SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1- 10788

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State of Incorporation)	51-0333696 (I.R.S. Employer Identification No.)
818 WASHINGTON STREET WILMINGTON, DELAWARE (Address of Principal Executive Office)	19801 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (302) 429- 8554

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME ON EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $.01 per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

COMMISSION FILE NUMBER 33-44862
ISP CHEMICALS INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State of Incorporation)	13-3416260 (I.R.S. Employer Identification No.)

RT. 95 INDUSTRIAL AREA, P.O. BOX 37

CALVERT CITY, KENTUCKY 42029
(Address of Principal Executive Office) (Zip Code)
REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (502) 395- 4165
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

COMMISSION FILE NUMBER 33-44862-01
ISP TECHNOLOGIES INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State of Incorporation)	51-0333795 (I.R.S. Employer

Identification No.)

STATE HIGHWAY 146 & INDUSTRIAL ROAD

TEXAS CITY, TEXAS 77590

(Address of Principal Executive Office) (Zip Code)
REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (409) 945- 3411
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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SEE TABLE OF ADDITIONAL REGISTRANTS BELOW

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S- K is not contained herein, and will not be contained, to the best knowledge of International Specialty Products Inc., 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.__
As of March 21, 1997, 96,521,481 shares of common stock of International Specialty Products Inc. were outstanding. The aggregate market value of the voting stock held by non- affiliates of International Specialty Products Inc. as of March 21, 1997 was $207,999,343.12. The aggregate market value was computed by reference to the closing price on the New York Stock Exchange of Common Stock of International Specialty Products Inc. on such date ($13 1/8). For purposes of the computation, voting stock held by executive officers and directors of the registrants and ISP Holdings Inc., an affiliate of International Specialty Products Inc., has been excluded. Such exclusion is not intended, and shall not be deemed, to be an admission that such executive officers and directors are affiliates of International Specialty Products Inc.
As of March 21, 1997, ISP Chemicals Inc. and ISP Technologies Inc. each had 10 shares of common stock outstanding. No shares are held by non- affiliates.
As of March 21, 1997, each of the additional registrants had the number of shares outstanding which is shown on the table below. No shares are held by non- affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the 1997 Annual Meeting of Stockholders of International Specialty Products Inc. to be filed within 120 days after the Registrants' fiscal year end (the 'Proxy Statement') is incorporated by reference in Part III, Items 10, 11, 12 and 13.

ADDITIONAL REGISTRANTS

EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION	NO. OF SHARES OUTSTANDING	I.R.S. EMPLOYER IDENTIFICATION NO.	ADDRESS, INCLUDING ZIP CODE AND TELEPHONE NUMBER INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICE
ISP (PUERTO RICO) INC....	Delaware	10	22-2934561	Mirador de Bairoa Calle 27st-14 Caquas, Puerto Rico 00725-8900 (787) 744-3116
ISP ENVIRONMENTAL SERVICES INC.....	Delaware	10	51-0333801	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
ISP FILTERS INC.....	Delaware	10	51-0333796	4436 Malone Road Memphis, TN 38118 (901) 795-2445
ISP GLOBAL TECHNOLOGIES INC.....	Delaware	10	51-0333802	818 Washington Street Wilmington, DE 19801 (302) 429-7492
ISP INTERNATIONAL CORP...	Delaware	10	51-0333734	818 Washington Street

				Wilmington, DE 19801 (302) 429-7493
ISP INVESTMENTS INC.....	Delaware	10	51-0333803	818 Washington Street Wilmington, DE 19801 (302) 429-7496
ISP MANAGEMENT COMPANY, INC.....	Delaware	10	51-0333800	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
ISP MINERAL PRODUCTS INC.....	Delaware	10	51-0333794	34 Charles Street Hagerstown, MD 21740 (301) 733-4000
ISP MINERALS INC.....	Delaware	10	51-0333798	Route 116 Blue Ridge Summit, PA 17214 (717) 794-2184
ISP REAL ESTATE COMPANY, INC.....	Delaware	2	22-2886551	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
ISP REALTY CORPORATION...	Delaware	1,000	13-2720081	1361 Alps Road Wayne, NJ 07470 (201) 628-3000
VERONA INC.....	Delaware	100	22-3036319	NCNB Plaza, Suite 300 7 North Laurens St. Greenville, SC 29601 (803) 271-9194
BLUEHALL INCORPORATED....	Delaware	1	13-3335905	818 Washington Street Wilmington, DE 19801 (302) 651-0165

PART I

ITEM 1. BUSINESS

GENERAL

International Specialty Products Inc. ('ISP') is a leading multinational manufacturer of specialty chemicals, mineral products, filter products, and advanced materials.

ISP, incorporated in Delaware in 1991, operates its business exclusively through 19 domestic subsidiaries, including ISP Chemicals Inc., ISP Technologies Inc., ISP Van Dyk Inc. and ISP Fine Chemicals Inc., 37 international subsidiaries and a joint venture with Huls Aktiengesellschaft, a German corporation ('Huls'), in which ISP has a 50% interest and which operates under the name GAF- Huls Chemie GmbH ('GAF- Huls'). Except as the context otherwise requires, 'ISP' or the 'Company' refers to International Specialty Products Inc. and its subsidiaries and their predecessors.

ISP is an 83.5% owned subsidiary of ISP Holdings Inc. ('ISP Holdings'). ISP is indirectly controlled by Samuel J. Heyman, Chairman of the Board of Directors and Chief Executive Officer of ISP, ISP Holdings and GAF Corporation ('GAF'). On January 1, 1997, GAF effected a series of transactions (collectively, the 'Separation Transactions') involving its subsidiaries that resulted in, among other things, the capital stock of ISP Holdings being distributed to the stockholders of GAF. As a result of the Separation Transactions, ISP Holdings and ISP are no longer direct or indirect subsidiaries of GAF or G- I Holdings Inc. ('G- I Holdings'), a subsidiary of GAF.

