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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES AND EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000

Commission file number 1-13953

W. R. GRACE & CO.

Incorporated under the Laws of the
State of Delaware

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

7500 Grace Drive, Columbia, Maryland 21044-4098
410/531-4000

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

<u>Title of each class</u>	}	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value	}	New York Stock Exchange, Inc.
Preferred Stock Purchase Rights	}	
7-3/4% Notes Due 2002	}	New York Stock Exchange, Inc.
(issued by W. R. Grace & Co.-Conn.,	}	
a wholly owned subsidiary) and	}	
related Guarantees	}	

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

None

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 and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of W. R. Grace & Co. voting stock held by nonaffiliates was approximately \$135,346,000 at March 12, 2001.

At March 12, 2001, 65,456,505 shares of W. R. Grace & Co. Common Stock, \$.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

Item 1. Business

CHAPTER 11 FILING

On April 2, 2001, W. R. Grace & Co. (“Grace” or the “Company”) and 61 of its United States subsidiaries and affiliates filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code (“Chapter 11”) in United States Bankruptcy Court for the District of Delaware. The cases were consolidated for the purpose of joint administration and were assigned case numbers 01-1139 through 01-1200. None of the Company’s foreign subsidiaries were included in the filing.

The filing was made in response to a sharply increasing number of asbestos-related bodily injury claims. Under Chapter 11, Grace expects to continue to operate its businesses as debtor-in-possession under court protection from its creditors and claimants, while using the Chapter 11 process to develop and implement a plan for addressing the asbestos-related claims against it.

Prior to 2000, Grace was able to settle asbestos-related claims through direct negotiations. The filings of claims had stabilized, and annual cash flows were manageable and fairly predictable. In 2000, the litigation environment changed with an unexpected 81% increase in bodily injury claims, which Grace believes is due to a surge in unmeritorious claims. Trends in case filings and settlement demands, which show no signs of returning to historic levels, and which have been exacerbated by the Chapter 11 filings of several co-defendants in asbestos bodily injury litigation, increased the risk that Grace would not be able to resolve its pending and future asbestos claims under the current state court system.

Grace has concluded that a federal court-supervised Chapter 11 filing provides the best forum available to achieve predictability and fairness in the claims settlement process. By filing under Chapter 11, Grace expects to be able to both obtain a comprehensive resolution of the claims against it and preserve the inherent value of its businesses.

Grace’s asbestos-related litigation and Chapter 11 filing is further discussed in Item 3 of this Report, and in Notes 1 and 3 to Grace’s Consolidated Financial Statements for the three years in the period ended December 31, 2000 (“Consolidated Financial Statements”) and “Management’s Discussion and Analysis of Results of Operations and Financial Condition” in the Financial Supplement to this Report.

BUSINESS OVERVIEW

W. R. Grace & Co., through its subsidiaries, is one of the world’s leading specialty chemicals companies. Grace entered the specialty chemicals industry in 1954, when it acquired both the Dewey and Almy Chemical Company and the Davison Chemical Company. Grace primarily operates in the following two business segments:

- *Davison Chemicals* manufactures catalysts and silica-based products. Davison Chemicals' catalysts include (1) fluid cracking catalysts and additives used by petroleum refineries to convert distilled crude oil into transportation fuels and other petroleum-based products; (2) hydroprocessing catalysts that upgrade heavy oils and remove certain impurities; and (3) polyolefin catalysts and catalyst supports that are essential components in the manufacture of high density and linear low density polyethylene resins used in products such as plastic film, high-performance plastic pipe and plastic household containers. Davison Chemicals' silica gel, colloidal silica, and zeolite adsorbents are used in a wide variety of industrial and consumer applications, such as ink jet paper, separations/chromatography, plastics, toothpastes, paints, precision investment casting, and insulated glass, as well as in the refining of edible oils and for purification in petrochemical processes. Davison Chemicals accounted for approximately 50% of Grace's 2000 sales.

- *Performance Chemicals* produces (1) specialty construction chemicals, including performance-enhancing concrete admixtures, cement additives and masonry products; (2) specialty building materials, including fireproofing and waterproofing materials and systems; and (3) container and closure sealants that protect food and beverages from bacteria and other contaminants, extend shelf life and preserve flavor, and coatings used in the manufacture of cans and closures. Performance Chemicals accounted for approximately 50% of Grace's 2000 sales.

Grace also has other business interests as described in "Other Businesses and Investments" below. In 1997, Grace classified its former flexible packaging business ("Packaging Business") as a discontinued operation. The Packaging Business was separated from Grace on March 31, 1998 in a transaction described in Notes 1 and 4 to the Consolidated Financial Statements.

As used in this Report, the term "Grace" or the "Company" refers to W. R. Grace & Co., a Delaware corporation and, in certain cases, one or more of its subsidiaries and/or their respective predecessors. Grace's principal executive offices are located at 7500 Grace Drive, Columbia, Maryland 21044, telephone 410/531-4000. As of year-end 2000, Grace had approximately 6,300 full-time employees worldwide in its continuing operations.

Information concerning net sales, pretax operating income and total assets of Grace's continuing operations by business segment and information by geographic area for 2000, 1999 and 1998 is contained in Note 20 to the Consolidated Financial Statements in the Financial Supplement to this Report.

Strategic Objectives and Actions. Grace's strategy has been, and will continue to be, to seek to enhance enterprise value by profitably growing its specialty chemicals businesses on a global basis and achieving high levels of financial performance. To achieve these objectives, Grace plans to (i) invest in research and development activities, with the goals of introducing new high-performance products and services and enhancing manufacturing processes; (ii) implement process and productivity improvements and cost-management initiatives (including the use of Six Sigma processes), including rigorous controls on working capital and capital spending; and (iii) pursue selected acquisitions and alliances. These plans are designed to make Grace a high-performance company focused on the strengths of its global specialty chemicals businesses.

Projections and Other Forward-Looking Information. This Report contains, and other communications by Grace may contain, projections or other “forward-looking” information. Forward-looking information includes all statements regarding Grace’s expected financial position, results of operations, cash flows, dividends, financing plans, business strategy, budgets, capital and other expenditures, competitive positions, growth opportunities for existing products, benefits from new technology, plans and objectives of management, and markets for stock. Like any other business, Grace is subject to risks and other uncertainties that could cause its actual results to differ materially from any projections or that could cause other forward-looking information to prove incorrect.

Most significantly, Grace is a defendant in thousands of lawsuits related to previously sold asbestos-containing products. During 2000, several adverse developments occurred that resulted in a \$294 million increase in Grace’s estimated cost of disposing of its pending and expected future asbestos-related claims. As a result of these developments, Grace, following a thorough review of its strategic alternatives, filed for protection under Chapter 11 on April 2, 2001. See Item 3 of this Report, and Notes 1 and 3 to Grace’s Consolidated Financial Statements and “Management’s Discussion and Analysis of Results of Operations and Financial Condition” in the Financial Supplement to this Report, for a more detailed discussion of risks related to Grace’s asbestos liabilities.

In addition to general economic, business and market conditions, Grace is also subject to other risks and uncertainties, including the following:

- developments in and the outcome of the Chapter 11 proceedings;
- the loss of flexibility in operating its businesses and the higher costs of doing business under Chapter 11;
- greater than expected liabilities with respect to environmental remediation;
- an inability to obtain committed credit facilities or alternative sources of liquidity in amounts sufficient to fund operations, growth initiatives and non-core obligations;
- a decline in worldwide oil consumption or the development of new methods of oil refining;
- increases in prices of raw materials and energy costs;
- an inability to gain customer acceptance, or slower than anticipated acceptance, of new products or product enhancements (particularly in the construction industry);
- changes in environmental regulations or societal pressures that make Grace’s business operations more costly or that change the types of products used, especially petroleum-based products;
- slower than anticipated economic advances in less developed countries;
- foreign currency devaluations in developing countries or other adverse changes in currency exchange rates;
- technological breakthroughs rendering a product, a class of products or a line of business obsolete;
- an inability to adapt to continuing technological improvements by competitors or customers; and
- the acquisition (through theft or other means) and use by others of Grace’s proprietary formulas and other know-how (particularly in the container products business).

See Notes 1, 3, 4, 5, 10, 13 and 15 to the Consolidated Financial Statements and “Management’s Discussion and Analysis of Results of Operations and Financial Condition” in the Financial Supplement for additional risks and uncertainties.

PRODUCTS AND MARKETS

Specialty Chemicals Industry Overview. Specialty chemicals, such as those produced by Grace, are high-value-added products used as intermediates, components or additives in a wide variety of products and processes. They are produced in relatively small volumes and must satisfy well-defined performance requirements and specifications. Specialty chemicals are often critical components of the end products and processes in which they are used; consequently, they are tailored to meet customer needs, which generally results in a close relationship between the specialty chemicals producer and the customer. Rapid response to changing customer needs and reliability of product and supply are important competitive factors in specialty chemicals businesses.

Grace’s management believes that, in specialty chemicals businesses, technological leadership (resulting from continuous innovation through research and development), combined with product differentiation and superior customer service, lead to high operating margins. Grace believes that these factors reward the research and development and customer service costs associated with its strategy.

Davison Chemicals (Catalysts and Silica-Based Products). Davison, founded in 1832, is composed of two primary product groups: (i) catalysts and (ii) silica products and adsorbents. These product groups principally apply silica, alumina and zeolite technology in the design and manufacture of products to meet the varying specifications of such diverse customers as major oil refiners, plastics and chemical manufacturers, and consumer products and pharmaceutical/nutraceutical companies. Davison believes that its technological expertise provides a competitive edge, allowing it to quickly design products and materials that meet changing customer specifications and to develop new products and materials that expand its existing technology.

Davison produces refinery catalysts, including (i) fluid cracking catalysts (“FCC”) used by petroleum refiners to convert distilled crude oil into more valuable transportation fuels (such as gasoline and jet and diesel fuels) and other petroleum-based products, and (ii) hydroprocessing catalysts that upgrade heavy oils and remove certain impurities (such as nitrogen, sulfur and heavy metals). Davison also develops and manufactures FCC additives used for octane enhancement and to reduce emissions of sulfur oxides, nitrogen oxides and carbon monoxide. Oil refining is a highly specialized discipline, demanding that products be tailored to meet local variations in crude oil and the refinery’s products output mix. Davison works regularly with most of the approximately 360 refineries in the world, helping to find the most appropriate catalyst formulations for refiners’ changing needs.

Davison’s catalyst business has benefited from the increased use of FCC units to produce selected petrochemical feedstocks. It has also benefited from the passage of more stringent environmental regulations, which has increased demand for FCC additives that reduce emissions. Davison’s business is affected by the capacity utilization of refiners’ cracking units – as capacity utilization increases, the refiner uses a disproportionately greater amount of fluid cracking catalyst. Consolidation in the refining industry may affect Davison’s sales and margins as the

purchasing power of its customers may increase, and the gain or loss of a customer may have a greater impact on Davison's sales.

Davison has recently introduced new catalyst technologies for certain high-technology market segments such as sulfur reduction in gasoline. Davison also has expanded its hydroprocessing catalyst offerings through two recent transactions. In 2000, Davison acquired the distillate catalyst business of the Crosfield Group. In March 2001, Grace and Chevron Corporation entered into a joint venture to combine Chevron's fixed bed residuum catalyst business with Davison's ebullating bed residuum and distillate catalyst business.

Davison believes it is one of the world leaders in refinery catalysts and the largest supplier of fluid cracking catalysts in the world. Competition in the refinery catalyst business is based on technology, product performance, customer service and price.

