FINAL TRANSCRIPT

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GRA - Q3 2011 W R Grace and Co Earnings Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the third-quarter 2011 WR Grace & Co earnings conference call. My name is Lacey and I will be your coordinator for today. At this time, all participants are in listen-only mode. Later, we will facilitate a question and answer session towards the end of the presentation.

(Operator Instructions) As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today's call, Mr. Marc Sutherland, Vice President of Investor Relations. Please proceed.

Marc Sutherland - *W R Grace and Co - VP IR*

Thank you, Lacey, and hello everyone, and thank you for joining us today, October 25, 2011, for discussion of Grace's third-quarter results released this morning. Joining me on today's call are Fred Festa, Grace's Chairman, President, and Chief Executive Officer; and Hudson La Force, our Senior Vice President and Chief Financial Officer. Our earnings release and the corresponding presentation are available on our website. To download copies, go to www.grace.com and click on the investor information. Links are available on the upper right corner of the page. As you know, some of our comments today will be forward-looking and are made under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected or implied due to a variety of factors.

Please see our recent SEC filings for more detail on the risks that could impact Grace's future operating results and financial conditions. We will also discuss certain non-GAAP financial measures which are described in more detail in this morning's release and on our website. Reconciliations to the most directly comparable GAAP financial measures and other associated disclosures are contained in our earnings release and on our website. Our comments on forward-looking statements and non-GAAP financial measures apply both to the prepared remarks and to the Q&A. We want to remind everyone that this webcast contains time sensitive information that is accurate only as of today. Any redistribution, retransmission or reproduction of this call without Company consent is prohibited.

With that, I will turn the call over to Fred.

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

Thanks, Mark. Hello everyone and thank you for joining us for our third-quarter earnings call. Q3 was a very good quarter for Grace. We grew sales 27% with a solid contribution from both businesses. Gross profit dollars rose 29% and gross margin increased to 36.5%. Our adjusted EBIT increased 55% and adjusted EBIT margins increased 300 basis point to 16.4%. Finally, our adjusted EBIT return on invested capital increased to 34.2%. These results reflect the high value of our products and the success of our business teams in responding to changing customer requirements and changes in our operating environment.

We have a balanced portfolio of businesses and a diversified geographic footprint with great positions in the industries we serve. This, coupled with a very disciplined play book, allows us to continue to deliver exceptional performance. Grace Davison had a strong quarter and is on track to deliver its third consecutive year of double-digit earnings growth. The team has consistently demonstrated their ability to effectively address marketplace challenges. They responded quickly and effectively to the severe downturn that began in fourth quarter 2008 and expanded gross margins during 2009. They also responded quickly and effectively to the jump in rare earth costs last year, launched a series of very successful new products, and further expanded gross margins this year. Their consistent, customer focused agility and disciplined execution, give me confidence they will continue to perform well even in an uncertain economic environment.

Grace Davison delivered good year-over-year price and earnings growth this quarter. Sales volumes declined about 3% from the strong third quarter of 2010. About half of this decline was segment share loss, and about half was related to slowing demand. We have focused strongly on margins this year to ensure we are covering the cost of higher raw materials, and we have lost some business as a result. Our teams will use our high-value products to recover the lost sales volumes while maintaining our higher gross margins. Our recent new product introductions and capital investments, including last year's Specialty Catalyst acquisition, give us the products and capacity we need to replace lost sales volumes at better margins.

Grace Construction Products also performed very well this quarter despite the continuing challenges in many of its markets. Overall sales increased 22% and sales in emerging regions grew 25% in the quarter. The team also expanded gross margins for the third consecutive quarter, and now it's catching up to the 10% increase in raw materials we have seen since Q3 2010. The GCP team continues to work very hard to improve profitability. In addition to improving gross margins, GCP is working to improve productivity across the business. Sales per employee increased 8.5% versus the prior year quarter, reflecting sales volume growth, especially in our new plants and strong cost control in the mature markets.