ISP Chemicals Inc. ('ISP Chemicals'), ISP Technologies Inc. ('ISP Technologies') and the additional registrants are consolidated subsidiaries of ISP and, together with ISP Van Dyk Inc., ISP Fine Chemicals Inc., International Specialty Products Funding Corporation and ISP Newark Inc., constitute all of the active domestic subsidiaries of ISP. ISP Chemicals was incorporated in Delaware in 1987 under the name Nordenham Inc. ISP Technologies was incorporated in Delaware in 1991 under the name ISP 6 Corp.

The address and telephone number for the principal executive offices of ISP are: 818 Washington Street, Wilmington, Delaware 19801; (302) 429- 8554 or (800) 526- 5315. The address and telephone number for the principal executive offices of ISP Chemicals are: Route 95 Industrial Area, P.O. Box 37, Calvert City, Kentucky 42029; (502) 395- 4165. The address and telephone number for the principal executive offices of ISP Technologies are: State Highway 146 and Industrial Road, Texas City, Texas 77590; (409) 945- 3411.

Financial information concerning ISP's industry segments and foreign and domestic operations required by Item 1 is included in Notes 10 and 11 to the Consolidated Financial Statements contained in this Annual Report on Form 10- K.

SPECIALTY CHEMICALS

Products and Markets. ISP manufactures a broad spectrum of specialty chemicals having numerous applications in consumer and industrial products. ISP
uses proprietary technology to convert various raw materials, through a chain of one or more processing steps, into increasingly complex and higher value added derivatives to meet specific customer requirements. The majority of ISP's specialty chemical products are derived from acetylene, including intermediates, solvents, vinyl ethers and polymers, and sales of these products represent the majority of ISP's specialty chemical sales.
ISP's specialty chemicals consist of nine main groups of products: vinyl ether polymers, polyvinyl pyrrolidone polymers, solvents, intermediates, specialty preservatives, sunscreens, emollients, pearlescent pigments and fine chemicals.
Vinyl ether polymers are used in cosmetics and personal care products and pharmaceutical and health- related products, primarily in hair care and dental care products. Vinyl ether monomers and oligomers are used in coatings and inks for both consumer and industrial products.
Polyvinyl pyrrolidone (PVP) polymers are used primarily in cosmetics, personal care, pharmaceutical and health- related products, food and beverages, and detergent formulations. Examples are binders and disintegrants for tablets and vitamins; clarifiers and chill- hazing elimination agents for beer, wine and fruit juices; microbiocidal products for human and veterinary applications; resins for hair care products such as hair sprays,
mousses, conditioners, and gels; water proofing ingredients in mascaras, sunscreens and lipsticks; multifunctional polymers for specialty coatings, adhesives, ink jet inks and media for consumer and industrial applications; and dispersants and binders in agricultural chemical formulations.
Solvents are sold to customers for use in agricultural chemicals, pharmaceuticals, coatings, wire enamels, adhesives, plastics, electronic coating and cleaning applications, petroleum extraction and specialty cleaners. ISP's family of solvents includes, among others, N- methyl- 2- pyrrolidone, gamma- butyrolactone, 2- pyrrolidone and tetrahydrofuran, many of which are used by ISP as raw materials in the manufacture of monomers and polymers.
Intermediates are manufactured primarily for use by ISP as raw materials in manufacturing solvents and polymers. Some intermediates are also sold to customers for use in the manufacture of engineering plastics and elastomers, agricultural chemicals, oil production auxiliaries and other products. Butanediol, an intermediate produced by ISP, is an essential raw material in the manufacture of polybutylene terephthalate thermoplastic resins and polyurethane elastomers, which are used in the automotive, electronics and appliance industries.
Specialty preservatives are proprietary products that are marketed worldwide to the cosmetics, personal care and household industries. ISP sells a number of preservative products, including Germall(Registered) 115, Germall(Registered) II, Germall(Registered) Plus, Germaben(Registered) II, Germaben(Registered) II- E, Suttocide(Registered) A and LiquaPar(Registered) Oil. Uses include infant care preparations, eye and facial makeup, after- shave and nail, bath, hair and skin preparations.

ISP Van Dyk Inc. produces three multifunctional specialty chemical product lines which ISP markets primarily to the cosmetics and personal care industry- - ultraviolet absorber chemicals, the principal active ingredients in sunscreens; pearlescent pigments, which provide the pearly or lustrous color in lipsticks, eye shadows and other cosmetics; and emollients and emulsifiers, which are used as moisturizing and softening agents in a variety of creams and lotions, hair care products and other cosmetics. ISP Van Dyk's Escalol(Registered), Pearl- Glo(Registered) and Ceraphyl(Registered) products are widely recognized for their respective sunscreen, pigment and emollient properties.
ISP Fine Chemicals Inc. produces a broad range of pharmaceutical intermediates, biological buffers, pheromones and several bulk active pharmaceuticals which serve the pharmaceutical, biotechnology, agricultural and chemical process industries. Fine chemicals are extremely specialized products, made in small quantities, which because of their complexity can be priced at several hundred to several thousand dollars per kilogram. ISP Fine Chemicals Inc. also provides a custom manufacturing capability serving the pharmaceutical, biotechnology, agricultural and chemical process industries.
Marketing and Sales. ISP markets its specialty chemicals through a worldwide marketing and sales force, typically chemists or chemical engineers, who work closely with ISP's customers to familiarize themselves with their customer's products, manufacturing processes and markets. ISP conducts its marketing and domestic sales from ISP's headquarters in Wayne, New Jersey and regional offices strategically located throughout the United States.
International Operations. ISP markets all of its specialty chemicals worldwide. ISP conducts its international operations through 37 subsidiaries and 44 sales offices located in Western and Eastern Europe, Canada, Latin America and the Asia-Pacific region. Services of local distributors are also used to reach markets that might otherwise be unavailable to ISP.
ISP had approximately 60% of its international sales in 1996 in countries in Western Europe and Japan which are subject to currency exchange rate fluctuation risks. For a discussion of the Company's policy regarding the management of these risks, see Item 7, 'Management's Discussion and Analysis of Financial Condition and Results of Operations- - Liquidity

and Financial Condition.' Other countries in which the Company has sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation and general instability.
International sales in 1996 of ISP's specialty chemicals, excluding sales by GAF- Huls, were approximately 45% of ISP's total 1996 sales. GAF- Huls, a joint venture in which ISP holds a 50% interest, produces certain intermediates and solvents. The GAF- Huls plant is located in Marl, Germany.

