$ 0.52
Diluted earnings per share	**$ 0.68**	$ (0.11)	**$ 1.71**	$ 0.52

There were 0.4 million and 0.9 million anti-dilutive options outstanding for the three and six months ended June 30, 2021, compared with 1.8 million for the corresponding prior-year periods.

On February 8, 2017, the Company announced that its Board of Directors had authorized a share repurchase program of up to $250 million. On February 28, 2020, Grace announced that its Board of Directors had increased its share repurchase authorization to $250 million, including approximately $83 million remaining under the previously announced program. The Company did not repurchase Company common stock during the six months ended June 30, 2021. During the six months ended June 30, 2020, the Company repurchased 673,807 shares of Company common stock for $40.4 million, pursuant to the terms of the share repurchase program. Consistent with the terms of the Merger Agreement (see Note 17), the Company will not repurchase shares of Company common stock going forward.

Notes to Consolidated Financial Statements (Continued)

13. Revenues

Grace generates revenues from customer arrangements primarily by manufacturing and delivering specialty chemicals and specialty materials, and by licensing technology through its two reportable segments. See Note 14 for additional information about Grace’s reportable segments.

Disaggregation of Revenue The following tables present Grace's revenues by geography and product group, within its respective reportable segments, for the three and six months ended June 30, 2021 and 2020.

Three Months Ended June 30, 2021 (In millions)	**North America**	**Europe Middle East Africa (EMEA)**	**Asia Pacific**	**Latin America**	**Total**
Polyolefin and Chemical Catalysts	$ 46.3	$ 61.0	$ 63.7	$ 3.3	$ 174.3
Refining Catalysts	74.1	78.9	36.3	9.7	199.0
Total Catalysts Technologies	**120.4**	**139.9**	**100.0**	**13.0**	**373.3**
Pharma & Consumer	18.8	20.5	4.0	5.6	48.9
Coatings	7.4	20.2	11.7	2.7	42.0
Chemical process	9.5	21.6	9.4	3.2	43.7
Other	1.4	3.5	0.1	—	5.0
Total Materials Technologies	**37.1**	**65.8**	**25.2**	**11.5**	**139.6**
Total Grace	**$ 157.5**	**$ 205.7**	**$ 125.2**	**$ 24.5**	**$ 512.9**

Six Months Ended June 30, 2021 (In millions)	**North America**	**EMEA**	**Asia Pacific**	**Latin America**	**Total**
Polyolefin and Chemical Catalysts	$ 86.6	$ 109.7	$ 121.0	$ 8.8	$ 326.1
Refining Catalysts	126.9	155.0	76.4	18.5	376.8
Total Catalysts Technologies	**213.5**	**264.7**	**197.4**	**27.3**	**702.9**
Pharma & Consumer	34.6	34.5	9.3	10.8	89.2
Coatings	14.6	40.4	23.1	5.5	83.6
Chemical process	18.2	41.9	18.4	4.5	83.0
Other	3.0	7.6	0.2	0.1	10.9
Total Materials Technologies	**70.4**	**124.4**	**51.0**	**20.9**	**266.7**
Total Grace	**$ 283.9**	**$ 389.1**	**$ 248.4**	**$ 48.2**	**$ 969.6**

Three Months Ended June 30, 2020 (In millions)	**North America**	**EMEA**	**Asia Pacific**	**Latin America**	**Total**
Polyolefin and Chemical Catalysts	$ 46.6	$ 56.2	$ 54.7	$ 2.3	$ 159.8
Refining Catalysts	51.8	55.5	33.2	8.7	149.2
Total Catalysts Technologies	**98.4**	**111.7**	**87.9**	**11.0**	**309.0**
Pharma & Consumer	19.3	13.4	6.5	4.4	43.6
Coatings	5.7	14.1	8.7	1.3	29.8
Chemical process	6.3	15.2	9.5	2.0	33.0
Other	0.5	2.7	0.1	—	3.3
Total Materials Technologies	**31.8**	**45.4**	**24.8**	**7.7**	**109.7**
Total Grace	**$ 130.2**	**$ 157.1**	**$ 112.7**	**$ 18.7**	**$ 418.7**

Notes to Consolidated Financial Statements (Continued)

13. Revenues (Continued)

Six Months Ended June 30, 2020 (In millions)	**North America**	**EMEA**	**Asia Pacific**	**Latin America**	**Total**
Polyolefin and Chemical Catalysts	$ 81.9	$ 108.9	$ 101.3	$ 7.1	$ 299.2
Refining Catalysts	109.6	129.3	64.7	14.2	317.8
Total Catalysts Technologies	**191.5**	**238.2**	**166.0**	**21.3**	**617.0**
Pharma & Consumer	29.6	27.0	11.3	9.2	77.1
Coatings	12.9	32.5	17.3	3.7	66.4
Chemical process	14.5	34.2	18.2	3.9	70.8
Other	1.9	6.8	0.2	—	8.9
Total Materials Technologies	**58.9**	**100.5**	**47.0**	**16.8**	**223.2**
Total Grace	**$ 250.4**	**$ 338.7**	**$ 213.0**	**$ 38.1**	**$ 840.2**

Contract Balances Grace invoices customers for product sales once performance obligations have been satisfied, generally at the point of delivery, at which point payment becomes unconditional. Accordingly, Grace's product sales contracts generally do not give rise to material contract assets or liabilities under ASC 606; however, from time to time certain customers may pay in advance, which results in a contract liability. In the technology licensing business, Grace typically invoices licensees at the time that contractual milestones are achieved. However, in respect of the milestone billings, Grace is frequently obligated to provide services in future periods, and this results in recording contract liabilities.

The following table presents Grace's deferred revenue balances as of June 30, 2021, and December 31, 2020:

(In millions)	**June 30, 2021**	**December 31, 2020**
Current	**$ 37.7**	$ 33.8
Noncurrent	**20.4**	23.4
Total	**$ 58.1**	$ 57.2

Grace records deferred revenues when cash payments are received or due in advance of performance. The change in deferred revenue reflects cash payments from customers received or due in advance of satisfying performance obligations, offset by $8.2 million and $17.8 million of revenue recognized for the three and six months ended June 30, 2021, that was included in the deferred revenue balance as of December 31, 2020.

The noncurrent portion of deferred revenue will be recognized as performance obligations under the technology licensing agreements are satisfied, which is expected to be over the next four years.

Remaining performance obligations represent the estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied). The aggregate amount of the transaction price allocated to remaining performance obligations for such contracts with a duration of more than one year was approximately $168 million as of June 30, 2021, and includes certain amounts reported as deferred revenue above. In accordance with the available practical expedient, Grace does not disclose information about remaining performance obligations that have original expected durations of one year or less, which generally relate to customer prepayments on product sales and are generally satisfied in less than one year. Grace expects to recognize revenue related to remaining performance obligations over several years, as follows:

Table of Contents

13. Revenues (Continued)

Year	Approximate percentage of revenue related to remaining performance obligations recognized
Remainder of 2021	14 %
2022	21 %
2023	20 %
2024	18 %
Thereafter through 2030	27 %

For the three and six months ended June 30, 2021 and 2020, revenue recognized from performance obligations related to prior periods was not material. Grace has not capitalized any costs to obtain or fulfill contracts with customers under ASC 606. No material impairment losses have been recognized on any receivables or contract assets arising from contracts with customers.

14. Segment Information

Grace is a global producer of specialty chemicals and specialty materials. Grace's two reportable business segments are Grace Catalysts Technologies and Grace Materials Technologies. Grace Catalysts Technologies includes catalysts and related products and technologies used in petrochemical, refining, and other chemical manufacturing applications. Advanced Refining Technologies LLC ("ART"), Grace's joint venture with Chevron U.S.A. Inc. ("Chevron"), is managed in this segment. (See Note 15.) Grace Catalysts Technologies comprises two operating segments, Grace Specialty Catalysts and Grace Refining Technologies, which are aggregated into one reportable segment based upon similar economic characteristics, the nature of the products and production processes, type and class of customer, and channels of distribution. Grace Materials Technologies includes specialty materials, including silica-based and complex organic molecules, used in pharma & consumer, coatings, and chemical process applications. The table below presents information related to Grace's reportable segments. Only those corporate expenses directly related to the reportable 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 reportable segment performance as defined benefit pension expense is not managed at a reportable segment level.

Grace defines Adjusted EBIT to be net income attributable to W. R. Grace & Co. shareholders adjusted for interest income and expense; income taxes; costs related to legacy matters; restructuring and repositioning expenses and asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; gains and losses on sales or exits of businesses, product lines, and certain other investments; third-party acquisition-related costs and the amortization of acquired inventory fair value adjustment; gains and losses on modification or extinguishment of debt; the effects of these items on equity in earnings of unconsolidated affiliate; and certain other items that are not representative of underlying trends.

Notes to Consolidated Financial Statements (Continued)

14. Segment Information (Continued)

Reportable Segment Data

(In millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net Sales				
Catalysts Technologies	**$ 373.3**	$ 309.0	**$ 702.9**	$ 617.0
Materials Technologies	**139.6**	109.7	**266.7**	223.2
Total	**$ 512.9**	$ 418.7	**$ 969.6**	$ 840.2
Adjusted EBIT				
Catalysts Technologies segment operating income	**$ 102.4**	$ 71.7	**$ 178.2**	$ 153.7
Materials Technologies segment operating income	**26.3**	12.6	**53.1**	31.6
Corporate costs	**(17.5)**	(16.7)	**(32.9)**	(32.3)
Certain pension costs	**(2.2)**	(3.5)	**(4.2)**	(6.6)
Total	**$ 109.0**	$ 64.1	**$ 194.2**	$ 146.4

Corporate costs include functional costs and other costs such as professional fees, incentive compensation, and insurance premiums. 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.

Reconciliation of Reportable Segment Data to Financial Statements Grace Adjusted EBIT for the three and six months ended June 30, 2021 and 2020, is reconciled below to “income (loss) before income taxes” presented in the accompanying Consolidated Statements of Operations.