Davison is also a major producer of polyolefin catalysts and catalyst supports, essential components in the manufacture of high density and linear low density polyethylene resins used in products such as plastic film, high-performance plastic pipe and plastic household containers. Davison catalysts and catalyst supports are used in manufacturing nearly half of all such resins produced worldwide. The polyolefin catalyst business is technology-intensive and focused on providing products formulated to meet customer specifications. Manufacturers generally compete on a worldwide basis, and competition has recently intensified due to evolving technologies, particularly the use of metallocene catalysts. Davison believes that metallocene catalysts represent a revolutionary development in the making of plastics, allowing manufacturers to design polymers with exact performance characteristics. Davison is continuing to work with leading technology licensors on the development and commercialization of metallocene catalysts.

Silica products and zeolite adsorbents produced by Davison are used in a wide variety of industrial and consumer applications. For example, silica gels are used in coatings as matting agents (*i.e.*, to reduce gloss), in plastics to improve handling, in toothpastes as whiteners, in foods to carry flavors and prevent caking, and in the purification of edible oils and beer stabilization. Colloidal silicas are used as binders in precision investment casting and refractory applications. Zeolite adsorbents are used between the two panes of insulating glass to adsorb moisture and are used in process applications to separate certain chemical components from mixtures. Competition is based on product performance, customer service and price.

Davison is using its expertise in silica gels technology to develop new products for existing markets, such as coatings. Davison also has recently introduced new products for the high-growth ink receptive paper segment, including improved gels for ink absorption for glossy media and new paper coating formulas. During 2000, Davison enhanced its silica products offerings by acquiring the colloidal silicas business of E.I. DuPont de Nemours. In addition to being used in some of the applications described above, colloidal silicas are used in precision investment casting and refractory applications. The silicas and adsorbents business has a large, fragmented customer base due to the diverse markets served by its products. To help cope with and better serve these customers, Davison recently introduced web-based initiatives, starting with online ordering of packaged desiccants and offering process design formulas online to assist customers in quickly and efficiently determining their needs. Europe accounts for almost half of silica and adsorbent sales, which have recently been subject to unfavorable currency exchange.

Davison's net sales were \$784 million in 2000, \$751 million in 1999 and \$761 million in 1998; 49% of Davison's 2000 net sales were generated in North America, 33% in Europe, and 11% in Asia Pacific and 7% in Latin America. Sales of catalysts accounted for 35% of total net sales of Grace in 2000 and 1999 and 36% in 1998. Sales of silica products and zeolite adsorbents accounted for 14% of Grace's total net sales in 2000, 1999 and 1998. At year-end 2000, Davison employed approximately 2,800 people worldwide in 12 facilities (eight in the U.S. and one each in Canada, Germany, Brazil and Malaysia). Davison's principal U.S. manufacturing facilities are located in Baltimore, Maryland and Lake Charles, Louisiana. Davison has a direct selling force and distributes its products directly to approximately 12,300 customers (290 for catalysts and more than 12,000 for silicas/adsorbents), the largest of which accounted for approximately 6% of Davison's 2000 sales.

Most raw materials used in the manufacture of Davison products are available from multiple sources; in some instances, Davison produces its own raw materials. Recently, due to worldwide supply shortages, Davison has experienced significantly higher natural gas and petroleum-based raw material price increases that have had a negative impact on its operating margins. Seasonality does not have a significant overall effect on Davison's business. However, sales of refining catalysts tend to be lower in the first and fourth quarters due to a shift in production by refineries from gasoline to home heating oil for the winter season.

Performance Chemicals (Specialty Construction Chemicals, Specialty Building Materials and Container Products). Performance Chemicals was formed in July 1999 by integrating Grace's construction products businesses with its Darex[®] container products businesses. Grace integrated these businesses, which share many facilities around the world and are headquartered in the Cambridge, Massachusetts area, in order to realize efficiencies in supply chain management, process improvement, commercialization of new products and marketing.

Performance Chemicals is a leading supplier of specialty construction chemicals and building materials to the nonresidential (commercial and infrastructure) construction industry, and to a lesser extent, the residential construction industry. Specialty construction chemicals (principally concrete admixtures, cement additives and masonry products) add strength, control corrosion and enhance the handling and application of concrete, improve the manufacturing efficiency and performance of cement, and improve the water resistance and other qualities of masonry wall systems. Performance Chemicals has introduced a number of new construction chemicals products and product enhancements in recent years. These include an admixture that reduces concrete shrinkage and helps prevent cracking; a product that enables contractors to obtain acceptable concrete set times in colder temperatures; an admixture that inhibits corrosion and prolongs the life of concrete structures; and an additive that improves cement processing efficiency and product quality. In 1999, Performance Chemicals introduced a new masonry admixture for improving the freeze/thaw durability of segmental retaining wall units and pavers, and new structural fiber reinforcements for concrete that provide a corrosion-free alternative to steel fibers and welded wire mesh.

Performance Chemicals' specialty building materials prevent water damage to structures (such as water- and ice-barrier products for residential use and waterproofing systems for commercial structures) and protect structural steel against collapse due to fire. In North America, the specialty building materials product line also manufactures and distributes vermiculite products used in insulation and other applications. Recent product developments include liquid-applied waterproofing products and new roof underlayments that provide

protection from ice and wind-driven rain; enhancements to fireproofing products that make Performance Chemicals' systems more competitive by improving applicator productivity; and fireproofing products for industrial, petrochemical and acoustical applications. In addition, through the acquisition of International Protective Coatings Corporation in 2000, Performance Chemicals added firestops to its product offerings. Firestops are caulk and sealant systems that retard the spread of heat, flame and smoke through walls and ceiling joints and openings in buildings for wiring and piping through which heat, flame or smoke can penetrate.

In addition to new product introductions and enhancements and acquisitions, Performance Chemicals looks for growth opportunities in developing economies, where increases in construction activity and sophistication of construction practices can increase demand for Performance Chemicals' construction chemicals and building materials products.

The construction chemicals and building materials produced by Performance Chemicals are marketed to an extremely broad range of customers, including cement manufacturers, ready-mix and precast concrete producers, local contractors, specialty subcontractors and applicators, masonry block manufacturers, building materials distributors and other industrial manufacturers, as well as construction specifiers, such as architects and structural engineers. For some of these customer groups (such as contractors), cost and ease of application are key factors in making purchasing decisions; for others (such as architects and structural engineers), product performance and design versatility are the critical factors. In view of this diversity, and because the construction chemicals and building materials businesses require intensive sales and customer service efforts, Performance Chemicals maintains a separate sales and technical support team for each of its product groups. These sales and support teams sell products under global contracts, under U.S. or regional contracts and on a job-by-job basis. Consequently, Performance Chemicals competes globally with several large construction materials suppliers and regionally and locally with numerous smaller competitors. In recent years, the cement and concrete industry has experienced some consolidation, particularly in markets outside the U.S. Competition is based largely on technical support and service, product performance, adaptability of the product and price.

The construction business is cyclical, in response to economic conditions and construction demand. The construction business is also seasonal due to weather conditions. Performance Chemicals seeks to increase profitability and minimize the impact of cyclical downturns in regional economies by introducing technically advanced higher-performance products, expanding geographically, and developing business opportunities in renovation construction markets. Although in recent years these strategies have been successful in minimizing the impact of cyclicity on Performance Chemicals' construction business, there can be no assurance that this strategy will continue to succeed, and such cyclicity could adversely affect its business and results of operations in the future.

The raw materials used by the construction chemicals and building materials product lines can be obtained from multiple sources, including commodity chemical producers, petroleum companies and paper manufacturers. In most instances, there are at least two alternative suppliers for each of the principal raw materials used by these businesses. Recently, due to worldwide shortages in the supply of oil, petroleum-based raw materials costs have significantly increased, negatively affecting operating margins.

The container products business consists primarily of three product lines: can sealants and closure sealants for rigid containers, and coatings for metal packaging. These products are used to assure the quality of packaging and to preserve container contents. Can sealants ensure a hermetic seal between the lid and the body of beverage, food, aerosol and other cans. Closure sealants are used to seal pry-off and twist-off metal crowns, as well as roll-on pilfer-proof and plastic closures for glass and plastic bottles and jars used in beverage and food applications. Coatings are used in the manufacture of cans and closures to protect the metal against corrosion, to protect the contents against the influences of metal, to ensure proper adhesion of sealing compounds to metal surfaces, and to provide base coats for inks and for decorative purposes. These products are principally sold to companies that manufacture containers.

Performance Chemicals is seeking to expand its container product offerings and improve sales growth through developing technologies, such as its oxygen-scavenging compounds (which absorb oxygen resulting in extended shelf life) and high barrier materials that limit gas transmission into plastic packaging. Performance Chemicals is also looking to improve container product sales through continued growth in developing regions. However, sales growth has been impacted and will likely be impacted in the future by the trend toward can systems requiring fewer seams, as well as the increasing use of plastic and glass containers.

Competition is based on providing high-quality customer service at customer sites, as well as on uniform product quality, reliability, the ability to offer environmentally-friendly products and price. In addition, because of the relative concentration of the canning and bottling market, maintaining relationships with leading container manufacturers, canners and bottlers, and assisting them as they install new production equipment and reengineer processes, are key elements for success. In 2000, approximately 35% of container product sales were derived from its top ten customers.

Although raw materials used in the container products business, including resins, rubber and latices, are generally available from multiple sources, certain raw materials are purchased from single source suppliers. Some raw materials are also subject to pricing pressures from time to time, particularly for certain specialty resins. Also, currency devaluations in developing countries may adversely affect raw material costs and the prices the business may charge for its products. Performance Chemicals has been successful in establishing a supply chain organization focused on managing raw material costs and flow to alleviate some of these pressures. However, due to recent worldwide shortages in the supply of oil, petroleum-based raw materials costs have significantly increased, negatively affecting operating margins. The impact of seasonality is not significant to the container products business.

Performance Chemicals' 2000 net sales totaled \$813 million (58% in North America, 19% in Europe, 16% in Asia Pacific and 7% in Latin America), versus \$800 million in 1999 and \$785 million in 1998. Sales of specialty construction chemicals accounted for 22% of Grace's total net sales in 2000, 21% in 1999 and 20% in 1998; sales of specialty building materials accounted for 14% of Grace's total net sales in 2000, 1999 and 1998; and sales of container products accounted for 15% of Grace's total net sales in 2000, and 16% in 1999 and 1998. At year-end 2000, Performance Chemicals employed approximately 3,300 people at 65 production facilities (25 in North America, 19 in Asia Pacific, 14 in Europe and 7 in Latin America) and approximately 80 sales offices worldwide. Performance Chemicals' capital expenditures tend to be relatively lower, and sales and marketing expenditures tend to be relatively higher, than those of Davison Chemicals.

Other Businesses and Investments. In January 1999, Grace sold its Circe biomedical subsidiary to an investment group. Circe was engaged in the development of bioartificial organs. Grace also owns miscellaneous businesses and investments that are not material.

DISCONTINUED OPERATIONS

Grace's former Packaging Business was a leading global supplier of high-performance materials and systems used in packaging food and industrial and consumer products. The Packaging Business operated in the U.S. and in 45 other countries throughout the world. Its principal products were various food packaging products and shrink and nonshrink films for industrial and consumer products. On March 31, 1998, the predecessor and former parent company of Grace ("Old Grace") combined its Packaging Business with Sealed Air Corporation ("Sealed Air"). Old Grace effected the transaction with Sealed Air by transferring its specialty chemicals and other non-packaging businesses to Grace, spinning off Grace to Old Grace shareholders and merging a subsidiary of Old Grace with Sealed Air. For further information, see Notes 1 and 4 to the Consolidated Financial Statements in the Financial Supplement.