Raw Materials. Because of the multi- step processes required to manufacture ISP's specialty chemicals, ISP believes that its raw material costs represent a smaller percentage of the cost of goods sold than for most other chemical companies. It is estimated that approximately one- third of ISP's manufacturing costs are for raw materials (including energy and packaging). As a result, fluctuations in the pricing of raw materials have less impact on ISP than on those chemical companies for which raw materials costs represent a larger percent of manufacturing costs.
The principal raw materials used in the manufacture of ISP's specialty chemicals are acetylene, methanol and methylamine. Most of these raw materials are obtained from outside sources pursuant to long- term supply agreements. Acetylene, a significant raw material used in the production of most of ISP's specialty chemicals, is obtained by ISP for domestic use from two unaffiliated suppliers pursuant to long- term supply contracts. At ISP's Texas City and Seadrift, Texas plants, acetylene is supplied via pipeline by a neighboring large multinational company that generates this raw material as a by- product from ethylene manufacture. At ISP's Calvert City, Kentucky facility, acetylene is supplied via pipeline by a neighboring company that generates it from calcium carbide. The acetylene utilized by GAF- Huls is produced by Huls, using a proprietary electric arc process, sourced from various hydrocarbon feedstocks. ISP believes that this diversity of supply sources, using a number of production technologies (ethylene by- product, calcium carbide and electric arc), provides the Company with a reliable supply of acetylene. In the event of a substantial interruption in the supply of acetylene from current sources, no assurances can be made that ISP would be able to obtain as much acetylene from other sources as would be necessary to meet its supply requirements. ISP has a long- standing agreement with GAF- Huls to import butanediol into the United States for use as a feedstock for the production of ISP's solvents and polymers. ISP has not experienced an interruption of its acetylene supply that has had a material adverse effect on its sales of specialty chemicals. With regard to raw materials other than acetylene, ISP believes that in the event of a supply interruption it could obtain adequate supplies from alternate sources.
Natural gas and raw materials derived from petroleum are used in many of ISP's manufacturing processes and, consequently, the price and availability of petroleum and natural gas could be material to ISP's operations. During 1996, crude oil and natural gas supplies remained adequate, while prices generally demonstrated seasonal variations.
While methanol prices were extremely volatile in 1994 and 1995, during 1996 methanol availability remained ample and prices remained relatively constant.

MINERAL PRODUCTS

Products and Markets. ISP manufactures mineral products consisting of ceramic- coated colored roofing granules, which are produced from rock deposits that are mined and crushed at ISP's quarries and are colored and coated using a proprietary process. ISP's mineral roofing granules are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles, for which they provide weather resistance, decorative coloring, heat deflection and increased weight. ISP is the second largest of only two major suppliers of colored roofing granules in North America. ISP also markets granule by- products for use in the construction and maintenance of fast dry, clay- like tennis courts.
ISP estimates that more than 80% of the asphalt shingles currently produced by the roofing industry are sold for the reroofing/replacement market, in which demand is driven not by the pace of new home construction but by the needs of homeowners to replace existing roofs. Homeowners generally replace their roofs either because they are worn, thereby creating concerns as to weather- tightness, or because of the homeowners desire to upgrade the appearance of their homes. ISP estimates that the balance of the roofing industry's asphalt shingle production historically has been sold primarily for use in new housing construction. Sales of ISP's colored mineral granules have benefited from a trend toward the increased use of heavyweight, three- dimensional laminated roofing shingles which results in both functional and aesthetic improvements, which require, on average, approximately 60% more granules than traditional three- tab, lightweight roofing shingles.
Sales to Building Materials Corporation of America ('BMCA'), an affiliate of the Company, and its subsidiary, U.S. Intec, Inc. ('USI'), constituted approximately 59% of ISP's mineral products net sales in 1996. See Note 9 to Consolidated Financial Statements.

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Raw Materials. ISP owns rock deposits that have specific performance characteristics, including weatherability, the ability to reflect UV light, abrasion- resistance, non- staining characteristics and the ability to absorb pigments. ISP owns three quarries, each with proven reserves, based on current production levels, of more than 20 years.

FILTER PRODUCTS AND ADVANCED MATERIALS

ISP manufactures and sells filter products, consisting of pressure filter vessels, filter bags and filter systems, and sells cartridges and cartridge housings. These filter products are designed for the removal of macroscopic contaminants in the treatment of process liquids. The paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries accounted for almost all of ISP's 1996 net sales of filter products.

ISP manufactures pressure filter vessels at manufacturing facilities in Brazil, Canada and Germany, which serve both local and international markets. ISP also manufactures filter bags in Belgium, Canada, Singapore, Brazil and the United States and supplies filter products worldwide through its subsidiaries, sales offices and distributors.

ISP manufactures a variety of advanced materials, consisting of high- purity carbonyl iron powders, sold under ISP's trademark Micropowder(Registered), which are used in a variety of advanced technology applications. Using proprietary technology, ISP manufactures more than 50 different grades of Micropowder(Registered) iron, one of which is sold under the trademark Ferronyl(Registered), for use as a vitamin supplement. The primary markets for ISP's Micropowder(Registered) are the domestic defense industry, which employs these products in a variety of coating systems for stealth purposes in aircraft and naval ships, and the emerging metal injection molding segment of the powder metallurgy industry. Other industries using ISP's carbonyl iron powders are the aerospace, electronics, power metallurgy, pharmaceutical and food industries. ISP is the sole domestic manufacturer of carbonyl iron powders.