Strategically, GCP has solidified its position in North and South America, and is showing sustained progress in building its business in Asia. Europe remains challenging, especially southern Europe, and we are not achieving our target levels of returns there. Hudson will comment further on the actions to improve GCP's profitability in this section. Overall, our results this quarter demonstrate our ability to use all the levers we have to create value for our shareholders. We do this by growing our global franchise in a profitable and sustainable way, commercializing highly valued and innovative products for our customers, investing in capacity and technology to improve productivity and efficiency, strengthening our portfolio of businesses to bolt on acquisitions and targeted divestitures, and finally, operating safely and responsibly in the global communities in which we work.

I'll turn the call now over to Hudson.

Hudson La Force - *W R Grace and Co - SVP and CFO*

Thank you, Fred. Please turn to page 5 and we will start with a quick review of Grace's overall results for the quarter. Sales increased 27% due to improved pricing, favorable currency translation, and higher sales volumes. About two-thirds of the pricing increase was due to the rare earth surcharges in our refining technologies business, and about one-third was due to base price increases achieved across all of our businesses. Gross profit increased to $315 million, up 29% year-on-year and up 4% sequentially. Gross margins improved 50 basis points year-on-year, to 36.5% and were down 30 basis points from the second quarter. The year-on-year increase in gross margin was due to improved pricing, partially offset by higher raw materials cost. The sequential decline was primarily due to the dilutive affect of higher rare earth surcharges on our reported gross margin percentage.

Adjusted EBIT increased 55% to $142 million driven by higher sales and better gross margins. Adjusted EBITDA margin increased to 20%. Adjusted operating cash flow was $159 million for the quarter up almost 60% from just under $100 million last year. Adjusted EBIT ROIC was 34% on a trailing four quarter basis, compared with 26% in the prior year quarter. The increase was driven by higher earnings and good control of networking capital.

Adjusted EPS increased 53% to $1.16 per share. As detailed in the appendix to this presentation, adjusted EPS includes adjustments of $0.09 per share primarily for Chapter 11 and asbestos related costs. Let's review our results in more detail beginning with Grace Davison on pages 6 and 7. Davison's third quarter sales increased 29%, as improved pricing and favorable currency translation more than offset a 3% decline in volume. Gross profit increased 34%, and gross margin improved to 37.6% from 36% in the prior year quarter. Improved pricing and productivity more than offset the impact of raw material inflation and lower sales volumes.

Segment operating income was $154 million, up 49% driven by higher sales and gross margins. Sales in our refining technologies business increased 59% due to improved pricing and favorable currency translation which more than offset a small decline in sales volumes. Pricing includes the effects of the rare earth surcharges first implemented in Q4 last year. Our new lower rare earth catalysts continue to be well received by customers. By the end of Q3, nearly 70% of our FCC customers had reformulated to at least 1 of our lower rare earth products, up from just under 50% at the end of Q2. As you recall, these products have a higher base price, higher gross profit, and higher gross margin than the products they replace reflecting the performance and cost savings benefits they deliver to our customers.

As we discussed in last quarter's call, higher rare earth surcharges diluted our gross margin percent during the quarter, although not as significantly as we had expected. Total surcharges were lower than we forecasted at the beginning of the quarter. In addition, customer adoption of the lower rare earth catalysts continue to progress faster than we expected, simultaneously reducing the rare earth surcharge and increasing gross profit.

Please turn to page 8 for a moment. Market prices for lanthanum oxide peaked at about $140,000 per metric ton in July and then declined to about $80,000 per metric ton by the end of the quarter. Last week, the market price was about $60,000 per metric ton. We expect rare earth prices to remain volatile for the foreseeable future, and we are well-positioned to continue successfully managing this with our customers. Our lower rare earth catalysts and our transparent and well communicated surcharge framework have been critical to helping our customers plan and manage the impact of high rare earth costs this year. We have successfully managed the impact of higher rare earth costs on our profitability. Most important, strategically and financially, has been the introduction of the lower rare earth catalysts. These products have allowed us to improve our profitability while lowering the total cost to our customers. A true win-win.

New manufacturing capabilities and successful supply chain actions have also been important levers in managing our rare earth costs this year. Please turn to back to pages 6 and 7. Our refining technologies business did have a small decline in sales volumes during the quarter. We saw lower customer demand in Europe and certain emerging regions, and we lost a small amount of share during the quarter. Our share tends to move a bit each quarter and remains well within our expected range. Overall refining industry conditions are positive. Refining margins and operating rates are strong in the US, Midwest and Gulf Coast and stable in Europe and Asia. Though in the US East Coast, refineries are slowing down or reducing capacity due to low or negative margins. Let's move on to our materials technologies business. Materials technology sales increased 7% as higher prices and favorable currency translation more than offset a decline in sales volume during the quarter. The price increases announced earlier in the year were fully implemented during the quarter.