In July 1999, Grace sold substantially all of its interest in Cross Country Staffing, a provider of temporary nurses and other health care related services, to an affiliate of Charterhouse Group International, Inc., a private equity firm, and the management of Cross Country Staffing. The transaction was preceded by Grace's purchase of a minority interest in Cross Country Staffing held by Nestor Healthcare Group plc. Grace received pretax net cash proceeds of approximately \$103 million as a result of these two transactions.

RESEARCH ACTIVITIES

Grace's research and development programs are directed toward the development of new products and processes and the improvement of, and development of new uses for, existing products and processes. Research is conducted in all regions, with North America and Europe accounting for the most activity. Grace's research and development strategy is to develop technology platforms on which new products will be based, while focusing development efforts in each business unit on the improvement of existing products and/or the adaptation of existing products to customer needs.

Research and development expenses relating to continuing operations amounted to \$46 million in 2000, \$42 million in 1999 and \$47 million in 1998 (including expenses incurred in funding external research projects). The amount of research and development expenses relating to government- and customer-sponsored projects (rather than projects sponsored by Grace) was not material.

PATENTS AND OTHER INTELLECTUAL PROPERTY MATTERS

Grace's products, processes and manufacturing equipment are protected by numerous patents and patent applications, and include legally protectable know-how and other proprietary information. As competition in the markets in which Grace does business is often based on technological superiority and innovation, with new products being introduced frequently, the ability to achieve technological innovations and to obtain patent or other intellectual property protection is important. There can be no assurance that Grace's patents, patent applications or

other intellectual property will provide sufficient proprietary protection. In addition, other companies may independently develop similar systems or processes that circumvent patents issued to Grace, or may acquire patent rights within the fields of Grace’s businesses.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

Manufacturers of specialty chemicals products, including Grace, are subject to stringent regulations under numerous U.S. federal, state and local and foreign environmental, health and safety laws and regulations relating to the generation, storage, handling, discharge and disposition of hazardous wastes and other materials. Grace has expended substantial funds to comply with such laws and regulations and expects to continue to do so in the future. The following table sets forth Grace’s expenditures in the past three years, and its estimated expenditures in 2001 and 2002, for (i) the operation and maintenance of environmental facilities and the disposal of wastes with respect to continuing operations; (ii) capital expenditures for environmental control facilities relating to continuing operations; and (iii) site remediation:

	(i) Operation of Facilities and <u>Waste Disposal</u>	(ii) Capital <u>Expenditures</u> (in \$ millions)	(iii) Site <u>Remediation</u>
1998	38	6	37
1999	31	6	25
2000	26	4	47
2001 (est.)	27	7	37
2002 (est.)	29	6	23

Additional material environmental costs may arise as a result of future legislation or other developments. Grace’s earnings, competitive position and other capital expenditures have not been, and are not expected to be, materially adversely affected by compliance with environmental requirements. See Note 15 to the Consolidated Financial Statements and “Management’s Discussion and Analysis of Results of Operations and Financial Condition” in the Financial Supplement to this Report.

With the goal of continuously improving Grace’s environmental, health and safety (“EHS”) performance, Grace established its Commitment to Care® initiative (based on the Responsible Care® program of the Chemical Manufacturers Association) in 1994 as the program under which all Grace EHS activities are to be implemented. To the extent applicable, Commitment to Care extends the basic elements of Responsible Care to all Grace locations worldwide, embracing specific performance objectives in the key areas of product stewardship, employee health and safety, community awareness and emergency response, distribution, process safety and pollution prevention.

See Item 3 below for information concerning environmental proceedings to which Grace is a party.

Item 2. Properties

Grace operates manufacturing and other types of plants and facilities (including office and other service facilities) throughout the world. Some of these plants and facilities are shared by more than one Grace business unit, and since the disposition of the Packaging Business, some plants and facilities are shared with Sealed Air Corporation. Grace considers its major operating properties to be in good operating condition and suitable for their current use. Although Grace believes that, after taking planned expansion into account, the productive capacity of its plants and other facilities is generally adequate for current operations and foreseeable growth, it conducts ongoing, long-range forecasting of its capital requirements to assure that additional capacity will be available when and as needed. Accordingly, Grace does not anticipate that its operations or income will be materially affected by the absence of available capacity. See Note 20 to the Consolidated Financial Statements and “Management’s Discussion and Analysis of Results of Operations and Financial Condition” in the Financial Supplement for information regarding Grace’s capital expenditures.

Additional information regarding Grace’s properties is set forth in Item 1 above.

Item 3. Legal Proceedings

Asbestos Litigation. Grace is a defendant in property damage and bodily injury lawsuits relating to previously sold asbestos-containing products and expects that it will receive additional asbestos-related claims in the future. Grace was a defendant in 61,395 asbestos-related lawsuits at December 31, 2000 (15 involving claims for property damages, including 8 relating to Grace’s former attic insulation product, and the remainder involving 124,907 claims for bodily injury), as compared to 50,342 lawsuits at year-end 1999 (11 involving claims for property damage, none of which relates to attic insulation, and the remainder involving 105,670 claims for bodily injury). In most of these lawsuits, Grace is one of many defendants.

The plaintiffs in property damage lawsuits generally seek to have the defendants absorb the cost of removing, containing or repairing the asbestos-containing materials in the affected buildings. Cumulatively through December 31, 2000, 140 asbestos property damage cases were dismissed without payment of any damages or settlement amounts; judgments were entered in favor of Grace in nine cases (excluding cases settled following appeals of judgments in favor of Grace); judgments were entered in favor of the plaintiffs in seven cases for a total of \$60.3 million (none of which is on appeal); and 207 property damage cases were settled for a total of \$696.8 million.

In February 2000 a purported class action lawsuit was filed in the U.S. District Court for the Eastern District of Massachusetts against the Company (*Lindholm v. W. R. Grace & Co.*) on behalf of all owners of homes containing Zonolite® attic fill insulation, a product previously sold by Grace that may contain trace amounts of asbestos. The action seeks damages and equitable relief, including the removal, replacement and/or disposal of all such insulation. Since *Lindholm* was filed, eight additional purported class action lawsuits have been filed against Grace in various state and federal courts asserting similar claims and seeking similar damages to those in *Lindholm*. One of the purported federal class actions has been consolidated with

Lindholm, and all the purported federal class actions have been transferred to the U.S. District Court for the Eastern District of Massachusetts. Purported class actions in California, Minnesota, Illinois and Washington were pending in state courts at the time of Grace's Chapter 11 filing. While Grace has not completed its investigation of the claims described in these lawsuits, Grace believes that this product was and continues to be safe for its intended purpose and poses little or no threat to human health. At this time Grace is not able to assess the extent of any possible liability related to this matter.

Cumulatively through December 31, 2000, approximately 16,200 bodily injury lawsuits involving approximately 35,500 claims were dismissed without payment of any damages or settlement amounts (primarily on the basis that Grace products were not involved), and approximately 53,400 lawsuits involving approximately 151,800 claims were disposed of for a total of \$561.8 million.

Based on Grace's experience and trends in asbestos bodily injury litigation, Grace has endeavored to reasonably forecast the number and ultimate cost of all present and future bodily injury claims expected to be asserted, based on measures governed by generally accepted accounting principles relating to probable and estimable liabilities. Grace has accrued \$1,105.9 million at December 31, 2000 as its estimate of liability for all asbestos-related property damage and bodily injury cases and claims then pending (except for the cases and claims related to Grace's attic fill litigation as described above), as well as all bodily injury claims expected to be filed in the future. (However, due to the Chapter 11 filing and the uncertainties of asbestos-related litigation, actual amounts could differ materially from the recorded liability.)

Grace previously purchased insurance policies with respect to its asbestos-related lawsuits and claims. Grace has settled with and has been paid by all of its primary insurance carriers with respect to both property damage and bodily injury cases and claims. Grace has also settled with its excess insurance carriers that wrote policies available for property damage cases; those settlements involve amounts paid and to be paid to Grace. In addition, Grace has settled with excess insurance carriers that wrote policies available for bodily injury claims in layers of insurance that Grace believes may be reached based on its current estimates. Insurance coverage for asbestos-related liabilities has not been commercially available since 1985.

Pursuant to settlements with primary-level and excess-level insurance carriers with respect to asbestos-related claims, Grace received payments totaling \$821.4 million prior to 1998, as well as payments totaling \$74.0 million in 1998, \$73.1 million in 1999, and \$85.6 million in 2000. Under certain settlements, Grace expects to receive additional amounts from insurance carriers in the future and has recorded receivables to reflect the amounts expected to be recovered as asbestos-related claims are paid. At December 31, 2000, Grace had recorded a receivable of \$369.3 million, as well as notes receivable of \$2.7 million from insurance carriers, reflecting the estimated recovery from insurance carriers with respect to pending and projected asbestos cases and claims.

During 2000, the number of bodily injury claims made against Grace increased significantly compared to 1999 and prior year claim levels, with a total of 48,786 bodily injury claims being received in 2000, versus 26,941 claims in 1999. Also, costs to resolve asbestos litigation were higher than expected for bodily injury and certain property damage claims. In addition, five significant codefendant companies in bodily injury litigation have petitioned for reorganization under Chapter 11 of the U.S. Bankruptcy Code. These developments and events

have caused an environment that increases the risk of more claims being filed against Grace than previously projected, with higher settlement demands and trial risks. These developments and events also raised substantial doubt whether Grace would be able to manage its asbestos liabilities over the long term under the existing state court system. As a result, following a thorough review of the strategic and operating issues associated with continuing to defend asbestos litigation through the court system versus voluntarily seeking a resolution of such litigation through reorganization under Chapter 11 of the U.S. Bankruptcy Code, Grace filed for protection under Chapter 11 on April 2, 2001. As a result of the Chapter 11 filing, all asbestos-related litigation against Grace has been stayed.

See Item 1 of this Report and Notes 1 and 3 to the Consolidated Financial Statements and “Management’s Discussion and Analysis of Results of Operations and Financial Condition” in the Financial Supplement for additional information.

Environmental Proceedings. The following is a description of the material environmental proceedings in which Grace is involved:

Grace (together with certain other companies) has been designated a “potentially responsible party” (“PRP”) by the U.S. Environmental Protection Agency (“EPA”) with respect to absorbing the costs of investigating and remediating pollution at various sites. At year-end 2000, proceedings were pending with respect to approximately 30 sites as to which Grace has been designated a PRP. U.S. federal law provides that all PRPs may be held jointly and severally liable for the costs of investigating and remediating a site. Grace is also conducting investigatory and remediation activities at sites under the jurisdiction of state and/or local authorities.

The EPA is conducting an investigation of the air, water and soil quality in and around Libby, Montana. This investigation was triggered by newspaper reports of excessive levels of asbestos-related disease related to Grace’s former vermiculite mining activities in the area. The EPA, which commenced such investigation in 1999, has recently questioned the reliability of its analytical methods, and announced a program of additional testing in the yards and homes of Libby area residents. These investigations are not expected to result in material liability to Grace.

In February 2000, a purported class action lawsuit was filed in U.S. District Court for Montana, Missoula Division (*Tennison, et al. v. W. R. Grace & Co., et al.*) against Grace on behalf of all owners of real property situated within 12 miles of Libby, Montana that are improved private properties. The action alleges that the class members have suffered harm in the form of environmental contamination and loss of property rights resulting from Grace’s former vermiculite mining and processing operations. The complaint seeks remediation, property damages and punitive damages. Grace has no reason to believe that its former activities caused damage to the environment or property.