ISP manufactures a line of processless, electronically imaged film products including Rad- Sure(Registered), which is a radiation sensitive film strip affixed to blood bags to indicate whether or not they have been properly irradiated.

COMPETITION

ISP believes that it is either the first or second largest seller worldwide of its specialty chemicals derived from acetylene other than butanediol and tetrahydrofuran. Butanediol, which ISP produces primarily for use as a raw material, is also manufactured by a limited number of companies in the United States, Germany, Japan and Korea. Tetrahydrofuran is manufactured by a number of companies throughout the world. While there are companies, other than ISP and its principal competitor, that manufacture a limited number of ISP's other specialty chemicals, the market position of these companies is much smaller than that of ISP (other than as to solvents and intermediates, with respect to which there is a significant third competitor). In addition to ISP's competitors as noted above, there are other companies that produce substitutable products for a number of ISP's specialty chemicals. These companies compete with ISP in the personal care, pharmaceutical, beverage preservative and industrial markets and have the effect of limiting ISP's market penetration and pricing flexibility.

With regard to its mineral products, ISP has only one major and one smaller competitor and believes that competition has been limited by: (i) the substantial capital expenditures associated with the construction of new mineral processing and coloring plants and the acquisition of suitable rock reserves; (ii) the limited availability of proven rock sources; (iii) the complexity associated with the construction of a mineral processing and coloring plant, together with the technical know-how required to operate such a plant; (iv) the need to obtain, prior to commencing operations, reliable data over a substantial period of time regarding the weathering of granules in order to assure the quality and durability of the product; and (v) the difficulty in obtaining the necessary permits to mine and operate a quarry.

With respect to filter products, ISP competes with a number of companies worldwide. With respect to advanced materials, ISP is the sole domestic manufacturer of carbonyl iron powders and one of only two manufacturers worldwide.

Competition is largely based upon product and service quality, technology, distribution capability and price. ISP believes that it is well positioned in the marketplace as a result of its broad product lines, sophisticated technology and worldwide distribution network.

RESEARCH AND DEVELOPMENT

ISP's worldwide research and development expenditures were $20.3 million, $21.9 million and $25.4 million in 1994, 1995 and 1996, respectively.

ISP's research and development department is located primarily at ISP's worldwide technical center and laboratories in Wayne, New Jersey. Additional research and development is conducted at plant sites in Calvert City, Kentucky, Texas City, Texas, Chatham, New Jersey, Belleville, New Jersey, and Columbus, Ohio and technical centers in the United

Kingdom, Germany, China and Singapore. ISP's mineral products research and development facility, together with its customer design and color center, is located at Hagerstown, Maryland.

ENVIRONMENTAL SERVICES

ISP has received conditional site designation for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property and has received approval from the New Jersey Turnpike Authority for a direct access ramp from the New Jersey Turnpike to the site. If ISP is successful in securing the site designation and the necessary permits to construct and operate the hazardous waste facility, ISP intends to develop and operate the facility in a separate subsidiary, either on its own or in a joint venture with a suitable partner. ISP estimates that the cost of constructing the facility will be approximately $100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. ISP anticipates utilizing internally generated cash and/or seeking project or other independent financing for this project.

PATENTS AND TRADEMARKS

ISP owns approximately 313 domestic and 123 foreign patents and owns or licenses approximately 118 domestic and 1,350 foreign trademark registrations related to the business of ISP. The Company does not believe that any single patent, patent application or trademark is material to ISP's business or operations.

The Company believes that the duration of the existing patents and patent licenses is satisfactory.

ENVIRONMENTAL COMPLIANCE

Since 1970, a wide variety of federal, state and local environmental laws and regulations relating to environmental matters (the 'Regulations') have been adopted and amended. By reason of the nature of the operations of the Company and its predecessor and certain of the substances that are or have been used, produced or discharged at their plants or at other locations, the Company is affected by the Regulations. The Company has made capital expenditures of less than $3.9 million in each of the last three years in order to comply with the Regulations (which expenditures are included in additions to property, plant and equipment) and anticipates that aggregate capital expenditures relating to environmental compliance in 1997 and 1998 will be approximately $4.7 million and $3.8 million, respectively.

The Regulations deal with air and water emissions or discharges into the environment, as well as the generation, storage, treatment, transportation and disposal of solid and hazardous waste, and the remediation of any releases of hazardous substances and materials to the environment. The Company believes that its manufacturing facilities comply in all material respects with applicable Regulations, and, while it cannot predict whether more burdensome requirements will be adopted in the future, it believes that any potential liability for compliance with the Regulations will not materially affect its business, liquidity, results of operations, cash flows or financial position.

The Company believes that its manufacturing facilities are being operated in compliance in all material respects with applicable environmental, health and safety laws and regulations, but cannot predict whether more burdensome requirements will be imposed by governmental authorities in the future.

EMPLOYEES

At December 31, 1996, the Company employed approximately 2,700 people worldwide. Approximately 740 employees in the United States and Canada were subject to six union contracts. The Company expects to renegotiate one labor contract during 1997. The Company believes that its relations with its employees and their unions are satisfactory.

The Company has in effect various benefit plans, which include a non- qualified retirement plan for a group of executives, a capital accumulation plan for its salaried and certain hourly employees, a flexible benefit plan for its salaried employees, a retirement plan for certain of its hourly employees, and group insurance agreements providing life, accidental death, disability, hospital, surgical, medical and dental coverage. In addition, the Company has contracted with various health maintenance organizations to provide medical benefits. The Company and, in many cases, its employees contribute to the cost of these plans.

ITEM 2. PROPERTIES

The corporate headquarters and principal research and development laboratories of ISP are located at a 100- acre campus-like office and research park owned by a subsidiary of ISP at 1361 Alps Road, Wayne, New Jersey 07470. The premises are subject to a first mortgage.