Our materials technologies business has 2 broad product categories -- packaging products and silica-based engineered materials. We have experienced significant raw material cost inflation in our packaging products business over the last year, and we have increased prices to offset these higher costs. Most customers have agreed to the new prices, although we have seen lower sales volumes in some products where we increased prices. We have seen some decrease in customer demand for packaging products in the mature markets. As a result of both factors, sales volumes for our packaging products were down 12% in the third quarter.

In contrast, overall sales volumes in the silica-based engineered materials business increased in the third quarter. Sales into consumer end uses were up, industrial end uses were flat, and construction and uses were down. We are confident in our ability to increase our sales volumes in our engineered materials business over the coming quarters, particularly given our new products and new capacity. Our new silica capacity in Latin America, targeted for renewable diesel refining and consumer applications, came online in the quarter, and we started commercial shipments in August. The new silica capacity in Asia will come online in December. These investments enable us to pursue higher value applications at better margins.

Materials technologies is our most diverse business in terms of end-uses applications and geographies. It is our best indicator of the health of the global economy, and we are closely monitoring this business for information about changes in customer demand. Beginning in mid-September, we started to see a decline in demand in Europe and a slowdown in demand in the emerging regions. Our specialty technologies business continued its solid growth with sales increasing 9% year-over-year and 12% on a year-to-date basis. Sales of our polypropylene catalysts grew 11% year-on-year, roughly 2 times the industry average due to our strong position with Middle East producers. We continue to expect this business to grow double digits for the full year.

Operating margins were flat year-on-year but increased nicely from Q2 on better product mix and lower manufacturing costs. The polypropylene catalyst expansion at our Wurms, Germany facility is completing customer qualifications, and we expect the polypropylene catalyst investment at our new Albany, Oregon facility obtained as part of the Sensatech acquisition last year to be completed in Q4. These investments will provide needed capacity for continued growth in this business in 2012. Please turn to page 9, and we will discuss our construction products business. Construction product sales increased 22% in the quarter due to higher sales volumes, favorable currency translation and improved pricing.

Gross profit increased 18%, and gross margin was 34.5%. Improved pricing and productivity did not fully offset the impact of higher raw material costs year-on-year. Segment operating income was $30 million, up 7%. On July 1, we acquired a specialty waterproofing business adding to our current portfolio of high value, specified waterproofing products. The acquisition contributed 4 points to GCP's top line growth in the quarter and was modestly accretive to EBIT and EBITDA after all acquisition and synergy costs incurred in the quarter.

GCP sales in emerging regions increased 25% in the quarter. Sales in Latin America grew 35% and in emerging Asia 38% primarily driven by higher sales volumes. We continue to execute our growth strategies in the emerging regions. We have won a number of high value, commercial and infrastructure bids including significant opportunities in Latin America, the Middle East, and China.

Sales in North America grew 22% in the quarter on strong FCC volume and pricing. Profitability in GCP Americas improved nicely as good gross margins and good operating leverage added about 2 points to our operating margins in that business. As Fred said a moment ago, GCP Europe continues to operate in a very challenging environment. Although sales grew 7% year-on-year, and 17% year on year with a specialty waterproofing acquisition, gross margins declined almost 2 points and operating margins declined about 1 point from last year.

Although GCP Europe is profitable, it's profitability has declined this year and it dilutes GCP's overall operating margin by about 3 points. We do not expect the near-term recovery in the European construction market, especially in southern Europe. It is likely that we will record a small restructuring charge in Q4 to reflect the costs of repositioning our business in Europe. The GCP team has worked very hard to maximize it's profitability and returns on invested capital in the face of weak customer demand in the mature markets and higher raw materials costs. Although operating margins are below our targets, return invested capital remains very attractive and our investments in the emerging regions are showing very positive results. We intend to continue making targeted growth investments globally and to continue focusing on costs and margins in the mature markets.