In October 2000, a purported class action lawsuit was filed in U.S. District Court for Minnesota, 4th Division (*Chase v. W. R. Grace & Co.-Conn.*) alleging loss of property values of residents in the vicinity of a former vermiculite expanding plant in Minneapolis. Grace is presently cooperating with regulatory authorities and the present owners to investigate this former plant site. The EPA has commenced a program to remove suspected vermiculite

processing by-products from driveways at about 45 homes in the area. These activities are not expected to result in material liability to Grace.

The EPA is investigating approximately 50 vermiculite expanding plants operated by Grace and may be investigating approximately 285 other plants operated by third parties that handled vermiculite concentrate supplied by Grace. Active investigative or remediation activities are ongoing at five locations. Grace does not have sufficient information at this time to determine the extent of any possible liability related to this investigation.

Grace is a party to additional proceedings involving U.S. federal, state and/or local government agencies and private parties regarding Grace's compliance with environmental laws and regulations. These proceedings are not expected to result in significant sanctions or in any material liability. However, Grace may incur material liability in connection with future actions of governmental agencies or private parties relating to past or future practices of Grace with respect to the generation, storage, handling, discharge or disposition of hazardous wastes and other materials.

Grace is a party to three environmental insurance coverage actions pending in the U.S. District Court for the Southern District of New York. The first is styled *Maryland Casualty Co. v. W. R. Grace & Co.* (filed June 21, 1988). Litigation continues in this case as to a primary-level carrier that has not settled with respect to claims for environmental property damage. The second case, entitled *Uniguard v. W. R. Grace*, was filed on December 17, 1997. This declaratory judgment action seeks a determination concerning the liability of one excess carrier for bodily injury claims as a result of environmental contamination. In June 2000, a separate lawsuit was filed against Grace by one of its former primary insurance carriers seeking coverage determinations regarding 45 claims (*Continental Casualty Company v. W. R. Grace & Co. and W. R. Grace & Co.-Conn.*). Most of these claims involve alleged environmental property damage at sites once owned and operated by Grace or at waste sites that allegedly received waste materials from plants operated by Grace, including Grace's claims for coverage regarding certain claims involving its former vermiculite mining operation in Libby, Montana. The outcome of these cases, as well as the amounts of any recoveries that Grace may receive in connection therewith, is presently uncertain.

Grace believes that the liabilities for environmental remediation costs, including costs relating to environmental proceedings, that have been recorded in Grace's historical financial statements are adequate and, irrespective of the outcome of the insurance litigations referred to above, Grace believes that the resolution of pending environmental proceedings will not have a material adverse effect on the consolidated financial position or liquidity of Grace. For further information, see "Environmental, Health and Safety Matters" under Item 1 above and "Management's Discussion and Analysis of Results of Operations and Financial Condition" in the Financial Supplement.

Abner Class Action. Grace has been named in a putative class action suit filed in September 2000 in California Superior Court for the County of San Francisco alleging that the 1996 reorganization involving a predecessor of Grace and Fresenius A.G. and the 1998 reorganization involving a predecessor of Grace and Sealed Air Corporation were fraudulent transfers (*Abner, et al., v. W. R. Grace & Co., et al.*). The suit is alleged to have been brought on behalf of all individuals who presently have lawsuits on file that are pursuing personal injury or wrongful death claims against any of the defendants. The other defendants in the suit have all

asserted claims against Grace for indemnification. The amended complaint also names “Does 1-100” as defendants and alleges that those unidentified individuals are responsible “in some manner” for the wrongs alleged. While this lawsuit has been stayed as to Grace as a result of Grace’s Chapter 11 filing, Grace believes that the suit is without merit.

Tax Claims. In 1988 and 1990, Grace acquired whole life insurance policies (“COLI”) on the lives of certain of its employees as part of a strategy to fund the cost of post-retirement employee health care benefits and other long-term liabilities. COLI premiums have been funded in part by loans issued against the cash surrender value of the COLI policies. The Internal Revenue Service (“IRS”) is challenging the deductions for interest on such loans claimed by Grace and similarly situated companies. In 2000 Grace paid approximately \$21.2 million of tax and interest related to COLI deductions taken in 1990 through 1992. Grace is currently under audit for the 1993-96 tax years. During those years Grace deducted approximately \$122.1 million in interest attributable to the COLI policies. In 1996 legislation was enacted that phased out the tax benefits for COLI-related interest deductions over a three-year period ending in 1998. During those years, Grace deducted approximately \$41.1 million in COLI-related interest. Grace is contesting the IRS’s position on the grounds that Grace had and continues to have a valid business purpose for acquiring the COLI policies, that the COLI policies have economic substance and that the interest deductions claimed were in compliance with tax laws in effect at the time.

The IRS also has assessed additional federal income tax withholding and Federal Insurance Contributions Act taxes plus interest and related penalties for calendar years 1993 through 1995 related to a subsidiary of Grace that formerly held a majority interest in Cross Country Staffing. The assessments were made in connection with a meal and incidental expense per diem plan for traveling healthcare personnel, which was in effect through 1999. The IRS contends that certain per diem meals and incidental expenses and lodging benefits provided to traveling healthcare personnel to defray the expenses they incurred while traveling on business should have been treated as wages subject to employment taxes. Grace contends that its per diem and expense allowance plans were in accordance with statutory and regulatory requirements, as well as other published guidance from the IRS, for per diem and expense allowance plans. The matter is currently pending in the U.S. Court of Claims.

For further information, see Note 15 to the Consolidated Financial Statements and “Management’s Discussion and Analysis of Results of Operations under Financial Condition” in the Financial Supplement to this Report.

Item 4. Submission of Matters to a Vote of Security Holders

This Item is inapplicable, as no matters were submitted to a vote of the Company’s security holders during the fourth quarter of 2000.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters.

Except as provided below, the information called for by this Item appears in the Financial Supplement under the heading "Financial Summary" opposite the caption "Other Statistics – Common shareholders of record" (page F-32); under the heading "Quarterly Summary and Statistical Information – Unaudited" opposite the caption "Market price of common stock" (page F-31); and in Note 16 to the Consolidated Financial Statements (page F-25).

On March 31, 1998, the Company paid a dividend, in respect of each share of the Company's Common Stock, par value \$.01 per share ("Common Stock"), of one Preferred Stock Purchase Right ("Right"). The Rights are not and will not become exercisable unless and until certain events occur (as described below). Until such events occur, the Rights will automatically trade with the Common Stock, and separate certificates for the Rights will not be distributed. The Rights will become exercisable on the earlier to occur of (a) 10 days after a person or group ("Acquiring Person") has acquired beneficial ownership of 20% or more of the then outstanding shares of Common Stock or (b) 10 business days (or such later date as may be fixed by the Company's Board of Directors) after an Acquiring Person commences (or announces the intention to commence) a tender offer or exchange offer that would result in such Acquiring Person becoming the beneficial owner or 20% or more of the then outstanding shares of Common Stock. Holders of Rights, as such, have no rights as shareholders of the Company; consequently, such holders have no rights to vote or receive dividends, among other things.

When the Rights become exercisable, each Right will initially entitle the holder to buy from the Company one hundredth of a share of the Company's Junior Participating Preferred Stock, par value \$.01 per share ("Junior Preferred Stock"), for \$100, subject to adjustment ("exercise price"). If a person or group becomes an Acquiring Person, each Right will entitle the holder to receive upon exercise, in lieu of shares of Junior Preferred Stock, that number of shares of Common Stock having a market value of two times the exercise price of the Right. If, at any time after a person or group becomes an Acquiring Person, the Company is acquired in a merger or other business combination of 50% or more of the Company's consolidated assets or earning power is sold, each Right not owned by an Acquiring Person will entitle the holder to buy a number of shares of common stock of the acquiring company having a market value equal to twice the exercise price.

Shares of Junior Preferred Stock that may be purchased upon exercise of the Rights will not be redeemable. Each share of Junior Preferred Stock will be entitled to a minimum preferential quarterly dividend payment of \$1.00 per share but will be entitled to an aggregate dividend equal to 100 times the dividend declared per share of Common Stock whenever such dividend is declared. In the event of liquidation, holders of Junior Preferred Stock will be entitled to a minimum preferential liquidation payment of \$100 per share but will be entitled to an aggregate payment equal to 100 times the payment made per share of Common Stock. Each share of Junior Preferred Stock will have 100 votes, voting together with the Common Stock. Finally, in the event of any merger, consolidation or other transaction in which the Common Stock is exchanged, each share of Junior Preferred Stock will be entitled to receive an amount equal to 100 times the amount received per share of Common Stock. These rights are protected by customary antidilution provisions.

Because of the nature of the dividend, liquidation and voting rights of the Junior Preferred Stock, the value of the one-hundredth interest in a share of Junior Preferred Stock that may be purchased upon exercise of each Right should approximate the value of one share of Common Stock.

At any time after any person or group becomes an Acquiring Person, and prior to the acquisition by such Acquiring Person of 50% or more of the outstanding shares of Common Stock, the Company's Board of Directors may exchange the Rights (other than Rights owned by such person or group, which will become void after such person becomes an Acquiring Person) for Common Stock or Junior Preferred Stock, in whole or in part, at an exchange ratio of one share of Common Stock, or one hundredth of a share of Junior Preferred Stock (or of a share of another series of the Company's Preferred Stock having equivalent rights, preferences and privileges), per Right (subject to adjustment).

At any time prior to the acquisition by a person or group of beneficial ownership of 20% or more of the outstanding shares of Common Stock, the Company's Board of Directors may redeem the Rights in whole, but not in part, at a price of \$.01 per Right.

The terms of the Rights may be amended by the Company's Board of Directors without the consent of the holders of the Rights, including an amendment to lower (a) the threshold at which a person becomes an Acquiring Person and (b) the percentage of Common Stock proposed to be acquired in a tender or exchange offer that would cause the Rights to become exercisable, to not less than the greater of (a) the sum of .001% plus the largest percentage of the Company's outstanding Common Stock then known to the Company to be beneficially owned by any person or group and (b) 10%, except that, from and after such time as any person or group becomes an Acquiring Person, no such amendment may adversely affect the interests of the holders of the Rights.

The Rights are currently scheduled to expire on March 31, 2008 (subject to extension or the earlier redemption or exchange of the Rights).

The foregoing summary of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, which was filed as an Exhibit 4.1 to the Company's Form 8-K filed on April 9, 1998.

Item 6. Selected Financial Data

The information called for by this Item appears under the heading "Financial Summary" (page F-32 of the Financial Supplement) and in Notes 1, 2, 3, 4, 10, 13 and 15 to the Consolidated Financial Statements (pages F-10, F-11, F-12, F-13, F-14, F-15, F-16, F-17, F-20, F-21, F-22, F-23 and F-24 of the Financial Supplement), which is incorporated herein by reference. In addition, Exhibit 12 to this Report (page F-47 of the Financial Supplement) contains the ratio of earnings to fixed charges and combined fixed charges and preferred stock dividends for Grace for the years 1996-2000.

Item 7. Management’s Discussion and Analysis of Results of Operations and Financial Condition

The information called for by this Item appears on pages F-33 to F-45 of the Financial Supplement, which is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information called for by this Item appears in Notes 12 and 13 to the Consolidated Financial Statements (pages F-21 and F-22 of the Financial Supplement), which is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

See the Index to Consolidated Financial Statements and Financial Statement Schedule and Exhibit on page F-2 of the Financial Supplement, which is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

This Item is inapplicable, as no such changes or disagreements have occurred.