The principal domestic and foreign real properties either owned by, or leased to, ISP are described below. Unless otherwise indicated, the properties are owned in fee. In addition to the principal facilities listed below, ISP maintains sales offices and warehouses in the United States and abroad, substantially all of which are in leased premises under relatively short- term leases.

LOCATION	FACILITY	PRODUCT LINE
	DOMESTIC	
Alabama		
Huntsville.....	Plant*	Advanced Materials
Kentucky		
Calvert City.....	Plant	Specialty Chemicals
Maryland		
Hagerstown.....	Research Center, Design Center, Sales Office	Mineral Products
Missouri		
Annapolis.....	Plant, Quarry	Mineral Products
New Jersey		
Belleville.....	Plant, Sales Office, Research Center, Warehouse*	Specialty Chemicals
Bridgewater.....	Sales Office	Specialty Chemicals
Chatham.....	Plant, Sales Office, Research Center, Warehouse*	Specialty Chemicals
Wayne.....	Headquarters, Corporate Administrative Offices, Research Center	Specialty Chemicals; Filter Products and Advanced Materials
Ohio		
Columbus.....	Plant, Sales Office	Fine Chemicals
Pennsylvania		
Blue Ridge Summit....	Plant, Quarry	Mineral Products
Tennessee		
Memphis.....	Plant*, Warehouse*, Distribution Center*	Filter Products
Texas		
Seadrift.....	Plant	Specialty Chemicals
Texas City.....	Plant	Specialty Chemicals
Wisconsin		
Pembine.....	Plant, Quarry	Mineral Products

LOCATION	FACILITY	PRODUCT LINE
	INTERNATIONAL	
Belgium		
Sint-Niklaas.....	Plant, Sales Office, Distribution Center	Specialty Chemicals and Filter Products
Brazil		
Sao Paulo.....	Plant*, Sales Office*, Distribution Center*	Specialty Chemicals and Filter Products
Canada		
Mississauga, Ontario.....	Plant*, Sales Office*, Distribution Center*	Specialty Chemicals
Oakville, Ontario....	Plant*	Filter Products
Germany		
Hamburg.....	Plant*	Filter Products
Great Britain		
Guildford.....	European Headquarters*, Research Center*	Specialty Chemicals
India		
Nagpur.....	Plant	Specialty Chemicals
Singapore		
Southpoint.....	Plant*, Sales Office*, Distribution Center*, Asia-Pacific Headquarters*, Warehouse*	Specialty Chemicals and Filter Products
Affiliate:		
GAF-Huls Chemie GmbH		
Marl, Germany.....	Plant, Sales Office	Specialty Chemicals

* Leased Property

The Company believes that its plants and facilities, which are of varying ages and are of different construction types, have

been satisfactorily maintained, are in good condition, are suitable for their respective operations and generally provide sufficient capacity to meet production requirements. Each plant has adequate transportation facilities for both raw materials and finished products. In 1996, the Company made capital expenditures in the amount of $54.0 million relating to plant, property and equipment.

ITEM 3. LEGAL PROCEEDINGS

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters ('Environmental Claims') under the Comprehensive Environmental Response Compensation and Liability Act ('CERCLA') and similar state laws, in which recovery is sought for the cost of cleanup of contaminated sites, a number of which are in the early stages or have been dormant for protracted periods.

The Company estimates that its liability in respect of all Environmental Claims, and certain other environmental compliance expenses, as of December 31, 1996, will be $18.5 million, before reduction for insurance recoveries reflected on its balance sheet (discussed below) of $6.9 million ('estimated recoveries'). In the opinion of management, the resolution of such matters should not be material to the business, liquidity, results of operations, cash flows or financial position of the Company. However, adverse decisions or events, particularly as to the liability and the financial responsibility of the Company's insurers and of the other parties involved at each site and their insurers, could cause the Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, the Company believes that it will receive the estimated recoveries and it may receive amounts substantially in excess thereof. The Company believes it is entitled to substantially full defense and indemnity under its insurance policies for most Environmental Claims, although the Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for such claims.

The estimated recoveries are based in part upon interim agreements with certain insurers. The Company terminated these agreements in 1995 and on March 8, 1995 commenced litigation in the United States District Court for the District of New Jersey seeking amounts substantially in excess of the estimated recoveries. While the Company believes that its claims are meritorious, there can be no assurance that the Company will prevail in its efforts to obtain amounts equal to, or in excess of, the estimated recoveries.

In June 1989, ISP entered into a Consent Order with the New Jersey Department of Environmental Protection ('NJDEP') requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently $7.5 million) to guarantee ISP's performance. In April 1993, NJDEP issued orders which require the prevention of discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. ISP believes, although there can be no assurance, that, taking into account its plans for development of the site, it can comply with the NJDEP order at a cost of no more than $7.5 million (in connection with which ISP anticipates insurance recoveries of approximately $5 million). See 'Item 1, Environmental Services.'

Pursuant to an Order dated September 28, 1990 issued by the United States Environmental Protection Agency (the 'EPA'), over 100 potentially responsible parties, including the Company, have agreed to participate in the remediation of a contaminated waste disposal site in Carlstadt, New Jersey. The EPA is evaluating final remedies for the site. Total cleanup costs are unknown but the Company estimates, based on information currently available to it, that the insurance described above will cover a substantial portion of the Company's share of such costs.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

EXECUTIVE OFFICERS

The following table sets forth the name, age, position and other information with respect to the executive officers of ISP and the executive officers and directors of ISP Chemicals and ISP Technologies. Each person listed below is a citizen of the United States.