Last quarter, we said that we had started a strategic review of certain of GCP's non-core product lines to identify opportunities to improve the segment's overall profitability and strategic focus. Last week, we filed a motion with the bankruptcy court to divest a small non-core product line. This action and others we expect to implement are designed to improve GCP's overall profitability and returns. A few final comments on Q3 before I turn to our updated 2011 outlook.

First, Q3 was a strong cash flow quarter. Adjusted operating cash flow was $159 million for the quarter and $290 million for the 9 months. An increase of 27% over the 9-month period last year. This includes $97 million of capital expenditures for the 9 months, up 41% from the prior-year period. Net working capital days were 62 days at the end of the third quarter and 56 days when adjusted for higher rare earth costs. We remain focused on our inventory levels, especially given the growth slowdown in the increased probability of a recession in the mature markets. Importantly, we reduced inventories by $30 million in September to ensure we were better positioned in this uncertain economy. Cash and cash equivalents totaled about $1.050 billion at the end of the quarter after year-to-date capital investments and acquisitions of $150 million and pension contributions of $260 million.

Our liquidity position is strong. We continue to focus on managing and de-risking our defined benefit pension plans. Although the financial markets moved sharply against us in the third quarter, the impact was substantially mitigated by the risk management approach we use. The market value of our plan assets declined only 5% during the quarter. Unfortunately, the pension benefit obligation, or PBO, increased about 11% due to the decline in long-term interest rates. Finally, we continue to operate at a very low cash tax rate. For the 9 months, our global cash tax rate was 9%, down from 10% through the second quarter.

Let's turn to page 10, and we will discuss our updated 2011 outlook. We are maintaining our full-year adjusted EBIT outlook of $465 million to $480 million and our adjusted EBITDA outlook of $585 million to $600 million. We are revising our sales outlook down to reflect the effects of lower rare earth surcharges, lower sales volumes in our lower margin packaging products business, and less favorable currency translation compared with our expectations in July. Our earnings outlook reflects our risk-adjusted assessment of Q4, including the effects of seasonality, potential changes to customer order patterns around year end, and the risk of weaker customer demand driven by global economic conditions or events.

Fred, I will turn the call back to you.

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

Thanks, Hudson. Before taking your questions I would like to address two last items I know that are on your mind. First is our 2012 outlook. We expect to give you our outlook when we release fourth-quarter earnings. Our annual operating plan is not final and has not been approved by the Board. However, let me share with you some of my thinking. Our planning assumes that overall demand growth continues but with some slow patches for some products and geographies. We expect very modest volume growth in the US and potential volume declines in Europe We expect emerging market growth to continue although at a slower rate than this year.

Grace Davison's earnings should be fairly resilient giving their pricing success and given the flexibility of our manufacturing operations. For GCP we expect another sluggish year for construction spending in the mature markets. GCP will remain focused on profitability in the mature markets and growth in the emerging regions. We expect gross margins to remain in our 35% to

37% target range. We expect to maintain prices for our products, and we expect costs to decline for certain raw materials. Some raw materials costs have already begun to fall.

We are closely monitoring our sales channels and economic indicators. When we do see changes, we know how to respond. Grace is a nimble and dynamic organization. The management team that has led us through the 2009 downturn is intact, and they know how to manage their business in a tough environment.

As we complete our 2012 operating plan, there is one message that I have delivered loud and clear to my team. We are going to build on the successes that we have worked so hard to deliver this year. We have achieved a significant improvement in earnings over the last 2 years and will not give those back. Market conditions may make it harder next year, but we will continue to benefit from our new products, our capacity investments, and our productivity efforts. We have the right products, the right customer positions, the right geographic footprint, and the right team to continue to perform in a tough environment.

The second item I would like to address is the bankruptcy. As we told you in last quarter's teleconference, we are waiting on the District Court to rule on affirmation of our plan and on the appeals to our confirmation order. We are due to hear from the Court, literally could be any day. At this point, however, it is unlikely that we will emerge this year. We continue to remain highly confident that the court will rule in our favor on all matters. We just don't know when the ruling will come.