PART III

Item 10. Directors and Executive Officers of the Registrant

The Company’s current directors and executive officers are listed below. The Company’s Certificate of Incorporation provides for the division of the Board of Directors into three classes, each to serve for a three-year term or until their respective successors are elected. Executive officers are elected to serve until the following annual meeting of the Company’s Board of Directors or until their respective successors are elected.

<u>Name and Age</u>	<u>Office</u>	<u>First Elected</u>
John F. Akers (66)	Class II Director – Term expiring in 2003	05/09/97
Ronald C. Cambre (62)	Class III Director – Term expiring in 2001	09/01/98
Marye Anne Fox (53)	Class I Director – Term expiring in 2002	05/10/96
John J. Murphy (69)	Class II Director – Term expiring in 2003	05/09/97
Paul J. Norris (53)	Class III Director (Chairman) – Term expiring in 2001, President and Chief Executive Officer	01/01/99 11/01/98
Thomas A. Vanderslice (69)	Class I Director – Term expiring in 2002	05/10/96

Robert J. Bettacchi (58)	Senior Vice President	04/01/97
William M. Corcoran (51)	Vice President	05/11/99
W. Brian McGowan (51)	Senior Vice President	12/06/90*
David B. Siegel (52)	Senior Vice President and General Counsel	09/01/98*
Robert M. Tarola (50)	Senior Vice President and Chief Financial Officer	05/11/99

* Designated an Executive Officer on July 9, 1998

In view of the Chapter 11 filing, the directors are expected to continue to serve beyond the expiration of their respective terms.

Mr. Akers served as Chairman of the Board and Chief Executive Officer of International Business Machines Corporation from 1985 until his retirement in 1993. He is a director of Hallmark Cards, Inc., Lehman Brothers Holdings, Inc., The New York Times Company, PepsiCo, Inc. and Springs Industries, Inc.

Mr. Cambre is Chairman of the Board of Newmont Mining Corporation. He joined Newmont as Vice Chairman and CEO in 1993 and has served as Chairman since 1995. He is also a director of Cleveland-Cliffs Inc. and McDermott International, Inc.

Dr. Fox is Chancellor of North Carolina State University and Professor of Chemistry at that institution. Previously she was Vice President for Research and the Waggoner Regents Chair in Chemistry of the University of Texas, positions she held from 1994 and 1992, respectively, until 1998.

Mr. Murphy served as Chairman of the Board of Dresser Industries, Inc., a supplier of products and technical services to the energy industry, until 1996. From 1997 to 2000, he was a Managing Director of SMG Management L.L.C., a privately owned investment group. Mr. Murphy is a director of CARBO Ceramics, Inc., Kerr-McGee Corporation, PepsiCo, Inc. and Shaw Industries Ltd.

Mr. Norris was Senior Vice President of AlliedSignal Incorporated and President of its specialty chemicals business from January 1997 until joining Grace. Mr. Norris joined AlliedSignal in 1989 as President of its fluorine products/chemicals and catalysts businesses.

Mr. Vanderslice served as Chairman and Chief Executive Officer of M/A-COM, Inc., a designer and manufacturer of radio frequency and microwave components, devices and subsystems for commercial and defense applications, from 1989 until his retirement in 1995. He is a director of Texaco Inc.

Messrs. Bettacchi, McGowan and Siegel have been actively engaged in Grace's business for the past five years.

Mr. Corcoran previously served as Vice President of Business and Regulatory Affairs for AlliedSignal Incorporated's specialty chemicals business from 1997. For nine years prior to that, he served as Vice President of Public Affairs in AlliedSignal's engineered materials sector.

Mr. Tarola joined Grace from MedStar Health, Inc., where he had served as Senior Vice President and Chief Financial Officer from July 1998. He previously served in a similar capacity with Helix Health, Inc. for two years. From 1974 through 1996, Mr. Tarola was an employee of and partner of Price Waterhouse LLP.

Item 11. Executive Compensation

Summary Compensation Table. The following Summary Compensation Table contains information concerning the compensation of (a) Paul J. Norris, Chief Executive Officer; and (b) the other four most highly compensated executive officers of Grace who were serving as such at year-end 2000. Certain information has been omitted from the Summary Compensation Table because it is not applicable or because it is not required under the rules of the Securities and Exchange Commission ("SEC").

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			
		Salary	Bonus	Other Annual Compensation	Awards	No. of Shares Underlying Options Granted ^(b)	Payouts	All Other Compensation ^(d)
					Restricted Stock Award ^(a)		LTIP Payouts ^(c)	
P. J. Norris Chairman, President and Chief Executive Officer ^(f)	2000	\$812,500	\$526,800	---	---	315,000	N/A	\$90,766
	1999	737,500	942,500	\$272,486 ^(e)	---	290,000	N/A	33,353
	1998	120,833	250,000		\$2,966,486	439,026	N/A	3,819
R. J. Bettacchi Senior Vice President	2000	332,344	125,000		---	85,000	\$102,670	42,171
	1999	297,500	300,000		---	---	45,508	41,733
	1998	242,500	170,000		---	130,000	1,905,438	37,358
W. M. Corcoran Vice President ^(g)	2000	256,667	100,000		---	40,000	N/A	7,157
	1999	145,833	125,000		178,750	32,500	N/A	306
	1998							
D. B. Siegel Senior Vice President and General Counsel	2000	306,667	125,000		---	60,000	75,832	22,205
	1999	275,000	225,000		---	---	35,822	16,561
	1998	240,000	108,000		202,000	130,000	1,491,352	16,737
R. M. Tarola Senior Vice President and Chief Financial Officer ^(h)	2000	359,000	155,000		---	75,000	N/A	12,322
	1999	224,130	155,000		---	100,000	N/A	621
	1998							

(Footnotes appear on following page)

- (a) At December 31, 2000, the dollar value of the 170,733 shares of restricted stock issued to Mr. Norris was \$544,211. The restrictions expire in one-third increments on November 1, 1999, November 1, 2000 and November 1, 2001. At December 31, 2000, the dollar value of the 10,000 shares of restricted stock issued to Mr. Corcoran was \$31,875. The restrictions on shares held by Mr. Corcoran expire on May 31, 2002. At December 31, 2000, the dollar value of the 10,100 shares of restricted stock issued to Mr. Siegel was \$32,194. The restrictions on shares held by Mr. Siegel expired on April 2, 2001. Restrictions on all shares will expire earlier under certain circumstances, such as a change of control. See "Employment Agreements."
- (b) The share amounts in this column for Messrs. Bettacchi and Siegel reflect adjustments made to give effect to the March 1998 separation of Grace's packaging business and the merger of such business with Sealed Air Corporation (the "Packaging Transaction").
- (c) The amounts in this column represent payments under the Long-Term Incentive Plan ("LTIP") made in each year, as follows: 2000 – amounts paid for the 1997-1999 Performance Period; 1999 – amounts paid for the 1996-1998 Performance Period (to the extent not previously paid in 1998); and 1998 – amounts paid for the 1995-1997, 1996-1998 and 1997-1999 Performance Periods following termination of the LTIP in connection with the Packaging Transaction. See "LTIP" below for additional information.
- (d) The amounts in this column for 2000 consist of the following:
- (i) above-market interest earned on deferred compensation, as follows: Mr. Norris -- \$864; Mr. Bettacchi -- \$16,949; Mr. Corcoran -- \$1,587; and Mr. Tarola -- \$5,875;
 - (ii) the actuarially determined value of Company-paid premiums on "split-dollar" life insurance, as follows: Mr. Norris -- \$32,904; Mr. Bettacchi -- \$4,415; and Mr. Siegel -- \$4,516;
 - (iii) payments made to persons whose personal and/or Company contributions to Grace's Salaried Employees Savings and Investment Plan ("Savings Plan") would be subject to limitations under federal income tax law, as follows: Mr. Norris -- \$50,736; Mr. Bettacchi -- \$15,130; and Mr. Siegel -- \$12,012.
 - (iv) Company contributions to the Savings Plan, as follows: Mr. Norris -- \$5,100; Mr. Bettacchi -- \$5,100; Mr. Corcoran -- \$5,142; Mr. Siegel -- \$5,100; and Mr. Tarola -- \$5,870; and
 - (v) the value of Company-provided personal liability insurance, as follows: Mr. Norris -- \$1,162; Mr. Bettacchi -- \$577; Mr. Corcoran -- \$428; Mr. Siegel -- \$577; and Mr. Tarola -- \$577.
- (e) This amount includes \$238,996 of payments made to Mr. Norris under Grace's relocation program.
- (f) Mr. Norris was elected President and Chief Executive Officer November 1, 1998 and became Chairman on January 1, 1999.
- (g) Mr. Corcoran was elected Vice President on May 11, 1999.
- (h) Mr. Tarola was elected Senior Vice President and Chief Financial Officer on May 11, 1999.

Stock Options. The following table contains information concerning stock options granted in 2000, including the potential realizable value of each grant assuming that the market value of the Common Stock were to appreciate from the date of grant to the expiration of the option at annualized rates of (a) 5% and (b) 10%, in each case compounded annually over the term of the option. For example, the options granted to Mr. Norris in 2000 would produce a pretax gain of \$6,745,848 shown in the table if the market price of the Common Stock rises at an annual rate of 10% to \$34.88 per share by the time the options are exercised; based on the number and market price of the shares outstanding at year-end 2000, such an increase in the price of the Common Stock would produce a corresponding aggregate pretax gain of approximately \$312 million for the Company's shareholders. *The assumed rates of appreciation shown in the table have been specified by the SEC for illustrative purposes only and are not intended to predict future stock prices, which will depend upon various factors, including market conditions and future performance and prospects. In view of recent developments, Grace believes it is unlikely that its Common Stock will achieve the indicated levels of appreciation in the foreseeable future, if at all (see "Chapter 11 Filing" in Item 1).*

Options become exercisable at the time or times determined by the Compensation Committee of the Board of Directors; the options shown below become exercisable in three approximately equal annual installments beginning one year after the date of grant or upon the earlier occurrence of a "change in control" (see "Employment Agreements" and "Severance Agreements"). All of the options shown below have purchase prices equal to the fair market value of the Common Stock at the date of grant.

Name	2000 Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	No. of Shares Underlying Options Granted	% of Total Options Granted to Employees in 2000	Purchase Price (\$/Share)	Expiration Date	5%	10%
P. J. Norris	315,000	12%	\$13.4688	5/9/10	\$2,672,883	\$6,745,848
R. J. Bettacchi	85,000	3%	\$13.4688	5/9/10	721,254	1,820,308
W. M. Corcoran	40,000	2%	\$13.4688	5/9/10	339,414	856,616
D. B. Siegel	60,000	2%	\$13.4688	5/9/10	509,121	1,284,923
R. M. Tarola	75,000	3%	\$13.4688	5/9/10	636,401	1,606,154
All Shareholders	-	-	-	-	\$123,640,458	\$312,044,967
Named Executive Officers' Percentage of Realizable Value Gained by All Shareholders.	-	-	-	-	4%	4%

The following table contains information concerning stock options exercised in 2000, including the "value realized" upon exercise (the difference between the total purchase price of the options exercised and the market value, at the date of exercise, of the shares acquired), and the value of unexercised "in-the-money" options held at December 31, 2000 (the difference

between the aggregate purchase price of all such options held and the market value of the shares covered by such options at December 31, 2000).