NAME AND POSITION HELD(1)	AGE	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
Samuel J. Heyman..... Chairman and Chief Executive Officer, International Specialty Products Inc.	58	Mr. Heyman has been a director and Chairman and Chief Executive Officer of ISP since its formation and Chief Executive Officer of ISP Chemicals and ISP Technologies since November 1991. Mr. Heyman has been a director and Chairman and Chief Executive Officer of

		ISP Holdings since its formation, of G-I Holdings since August 1988 and of GAF and certain of its subsidiaries since April 1989, prior to which he held the same position with the predecessor to GAF (the 'Predecessor Company') from December 1983 to April 1989. He has been a director and Chairman of BMCA since its formation, a director of USI since October 1995 and Chief Executive Officer of BMCA since June 1996. He is also the Chief Executive Officer, Manager and General Partner of a number of closely held real estate development companies and partnerships whose investments include commercial real estate and a portfolio of publicly traded securities.
Peter R. Heinze..... President and Chief Operating Officer, International Specialty Products Inc.	54	Dr. Heinze has been President, Chief Operating Officer and a director of ISP, President and Chief Operating Officer of ISP Chemicals and Chief Operating Officer of ISP Technologies since November 1996. He was Senior Vice President, Chemicals of PPG Industries, Inc. from April 1993 to November 1996 and Group Vice President, Chemicals of PPG Industries, Inc. from August 1992 to April 1993. From January 1988 to August 1992, Dr. Heinze was President, Chemicals Division, and an Executive Vice President of BASF Corporation.

NAME AND POSITION HELD(1)	AGE	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
Carl R. Eckardt..... Executive Vice President, Corporate Development, International Specialty Products Inc.	66	Mr. Eckardt was President and Chief Operating Officer of ISP and ISP Chemicals and Chief Operating Officer of ISP Technologies from January 1994 to November 1996. He was Executive Vice President of ISP from its formation to January 1994 and has served as such since November 1996. He has been a director of ISP and Executive Vice President of ISP Holdings since their respective formations. Mr. Eckardt has been Vice Chairman of GAF since November 1996 and a director of GAF since April 1987. He was Executive Vice President of GAF from April 1989 to November 1996 and held the same position with the Predecessor Company from January 1987 to April 1989. Mr. Eckardt has been Executive Vice President of G-I Holdings since March 1993. He was President of GAF Fiberglass Corporation (formerly known as GAF Chemicals Corporation) ('GFC') and the Predecessor Company's chemicals division from 1985 to 1987. Mr. Eckardt was Senior Vice President Worldwide Chemicals and Senior Vice President International Chemicals of the Predecessor Company from 1982 to 1985 and 1981 to 1982, respectively. Mr. Eckardt joined the Predecessor Company

		in 1974.
James P. Rogers..... Executive Vice President-Finance, International Specialty Products Inc.	46	Mr. Rogers has been Executive Vice President-Finance of ISP, ISP Chemicals and ISP Technologies, Executive Vice President and Chief Financial Officer of ISP Holdings, G-I Holdings, GAF and certain of its subsidiaries and Executive Vice President of BMCA since December 1996. He was Senior Vice President and Chief Financial Officer of GAF, G-I Holdings and certain of their subsidiaries, and Senior Vice President-Finance of ISP, ISP Technologies and ISP Chemicals from November 1993 to December 1996 and of BMCA from its formation to December 1996. Mr Rogers has been a director and Senior Vice President of USI since October 1995. He has served as Treasurer of G-I Holdings, GAF and certain of its subsidiaries since March 1992 and was Vice President-Finance of such corporations from March 1992 to October 1993. He was Treasurer of ISP from March 1992 to December 1994 and from September 1995 to December 1996. From August 1987 to March 1992, Mr. Rogers was Treasurer of Amphenol Corporation, a manufacturer of electronic connectors.
Richard A. Weinberg..... Senior Vice President and General Counsel, International Specialty Products Inc.	37	Mr. Weinberg has been Senior Vice President and General Counsel of ISP, ISP Technologies, ISP Chemicals, GAF, G-I Holdings, BMCA and certain of their subsidiaries since May 1996 and of ISP Holdings since its formation. He has been a director of ISP Chemicals and ISP Technologies since May 1996. He was Vice President and General Counsel of BMCA from September 1994 to May 1996, Vice President-Law of BMCA from May 1994 to September 1994 and Vice President-Law of GAFBMC from April 1993 to May 1994. Mr. Weinberg was employed by Reliance Group Holdings Inc., a diversified insurance holding company, as Staff Counsel from October 1987 to January 1990 and as Assistant Vice President and Corporate Counsel from January 1990 to April 1993.

NAME AND POSITION HELD(1)	AGE	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT AND FIVE-YEAR EMPLOYMENT HISTORY
Louis S. Goldberg..... Senior Vice President, Headquarters Administrative Services, International Specialty Products Inc.	60	Mr. Goldberg has served as Senior Vice President, Headquarters Administrative Services of ISP, ISP Chemicals and ISP Technologies since July 1996. Mr. Goldberg has been Senior Vice President, Corporate Human Resources of ISP Holdings since its formation and of GAF and G-I Holdings and certain of their subsidiaries since July 1996. From January 1996 to July 1996, Mr. Goldberg served as a senior consultant to GAF. From January 1995 to January 1996, he was Commissioner of the

		Department of Administrative Services for the State of Connecticut, and from January 1991 to December 1993 he served as Connecticut's Commissioner of the Department of Motor Vehicles. From September 1989 to December 1990, he was Senior Vice President of Staub, Warmbold & Associates. From August 1984 to April 1989 he was Vice President-Human Resources of Playtex, Inc. and from February 1977 to January 1984 he was Vice President Administration/ Human Resources of The Seagram Company Ltd.
Richard B. Olsen..... Senior Vice President and General Manager, Mineral Products, International Specialty Products Inc.	50	Mr. Olsen has been Senior Vice President and General Manager, Mineral Products of ISP and ISP Technologies since April 1995. From November 1993 to April 1995, he served as Senior Vice President and Chief Financial Officer of ISP, ISP Chemicals and ISP Technologies. From June 1991 to November 1993, he was Vice President-Finance and Purchasing of ISP, ISP Chemicals and ISP Technologies. He was Vice President, Finance of GFC from April 1989 to November 1993 and held the same positions with the Predecessor Company from June 1986 to April 1989.
Randall R. Lay..... Vice President and Chief Financial Officer, International Specialty Products Inc.	42	Mr. Lay has been Vice President and Chief Financial Officer of ISP, ISP Chemicals and ISP Technologies since April 1995. From August 1993 to April 1995, he served as Controller, Specialty Derivatives of ISP. From March 1991 to August 1993, he was Director, Financial Planning of Otis Elevator Company and from July 1989 to March 1991 he was Director, Financial Planning of United Technologies Corporation.