Bankruptcy process has been an incredibly long process, and we are all eager to see it conclude as soon as possible. Our only real course at this point is to wait for the District Court ruling on affirmation. It is important to remember, that the bankruptcy does not impact the way we run our business or the operating results we are achieving. We have grown revenues and earnings, data acquisitions, significant capital investment, and built substantial values for our shareholders, all while in bankruptcy.

With that, let's open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Laurence Alexander, Jefferies

Rob Walker - *Jefferies & Co. - Analyst*

Good afternoon. This is Rob Walker here for Laurence. I guess the first question on your guidance for 2011. I guess why not raise the low end of your EBITDA guidance? Is there anything that makes you -- you obviously talked a little bit more about being a little bit more nervous with the environment, but is it fair to say that you would expect it very unlikely to hit the low end of that number?

Hudson La Force - *W R Grace and Co - SVP and CFO*

Rob, this is Hudson. We did not raise our earnings guidance as you said. There is nothing specific that we are concerned about, but, as we said, as we head into the end of the year, there are -- there is a risk of events in the macro-environment. There is a chance that customers could make decisions around order placement around the end of the year, and we decided the best decisions was to leave the range where it was.

Rob Walker - *Jefferies & Co. - Analyst*

Okay, thanks. And then on the catalyst business, and FCC, specifically -- how are volumes trending so far in Q4? And then as you think about rare earths having declined -- remind us exactly how you would be able to manage margin dollars in the event they continue to decline, and you would have that higher cost inventory left, as you look into 2012?

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

Yes, Rob, this is Fred. When you think about it on the rare earth -- the rare earth is a surcharge. It does pass through.

We have been able to increase the margin on the base catalyst over the years through our new products. Yes, there is a lag from an accounting standpoint from the inventory side of it, and if you look at the decrease, so far we have been able to manage that side.

On a volume piece of it, we feel good about the volumes and our position in FCC. As Hudson mentioned earlier we have lost a little bit of share but, again, it bounces around within the range that we are very comfortable with. I don't -- I see relatively strong refining activity in the fourth quarter, as well as in 2012. So, we'll see.

Rob Walker - *Jefferies & Co. - Analyst*

Okay thanks and then just a last question. I may have missed this -- in terms of incremental margins and GCP going forward, I think the volume numbers you guys put up in North America were probably above most people's expectations, but it did not seem like you gave much in the way of margin there. Anything going on, or was that just really Europe clouding what is probably still a good operating leverage story as volumes come back?

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

No, you're absolutely right. It is Europe. We have been able to increase the volume, increase the margins, in North America with that volume we've been experiencing. It has been at a good high-margin type job, infrastructure, and commercial. What's weighing down the results is Europe. It's Europe. We are up 4 points of gross margin in the US alone.

Rob Walker - *Jefferies & Co. - Analyst*

Is that 4 points year-on-year?

Hudson La Force - *W R Grace and Co - SVP and CFO*

That 4 points year-on-year, Rob, but at the operating margin line. So, we are seeing -- we have said that we would see good volume leverage, good operating leverage, and we are seeing that in that business, but, as you surmised, it is offset by Europe in the total P&L.

Rob Walker - *Jefferies & Co. - Analyst*

Great. Thank you very much.

Operator

Michael Sison, KeyBanc

Michael Sison - *Keybanc Capital Markets - Analyst*

Good afternoon. Nice quarter. In terms of FCC -- the adoption rate -- you're at 70% now. Does that get even higher as we head into the fourth, Fred?

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

Yes, there are more trials out there -- customers that are trying the new catalyst. If those trials are successful it will continue to increase.

Michael Sison - *Keybanc Capital Markets - Analyst*

Okay, and then when you look at the guidance for the fourth quarter, I understand the sequence of the decline that you tend to see in GCP, but given Davison may have a higher adoption rate -- you have all of that pricing -- base pricing flowing through, is there any reason why Davison would be down sequentially?

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

You know, I think you are going the same place where Rob was. Everybody would like us to raise the bottom end of our guidance, given the fourth quarter. Again, we just feel it is prudent -- looking at all of the different macroeconomics factors -- as you know from an FX translation standpoint, one penny moves it about $0.5 million.

When we started this quarter, I think the Euro was at $1.33 -- $1.34. How to predict that going into the end of the year, there is still a lot of factors out there. There really are.