(In millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Grace Adjusted EBIT	**$ 109.0**	$ 64.1	**$ 194.2**	$ 146.4
Gain on curtailment of U.S. salaried pension plan	**—**	—	**25.6**	—
Restructuring and repositioning expenses	**(11.8)**	(21.4)	**(24.6)**	(24.1)
Pension MTM adjustment and other related costs, net	**—**	—	**13.7**	—
Costs related to legacy matters	**(4.6)**	(2.8)	**(9.2)**	(5.5)
Third-party acquisition-related costs	**(6.7)**	(2.0)	**(8.0)**	(3.5)
Amortization of acquired inventory fair value adjustment	**(2.2)**	—	**(2.2)**	—
Taxes and interest included in equity in earnings of unconsolidated affiliate	**(0.3)**	(0.2)	**(0.5)**	(0.2)
Inventory write-offs	**(0.1)**	(19.7)	**(0.1)**	(19.7)
Interest expense, net	**(19.7)**	(18.9)	**(38.6)**	(36.6)
Net income (loss) attributable to noncontrolling interests	**0.1**	(2.3)	**0.3**	(2.2)
Income (loss) before income taxes	**$ 63.7**	$ (3.2)	**$ 150.6**	$ 54.6

Table of Contents

Notes to Consolidated Financial Statements (Continued)

14. Segment Information (Continued)

Geographic Area Data The table below presents information related to the geographic areas in which Grace operates. Sales are attributed to geographic areas based on the location to which the product is transported.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2021**	**2020**	**2021**	**2020**
Net Sales				
United States	**$ 144.2**	$ 117.2	**$ 259.8**	$ 226.0
Canada	**13.3**	13.0	**24.1**	24.4
Total North America	**157.5**	130.2	**283.9**	250.4
Europe Middle East Africa	**205.7**	157.1	**389.1**	338.7
Asia Pacific	**125.2**	112.7	**248.4**	213.0
Latin America	**24.5**	18.7	**48.2**	38.1
Total	**$ 512.9**	$ 418.7	**$ 969.6**	$ 840.2

15. Related Party Transactions

Unconsolidated Affiliate Grace accounts for its 50% ownership interest in ART, its joint venture with Chevron, using the equity method of accounting. Grace's investment in ART amounted to $174.7 million and $175.5 million as of June 30, 2021, and December 31, 2020, respectively. ART is a private, limited liability company, taxed as a partnership, and accordingly does not have a quoted market price available. During the six months ended June 30, 2021, Grace received dividends of $7.5 million from ART.

The table below presents the components of Grace's "equity in earnings of unconsolidated affiliate" in the Consolidated Statements of Operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2021**	**2020**	**2021**	**2020**
Operating income	**$ 7.2**	$ 4.0	**$ 11.7**	$ 5.6
Depreciation and amortization	**(1.8)**	(0.4)	**(2.9)**	(0.8)
Interest expense and income taxes	**(0.3)**	(0.2)	**(0.5)**	(0.2)
Equity in earnings of unconsolidated affiliate	**$ 5.1**	$ 3.4	**$ 8.3**	$ 4.6

The table below presents summary financial data related to ART's balance sheet and results of operations.

(In millions)	**June 30, 2021**	**December 31, 2020**
Summary Balance Sheet information:		
Current assets	**$ 246.4**	$ 286.4
Noncurrent assets	**234.8**	235.8
Total assets	**$ 481.2**	$ 522.2
Current liabilities	**$ 133.4**	$ 173.0
Noncurrent liabilities	**0.3**	0.3
Total liabilities	**$ 133.7**	$ 173.3

Notes to Consolidated Financial Statements (Continued)

15. Related Party Transactions (Continued)

(In millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Summary Statement of Operations information:				
Net sales	**$ 107.8**	$ 124.4	**$ 203.0**	$ 199.7
Costs and expenses applicable to net sales	**92.8**	113.1	**176.5**	181.1
Income before income taxes	**10.5**	7.4	**17.0**	10.3
Net income	**10.2**	6.6	**16.7**	9.1

Grace and ART transact business on a regular basis and maintain several agreements in order to operate the joint venture. These agreements and the resulting transactions are treated as related party activities with an unconsolidated affiliate. Product manufactured by Grace for ART is accounted for on a net basis, with a mark-up, which reduces "cost of goods sold" in the Consolidated Statements of Operations. Grace also receives reimbursement from ART for fixed costs; research and development; selling, general and administrative services; and depreciation. Grace records reimbursements against the respective line items in Grace's Consolidated Statements of Operations. The table below presents summary financial data related to transactions between Grace and ART.

(In millions)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Product manufactured for ART	**$ 66.6**	**$ 60.2**	**$ 134.2**	$ 131.3
Mark-up on product manufactured for ART included as a reduction of Grace's cost of goods sold	**1.3**	**1.2**	**2.6**	2.6
Charges for fixed costs; research and development; selling, general and administrative services; and depreciation to ART	**14.1**	**13.3**	**28.2**	27.4

The table below presents balances in Grace's Consolidated Financial Statements related to ART.

(in millions)	June 30, 2021	December 31, 2020
Trade accounts receivable	**$ 23.4**	$ 28.3
Accounts payable	**18.1**	19.8
Debt payable within one year	**3.9**	3.5
Debt payable after one year	**24.9**	22.1

Grace and ART maintain an agreement whereby ART loans Grace funds for maintenance capital expenditures at manufacturing facilities used to produce catalysts for ART. Grace makes principal and interest payments on the loans on a monthly basis. These unsecured loans have repayment terms of up to eight years, unless earlier repayment is demanded by ART. The loans bear interest at the three-month LIBOR plus 1.25%.

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 have been approved by the ART Executive Committee for renewal until February 2022. No amounts were outstanding at June 30, 2021, or December 31, 2020.

Joint Venture Arrangement In 2018, Grace formed a joint venture in a developing country in Asia. The purpose of the joint venture is to establish a logistics facility and catalyst testing laboratory and to be the exclusive FCC catalysts and additives supplier to certain customers in the country. Grace's joint venture partner is the parent company of the customers. Grace has an 87.5% ownership interest in the joint venture and consolidates the activities of the entity. Grace's Consolidated Balance Sheets as of June 30, 2021, and December 31, 2020, include trade accounts receivable of $2.2 million and $2.2 million, respectively, from these customers. Grace's Consolidated Statements of Operations for the three and six months ended June 30, 2021, include $4.5 million

15. Related Party Transactions (Continued)

and $6.1 million of revenues from these customers, compared with $4.0 million and $5.9 million in the corresponding prior-year periods.

16. Acquisitions

On June 1, 2021, Grace completed the acquisition of the Fine Chemistry Services business (the “FCS Business”) of Albemarle Corporation for $555.9 million, including $297.9 million paid in cash and $258.0 million funded through the issuance to Albemarle Corporation of non-participating preferred equity (the “Preferred Equity”) of a newly created wholly owned Grace subsidiary, Fine Chemical Manufacturing Services LLC (“FCMS LLC”). Grace owns 100% of the voting equity interests in FCMS LLC. The acquisition strengthens and expands Grace’s existing pharma portfolio, within Grace’s Materials Technologies segment. The acquisition adds a comprehensive range of high-value products and services with highly complementary analytical, regulatory and manufacturing capabilities focused on chromatographic resins, formulation excipients and drug delivery, and pharmaceutical intermediates and active pharmaceutical ingredients (referred to as “APIs”).

The Preferred Equity has an initial aggregate preference in liquidation of approximately $270 million and, after June 1, 2023, would accrue dividends quarterly in arrears at the rate of 12.0% per annum, which would be payable-in-kind. The Preferred Equity may be redeemed by Grace at any time for cash or, subject to certain conditions, shares of common stock of Grace, and must be redeemed upon a liquidation of FCMS LLC at any time, or a change of control of Grace that occurs after June 1, 2023. In addition, the Preferred Equity is convertible into shares of common stock of Grace any time following the date that the aggregate liquidation preference of the outstanding Preferred Equity exceeds 200% of its initial aggregate liquidation preference at closing. Grace intends to redeem the Preferred Equity for cash.

The purchase price for the FCS Business acquisition has been preliminarily allocated to the tangible and identifiable intangible assets and liabilities acquired based on their estimated fair values at the acquisition date in accordance with ASC 805 “Business Combinations.” The excess of the purchase price over the fair value of the tangible and intangible assets acquired was recorded as goodwill. The goodwill recognized is attributable to the expected growth and operating synergies that Grace expects to realize from this acquisition. The full $230.8 million of goodwill generated from the acquisition will be deductible for U.S. income tax purposes. Due to the timing of the acquisition closing, Grace has not yet finalized the purchase price allocation. Adjustments to the allocation, if applicable, will be recorded in the period in which they are identified.

The Consolidated Statements of Operations for the three and six months ended June 30, 2021, include approximately $11.5 million of sales attributable to this acquisition. Disclosure of earnings attributable to this acquisition is not practicable due to the integration of operations into Grace’s existing business.

The table below presents the preliminary allocation of the acquisition purchase price.

	(In millions)
Accounts receivable	$ 7.1
Inventories	55.7
Other current assets	1.2
Properties and equipment	57.2
Goodwill	230.8
Intangible assets	208.5
Liabilities assumed	(4.6)
Total	**$ 555.9**

16. Acquisitions (Continued)

The table below presents the intangible assets acquired and the periods over which they will be amortized.

	Amount (In millions)	Weighted Average Amortization Period (In years)
Technology	$ **79.0**	**20.0**
Customer relationships	**129.5**	**20.0**
Total	$ **208.5**	**20.0**

The carrying amount of goodwill attributable to each reportable segment and the changes in those balances during the six months ended June 30, 2021, are as follows:

(In millions)	Catalysts Technologies	Materials Technologies	Total Grace
Balance, December 31, 2020	$ **517.5**	$ **45.2**	$ **562.7**
Goodwill acquired during the year	—	230.8	230.8
Foreign currency translation	(1.2)	(0.4)	(1.6)
Balance, June 30, 2021	$ **516.3**	$ **275.6**	$ **791.9**

17. Merger Agreement With Affiliates of Standard Industries

On April 26, 2021, Grace announced that it had entered into a definitive agreement (the “Merger Agreement”) providing for the acquisition of the Company by an affiliate of Standard Industries Holdings Inc. (“Standard Industries”), subject to the terms and conditions contained therein (the “Merger”). Under the terms of the Merger Agreement, Standard Industries, through its affiliates, would acquire all of the outstanding shares of Grace common stock for $70.00 per share in cash. Grace also announced that Standard Industries’ related investment platform, 40 North Latitude Master Fund Ltd. (“40 North”), which owns approximately 14.9% of the Company’s outstanding common stock, has entered into a voting agreement pursuant to which 40 North has agreed to vote its shares of Grace common stock in favor of the Merger.