(1) Under ISP's By- laws, each director and executive officer continues in office until ISP's next annual meeting of stockholders and until his or her successor is elected and qualified.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following information pertains to ISP's common stock, which is traded on the New York Stock Exchange. As of February 21, 1997, there were 297 holders of record of ISP's outstanding common stock.

	1996 BY QUARTER				1995 BY QUARTER			
	FIRST	SECOND	THIRD	FOURTH	FIRST	SECOND	THIRD	FOURTH
Price Range of Common Stock:								
High.....	$13 1/4	$12 5/8	$11 3/8	$12 3/4	$7 5/8	$8 5/8	$9 7/8	$11
Low.....	10 1/8	10 3/4	9 5/8	9	6 3/8	6 5/8	8 3/8	8 1/8

ISP announced in the second quarter of 1995 that its Board of Directors had eliminated the 2 1/2 cents per share semi-annual dividend on ISP's common stock. The declaration and payment of dividends is at the discretion of the Board of Directors of ISP. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 6 to Consolidated Financial Statements for information regarding restrictions on the payment of dividends set forth on pages F- 2 to F- 5 and page F- 19, respectively. Any decision to resume the payment of dividends, and the timing and amount thereof, is dependent upon, among other things, ISP's

results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by the Board of Directors. Accordingly, there can be no assurance that the Board of Directors will resume the declaration and payment of

dividends or as to the amount thereof.

ITEM 6. SELECTED FINANCIAL DATA

See Page F-6.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See Page F-2.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index on Page F- 1 and Financial Statements and Supplementary Data on Pages F- 7 to F- 29.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

The information relating to the directors of ISP to be contained in the Proxy Statement under the heading 'Election of Directors' is incorporated by reference herein. For information relating to the executive officers of ISP, ISP Chemicals and ISP Technologies, see 'Executive Officers' in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information to be contained in the Proxy Statement under the headings 'Compensation of Executive Officers of the Company' and 'Election of Directors' is incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information to be contained in the Proxy Statement under the heading 'Security Ownership of Certain Beneficial Owners and Management' is incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information to be contained in the Proxy Statement under the captions 'Election of Directors' and 'Certain Transactions' is incorporated by reference herein.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8- K

The following documents are filed as part of this report:

(a)(1) Financial Statements: See Index on Page F- 1.

(a)(2) Financial Statement Schedules: See Index on Page F- 1.

(a)(3) Exhibits: (a) The following documents are filed as part of this report:

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EXHIBIT
NUMBER   DESCRIPTION
  3.1    -- Certificate of Incorporation of ISP (incorporated by reference to
            Exhibit 3.1 to ISP's Registration Statement on Form S-1,
            Registration No. 33-40337) (the 'Common Stock Registration
            Statement').
  3.2    -- By-laws of ISP (incorporated by reference to Exhibit 3.2 to the
            Common Stock Registration Statement).
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EXHIBIT
NUMBER   DESCRIPTION
  3.3    -- Certificate of Incorporation of ISP Chemicals (incorporated by
            reference to Exhibit 3.3 to ISP's Registration Statement on Form
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S-1, Registration No. 33-44862) (the '9% Note Registration Statement').

3.4 -- By-laws of ISP Chemicals (incorporated by reference to Exhibit 3.4 to the 9% Note Registration Statement).

3.5 -- Certificate of Incorporation of ISP Technologies (incorporated by reference to Exhibit 3.5 to the 9% Note Registration Statement).

3.6 -- By-laws of ISP Technologies (incorporated by reference to Exhibit 3.6 to the 9% Note Registration Statement).

4 -- Indenture, dated as of March 1, 1992, relating to ISP's 9% Senior Notes due March 1, 1999 (incorporated by reference to Exhibit 4 to the 9% Note Registration Statement).

10.1 -- Management Agreement, dated as of March 3, 1992 ('Management Agreement'), among GAF, G-I Holdings, G Industries Corp., ISP, GAF Building Materials Corporation and GAF Broadcasting Company, Inc. (incorporated by reference to Exhibit 10.5 to ISP's Annual Report on Form 10-K for the year ended December 31, 1993).

10.2 -- Amendment No. 1, dated as of January 1, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.10 to ISP's Annual Report on Form 10-K for the year ended December 31, 1993).

10.3 -- Amendment No. 2, dated as of May 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.1 to ISP's Quarterly Report on Form 10-Q for the quarter ended July 3, 1994).

10.4 -- Amendment No. 3, dated as of December 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.4 to ISP's Annual Report on Form 10-K for the year ended December 31, 1994).

10.5 -- Amendment No. 4, dated as of December 31, 1995, to the Management Agreement (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-4 of G-I Holdings, Registration No. 333-2436).

10.6 -- Amendment No. 5, dated as of October 18, 1996, to the Management Agreement (incorporated by reference to Exhibit 10.6 to ISP Holdings' Registration Statement on Form S-4, Registration No. 333-17827) (the 'ISP Holdings Registration Statement').

10.7 -- Amendment No. 6, dated as of January 1, 1997, to the Management Agreement (incorporated by reference to Exhibit 10.8 to BMCA's Registration Statement on Form S-4 (Registration No. 333-20859)).

10.8 -- Tax Sharing Agreement, dated as of January 1, 1997, among ISP Holdings, ISP and certain subsidiaries of ISP (incorporated by reference to Exhibit 10.8 to the ISP Holdings Registration Statement).