Michael Sison - *Keybanc Capital Markets - Analyst*

Got it, and then it looked like ART had a pretty good quarter. Can you give us an update on how that business is doing in the third quarter and heading into 2012?

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

The overall hydro processing volume is good. It remains good. I think if you look at it -- we still are dominated by some large orders in the resids -- both ebullating bed and the fixed bed side of it, but some strong distillate demand going into the fourth quarter and into next year. So, we should he able to benefit from that.

Michael Sison - *Keybanc Capital Markets - Analyst*

Great. Thanks.

Operator

Jim Barrett, CL King

Jim Barrett - *CL King & Associates - Analyst*

Fred, I had one question for you, and then Hudson, I had for one for you as well. Fred, you touched upon it, but I am trying to still understand how Grace Construction Products did as well as it did in North America. Can you tell us what the sales growth was in the US, specifically?

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

Yes, -- let me

Jim Barrett - *CL King & Associates - Analyst*

I mean approximately.

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

Yes, let me look at my cheat sheet here.

Hudson La Force - *W R Grace and Co - SVP and CFO*

Jim, Canada is not going to be that big for us. I don't think US and North America would be that it's different.

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

We were up 22%, Jim -- which is actually higher than the general economic conditions out there. But we really benefited from some nice infrastructure commercial builds where our products were specked in.

We are seeing -- we are seeing a little bit of tail wind on the commercial and infrastructure side starting to come our way. And we are in the -- we generally benefit from the earlier cycle. In waterproofing, the first thing you do is waterproof the foundation of the building. So, we've benefited nicely from that.

Jim Barrett - *CL King & Associates - Analyst*

So, come it sounds like it was a combination of price and some volume growth?

Hudson La Force - *W R Grace and Co - SVP and CFO*

Yes. That's right.

Jim Barrett - *CL King & Associates - Analyst*

Are you also taking share, or do you think that you're simply riding a stronger market?

Hudson La Force - *W R Grace and Co - SVP and CFO*

Yes, I don't think we are taking any share. I think the shares are relatively the same. What are we benefiting from is unique project growth where our products are specked, in and we have done well. And that is both in the building materials, as well as the specialty -- chemical side.

Jim Barrett - *CL King & Associates - Analyst*

Okay, good. And, Hudson, giving the cash flow generation year-to-date, given the fact that you are likely to emerge sometime in 2012, would you anticipate your need for debt financing to be lower than your prior most recent projections?

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

Yes, Jim, I think when we updated this in June, we said $700 million or $750 million -- I'm sorry I can't recall. But just in Q3, I think we generated between $50 million and $100 million of incremental cash, so everything else equal, we would expect the exit financing requirement to drop by that amount.

We don't expect to come out in Q4 at this point, and so we would have another quarter of cash flow that we would expect to further reduce that amount. Are we quite at $600 million? Maybe not quite yet, but we are heading to that point, Jim. The other thing I will add, just to be complete, because of the delay in our exit, we may make another pension contribution.

You may recall from the beginning of this year, we did that. It is a tax planning opportunity for us, and we may decide to do something similar in Q1 next year. We haven't decided for sure, but we may.

Jim Barrett - *CL King & Associates - Analyst*

Okay, thank you both very much.

Operator

Patrick Duff, Gilder

Patrick Duff - *Gilder, Gagnon, Howe & Company - Analyst*

Just wanted to follow up, maybe on the construction business. You mentioned some repositioning in Europe, and you also talked about taking out some low performing assets overall in that segment. And, you mentioned right now that the weakness in Europe is probably impacting that -- the overall GCP business by about 300 basis points.

Should we infer that with the restructuring charge in the fourth quarter and the sale of the assets that that 300 basis point drag will largely be ameliorated going into next year?

Hudson La Force - *W R Grace and Co - SVP and CFO*

We won't -- Pat, this is Hudson -- we won't be able to address 100% of that with these actions, but we will make a good step towards reducing it.

Patrick Duff - *Gilder, Gagnon, Howe & Company - Analyst*

Okay, and then also, if I could just on the -- going back on the refining business, I think you kind of addressed this, but I just want to make sure and kind of understanding correctly. I think there is a little bit of concern when we look at this current quarter and see a little bit of volume slippage, and, granted, very modest and not really measurable in the whole big scheme of things.