Name	Option Exercises in 2000 and Option Values at 12/31/00 ⁽¹⁾				
	No. of Shares Acquired on Exercise	Value Realized	No. of Shares Underlying Unexercised Options at 12/31/00 Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at 12/31/00 Exercisable/Unexercisable	
P. J. Norris	0	\$ 0	389,350 / 654,676	\$0 /	\$0
R. J. Bettacchi	0	0	668,399 / 128,334	0 /	0
W. M. Corcoran	0	0	10,833 / 61,667	0 /	0
D. B. Siegel	0	0	254,861 / 103,334	0 /	0
R. M. Tarola	0	0	33,333 / 141,667	0 /	0

(1) The number of shares covered by each option and the purchase price of each option reflect, where applicable, adjustments made in connection with the Packaging Transaction in the cases of Messrs. Bettacchi and Siegel.

Long-Term Incentive Program (LTIP). In connection with the Packaging Transaction, the Compensation Committee determined to make the following changes in the LTIP: (a) Performance Units granted for the 1996-1998 and 1997-1999 Performance Periods vested on a prorata basis on March 31, 1998, the completion date of the Packaging Transaction; (b) the amounts earned under those Units were calculated based on results achieved through March 31, 1998; (c) 75% of the estimated value of such vested portions was paid in cash prior to completion of the Packaging Transaction; (d) the balance of such vested portions was paid in cash following completion of the Packaging Transaction; and (e) the value of the unvested portions, based on targeted Performance Units and on the final average price of the Common Stock immediately prior to completion of the Packaging Transaction, was paid in cash following the end of the respective Performance Periods (subject to continued service).

The Board has approved a new LTIP for key employees for 2001, and it is anticipated that awards will be made to key employees under the new LTIP for each subsequent calendar year as well. The new LTIP is generally designed to provide key employees with long-term incentives having a value at the 60th percentile of long-term incentives offered by specialty chemical companies of comparable size to Grace. For each key employee, the targeted value of the new LTIP award for each year will be split so that 50% of the value of the award will be provided in the form of a stock option grant, and 50% will be in the form of cash compensation, payable if the Company achieves certain pretax earnings targets over a three calendar year period. Depending on the pretax earnings performance of the Company during the applicable three-year period, the employee may be paid a total amount ranging from zero to two times the targeted cash compensation applicable to the employee.

If a key employee becomes entitled to any cash compensation for any award year under the new LTIP, then such compensation will generally be paid in two installments; one after the end of the second calendar year following the applicable award year (which will be a partial payment based on performance for the first two years of the applicable three-year period), and the other installment will be paid to the employee after the end of the third calendar year

following the applicable award year (which will consider performance for the complete three-year period and will be offset by the amount of the prior installment). Generally, under the new LTIP, a key employee will forfeit his or her rights to receive an installment of cash compensation if, prior to the payment of the installment, the employee either voluntarily resigns from the Company or is terminated by the Company for cause.

Pension Arrangements. Salaried employees of designated units who are 21 or older and who have one or more years of service are eligible to participate in the Retirement Plan for Salaried Employees. Under this basic retirement plan, pension benefits are based upon (a) the employee's average annual compensation for the 60 consecutive months in which his or her compensation is highest during the last 180 months of continuous participation and (b) the number of years of the employee's credited service. For purposes of this basic retirement plan, compensation generally includes nondeferred base salary and nondeferred annual incentive compensation (bonus) awards; however, for 2000, federal income tax law limited to \$170,000 the annual compensation on which benefits under this plan may be based.

Grace also has a Supplemental Executive Retirement Plan under which a covered employee will receive the full pension to which he or she would be entitled in the absence of the above and other limitations imposed under federal income tax law. In addition, this supplemental plan recognizes deferred base salary, deferred annual incentive compensation awards and, in some cases, periods of employment during which an employee was ineligible to participate in the basic retirement plan. (Commencing in 2001, Grace's deferred compensation plan no longer permits deferrals of base salary or incentive compensation.) An employee will generally be eligible to participate in the supplemental plan if he or she has an annual base salary of at least \$75,000 and is earning credited service under the basic retirement plan.

The following table shows the annual pensions payable under the basic and supplemental plans for different levels of compensation and years of credited service. The amounts shown have been computed on the assumption that the employee retired at age 65 on January 1, 2000, with benefits payable on a straight life annuity basis. Such amounts are subject to (but do not reflect) an offset of 1.25% of an estimate of the employee's primary Social Security benefit at retirement age for each year of credited service under the basic and supplemental plans.

Highest Average Annual Compensation	Years of Credited Service					
	10 Years	15 Years	20 Years	25 Years	30 Years	35 Years
\$100,000	\$15,000	\$22,500	\$30,000	\$37,500	\$45,000	\$52,500
200,000	30,000	45,000	60,000	75,000	90,000	105,000
300,000	45,000	67,500	90,000	112,500	135,000	157,500
400,000	60,000	90,000	120,000	150,000	180,000	210,000
500,000	75,000	112,500	150,000	187,500	225,000	262,500
600,000	90,000	135,000	180,000	225,000	270,000	315,000
700,000	105,000	157,500	210,000	262,500	315,000	367,500
800,000	120,000	180,000	240,000	300,000	360,000	420,000
900,000	135,000	202,500	270,000	337,500	405,000	472,500
1,000,000	150,000	225,000	300,000	375,000	450,000	525,000
1,100,000	165,000	247,500	330,000	412,500	495,000	577,500
1,200,000	180,000	270,000	360,000	450,000	540,000	630,000
1,300,000	195,000	292,500	390,000	487,500	585,000	682,500
1,400,000	210,000	315,000	420,000	525,000	630,000	735,000
1,500,000	225,000	337,500	450,000	562,500	675,000	787,500
1,600,000	240,000	360,000	480,000	600,000	720,000	840,000
1,700,000	255,000	382,500	510,000	637,500	765,000	892,500
1,800,000	270,000	405,000	540,000	675,000	810,000	945,000
1,900,000	285,000	427,500	570,000	712,500	855,000	997,500
2,000,000	300,000	450,000	600,000	750,000	900,000	1,050,000
2,100,000	315,000	472,500	630,000	787,500	945,000	1,102,500
2,200,000	330,000	495,000	660,000	825,000	990,000	1,155,000

At December 31, 2000, Messrs. Norris, Bettacchi, Corcoran, Siegel and Tarola had 8.83, 29, 1.56, 23.75 and 1.56 years of credited service, respectively, under the basic and supplemental retirement plans. (Mr. Norris' years of credited service include his eligible service with Grace from 1975 to 1981.) For purposes of those plans, the 2000 compensation of such executive officers was as follows: Mr. Norris -- \$1,755,000; Mr. Bettacchi -- \$632,344; Mr. Corcoran -- \$381,667; Mr. Siegel -- \$531,667; and Mr. Tarola -- \$514,000. Messrs. Corcoran and Tarola are entitled to additional pension benefits under their employment agreements, and Mr. Norris is eligible for additional pension benefits under his employment agreement if his employment continues beyond October 31, 2001, or if he is terminated without cause (see "Employment Agreements").

Employment Agreements. Effective January 1, 2001, Mr. Norris and Grace entered into a new employment agreement, which supercedes the letter agreement between Mr. Norris and Grace dated October 26, 1998. This agreement expires December 31, 2002, subject to renewal provisions. Under the agreement, Mr. Norris' annual base salary will not be less than \$875,000. He will continue to participate in Grace's annual incentive compensation program, under which his targeted award will be at least 75% of his annual base salary.

Under Mr. Norris' prior letter agreement, he received a restricted stock award on November 1, 1998 covering 170,733 shares of Grace Common Stock. The restrictions on the

final installment of Mr. Norris' restricted stock award (covering 56,911 shares of Grace Common Stock) will lapse on November 1, 2001. Under his employment agreement, Mr. Norris may choose to receive the award in the form of unrestricted shares or may convert the award to cash in the amount of \$10.25 for each unrestricted share comprising such final installment.

Also under the prior agreement, Mr. Norris received upon his commencement of employment on November 1, 1998 a non-statutory stock option grant covering 439,026 shares of Common Stock pursuant to Grace's 1998 Stock Incentive Plan. His employment agreement provides that Grace will make a stock appreciation payment to Mr. Norris, at the time he elects to exercise any vested options under that stock option grant or at the time he elects to cancel such options, provided that the price of a share of Common Stock is above \$10.25 at the time. The payment will be equal to the number of shares exercised (or cancelled), multiplied by the difference between (a) the purchase price per share (\$16.75), or the price of a share of Common Stock on the date of such exercise if less than the purchase price per share, and (b) \$10.25.

Under his employment agreement, Mr. Norris received (in January 2001) an \$875,000 retention bonus for services through December 31, 2001, and if he remains employed with Grace (or is terminated without cause or on the basis of constructive discharge, death or disability), he will receive retention bonuses of \$500,000 each on December 31, 2001 and 2002. The first two payments are subject to prorata repayment if Mr. Norris' terminates his employment other than on the basis of constructive discharge, death or disability.

Under the employment agreement, if Mr. Norris' employment is terminated by Grace without cause or by Mr. Norris on the basis of constructive discharge at any time, then he will be entitled to receive a severance payment equal to two times the dollar amount that equals 175% of his annual base salary at the time of such termination. Such payment will be made in a lump sum immediately after Mr. Norris' date of termination.

Mr. Norris' employment agreement also continues the same retirement benefits provisions as under his prior agreement, which are described in this paragraph: If Mr. Norris is not terminated for cause, and he does not terminate his employment (other than on the basis of constructive discharge, disability or death), prior to November 1, 2001, the agreement provides that, in determining the benefits payable to Mr. Norris under Grace's basic and supplemental retirement plans, his years of service with Grace and his prior employer will be recognized as if those years were continuous service with Grace, with an offset for any retirement benefits payable from his prior employers' retirement plans. In addition, the "final average compensation" used to determine his retirement benefits payable under Grace's basic and supplemental retirement plans will only consider compensation earned by Mr. Norris from and after the commencement of his current term of employment with Grace on November 1, 1998.

Also, the employment agreement provides that, if Mr. Norris does not receive supplemental retirement benefits under any Grace plan, then such supplemental benefit will become payable to Mr. Norris under his employment agreement. In addition, in the event of Mr. Norris' termination on or after November 1, 2001 (or if he terminates his employment with Grace at any time based on constructive discharge), Grace will immediately pay Mr. Norris a

lump sum cash payment equal in value to all supplemental retirement benefits payable to Mr. Norris under his employment agreement or any plan or program of Grace.

The agreement further provides that, upon Mr. Norris' termination of employment (unless Mr. Norris terminates his employment prior to October 31, 2001 other than on the basis of constructive discharge, disability or death), Grace will provide Mr. Norris with relocation assistance to any location within the continental United States selected by Mr. Norris, including certain cash payments and relocation assistance, including compensation for any loss incurred on the sale of his Maryland home.

The agreement also provides for Mr. Norris' participation in other benefits and compensation programs, including benefits and programs generally available to other senior executives of Grace. The foregoing description of Mr. Norris' employment agreement does not purport to be complete and is qualified in its entirety by reference to such agreement, which is filed as Exhibit 10.20 to this Report.

Mr. Corcoran has an employment agreement with Grace that terminates May 31, 2002, subject to extension. Under the agreement, Mr. Corcoran's initial base salary is \$250,000, subject to annual review and approval of the Compensation Committee. In addition, Mr. Corcoran is eligible to participate in Grace's annual incentive compensation program, with a target award no less than to 37% of his annual base salary (except that his incentive award for 1999 was set at an amount between \$92,000 and \$182,000). Under the agreement, Mr. Corcoran also received a stock option grant covering 32,500 shares of Common Stock, and a grant of 10,000 shares of restricted Common Stock.