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

References

We generally refer to the quarter ended June 30, 2021, as the "second quarter," the quarter ended June 30, 2020, as the "prior-year quarter," the quarter ended March 31, 2021, as the "2021 first quarter," the six months ended June 30, 2021, as the "six months," and the six months ended June 30, 2020, 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

Second Quarter Performance Summary

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

- Net sales increased 22.5% to $512.9 million.
- Net income attributable to Grace shareholders was $45.4 million.
- Adjusted EBIT[1] increased 70.0% to $109.0 million.
- Diluted earnings per share was $0.68 per diluted share.
- Adjusted EPS[1] increased 106.1% to $1.01 per diluted share.

[1] Non-GAAP performance measures further discussed below.

Recent Developments

Merger Agreement with affiliates of Standard Industries

On April 26, 2021, Grace announced that it had entered into a definitive agreement (the "Merger Agreement") providing for the acquisition of the Company by an affiliate of Standard Industries Holdings Inc. ("Standard Industries"), subject to the terms and conditions contained therein (the "Merger"). Under the terms of the Merger Agreement, Standard Industries, through its affiliates, would acquire all of the outstanding shares of Grace common stock for $70.00 per share in cash. Grace also announced that Standard Industries' related investment platform, 40 North Latitude Master Fund Ltd. ("40 North"), which owns approximately 14.9% of the Company's outstanding common stock, has entered into a voting agreement pursuant to which 40 North has agreed to vote its shares of Grace common stock in favor of the Merger.

Summary Description of Business

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

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

- *Polyolefin catalysts and catalyst supports,* also called specialty catalysts (SC), for the production of polyethylene (PE) and polypropylene (PP) 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. High-activity, non-phthalate catalysts allow customers to produce phthalate-free PP products and cleaner, clearer PP products. Our catalysts also improve resin properties that allow for the lightweighting of automobiles by replacing steel parts with PP while meeting demanding performance standards of automakers.
- *Gas-phase polypropylene process technology,* which provides our licensees with a cost-effective, flexible, and reliable capability to manufacture polypropylene products having a wide spectrum of performance attributes, enabling customers to manufacture products for a broad array of end-use applications. This capability, coupled with a complete family of catalysts and donors with a suite of

value-added solutions, enables our licensees to compete effectively in their markets over the lifetime of the plant. We are the leading independent supplier that provides both PP process technology licenses and catalysts.

- *Fluid catalytic cracking catalysts,* also called FCC catalysts, that help to “crack” the hydrocarbon chains in distilled crude oil to produce transportation fuels, such as gasoline and diesel fuels, and feeds for production of petrochemicals; 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 (HPC),* most of which are marketed through our Advanced Refining Technologies LLC (“ART”) joint venture with Chevron U.S.A. Inc. (“Chevron”), that are used in process reactors to upgrade heavy oils into lighter, more useful products, enabling less expensive feedstock usage in the petroleum refining process, and to produce products that meet more stringent environmental regulations. These catalysts and solutions allow our customers to improve their profitability in the production of cleaner petroleum-based fuels to meet regulatory and fuel quality standards. (We hold a 50% economic interest in ART, which is not consolidated in our financial statements, so ART’s sales are excluded from our sales.)
- *Chemical catalysts,* which include hydrogenation and dehydrogenation catalyst products. These catalysts can be customized for use in a variety of petrochemical chain conversions as well as fine chemical production.

Grace Materials Technologies produces and sells specialty materials, which are either silica-based or complex organic molecules, that can be used in pharma & consumer, coatings, and chemical process applications, including as follows:

- *Pharma & Consumer,* specialty materials used as additives, intermediates and purification aids for pharmaceuticals, nutraceuticals, toothpaste, beer, food, and cosmetic segments. Our Fine Chemicals business, including Fine Chemical Manufacturing Services, is a leading fully-integrated Contract Development and Manufacturing Organization in North America specializing in active pharmaceutical ingredients (APIs), regulatory starting materials (RSMs), and intermediates.
- *Coatings,* functional additives for wood, coil, general industrial, and architectural coatings that provide surface effects and corrosion protection for metal substrates.
- *Chemical process,* functional materials for use in plastics, rubber, tire, and metal casting, and adsorbent products for petrochemical, natural gas, and more specialized applications.

Global Scope

We operate our business on a global scale with approximately 73% of our annual 2020 sales and 73% of our six months sales to customers located outside the United States. We operate and/or sell to customers in over 60 countries and do business in over 30 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 second quarter and six months compared with the corresponding prior-year periods. Please refer to this Analysis of Operations when reviewing this Management’s Discussion and Analysis of Financial Condition and Results of Operations. In the table we present financial information in accordance with U.S. GAAP, as well as the non-GAAP financial information described below. We believe that the non-GAAP financial information provides useful supplemental information about the performance of our businesses, improves period-to-period comparability, and provides clarity on the information our management uses to evaluate the performance of our businesses. In the table, we have provided reconciliations of these non-GAAP financial measures to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP. The non-GAAP financial measures should not be considered as a substitute for financial measures calculated in accordance with U.S. GAAP, and the financial results calculated in accordance with U.S. GAAP and reconciliations from those results should be evaluated carefully.

We define Adjusted EBIT (a non-GAAP financial measure) to be net income attributable to W. R. Grace & Co. shareholders adjusted for interest income and expense; income taxes; costs related to legacy matters; restructuring and repositioning expenses and asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; gains and losses on sales and exits of businesses, product lines, and certain other investments; third-party acquisition-related costs and the amortization of acquired inventory fair value adjustment; gains and losses on modification or extinguishment of debt; the effects of these items on equity in earnings of unconsolidated affiliate; and certain other items that are not representative of underlying trends.

We define Adjusted EBITDA (a non-GAAP financial measure) to be Adjusted EBIT adjusted for depreciation and amortization, and depreciation and amortization included in equity in earnings of unconsolidated affiliate (collectively, Adjusted Depreciation and Amortization).

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 Adjusted Invested Capital, which is defined as equity adjusted for debt; underfunded and unfunded defined benefit pension plans; liabilities related to legacy matters; cash, cash equivalents, and restricted cash; net income tax assets; and certain other assets and liabilities.

We define Adjusted Gross Margin (a non-GAAP financial measure) to be gross margin adjusted for pension-related costs included in cost of goods sold, the amortization of acquired inventory fair value adjustment, write-offs of inventory related to exits of businesses and product lines and significant manufacturing process changes, and certain other items that are not representative of underlying trends.

We define Adjusted Earnings Per Share (EPS) (a non-GAAP financial measure) to be diluted EPS adjusted for costs related to legacy matters; restructuring and repositioning expenses and asset impairments; pension costs other than service and interest costs, expected returns on plan assets, and amortization of prior service costs/credits; gains and losses on sales and exits of businesses, product lines and certain other investments; third-party acquisition-related costs and the amortization of acquired inventory fair value adjustment; gains and losses on modification or extinguishment of debt; certain other items that are not representative of underlying trends; certain discrete tax items; and income tax expense related to historical tax attributes.

We define the change in net sales on a constant currency basis (a non-GAAP financial measure) to be the period-over-period change in net sales calculated using the foreign currency exchange rates that were in effect during the previous comparable period.

“Legacy matters” include legacy (i) product, (ii) environmental, and (iii) other liabilities, relating to past activities of Grace.

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 legacy matters; restructuring and repositioning activities; certain acquisition-related items; and certain other items that are not representative of underlying trends.

We use Adjusted EBITDA, Adjusted EBIT Return on Invested Capital, Adjusted Gross Margin, and Adjusted EPS as performance measures and may use these measures in determining certain incentive compensation. We use Adjusted EBIT Return on Invested Capital in making operating and investment decisions and in balancing the growth and profitability of our operations.

We use the change in net sales on a constant currency basis as a performance measure to compare current period financial performance to historical financial performance by excluding the impact of foreign currency exchange rate fluctuations that are not representative of underlying business trends and are largely outside of our control.

Adjusted EBIT, Adjusted EBITDA, Adjusted EBIT Return on Invested Capital, Adjusted Gross Margin, Adjusted EPS, and the change in net sales on a constant currency basis are non-GAAP financial measures; 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. They distinguish the operating results of Grace’s current business base from the costs of Grace’s legacy matters; restructuring and repositioning activities; and certain other items. These measures may have material limitations due to the exclusion or inclusion of amounts that are included or excluded, respectively, in the most directly comparable measures calculated and presented in accordance with U.S. GAAP, and thus investors and others should review carefully our financial results calculated in accordance with U.S. GAAP.

Adjusted EBIT has material limitations as an operating performance measure because it excludes costs related to legacy matters, and may exclude income and expenses from restructuring, repositioning, and other activities, 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 and net income attributable to Grace shareholders, measured under U.S. GAAP, for a complete understanding of our results of operations.

Table of Contents

Analysis of Operations (In millions, except per share amounts)	Three Months Ended June 30, 2021	2020	% Change	Six Months Ended June 30, 2021	2020	% Change
Net sales:						
Catalysts Technologies	**$ 373.3**	$ 309.0	20.8 %	**$ 702.9**	$ 617.0	13.9 %
Materials Technologies	**139.6**	109.7	27.3 %	**266.7**	223.2	19.5 %
Total Grace net sales	**$ 512.9**	$ 418.7	22.5 %	**$ 969.6**	$ 840.2	15.4 %
Net sales by region:						
North America	**$ 157.5**	$ 130.2	21.0 %	**$ 283.9**	$ 250.4	13.4 %
Europe Middle East Africa	**205.7**	157.1	30.9 %	**389.1**	338.7	14.9 %
Asia Pacific	**125.2**	112.7	11.1 %	**248.4**	213.0	16.6 %
Latin America	**24.5**	18.7	31.0 %	**48.2**	38.1	26.5 %
Total net sales by region	**$ 512.9**	$ 418.7	22.5 %	**$ 969.6**	$ 840.2	15.4 %
Performance measures:						
Adjusted EBIT(A):						
Catalysts Technologies segment operating income	**$ 102.4**	$ 71.7	42.8 %	**$ 178.2**	$ 153.7	15.9 %
Materials Technologies segment operating income	**26.3**	12.6	108.7 %	**53.1**	31.6	68.0 %
Corporate costs	**(17.5)**	(16.7)	(4.8)%	**(32.9)**	(32.3)	(1.9)%
Certain pension costs(B)	**(2.2)**	(3.5)	37.1 %	**(4.2)**	(6.6)	36.4 %
Adjusted EBIT	**109.0**	64.1	70.0 %	**194.2**	146.4	32.7 %
Gain on curtailment of U.S. salaried pension plan	**—**	—		**25.6**	—	
Restructuring and repositioning expenses	**(11.8)**	(21.4)		**(24.6)**	(24.1)	
Pension MTM adjustment and other related costs, net	**—**	—		**13.7**	—	
Costs related to legacy matters	**(4.6)**	(2.8)		**(9.2)**	(5.5)	
Third-party acquisition-related costs	**(6.7)**	(2.0)		**(8.0)**	(3.5)	
Amortization of acquired inventory fair value adjustment	**(2.2)**	—		**(2.2)**	—	
Taxes and interest included in equity in earnings of unconsolidated affiliate	**(0.3)**	(0.2)		**(0.5)**	(0.2)	
Inventory write-offs	**(0.1)**	(19.7)		**(0.1)**	(19.7)	
Interest expense, net	**(19.7)**	(18.9)	(4.2)%	**(38.6)**	(36.6)	(5.5)%
(Provision for) benefit from income taxes	**(18.2)**	(6.4)	(184.4)%	**(36.5)**	(22.1)	(65.2)%
Net income (loss) attributable to W. R. Grace & Co. shareholders	**$ 45.4**	$ (7.3)	NM	**$ 113.8**	$ 34.7	NM
Diluted EPS	**$ 0.68**	$ (0.11)	NM	**$ 1.71**	$ 0.52	NM
Adjusted EPS	**$ 1.01**	$ 0.49	106.1 %	**$ 1.74**	$ 1.20	45.0 %