But still a little bit of volume slippage and you are citing a little bit of that might've been because your discipline on price, which I think is the right way to run the business. But as we look into 2012, it would seem that you might not have as strong a lever on the pricing side.

There could be some rare earth surcharge givebacks, and so that we are looking more towards volume growth to try and drive that business. So, I guess where I'm going with this is, if pricing is maybe not on the table, and currency could be maybe a neutral, what is your kind of confidence generally speaking, without getting into specifics, that you would see some volume growth in the Davison business next year?

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

Pat, this is Fred. Let me make sure, when you think of the refining on the FCC piece, our volume in the third quarter was between 1% and 2%. If you look for the year, our volume will be up around 6%, FCC volume for the year or so. We were ahead in the first half and it moves around.

I feel very good about the positioning we have coming out of the fourth quarter, going into 2012 -- both with the new products that we have, so that will ameliorate any kind of rare earth whippage that would happen, and also the global positioning of those products. So, again, that is on the FCC face.

Don't read more into that than it is. If you think of the packaging side -- yes, we dropped it 12%, packaging volume. But on a revenue basis for packaging in the third quarter, our revenue was up 5%. So, we want to make sure that these products continue to get the value they deserve, and if they are not getting -- if we are not going to get paid for those -- we are have to reformulate those products to get that higher margin or we can flex that capacity.

So, again, we are pretty critical on ourselves and we -- what we want to be that way, and very realistic, but look at it. It was 12% volume with revenue still up, so, I'm not -- I'm not as concerned on that side.

Patrick Duff - *Gilder, Gagnon, Howe & Company - Analyst*

I appreciate all of the responses and the hard work. Thank you.

(Operator Instructions)

Operator

Patrick Murray, Credit Suisse

Patrick Murray - *Credit Suisse - Analyst*

Congratulations on the great quarter here. Just had -- was hoping you could give us some color maybe on conversations with customers, as far as we saw some weakness in Europe and maybe cautiousness elsewhere.

Is there any chance that some of this might be related to kind of a inventory destocking that they are working through, or have you not had that come up with them?

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

Pat, this is Fred. I don't think it's as much of an inventory destock. I think there is -- souther Europe --we were just in Europe a couple of weeks ago. There is a lot of cautiousness given all of the geopolitical issues, and I think that is definitely affecting it.

From in Asia -- in Asia -- our guys feel pretty good. I mean will China grow at 10%, maybe not, but will it grow at 8%, yes. That is the sense we are having. So, I think there is a general sense of cautiousness out there -- Europe being one of the main drivers.

But then you look around the globe, I mean, our position in Latin America, especially on the construction side, is a bang up position. We grew over 40%, and there is no need -- there is no reason that that should not continue. So, I think it is very -- it is very independent, and you have to make sure you understand each of the regions uniquely.

Patrick Murray - *Credit Suisse - Analyst*

Okay, thanks Fred. And then I just had one follow-up, too. And this was kind of addressed earlier, but, with the cash build you guys have seen, and this might be a little premature -- maybe for the Q4 call. But, have you thought about any other potential uses for the cash that you have been generating over the last couple of quarters and likely again in the fourth quarter?

Fred Festa - *W R Grace and Co - Chairman, President & CEO*

Well, as you probably know, we were -- because we had to publicly disclose it through the bankruptcy -- we were in a large auction process for an acquisition that would have been a very nice acquisition. As far as we know, that property has not been sold. It has been taken off the market.

So, we will continue to look for those opportunities that are out there, and we will continue to deploy that cash that way, and being in Chapter 11 and having gone through this publicly, and getting the creditors on board was not an issue. So, I'm confident we can deploy that cash that way as well.

Operator

Thank you. Ladies and gentlemen, this concludes the question-and-answer portion of today's call. I would now like to turn the call back over to Mr. Mark Sutherland for any closing remarks.

Marc Sutherland - *W R Grace and Co - VP IR*

Thank you very much Lacey, and thank you to all of our listeners. This ends the Q&A portion of the call, and, on behalf of the whole team, we appreciate your questions and your interest in Grace. Please feel free to call me directly on my line at Grace 410-531-4950 if you have any follow-up questions. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day, everyone.