In the event that Mr. Corcoran is terminated by Grace without cause on or before May 31, 2002, he will generally be entitled to a severance payment equal to two times the amount that is 137% of his annual base salary at the time of his termination. If he is terminated by Grace without cause after that date, Mr. Corcoran will generally be entitled to a severance payment equal to one times such amount. (However, along with other executive officers and certain key employees of Grace, Mr. Corcoran has entered into a retention agreement with Grace, described below, under which, in certain circumstances, he may be entitled to enhanced severance pay in lieu of, but not in addition to, the severance pay provided under his employment agreement.)

If Mr. Corcoran's employment does not cease prior to May 22, 2002 (or he is terminated without cause prior to that date), the benefits payable to Mr. Corcoran under Grace's basic and supplemental retirement plans will be determined by adding additional years of credited service under those plans. Generally, for each year of credited service under those plans that he actually earns during his period of employment with Grace, he will receive credit for an additional one-half year of credited service under those plans (up to a maximum of 5 additional years of credited service), except that in no event will he receive less than 5 years of credited service, regardless of the date his employment with Grace actually terminates. The foregoing description of Mr. Corcoran's employment agreement does not purport to be complete and is qualified in its entirety by reference to such agreement, which is filed as Exhibit 10.24 to this Report.

On January 30, 2001, Mr. Siegel entered into a new agreement with Grace that specifies certain terms and conditions of his employment (the "2001 Agreement"). Under the 2001 Agreement, which supercedes his prior agreement, Mr. Siegel received a retention payment and became covered by an enhanced severance arrangement, each of which is described below. In exchange, Mr. Siegel agreed that he would have no right to severance pay under the Grace 1999 Productivity and Effectiveness Program (the "PEP Program") and that he would give Grace at least 90 days' prior notice if he voluntarily resigned or retired on or prior to December 31, 2002.

Under the 2001 Agreement, Mr. Siegel received a retention payment in the amount of \$600,000. Mr. Siegel is required to repay a prorata portion of one-half of the retention payment if he voluntarily terminates his employment with Grace (other than as a result of a constructive termination), or he is terminated for cause, prior to December 31, 2002. The 2001 Agreement also specifies that Mr. Siegel would be entitled to an enhanced severance payment equal to two times his annual base salary if he is involuntarily terminated without cause under circumstances which would qualify him for severance pay under Grace's severance plan that generally covers salaried employees.

The 2001 Agreement also provides that Mr. Siegel will relocate full time to Columbia, Maryland on or before January 1, 2003, unless he gives Grace 90 days' notice of his election to resign prior to September 30, 2002. If Mr. Siegel relocates to Maryland, he will be entitled to the relocation benefits generally available to other Grace employees who relocated to Maryland during 1999 in conjunction with the relocation of Grace's headquarters from Boca Raton, Florida. If Mr. Siegel elects to resign prior to September 30, 2002, then he will be eligible for all separation arrangements under the PEP Program (except severance pay under the PEP Program). Until Mr. Siegel relocates to Maryland or resigns, Grace has agreed to continue to provide him with a furnished apartment in Baltimore, a rental car while on business in Maryland and roundtrip coach airfare for travel between Boca Raton and Columbia. The foregoing description of the 2001 Agreement does not purport to be complete and is qualified in its entirety by reference to such agreement, which is filed as Exhibit 10.22 to this Report.

Mr. Tarola has an employment agreement providing for his service as Senior Vice President and Chief Financial Officer of Grace through November 10, 2002, subject to extension by agreement between Mr. Tarola and Grace. Under this agreement, Mr. Tarola is entitled to an annual base salary of \$350,000, and an annual incentive award (bonus) for each calendar year during his term of employment. That bonus will be targeted to be no less than 45% of his annual base salary (with a maximum bonus equal to double the targeted bonus for any calendar year); except that his incentive award for 1999 was set at an amount no less than \$129,000. The agreement also provides that Mr. Tarola's annual base salary and incentive award is generally subject to annual review and approval of the Compensation Committee. Under the agreement, Mr. Tarola received a stock option grant covering 100,000 shares of Common Stock.

In the event that Mr. Tarola is terminated by Grace without cause on or before November 10, 2002, he will generally be entitled to a severance payment equal to two times the amount that is 145% of his annual base salary at the time of his termination. If he is terminated by Grace without cause after that date, Mr. Tarola will generally be entitled to a severance payment equal to one times such amount. (However, along with other officers and certain key employees of

Grace, Mr. Tarola entered into a retention agreement with Grace, described below, under which, in certain circumstances, he may be entitled to enhanced severance pay in lieu of, but not in addition to, the severance pay provided under his employment agreement.)

If Mr. Tarola's employment does not cease prior to November 10, 2002 (or if he is terminated without cause prior to that date), the benefits payable to Mr. Tarola under Grace's basic and supplemental retirement plans will be determined by adding additional years of credited service under those plans. Generally, for each year of credited service under those plans that he actually earns during his period of employment with Grace, he will receive credit for one additional year of credited service under those plans (up to a maximum of 10 additional years of credited service), except that in no event will he receive less than 5 years of credited service, regardless of the date his employment with Grace actually terminates. The foregoing description of Mr. Tarola's employment agreement does not purport to be complete and is qualified in its entirety by reference to such agreement, which has been filed with the SEC as an exhibit to Grace's Quarterly Report on Form 10-Q filed on August 13, 1999 for the quarter ended June 30, 1999.

Change-in-Control Severance Agreements. In addition to the severance described in the retention agreements below, Grace has severance agreements with all of its executive officers. These agreements generally provide that in the event of the involuntary termination of the individual's employment without cause (including constructive termination caused by a material reduction in his or her authority or responsibility or by certain other circumstances) following a "change in control" of Grace, he or she will generally receive a severance payment equal to three times the sum of his or her annual base salary plus target annual incentive compensation (bonus), subject to prorata reduction in the case of an officer who is within 36 months of normal retirement age (65). For purposes of the severance agreements, "change in control" means the acquisition of 20% or more of the Common Stock (but not if such acquisition is the result of the sale of Common Stock by Grace that has been approved by the Board), the failure of Board-nominated directors to constitute a majority of any class of the Board of Directors, the occurrence of a transaction in which the shareholders of Grace immediately preceding such transaction do not own more than 50% of the combined voting power of the corporation resulting from such transaction, or the liquidation or dissolution of Grace. This description of the severance agreements does not purport to be complete and is qualified in its entirety by reference to the form of such agreement, which was filed as an exhibit to the Registration Statement on Form 10 filed with the SEC by Grace (named Grace Specialty Chemicals, Inc. at the time of filing) on March 13, 1998.

Retention Agreements. Effective January 1, 2001, Grace entered into retention agreements with each of the executive officers other than Messrs. Norris and Siegel, whose retention agreements are covered by their respective employment agreements. These agreements were approved by the Compensation Committee in recognition of the adverse effect that the market performance of the Common Stock has had and is expected to continue to have on Grace's ability to attract and retain key employees. Under the terms of these agreements, each such executive officer received a payment in January 2001 equal to his annual base salary, subject to remaining employed with Grace for a two-year period. In the event of the voluntary termination of such officer's employment (other than a constructive termination caused by a

reduction in salary, a permanent change in job location or a change in job duties inappropriate to such officer's position) or a termination of such officer's employment for cause, then such officer would be required to reimburse Grace for a prorata portion of such payment based on the number of days remaining in such two-year period. The retention payments are not considered compensation for purposes of any Grace benefit or compensation plan or program. In addition to the retention payment, the retention agreements provide that in the event of the involuntary termination of such officer's employment under circumstances that would qualify such officer for severance pay under Grace's severance plan that generally covers salaried employees, then the officer would be entitled to severance pay equal to two times his or her annual base salary. With respect to any such officer who has any other agreement with Grace regarding the payment of severance upon termination of employment, if such officer becomes entitled to severance under both the terms of the retention agreement and such other agreement, then the officer would only receive severance pay under the retention agreement, unless the other agreement provides for a greater amount of severance pay (in which case, the officer would only receive severance pay under such other agreement).

Executive Salary Protection Plan. All executive officers participate in the Executive Salary Protection Plan ("ESPP"), which provides that, in the event of a participant's disability or death prior to age 70, Grace will continue to pay all or a portion of base salary to the participant or a beneficiary for a period based on the participant's age at the time of disability or death. Payments under the ESPP may not exceed 100% of base salary for the first year and 60% thereafter in the case of disability (50% in the case of death). This description of the ESPP does not purport to be complete and is qualified in its entirety by reference to the text of the ESPP, as amended, which was filed as an exhibit to Grace's predecessor's Annual Report on Form 10-K for the year ended December 31, 1996.

Effect of Chapter 11 Filing. The continuation of certain executive compensation and benefit programs may be affected by the Chapter 11 proceedings.

Directors' Compensation and Consulting Arrangements. Under the compensation program for nonemployee directors in effect for 2000, each nonemployee director received an annual retainer of \$50,000 payable, at the election of each director, in the form of Common Stock or options to purchase Common Stock. The number of option shares is calculated based on a ratio of three option shares for each share of Common Stock that would otherwise be payable had a director elected to receive the annual retainer in Common Stock. The purchase price of the option is the market value of a share of Common Stock on the date the option is granted. All such options are immediately exercisable. In addition, in lieu of individual meeting fees, each nonemployee director received an annual fee of \$24,000, (\$30,000 for directors holding a committee chair), prorated for scheduled meetings not attended. This fee was paid, at the election of each director, in cash, in Common Stock or in stock options as described above. A director may elect to defer all or part of each payment made in Common Stock. The deferred payment will be held in a deferred compensation trust established by Grace. Common Stock held in the trust will be delivered to the director following his or her termination from service (or a subsequent date specified by the director). All stock options are transferable to family members or trusts for their benefit.

Beginning in 2001, directors will receive \$4,000 (\$5,000 for directors holding a committee chair) in cash for each meeting date in respect of the Board meeting and all committee meetings held on such date. In addition, the annual retainer of \$50,000 will be paid one-half in cash, and one-half in Common Stock or options to purchase Common Stock, at the election of each director following the end of each year, as described above.

Grace reimburses nonemployee directors for expenses they incur in attending Board and committee meetings. Grace also maintains business travel accident insurance coverage for them. In addition, nonemployee directors may receive \$1,000 per day for work performed at the request of Grace.

Compensation Committee Interlocks and Insider Participation. During 2000, the Compensation Committee of the Board was comprised of Messrs. Akers (Chair), Cambre, Murphy and Vanderslice, and Dr. Fox. None of such persons is a current or former officer or employee of Grace or any of its subsidiaries, nor did any of such persons have any reportable transactions with Grace or any of its subsidiaries.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth the Common Stock beneficially owned, directly or indirectly, as of January 31, 2001 by (1) each person known to Grace to be the beneficial owner of more than 5% of the outstanding shares of Common Stock, and (2) each current director and nominee, each of the executive officers named in the Summary Compensation Table set forth under "Election of Directors -- Compensation," and such directors and all executive officers as a group.

<u>Beneficial Owner</u>	<u>Shares of Common Stock Beneficially Owned</u>	<u>Percent</u>
The Baupost Group, L.L.C (1) 44 Brattle Street, 5 th Floor Cambridge, MA 02138	5,733,600	8.8%
FMR Corp. (1) 62 Devonshire Street Boston, MA 02109	3,765,400	5.6%
Peninsula Partners, L.P. (1) (2) Peninsula Capital Advisors, LLC 404B East Main Street, 2 nd Floor Charlottesville, VA 22902	3,330,000	5.1%
J. F. Akers	1,205 74,535 (O) 11,287 (T)	*
R. J. Bettacchi	668,399 (O) 8,155 (T)	1.02%

<u>Beneficial Owner</u>	<u>Shares of Common Stock Beneficially Owned</u>	<u>Percent</u>
R. C. Cambre	3,362	*
W. M. Corcoran.	10,000 10,833 (O) 2,496 (T)	
M. A. Fox	3,455 59,007 (O) 2,834 (T)	*
J. J. Murphy	1,139 15,528 (O) 5,509 (T)	*
P. J. Norris	195,733 778,701 (O) 2,089 (T)	1.47%
D. B. Siegel	15,100 254,321 (O) 40,656 (T)	*
R. M. Tarola	15,000 33,000 (O) 124 (T)	*
T. A. Vanderslice	1,731 69,876 (O) 9,060 (T)	*
Directors and executive officers as a group	268,275 2,297,238 (O) 117,857 (T)	3.96%

* Indicates less than 1%

(O) Shares covered by stock options exercisable on or within 60 days after January 31, 2001.