Analysis of Operations (In millions)	Three Months Ended June 30, 2021	2020	% Change	Six Months Ended June 30, 2021	2020	% Change
Adjusted performance measures:						
Gross Margin:						
Catalysts Technologies	**42.7 %**	36.6 %	610 bps	**41.5 %**	38.7 %	280 bps
Materials Technologies	**35.1 %**	26.9 %	820 bps	**35.9 %**	30.0 %	590 bps
Adjusted Gross Margin	**40.6 %**	34.1 %	650 bps	**40.0 %**	36.4 %	360 bps
Weather-related impacts in cost of goods sold	**(1.4)%**	— %	(140) bps	**(1.3)%**	— %	(130) bps
Pension costs in cost of goods sold	**(0.8)%**	(0.9)%	10 bps	**(0.9)%**	(0.9)%	— bps
Amortization of acquired inventory fair value adjustment	**(0.4)%**	— %	(40) bps	**(0.2)%**	— %	(20) bps
Inventory write-offs	**— %**	(4.7)%	470 bps	**— %**	(2.3)%	230 bps
Total Grace	**38.0 %**	28.5 %	950 bps	**37.6 %**	33.2 %	440 bps
Adjusted EBIT:						
Catalysts Technologies	**$ 102.4**	$ 71.7	42.8 %	**$ 178.2**	$ 153.7	15.9 %
Materials Technologies	**26.3**	12.6	108.7 %	**53.1**	31.6	68.0 %
Corporate, pension, and other	**(19.7)**	(20.2)	2.5 %	**(37.1)**	(38.9)	4.6 %
Total Grace	**$ 109.0**	$ 64.1	70.0 %	**$ 194.2**	$ 146.4	32.7 %
Depreciation and amortization:						
Catalysts Technologies depreciation and amortization	**$ 21.8**	$ 20.6	5.8 %	**$ 44.0**	$ 41.3	6.5 %
Depreciation and amortization included in equity in earnings of unconsolidated affiliate	**1.8**	0.4	NM	**2.9**	0.8	NM
Catalysts Technologies	**23.6**	21.0	12.4 %	**46.9**	42.1	11.4 %
Materials Technologies	**6.3**	3.5	80.0 %	**11.4**	7.0	62.9 %
Corporate	**1.2**	1.2	— %	**2.0**	2.6	(23.1)%
Adjusted Depreciation and Amortization	**31.1**	25.7	21.0 %	**60.3**	51.7	16.6 %
Depreciation and amortization included in equity in earnings of unconsolidated affiliate	**(1.8)**	(0.4)	NM	**(2.9)**	(0.8)	NM
Total Grace	**$ 29.3**	$ 25.3	15.8 %	**$ 57.4**	$ 50.9	12.8 %
Adjusted EBITDA:						
Catalysts Technologies	**$ 126.0**	$ 92.7	35.9 %	**$ 225.1**	$ 195.8	15.0 %
Materials Technologies	**32.6**	16.1	102.5 %	**64.5**	38.6	67.1 %
Corporate, pension, and other	**(18.5)**	(19.0)	2.6 %	**(35.1)**	(36.3)	3.3 %
Total Grace	**$ 140.1**	$ 89.8	56.0 %	**$ 254.5**	$ 198.1	28.5 %
Adjusted EBIT margin:						
Catalysts Technologies	**27.4 %**	23.2 %	420 bps	**25.4 %**	24.9 %	50 bps
Materials Technologies	**18.8 %**	11.5 %	730 bps	**19.9 %**	14.2 %	570 bps
Total Grace	**21.3 %**	15.3 %	600 bps	**20.0 %**	17.4 %	260 bps
Net income margin	**8.9 %**	(1.7)%	1060 bps	**11.7 %**	4.1 %	760 bps
Adjusted EBITDA margin:						
Catalysts Technologies	**33.8 %**	30.0 %	380 bps	**32.0 %**	31.7 %	30 bps
Materials Technologies	**23.4 %**	14.7 %	870 bps	**24.2 %**	17.3 %	690 bps
Total Grace	**27.3 %**	21.4 %	590 bps	**26.2 %**	23.6 %	260 bps

Analysis of Operations (In millions)	Four Quarters Ended June 30, 2021	2020
Calculation of Adjusted EBIT Return on Invested Capital (trailing four quarters):		
Net income (loss) attributable to W. R. Grace & Co. shareholders	**$ 77.3**	$ 60.1
Adjusted EBIT	**360.0**	388.5
Reconciliation to Adjusted Invested Capital:		
Total equity	**$ 350.0**	$ 349.6
Total debt	**2,285.4**	2,717.4
Underfunded and unfunded defined benefit pension plans	**594.0**	520.5
Liabilities related to legacy matters	**215.0**	200.1
Cash, cash equivalents, and restricted cash	**(312.7)**	(997.8)
Income taxes, net	**(537.3)**	(497.1)
Other items	**13.4**	22.0
Adjusted Invested Capital	**$ 2,607.8**	$ 2,314.7
Return on equity	**22.1 %**	17.2 %
Adjusted EBIT Return on Invested Capital	**13.8 %**	16.8 %

Amounts may not add due to rounding.

NM—Not meaningful

(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 and Materials Technologies segment operating income and corporate costs do not include any amounts for pension expense. Other pension-related costs including annual mark-to-market (MTM) 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.

Grace Overview

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

Gulf Coast Freeze Update

In mid-February, Winter Storm Uri caused widespread manufacturing disruption across Texas and Louisiana. We operate four manufacturing facilities in the region. All sites experienced interruptions, with extended downtime at three plants ranging from 8 to 24 days. All Grace sites have resumed operations; however, operating costs remained higher than normal while some maintenance and repair activity was ongoing through the second quarter.

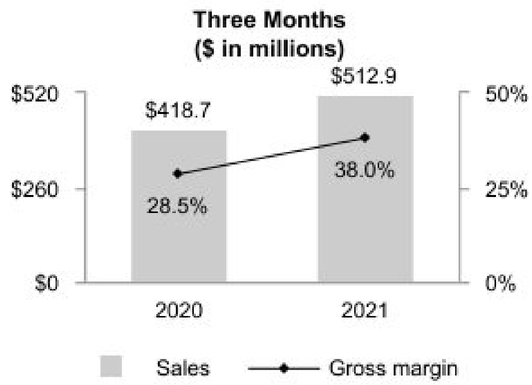
The total weather-related costs were $18.8 million, with $8.5 million, or $0.09 per share, in the 2021 first quarter and $10.3 million, or $0.12 per share, in the second quarter. The costs are included in "cost of goods sold" and "other (income) expense" in the Consolidated Statements of Operations and impact both net income and Adjusted EBIT. They are primarily due to lower fixed cost absorption during the downtime, increased costs to supply customers from other Grace manufacturing facilities, and costs to repair plants impacted by the weather.

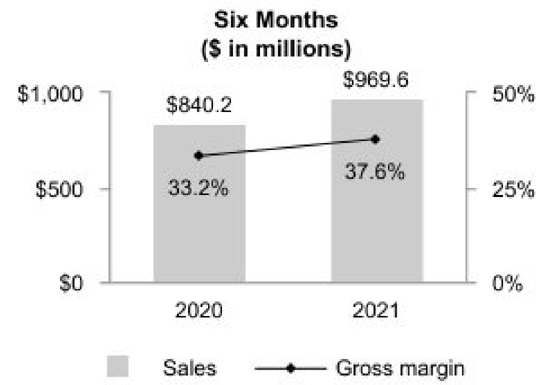
Impact of COVID-19 Pandemic and Recession

The COVID-19 pandemic has led to significantly lower transportation fuel demand and a reduction in refining activity, which has negatively affected demand for our refining catalysts. While COVID-19 had a significant negative impact on our financial results for 2020 and the 2021 first half, we are experiencing increased demand across many of the markets that were impacted.

Table of Contents

Net Sales and Gross Margin





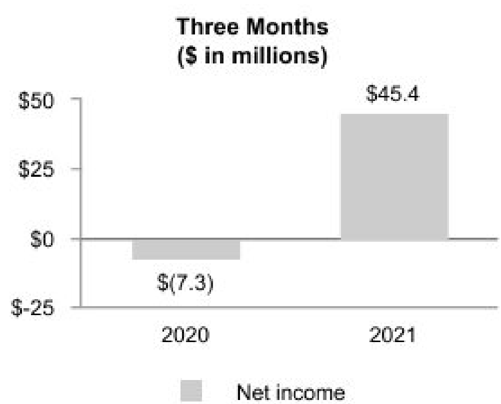
Sales for the second quarter increased 22.5%, up 19.8% on constant currency, compared with the prior-year quarter. Sales increased in both segments for the second consecutive quarter, reflecting higher sales volumes as we continue to recover from the pandemic, including the benefit of the acquisition of the FCS business, as well as favorable currency translation.

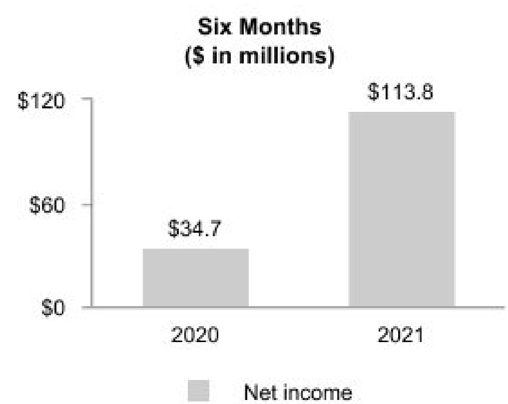
Gross margin increased 950 basis points to 38.0% for the second quarter compared with the prior-year period, primarily driven by increased production volumes and strong operating performance, partially offset by higher raw materials and energy costs as well as weather-related costs. Adjusted Gross Margin increased 650 basis points to 40.6% for the second quarter compared with the prior-year period.