(T) Shares owned by trusts and other entities as to which the person has the power to direct voting and/or investment.

(1) The ownership information set forth is based in its entirety on material contained in a Schedule 13G, dated February 2001 with respect to The Baupost Group, L.L.C and FMR Corp.; and December 2000 with respect to Peninsula Partners, L.P., filed with the SEC, which stated that the securities were not acquired for the purpose of changing or influencing the control of Grace.

(2) Shared voting power.

Ownership and Transactions Reports

Under Section 16 of the Securities Exchange Act of 1934, the Company's directors, certain of its officers, and beneficial owners of more than 10% of the outstanding Common Stock are required to file reports with the SEC and the New York Stock Exchange concerning their ownership of and transactions in Common Stock; such persons are also required to furnish the Company with copies of such reports. Based solely upon the reports and related information furnished to the Company, the Company believes that all such filing requirements were complied with in a timely manner during and with respect to 2000.

Item 13. Certain Relationships and Related Transactions

Commercial Transactions. During 2000, no director, executive officer (or any member of any of their respective immediate families) or, to the Company's knowledge, any holder of more than 5% of the Common Stock, had a direct or indirect material interest in any transaction (or any proposed transaction) to which the Company was a party.

Legal Proceedings; Indemnification. During 2000 there were no legal proceedings pending in which any current officers or directors of the Company were parties or had a material interest adverse to the Company.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

Financial Statements and Schedules. See the Index to Consolidated Financial Statements and Financial Statement Schedule and Exhibit on page F-2 of the Financial Supplement.

Reports on Form 8-K. The Company did not file any Reports on Form 8-K during the fourth quarter of 2000.

Exhibits. The exhibits to this Report are listed below. Other than exhibits that are filed herewith, all exhibits listed below are incorporated by reference. Exhibits indicated by an asterisk (*) are the management contracts and compensatory plans, contracts or arrangements required to be filed as exhibits to this Report.

For purposes of describing these exhibits, "Old Grace" means W. R. Grace & Co., a Delaware corporation (subsequently renamed Sealed Air Corporation), a predecessor to the Company, and "Grace New York" means W. R. Grace & Co., a New York corporation (subsequently renamed Fresenius Medical Care Holdings, Inc.), a predecessor to Old Grace. See Note 1 to the Consolidated Financial Statements in the Financial Supplement for a description of the reorganization involving Grace's former Packaging Business.

EXHIBIT

<u>NO.</u>	<u>EXHIBIT</u>	<u>WHERE LOCATED</u>
2.1	Form of Distribution Agreement, by and among Old Grace, W. R. Grace & Co.-Conn. and Grace Specialty Chemicals, Inc. (now named W. R. Grace & Co.)	Annex B to the Joint Proxy Statement/Prospectus dated February 13, 1998 of Old Grace and Sealed Air Corporation included in Form S-4 (filed 2/13/98)
3.1	Restated Certificate of Incorporation of W. R. Grace & Co.	Exhibit 3.1 to Form 8-K (filed 4/9/98)
3.2	Amended and Restated By-laws of W. R. Grace & Co.	Exhibit 3.2 to Form 10-K (filed 3/29/99)
4.1	Rights Agreement dated as of March 31, 1998 between W. R. Grace & Co. and The Chase Manhattan Bank, as Rights Agent	Exhibit 4.1 to Form 8-K (filed 4/9/98)
4.2	Indenture dated as of September 29, 1992 among W. R. Grace & Co.-Conn., Grace New York and Bankers Trust Company	Exhibit 4(a) to Registration Statement No. 33-43566 on Form S-3 (filed 10/29/91)
4.3	Supplemental Indenture dated as of September 24, 1996, among W. R. Grace & Co.-Conn., Grace New York, Old Grace and Bankers Trust Company, to Indenture dated as of September 29, 1992	Exhibit 4.4 to Form 8-K of Old Grace (filed 10/10/96)
4.4	Indenture dated as of January 28, 1993 among W. R. Grace & Co.-Conn., Grace New York and The Bank of New York (successor to NationsBank of Georgia, N.A.)	Exhibit 4(a) to Registration Statement No 33-55392 on Form S-3 (filed 12/4/92)
4.5	Supplemental Indenture dated as of September 24, 1996, among W. R. Grace & Co.-Conn., Grace New York, Old Grace, and The Bank of New York, to Indenture dated as of January 28, 1993	Exhibit 4.5 to Form 8-K of Old Grace (filed 10/10/96)

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| 4.6 | Credit Agreement dated as of May 14, 1998, among W. R. Grace & Co.-Conn., W. R. Grace & Co., the several banks parties thereto; the co-agents signatories thereto; The Chase Manhattan Bank, as administrative agent for such banks; and Chase Securities Inc., as arranger | Exhibit 4.1 to Form 10-Q (filed 8/14/98) |
| 4.7 | 364-Day Credit Agreement, dated as of May 5, 1999, among W. R. Grace & Co.-Conn.; W. R. Grace & Co.; the several banks parties thereto; the co-agents signatories thereto; Bank of America National Trust and Savings Association, as documentation agent; The Chase Manhattan Bank, as administrative agent for such banks; and Chase Securities Inc., as book manager | Exhibit 4.1 to Form 10-Q (filed 8/3/99) |
| 4.8 | First Amendment to 364-Day Credit Agreement dated as of May 5, 1999 among W. R. Grace & Co.-Conn.; W. R. Grace & Co.; the several banks parties thereto; Bank of America National Trust and Savings Association, as document agent; The Chase Manhattan Bank, as administrative agent for such banks; and Chase Securities, Inc., as bank manager | Exhibit 4 to Form 10-Q (filed 8/15/00) |
| 10.1 | Form of Employee Benefits Allocation Agreement, by and among Old Grace, W. R. Grace & Co.-Conn. and Grace Specialty Chemicals, Inc. (now named W. R. Grace & Co.) | Exhibit 10.1 to Form 10 (filed 3/13/98) |
| 10.2 | Form of Tax Sharing Agreement, by and among Old Grace, W. R. Grace & Co.-Conn. and Grace Specialty Chemicals, Inc. (now named W. R. Grace & Co.) | Exhibit 10.2 to Form 10 (filed 3/13/98) |
| 10.3 | W. R. Grace & Co. 2000 Stock Incentive Plan, as amended | Exhibit 10 for Form 10-Q (filed 8/15/00)* |

10.4	W. R. Grace & Co. 1998 Stock Incentive Plan	Annex C to the Information Statement of Grace Specialty Chemicals, Inc. (now named W. R. Grace & Co.) dated February 13, 1998 including the Form 10 of Grace filed 3/13/98 (“Information Statement”)*
10.5	W. R. Grace & Co. 1998 Stock Plan for Nonemployee Directors	Annex D to Information Statement*
10.6	W. R. Grace & Co. 1996 Stock Incentive Plan, as amended	Exhibit 10.4 to Form 10-Q (filed 5/15/98)*
10.7	W. R. Grace & Co. Supplemental Executive Retirement Plan, as amended	Exhibit 10.03 to Form 10-K of Old Grace (filed 3/28/97)*
10.8	W. R. Grace & Co. Executive Salary Protection Plan, as amended	Exhibit 10.04 to Form 10-K of Old Grace (filed 3/28/97)*
10.9	W. R. Grace & Co. 1981 Stock Incentive Plan, as amended	Exhibit 10.3 to Form 8-K of Old Grace (filed 10/10/96)*
10.10	W. R. Grace & Co. 1986 Stock Incentive Plan, as amended	Exhibit 10.4 to Form 8-K of Old Grace (filed 10/10/96)*
10.11	W. R. Grace & Co. 1989 Stock Incentive Plan, as amended	Exhibit 10.5 to Form 8-K of Old Grace (filed 10/10/96)*
10.12	W. R. Grace & Co. 1994 Stock Incentive Plan, as amended	Exhibit 10.6 to Form 8-K of Old Grace (filed 10/10/96)*
10.13	Information concerning W. R. Grace & Co. Incentive Compensation Program, Deferred Compensation Program and Long-Term Incentive Program	Pages 7-12 and 26-36 of Proxy Statement of Old Grace (filed 4/7/97)*
10.14	Form of Long-Term Incentive Program Award	Exhibit 10.13 to Registration Statement on Form S-1 of Old Grace (filed 8/2/96)*
10.15	Forms of Stock Option Agreements	Exhibit 10.15 to Form 10-K (filed 3/29/99)*

10.16	Form of Stock Option Agreements	Exhibit 10.14 to Registration Statement on Form S-1 of Old Grace (filed 8/2/96)*
10.17	Form of Stock Option Agreements	Exhibit 10.5 to Form 10-Q (filed 5/15/98)*
10.18	Form of Executive Severance Agreement between W. R. Grace & Co. and officers	Exhibit 10.20 to Form 10 of Grace Specialty Chemicals, Inc. (now W. R. Grace & Co.) (filed 3/13/98)*
10.19	Form of Restricted Share Award Agreements dated April 7, 1998	Exhibit 10.1 to Form 10-Q (filed 5/15/98)*
10.20	Employment Agreement, dated January 1, 2001, by and between W. R. Grace & Co. and Paul J. Norris	Filed herewith*
10.21	Employment Agreement dated May 11, 1999 between W. R. Grace & Co.-Conn. and Robert M. Tarola	Exhibit 10.1 to Form 10-Q (filed 8/13/99)*
10.22	Letter Agreement dated January 30, 2001 between Paul J. Norris, on behalf of W. R. Grace & Co., and David B. Siegel	Filed herewith*
10.23	Form of Long-Term Incentive Program Award	Filed herewith*
10.24	Letter Agreement dated May 7, 1999 between Paul J. Norris, on behalf of W. R. Grace & Co., and William M. Corcoran	Filed herewith*
10.25	Distribution Agreement by and among Grace New York, W. R. Grace & Co.-Conn. and Fresenius AG dated February 4, 1996	Exhibit 2 to Form 8-K of Grace New York (filed 2/6/96)
10.26	Form of Indemnification Agreement between W. R. Grace & Co. and certain Directors	Exhibit 10.39 to Registration Statement on Form S-1 of Old Grace (filed 8/2/96)*
10.27	Form of Indemnification Agreement between W. R. Grace & Co. and certain Officers and Directors	Exhibit 10.37 to Form 10-K of Old Grace (filed 3/28/97)*

10.28	Form of Retention Agreement	Filed herewith*
12	Computation of Ratio of Earnings and Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends	Filed herewith in Financial Supplement to Grace's 2000 Form 10-K
21	List of Subsidiaries of W. R. Grace & Co.	Filed herewith
23	Consent of Independent Accountants	Filed herewith in Financial Supplement to Grace's 2000 Form 10-K
24	Powers of Attorney	Filed herewith
99.1	Audit Committee Charter	Filed herewith
99.2	Press Release	Filed herewith