Sales for the six months increased 15.4%, up 12.7% on constant currency, compared with the prior-year period. The increase was primarily due to higher sales volumes in both segments as we continue to recover from the pandemic and favorable currency translation.

Gross margin increased 440 basis points to 37.6% for the six months compared with the prior-year period, due to increased production volumes and strong operating performance, partially offset by weather-related costs and higher raw materials and energy costs. Adjusted Gross Margin increased 360 basis points to 40.0% compared with the prior-year period.

Grace Net Income (Loss)





Net income attributable to Grace was $45.4 million for the second quarter, compared with a loss of $7.3 million for the prior-year quarter. The increase was primarily due to higher sales and segment operating income, reflecting continuing recovery from the pandemic, as well as the impact of inventory and asset write-offs in the prior-year quarter (discussed below), partially offset by a higher provision for income taxes, weather-related costs of $10.3 million and higher repositioning expenses related to our review of strategic initiatives, as well as business interruption insurance recoveries during the prior-year quarter.

Net income attributable to Grace was $113.8 million for the six months, compared with $34.7 million for the prior-year period. The increase was primarily due to higher sales and segment operating income, as well as the $25.6 million curtailment gain and $13.7 million mark-to-market gain related to the freeze of the U.S. salaried pension plan, as well as the impact of inventory and asset write-offs in the prior-year period. These gains were partially offset by weather-related costs of $18.8 million and higher repositioning expenses related to our review of strategic alternatives and a higher provision for income taxes, as well as business interruption insurance recoveries during the prior-year period.

During the 2020 second quarter, we implemented changes to our Refining Technologies manufacturing operations and global footprint to drive capital and operating efficiencies as well as support global growth.

Hydroprocessing Catalysts Manufacturing Operations: In 2020, in connection with our ongoing operating excellence initiatives, we accelerated the implementation of the Grace Manufacturing System at our three hydroprocessing catalyst manufacturing sites, including optimization of plant processes and key organizational changes. Over time, these changes are expected to benefit operating margins in our ART joint venture with the savings realized beginning in 2020. Any margin benefits will be recognized through our equity earnings in the joint venture.

As a result of these changes, we recorded a pre-tax charge of $19.7 million in the 2020 second quarter, which is reflected in cost of goods sold, related to a write-off of inventory now deemed obsolete based on the process changes. The cash costs to dispose of this inventory were approximately $1 million.

Middle East FCC Catalysts Plant: In 2020, in agreement with our local joint venture partner, we discontinued the previously announced project to build a full-scale FCC catalysts plant in the Middle East. The decision reflected the rapid advance of FCC catalysts technology and the value of maintaining flexibility in our global manufacturing operations to ensure we can supply the dynamic needs of our customers in a cost and capital efficient way. We will continue to invest in our existing manufacturing network to support new technology development and provide the flexibility required to produce advanced catalyst and additive platforms.

In the 2020 second quarter, we recorded a pre-tax charge of $19.7 million ($2.5 million of which was attributable to our joint venture partner) to write off engineering and site costs. The cash costs to implement this change were approximately $1 million.

Adjusted EBIT

Adjusted EBIT was $109.0 million for the second quarter, an increase of 70.0% compared with the prior-year quarter. The increase was primarily due to higher sales and higher income from our ART joint venture, partially offset by weather-related costs, higher raw materials and energy costs, and business interruption insurance recoveries in the prior-year quarter.

Adjusted EBIT was $194.2 million for the six months, an increase of 32.7% compared with the prior-year period. The increase was primarily due to higher sales and higher income from our ART joint venture, partially offset by weather-related costs and higher operating and depreciation expenses, and higher raw materials and energy costs, as well as business interruption insurance recoveries in the prior-year period.

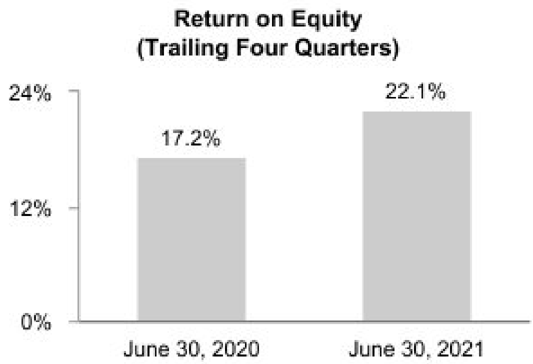
Adjusted EPS

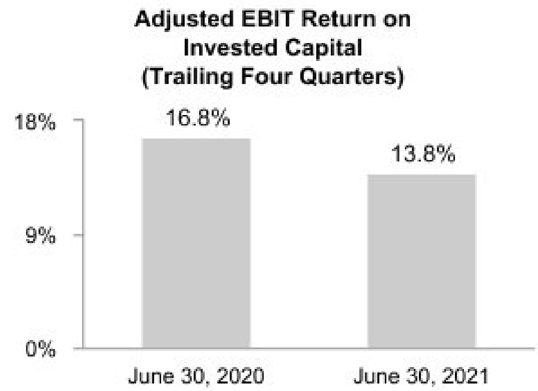
The following tables reconcile our Diluted EPS (GAAP) to our Adjusted EPS (non-GAAP):

	Three Months Ended June 30,							
	2021				2020			
(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				**$ 0.68**				$ (0.11)
Restructuring and repositioning expenses	**$ 11.8**	**$ 2.8**	**$ 9.0**	**0.14**	$ 21.4	$ 2.3	$ 19.1	0.29
Third-party acquisition-related costs	**6.7**	**1.7**	**5.0**	**0.08**	2.0	0.4	1.6	0.02
Costs related to legacy matters	**4.6**	**1.1**	**3.5**	**0.05**	2.8	0.5	2.3	0.03
Amortization of acquired inventory fair value adjustment	**2.2**	**0.5**	**1.7**	**0.03**	—	—	—	—
Gain on curtailment of U.S. salaried pension plan	**—**	**0.3**	**(0.3)**	**—**	—	—	—	—
Pension MTM adjustment and other related costs, net	**—**	**0.2**	**(0.2)**	**—**	—	—	—	—
Inventory write-offs	**0.1**	**—**	**0.1**	**—**	19.7	3.8	15.9	0.24
Discrete tax items		**1.7**	**(1.7)**	**(0.03)**		(1.0)	1.0	0.02
Income tax expense related to historical tax attributes		**(4.1)**	**4.1**	**0.06**		—	—	—
Adjusted EPS				**$ 1.01**				$ 0.49

	Six Months Ended June 30,							
	2021				2020			
(In millions, except per share amounts)	**Pre-Tax**	**Tax Effect**	**After-Tax**	**Per Share**	**Pre-Tax**	**Tax Effect**	**After-Tax**	**Per Share**
Diluted EPS				**$ 1.71**				$ 0.52
Gain on curtailment of U.S. salaried pension plan	**$ (25.6)**	**$ (6.5)**	**$ (19.1)**	**(0.29)**	$ —	$ —	$ —	—
Restructuring and repositioning expenses	**24.6**	**6.2**	**18.4**	**0.28**	24.1	2.9	21.2	0.32
Pension MTM adjustment and other related costs, net	**(13.7)**	**(3.5)**	**(10.2)**	**(0.15)**	—	—	—	—
Costs related to legacy matters	**9.2**	**2.1**	**7.1**	**0.11**	5.5	1.0	4.5	0.07
Third-party acquisition-related costs	**8.0**	**2.0**	**6.0**	**0.09**	3.5	0.7	2.8	0.04
Amortization of acquired inventory fair value adjustment	**2.2**	**0.5**	**1.7**	**0.03**	—	—	—	—
Inventory write-offs	**0.1**	**—**	**0.1**	**—**	19.7	3.8	15.9	0.24
Discrete tax items		**1.8**	**(1.8)**	**(0.03)**		(0.9)	0.9	0.01
Income tax expense related to historical tax attributes		**0.8**	**(0.8)**	**(0.01)**		—	—	—
Adjusted EPS				**$ 1.74**				$ 1.20

Return on Equity and Adjusted EBIT Return on Invested Capital





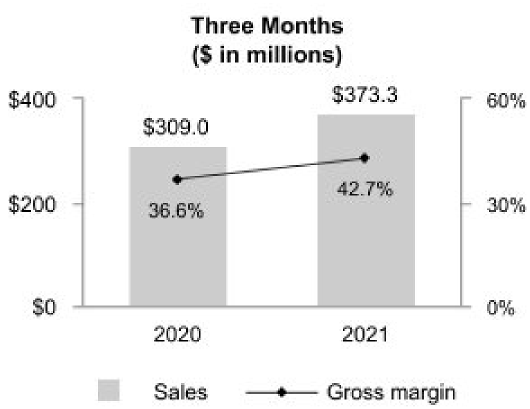
Return on equity for the second quarter was 22.1% on a trailing four quarters basis compared with 17.2% on the same basis as of June 30, 2020. The improvement was due to higher net income due primarily to the mark-to-market pension income and curtailment gain recorded in the 2021 first quarter, and the 2020 second quarter write-offs of obsolete inventory and engineering and site costs included in the comparative period. Adjusted EBIT Return on Invested Capital for the second quarter was 13.8% on a trailing four quarters basis, compared with 16.8% calculated on the same basis as of June 30, 2020. The decline was due to the acquisition of the FCS business, as well as lower Adjusted EBIT, reflecting the effects of the COVID-19 pandemic and weather-related events. The acquisition of the FCS business, which was completed on June 1, 2021, increased invested capital at that date, while Adjusted EBIT includes only one month of income from the acquired business.

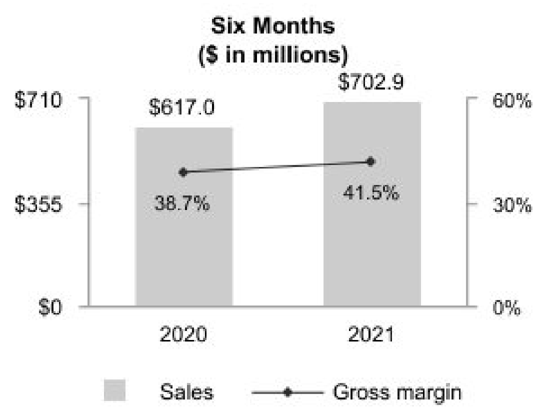
We manage our businesses with the objective of maximizing sales, earnings and cash flow over time. Doing so requires that we successfully balance our growth, profitability and working capital and other investments to support sustainable, long-term financial performance. We use Adjusted EBIT Return on 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 businesses.

Segment Overview—Grace Catalysts Technologies

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

Net Sales—Grace Catalysts Technologies





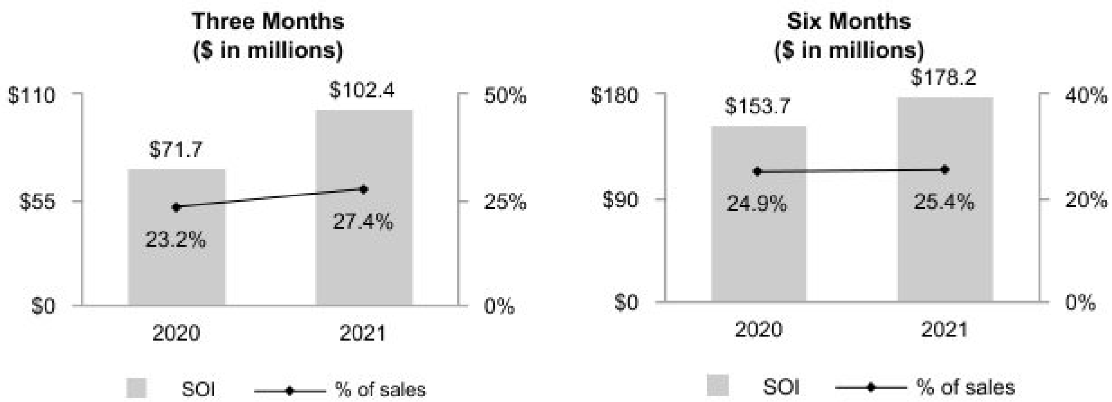
Sales were $373.3 million for the second quarter, an increase of 20.8%, up 18.8% on constant currency, compared with the prior-year quarter. The increase on a constant currency basis was due to higher sales volumes and increased licensing revenue, partially offset by lower pricing. Specialty Catalysts sales increased 9.1% and Refining Technologies sales increased 33.4%, primarily due to higher sales volumes. Favorable currency translation benefited the segment as the U.S. dollar weakened, primarily against the euro, compared with the prior-year quarter.

Gross profit was $159.4 million for the second quarter, an increase of 40.8% compared with the prior-year quarter. Gross margin of 42.7% increased 610 basis points from 36.6% for the prior-year quarter. The increase in gross margin was primarily driven by increased production volumes and strong operating performance, partially offset by 170 basis points related to higher raw materials and energy costs.

Sales were $702.9 million for the six months, an increase of 13.9%, up 11.9% on constant currency, compared with the prior-year period. The increase on a constant currency basis was primarily due to higher sales volumes. Specialty Catalysts sales increased 9.0% primarily due to higher sales volumes and increased licensing revenue. Refining Technologies sales increased 18.6% primarily due to higher sales volumes. Favorable currency translation impacted the segment as the U.S. dollar weakened, primarily against the euro, compared with the prior-year period.

Gross profit was $291.9 million for the six months, an increase of 22.3% compared with the prior-year period. Gross margin of 41.5% increased 280 basis points compared with the prior-year period of 38.7%, primarily driven by increased production volumes and strong operating performance, partially offset by higher manufacturing costs, including 120 basis points related to higher raw materials and energy costs, and unfavorable product mix.

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



Operating income was $102.4 million for the second quarter, an increase of 42.8% compared with the prior-year quarter, primarily due to higher gross profit and higher ART joint venture income, partially offset by weather-related costs of $10.3 million, as well as business interruption insurance recoveries in the prior-year quarter. Our equity in earnings from the ART joint venture was $5.1 million, an increase of $1.7 million compared with the prior-year quarter. Operating margin for the second quarter was 27.4%, an increase of 420 basis points compared with the prior-year quarter.

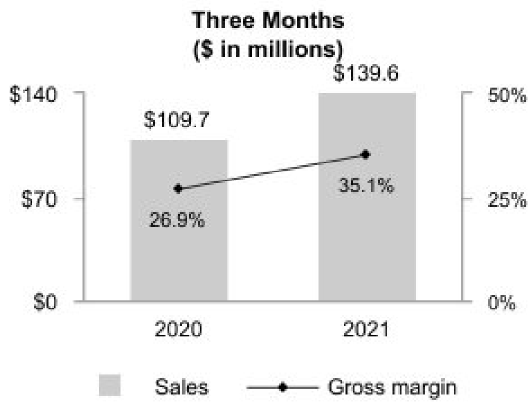
Operating income was $178.2 million for the six months, an increase of 15.9% compared with the prior-year period, primarily due to higher gross profit and higher ART joint venture income, partially offset by weather-related costs of $18.8 million, as well as business interruption recoveries included in the prior-year period. Our equity in earnings from the ART joint venture was $8.3 million, an increase of $3.7 million compared with the prior-year period. Operating margin for the six months was 25.4%, an increase of 50 basis points compared with the prior-year period.

In July 2019, a North American FCC catalysts customer filed for bankruptcy protection after announcing that it would not resume operations following a fire in its refinery. We received insurance recoveries of $16.3 million in the first half of 2020 under our business interruption insurance policy. Including the $8.0 million received in the 2019 fourth quarter, we received $24.3 million of insurance recoveries related to this event, reflecting approximately eight quarters of the impact of the incident on earnings. This claim has been fully resolved.

Segment Overview—Grace Materials Technologies

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

Net Sales—Grace Materials Technologies



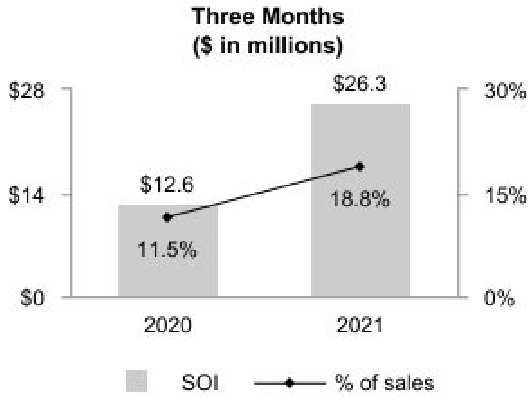
Sales were $139.6 million for the second quarter, an increase of 27.3%, up 22.4% on constant currency, compared with the prior-year quarter. The increase on a constant currency basis was primarily due to higher sales volumes in coatings and chemical process applications, as well as the benefit from the acquisition of the FCS business. Favorable currency translation benefited the segment as the U.S. dollar weakened, primarily against the euro, compared with the prior-year quarter.

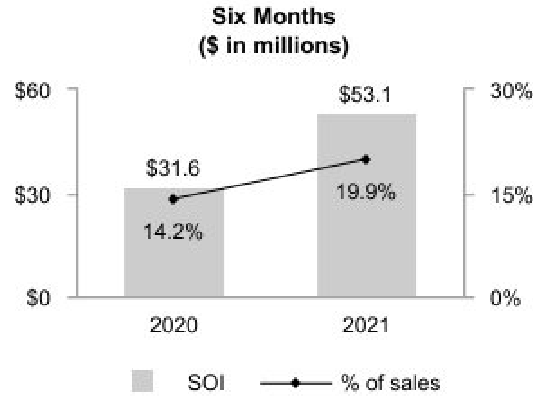
Gross profit was $49.0 million for the second quarter, an increase of 66.1% compared with the prior-year quarter. Gross margin of 35.1% increased 820 basis points compared with 26.9% for the prior-year quarter. The increase in gross margin was primarily due to increased production volumes and strong operating performance, partially offset by 220 basis points related to higher raw materials and energy costs.

Sales were $266.7 million for the six months, an increase of 19.5%, up 14.9% on constant currency, compared with the prior-year period. The increase on a constant currency basis was primarily due to higher sales volumes, including the benefit from the acquisition of the FCS business. Sales volumes increased in all subsegments. Favorable currency translation impacted the segment as the U.S. dollar weakened, primarily against the euro, compared with the prior-year period.

Gross profit was $95.8 million for the six months, an increase of 43.0% compared with the prior-year period. Gross margin of 35.9% increased 590 basis points compared with 30.0% for the prior-year period. The increase in gross margin was primarily due to increased production volumes, strong operating performance, and favorable mix, partially offset by 170 basis points related to higher raw materials and energy costs, as well as higher depreciation expense and increased logistics costs.

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

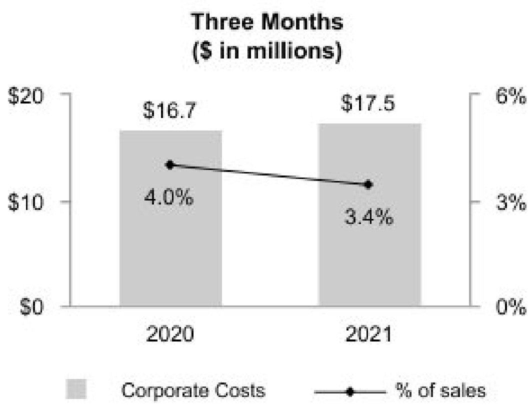


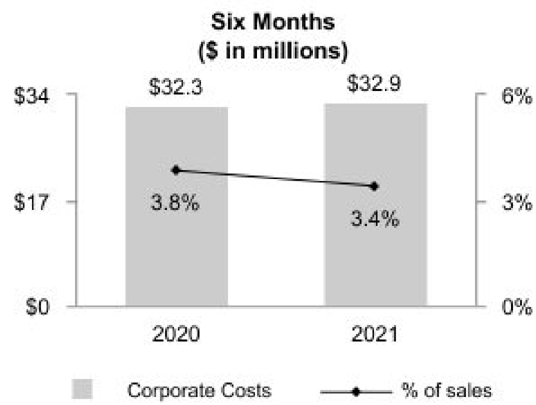


Operating income was $26.3 million for the second quarter, an increase of 108.7% compared with the prior-year quarter, primarily due to higher gross profit. Operating margin for the second quarter was 18.8%, an increase of 730 basis points compared with the prior-year quarter.

Operating income was $53.1 million for the six months, an increase of 68.0% compared with the prior-year period, primarily due to higher gross profit. Operating margin for the six months was 19.9%, an increase of 570 basis points compared with the prior-year period.

Corporate Costs





Corporate costs include functional and other costs such as professional fees, incentive compensation, and insurance premiums. Corporate costs for the second quarter were $17.5 million, an increase of $0.8 million from the prior-year quarter. Corporate costs for the six months were $32.9 million, an increase of $0.6 million compared with the prior-year period.

Restructuring and Repositioning Expenses

During the three and six months ended June 30, 2020, we incurred $2.9 million and $3.1 million, respectively, of restructuring expenses primarily related to an increase in estimated contractual costs related to a 2018 plant exit.

Repositioning expenses for the second quarter and six months were $11.8 million and $24.7 million and primarily related to our review of strategic alternatives and the Merger. Repositioning expenses for the corresponding prior-year periods were $21.0 million and $23.5 million, respectively, and included a pre-tax charge of $19.7 million ($2.5 million of which was attributable to our joint venture partner) to write off engineering and site costs as a result of a decision not to build a full-scale fluid cracking catalysts plant in the Middle East.

The following table presents the major components of restructuring and repositioning expenses recorded in the second quarter and six months and the corresponding prior-year periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2021**	**2020**	**2021**	**2020**
Costs related to review of strategic alternatives	**$ 6.9**	$ —	**$ 16.6**	$ —
Employee severance	**1.3**	2.0	**2.8**	2.6
Third-party costs of manufacturing and business transformation programs	**1.1**	1.1	**1.9**	3.8
Costs related to plant closures	**—**	2.8	**(0.1)**	2.8
Write-off of plant engineering and site costs	**—**	19.7	**—**	19.7
Other	**2.5**	(1.7)	**3.4**	(2.3)
Total restructuring and repositioning expenses	**$ 11.8**	$ 23.9	$ 24.6	$ 26.6
Less: restructuring and repositioning expenses attributable to noncontrolling interest	**—**	(2.5)	**—**	(2.5)
Restructuring and repositioning expenses attributable to W. R. Grace & Co. shareholders	**$ 11.8**	$ 21.4	**$ 24.6**	$ 24.1

Defined Benefit Pension Expense

Certain pension costs for the second quarter and six months were $2.2 million and $4.2 million, compared with $3.5 million and $6.6 million for the corresponding prior-year periods. The decrease was primarily due to a decrease in interest cost due to a decrease in discount rates partially offset by a decrease in expected return on assets.

In the first quarter, we announced to employees that the U.S. salaried plan will be frozen effective January 1, 2025. We recorded a $13.7 million mark-to-market gain on remeasurement of the liability as a result of an increase in discount rates since December 31, 2020, partially offset by actual asset performance less than expected through the remeasurement date. Additionally, we recorded a $25.6 million gain on the plan curtailment, which is attributable to the elimination of future pay recognition in the pension benefit after 2024.

Interest and Financing Expenses

Net interest and financing expenses were $19.7 million and $38.6 million for the second quarter and six months, increases of 4.2% and 5.5% compared with the corresponding prior-year periods. The increases were due to lower capitalized interest in 2021 related primarily to the completion of high-value capital projects in 2020, as well as interest on the new $300 million term loan used to finance the acquisition of the FCS business (see Note 3 to the Consolidated Financial Statements).

Income Taxes

Our effective tax rates for the six months and prior-year period, were 24.2% and 40.5%, respectively. Income tax expense was $36.5 million and $22.1 million, on income before income taxes of $150.6 million and $54.6 million for the six months and prior-year period, respectively.

The provision for income taxes for the six months was greater than the prior-year period primarily due to higher pre-tax income compared with the prior-year period, including an increase in income in foreign jurisdictions where the statutory tax rates are higher than the statutory rates of the U.S., the write-off of previously capitalized engineering and site costs in the prior-year period, and the expiration of unexercised stock options in the prior-year period, partially offset by discrete benefits related to the Global Intangible Low-Taxed Income (“GILTI”) high-tax exclusion recorded for the filing of the 2018 and 2019 federal amended returns and to the write-off of historical uncertain tax positions.

Our provision for income taxes is based on projections of taxable income. Such projections may change in subsequent quarters, which could change our tax expense and net income in future periods.

Financial Condition, Liquidity, and Capital Resources

Following is an analysis of our financial condition, liquidity and capital resources at June 30, 2021.

Our principal uses of cash are generally capital investments and acquisitions; working capital investments; compensation paid to employees, including contributions related to our defined benefit pension plans and defined contribution plans; the repayment of debt and interest payments thereon; and the return of cash to shareholders through the payment of dividends and the repurchase of shares.

On February 8, 2017, we announced that the Board of Directors had authorized a share repurchase program of up to $250 million. On February 28, 2020, we announced that our Board of Directors had increased its share repurchase authorization to $250 million, including approximately $83 million remaining under the previously announced program. We did not repurchase shares during the six months. Consistent with the terms of the Merger Agreement (see Note 17 to the Consolidated Financial Statements), the Company will not repurchase shares of Company common stock going forward.

We paid cash dividends of $22.0 million during the six months. On February 4, 2020, we announced that our Board of Directors had approved an increase in the annual dividend rate, from $1.08 to $1.20 per share of Company common stock, effective with the dividend paid on March 17, 2020. On February 9, 2021, we announced that our Board of Directors had approved a further increase to $1.32 per share of Company common stock, effective with the dividend paid on March 23, 2021. Consistent with the terms of the Merger Agreement, we suspended payment of a dividend going forward.

We believe that the cash we expect to generate during 2021 and thereafter, together with other available liquidity and capital resources, are sufficient to finance our operations and growth strategy, and to meet our debt, pension, and legacy and other obligations.

Debt and Other Contractual Obligations

Total debt outstanding at June 30, 2021, was $2,285.4 million. We have limited debt service requirements, with no material maturities related to our term loans, revolving credit facility, or notes until September 2024. We financed the cash portion of the purchase price of the acquisition of the Fine Chemistry Services business of Albemarle Corporation (see Note 16 to the Consolidated Financial Statements) with a new $300 million senior secured term loan maturing in 2028 (see Note 3 to the Consolidated Financial Statements). See Note 8 to the Consolidated Financial Statements for a discussion of Financial Assurances.

Cash Resources and Available Credit Facilities

At June 30, 2021, we had available liquidity of $745.8 million, consisting of $312.0 million in cash and cash equivalents ($183.0 million in the U.S.), $391.8 million available under our revolving credit facility, and $42.0 million of available liquidity under various non-U.S. credit facilities. The $400 million revolving credit facility includes a $100 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. We generally renew these credit facilities as they expire.

The following table summarizes our non-U.S. credit facilities as of June 30, 2021:

(In millions)	Maximum Borrowing Amount	Available Liquidity	Expiration Date
Singapore	$ 18.0	$ 8.7	April 3, 2023
China	12.1	12.1	April 3, 2023
Malaysia	7.0	6.5	April 3, 2023
Other countries	15.4	14.7	various
Total	**$ 52.5**	**$ 42.0**	

Analysis of Cash Flows

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

	Six Months Ended June 30,	
(In millions)	2021	2020
Net cash provided by (used for) operating activities	**$ 115.5**	$ 184.6
Net cash provided by (used for) investing activities	**(371.8)**	(119.2)
Net cash provided by (used for) financing activities	**265.3**	651.0
Effect of currency exchange rate changes on cash, cash equivalents, and restricted cash	**(2.5)**	(1.5)
Net increase (decrease) in cash, cash equivalents, and restricted cash	**6.5**	714.9
Cash, cash equivalents, and restricted cash, beginning of period	**306.2**	282.9
Cash, cash equivalents, and restricted cash, end of period	**$ 312.7**	$ 997.8

Net cash provided by operating activities for the six months was $115.5 million compared with $184.6 million for the prior-year period. The decrease reflects an increase in working capital this year to meet increasing customer demand, partially offset by higher net income.

Net cash used for investing activities for the six months was $371.8 million compared with $119.2 million for the prior-year period. The change was primarily due to $297.9 million cash paid for the acquisition of the FCS business. Cash paid for capital expenditures, primarily related to our strategic growth investments, was $76.1 million for the six months compared with $95.0 million for the prior-year period.

Net cash provided by financing activities for the six months was $265.3 million compared with $651.0 million for the prior-year period. The change was primarily due to the issuance of $750.0 million of senior notes in the prior-year period, partially offset by $300 million cash proceeds from borrowings on the incremental term loans in the current period and $40.4 million cash paid for repurchases of common stock in the prior-year period, as well as cash paid for dividends of $22.0 million for the six months compared with $40.4 million in the prior-year period.

Employee 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:

	Six Months Ended June 30,	
(In millions)	**2021**	**2020**
U.S. advance-funded plans	**$ 0.3**	$ —
U.S. pay-as-you-go plans	**3.5**	4.3
Non-U.S. advance-funded plans	**2.7**	0.6
Non-U.S. pay-as-you-go plans	**4.1**	3.5
Total cash contributions	**$ 10.6**	$ 8.4

We have minimal pension funding requirements. Our U.S. qualified pension plans are well funded, with expected cash contributions of approximately $1 million per year for the next three years. Cash contributions related to pay-as-you-go unfunded plans and non-U.S. pension plans are expected to be approximately $17 million per year for the next three years.

Defined Contribution Plans

The following table presents cash payments related to our defined contribution plans.

	Six Months Ended June 30,	
(In millions)	**2021**	**2020**
U.S. defined contribution plan	**$ 7.7**	$ 6.9
U.S. enhanced defined contribution plan	**2.2**	1.8
Total cash payments	**$ 9.9**	$ 8.7

See Note 6 to the Consolidated Financial Statements for further discussion of Pension Plans and Other Retirement Plans.

Other Contingencies

See Note 8 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 experienced raw materials cost inflation during the 2021 first half, and we expect to see continued inflation for the remainder of 2021. We try to minimize these impacts by developing alternative formulations, increasing productivity, hedging purchases of certain raw materials, and increasing prices.

Critical Accounting Estimates

See the “Critical Accounting Estimates” heading in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2020, 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.

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, 2020, 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.

Item 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of June 30, 2021, 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 Principal Executive Officer and Principal 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 Principal Executive Officer and Principal 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 June 30, 2021, that have materially affected, or are reasonably likely to materially affect, Grace's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Note 8, “Commitments and Contingent Liabilities,” to the interim Consolidated Financial Statements in Part I of this Report is incorporated herein by reference.

Litigation Relating to the Merger Agreement with affiliates of Standard Industries

To date, six complaints (the “Complaints”) have been filed by purported stockholders of Grace against Grace and its board of directors in connection with the proposed merger with affiliates of Standard Industries (the “Merger”), including: (i) Shiva Stein v. W. R. Grace & Co. et al., No. 1:21-cv-4731, filed in the U.S. District Court for the Southern District of New York on May 26, 2021; (ii) Peter Ansay v. W. R. Grace & Co. et al., No. 1:21-cv-03077, filed in the U.S. District Court for the Eastern District of New York on May 29, 2021; (iii) Charles Bowles v. W. R. Grace & Co. et al., No. 1:21-cv-04922, filed in the U.S. District Court for the Southern District of New York on June 3, 2021; (iv) Kathleen Finger v. W. R. Grace & Co. et al., No. 5:21-cv-01055, filed in the U.S. District Court for the Central District of California on June 23, 2021; (v) Alex Ciccotelli v. W. R. Grace & Co. et al., No. 2:21-cv-02842, filed in the U.S. District Court for the Eastern District of Pennsylvania on June 25, 2021; and (vi) Sam Carlisle v. W. R. Grace & Co. et al., No. 1:21-cv-00965, filed in the U.S. District Court for the District of Delaware on June 30, 2021. The Complaints generally allege, among other things, that the defendants have purportedly violated securities laws by providing materially incomplete and misleading disclosures in the proxy statement for the Merger. The Complaints seek, among other things, to enjoin Grace from taking steps to consummate the Merger or, in the event the Merger is consummated, to rescind the Merger or grant rescissory damages. While Grace cannot predict the outcome of or estimate the possible loss or range of loss from these matters, Grace believes the claims asserted in the Complaints are without merit.

Item 1A. RISK FACTORS

In addition to the other information set forth below and elsewhere in this Report, 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, 2020, which could materially affect our business, financial condition, or future results. The risks we 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, not currently estimable, or that we currently deem to be immaterial, as well as generic business risks not included here, also may materially adversely affect our business, financial condition, or future results. With respect to certain risk factors that we 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, including, without limitation, Note 8, “Commitments and Contingent Liabilities,” to the interim Consolidated Financial Statements in Part I of this Report. In addition, see our cautionary language about Forward-Looking Statements, prior to Part I of this Report. These more recent measures and information are incorporated herein by reference.

In addition to the risks and uncertainties that we discussed in our Annual Report on Form 10-K and identify elsewhere in this Report, we face the following risks:

We may not complete the Merger with affiliates of Standard Industries within the time frame we anticipate or at all, which could have an adverse effect on our business, financial results and/or operations, as well as the price of our common stock.

On April 26, 2021, Grace announced that it had entered into the Merger Agreement providing for the acquisition of the Company by an affiliate of Standard Industries, subject to the terms and conditions contained therein. Under the terms of the Merger Agreement, Standard Industries, through its affiliates, would acquire all of the outstanding shares of Grace common stock for $70.00 per share in cash. Grace also announced that Standard Industries’ related investment platform, 40 North Latitude Master Fund Ltd. (“40 North”), which owns approximately 14.9% of the Company’s outstanding common stock, has entered into a voting agreement pursuant to which 40 North has agreed to vote its shares of Grace common stock in favor of the Merger.

There can be no assurance that the Merger will occur. Completion of the Merger is subject to a number of closing conditions, including Grace stockholder approval, and receipt of certain required regulatory approvals. We can provide no assurance that all required approvals will be obtained or that all closing conditions will be satisfied, and, if all required approvals are obtained and the closing conditions are satisfied, we can provide no assurance as to the terms, conditions and timing of such approvals or the timing of the completion of the Merger. In addition, the Merger Agreement may be terminated under certain specified circumstances.

If the Merger is not completed within the expected time frame or at all, we may be subject to a number of material risks. The price of our common stock may decline to the extent that current market prices reflect a market assumption that the Merger will be completed. In addition, some costs related to the Merger must be paid whether or not the Merger is completed, and we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed Merger, as well as the direction of management resources towards the Merger, for which we will have received little or no benefit if the closing of the Merger does not occur. We may also experience negative reactions from our stockholders and other investors, employees, customers, suppliers, partners and other third parties. If the Merger is not approved by our stockholders, or if the Merger is not completed for any other reason, there can be no assurance that any other transaction acceptable to us will be offered or that our business, prospects or results of operations will not be adversely affected.

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

Dividends on Company common stock

Consistent with the terms of the Merger Agreement (see Note 17 to the Consolidated Financial Statements), the Company has suspended payment of a dividend going forward.

Share Repurchase Program

On February 8, 2017, we announced that our Board of Directors had authorized a share repurchase program of up to $250 million. On February 28, 2020, we announced that our Board of Directors had increased its share repurchase authorization to $250 million, including approximately $83 million remaining under the previously announced program. 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. Consistent with the terms of the Merger Agreement (see Note 17 to the Consolidated Financial Statements, under the heading “Merger Agreement with affiliates of Standard Industries”), the Company will not repurchase shares of Company common stock going forward.

During the three months ended June 30, 2021, there were no repurchases of Company common stock by or on behalf of Grace or any “affiliated purchaser,” as reflected in the following table:

Period	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)
4/1/2021 - 4/30/2021	—	—	—	235.0
5/1/2021 - 5/31/2021	—	—	—	235.0
6/1/2021 - 6/30/2021	—	—	—	235.0
Total	—	—	—	

Table of Contents

Item 4. MINE SAFETY DISCLOSURES

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95 to this Report.

Item 6. EXHIBITS

In reviewing the agreements included as exhibits to this and other Reports filed by Grace with the SEC, 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 may contain representations and warranties by each of the parties to the 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 in Grace's other public filings, which are available without charge through the SEC'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
2.1	Sale, Purchase and Contribution Agreement, dated as of February 25, 2021, by and among Albemarle Corporation, W. R. Grace & Co.–Conn., and Fine Chemical Manufacturing Services LLC.	Exhibit 2.5 to Form 10-K (filed 2/26/21) SEC File No.: 001-13953
2.2	Agreement and Plan of Merger, dated as of April 26, 2021, by and among W. R. Grace & Co., Gibraltar Acquisition Holdings LLC and Gibraltar Merger Sub Inc.**	Exhibit 2.1 to Form 8-K (filed 4/26/21) SEC File No.: 001-13953
3.1	Amended and Restated Certificate of Incorporation	Exhibit 3.01 to Form 8-K (filed 2/07/14) SEC File No.: 001-13953
3.2	Amended and Restated By-laws	Exhibit 3.01 to Form 8-K (filed 1/23/15) SEC File No.: 001-13953
4.1	Incremental Facility Amendment No. 1 to Credit Agreement, dated as of June 1, 2021, by and among W. R. Grace & Co., W. R. Grace & Co.–Conn., certain subsidiaries thereof, Goldman Sachs Bank USA, as Administrative Agent and Collateral Agent, and the other lenders from time to time party thereto.	Exhibit 4.1 to form 8-K (filed 6/01/21) SEC File No.: 001-13953
10.1	Voting Agreement, dated as of April 26, 2021, by and between W. R. Grace & Co. and the stockholder party thereto.	Exhibit 10.1 to Form 8-K (filed 4/26/21) SEC File No.: 001-13953
31(i).1	Certification of Periodic Report by Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31(i).2	Certification of Periodic Report by Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith

Exhibit No.	Description of Exhibit	Location
32	Certification of Periodic Report by Principal Executive Officer and Principal Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
95	Mine Safety Disclosure Exhibit	Filed herewith
101.INS	Inline XBRL Instance Document	The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase	Filed herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101)	Filed herewith

* Management contracts and compensatory plans, contracts or arrangements required to be filed as exhibits to this Report.

** Gibraltar Acquisition Holdings LLC has changed its name to W. R. Grace Holdings LLC. The Company has omitted schedules and other similar attachments to such agreement pursuant to Item 601(b) of Regulation S-K. The Company will furnish a copy of such omitted document to the SEC upon request.

SIGNATURES

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

	W. R. GRACE & CO. (Registrant)	
Date: August 2, 2021	By:	/s/ HUDSON LA FORCE
		Hudson La Force *President and Chief Executive Officer* *(Principal Executive Officer)*
Date: August 2, 2021	By:	/s/ WILLIAM C. DOCKMAN
		William C. Dockman *Senior Vice President and Chief Financial Officer* *(Principal Financial Officer and Principal Accounting Officer)*

EXHIBIT 31(i).1

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Hudson La Force, certify that:

1. I have reviewed this quarterly report on Form 10-Q of W. R. Grace & Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2021

/s/ HUDSON LA FORCE

Hudson La Force
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William C. Dockman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of W. R. Grace & Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2021

/s/ WILLIAM C. DOCKMAN

William C. Dockman
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), the undersigned certifies that (1) this Quarterly Report of W. R. Grace & Co. (the "Company") on Form 10-Q for the period ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HUDSON LA FORCE

Hudson La Force
President and Chief Executive Officer
(Principal Executive Officer)

/s/ WILLIAM C. DOCKMAN

William C. Dockman
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: August 2, 2021

EXHIBIT 95

MINE SAFETY DISCLOSURES

The following table provides information about citations, orders and notices issued from the Mine Safety and Health Administration (the "MSHA") under the Federal Mine Safety and Health Act of 1977 (the "Mine Act") during the most recent fiscal quarter.

Mine	§104 S&S* Citations (#)	§104(b) Orders (#)	§104(d) Citations and Orders (#)	§110(b)(2) Violations (#)	§107(a) Orders (#)	Total Dollar Value of MSHA Assessments Proposed ($)	Total Number of Mining-Related Fatalities (#)	Received Written Notice of Pattern of S&S* Violations under §104(e) (yes/no)	Received Notice of Potential to have Pattern of S&S* Violations under §104(e) (yes/no)
Clay Mine Aiken, SC	—	—	—	—	—	—	—	No	No

* S&S refers to violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under §104 of the Mine Act.

The following tables provide information about legal actions before the Federal Mine Safety and Health Review Commission (the "FMSHRC") during the most recent fiscal quarter.

Mine	Pending as of the end of most recent fiscal quarter (#)	Instituted during most recent fiscal quarter (#)	Resolved during most recent fiscal quarter (#)
Clay Mine Aiken, SC	—	—	—

	With Respect to Legal Actions Pending as of the end of most recent fiscal quarter					
Mine	Contests of Citations and Orders per Subpart B* (#)	Contests of Proposed Penalties per Subpart C* (#)	Complaints for Compensation per Subpart D* (#)	Complaints of Discharge, Discrimination or Interference per Subpart E* (#)	Applications for Temporary Relief per Subpart F* (#)	Appeals of Judge's Decisions or Orders to the FMSHRC per Subpart H* (#)
Clay Mine Aiken, SC	—	—	—	—	—	—

* 29 CFR part 2700.