10.9 -- Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to ISP's Registration Statement on Form S-1, Registration No. 33-40337).*

10.10 -- ISP Amended and Restated 1991 Incentive Plan for Key Employees and Directors ('Incentive Plan')(incorporated by reference to Exhibit 99 to ISP's Registration Statement on Form S-8, Registration No. 33-92518).*

10.11 -- Amendment to the Incentive Plan.*

EXHIBIT NUMBER DESCRIPTION

10.12 -- Agreement, dated July 30, 1993, between ISP and Carl R. Eckardt (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-4 of G-I Holdings (Registration No. 33-72220)).*

10.13 -- Letter Agreement, dated October 15, 1996, between GAF and Dr. Peter Heinze (incorporated by reference to Exhibit 10.14 to the ISP Holdings Registration Statement).*

10.14 -- Form of Maintenance Agreement between ISP and ISP Chemicals (incorporated by reference to Exhibit 10.18 to the 9% Note Registration Statement).

10.15 -- Form of Assignment and Assumption Agreement between G Industries Corp. and ISP (incorporated by reference to Exhibit 10.19 to the 9% Note Registration Statement).

10.16 -- Form of Assignment and Assumption Agreement among ISP, ISP Chemicals and ISP Technologies (incorporated by reference to Exhibit 10.20 to the 9% Note Registration Statement).

10.17 -- Form of Intercompany Term Note of ISP payable to the order of ISP

Chemicals (incorporated by reference to Exhibit 10.21 to the 9% Note Registration Statement).

10.18 -- Form of Intercompany Term Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.22 to the 9% Note Registration Statement).

10.19 -- Form of Intercompany Revolving Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.23 to the 9% Note Registration Statement).

10.20 -- Form of Intercompany Revolving Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.24 to the 9% Note Registration Statement).

10.21 -- Form of Option Agreement relating to Cumulative Redeemable Preferred Stock of ISP Holdings.*

10.22 -- Form of ISP Holdings Stock Appreciation Right Agreement.*

21 -- Subsidiaries of ISP and ISP Chemicals; ISP Technologies has no subsidiaries.

23 -- Consent of Arthur Andersen LLP.

27 -- Financial Data Schedule for fiscal year 1996, which is submitted electronically to the Securities and Exchange Commission for information only.

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* Management and/or compensation plan or arrangement.

(b) Reports on Form 8- K

No reports on Form 8- K were filed in the fourth quarter of 1996.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Date: March 26, 1997

INTERNATIONAL SPECIALTY PRODUCTS INC.
By: /s/ RICHARD A. WEINBERG
Richard A. Weinberg
Senior Vice President,
General Counsel and Secretary

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED ON MARCH 26, 1997, BY THE FOLLOWING PERSONS IN THE CAPACITIES INDICATED.

SIGNATURE TITLE

/s/ SAMUEL J. HEYMAN Chairman of the Board and Chief Executive Officer Samuel J. Heyman

/s/ PETER R. HEINZE President and Chief Operating Officer; Director
Peter R. Heinze

/s/ CARL R. ECKARDT Executive Vice President; Director
Carl R. Eckardt

/s/ HARRISON J. GOLDIN Director
Harrison J. Goldin

/s/ CHARLES M. DIKER Director
Charles M. Diker

/s/ SANFORD KAPLAN Director
Sanford Kaplan

/s/ BURT MANNING Director

Burt Manning
/s/ RANDALL R. LAY Vice President and Chief Financial Officer
Randall R. Lay (Principal Financial and Accounting Officer)

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Date: March 26, 1997 ISP CHEMICALS INC.

ISP TECHNOLOGIES INC.
ISP FILTERS INC.
ISP INVESTMENTS INC.
ISP MINERAL PRODUCTS INC.
ISP MINERALS INC.
ISP REAL ESTATE COMPANY, INC.
VERONA INC.
BLUEHALL INCORPORATED
ISP REALTY CORPORATION
By: /s/ RICHARD A. WEINBERG
Richard A. Weinberg
Senior Vice President,
General Counsel and Secretary

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED ON MARCH 26, 1997, BY THE FOLLOWING PERSONS IN THE CAPACITIES INDICATED.

SIGNATURE	TITLE
/s/ SAMUEL J. HEYMAN Samuel J. Heyman	Chief Executive Officer
/s/ RICHARD A. WEINBERG Richard A. Weinberg	Senior Vice President, General Counsel and Secretary; Director

/s/ RANDALL R. LAY Vice President and Chief Financial Officer Randall R. Lay (Principal Financial and Accounting Officer)

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Date: March 26, 1997

ISP (PUERTO RICO) INC.
By: /s/ RICHARD A. WEINBERG
Richard A. Weinberg
Senior Vice President,
General Counsel and Secretary

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED ON MARCH 26, 1997, BY THE FOLLOWING PERSONS IN THE CAPACITIES INDICATED.

SIGNATURE	TITLE

/s/ SAMUEL J. HEYMAN Samuel J. Heyman	Chief Executive Officer
/s/ JAMES M. POTTER James M. Potter	President and Director
/s/ RICHARD A. WEINBERG Richard A. Weinberg	Senior Vice President, General Counsel and Secretary; Director

/s/ RANDALL R. LAY Vice President and Chief Financial Officer Randall R. Lay (Principal Financial and Accounting Officer)

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Date: March 26, 1997

ISP ENVIRONMENTAL SERVICES INC.
ISP MANAGEMENT COMPANY, INC.
By: /s/ RICHARD A. WEINBERG
Richard A. Weinberg
Senior Vice President,
General Counsel and Secretary

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED ON MARCH 26, 1997, BY THE FOLLOWING PERSONS IN THE CAPACITIES INDICATED.

SIGNATURE	TITLE
/s/ SAMUEL J. HEYMAN Samuel J. Heyman	Chief Executive Officer
/s/ PETER R. HEINZE Peter R. Heinze	President and Chief Operating Officer; Director
/s/ RICHARD A. WEINBERG Richard A. Weinberg	Senior Vice President, General Counsel and Secretary; Director

/s/ RANDALL R. LAY Vice President and Chief Financial Officer Randall R. Lay (Principal Financial and Accounting Officer)

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Date: March 26, 1997

ISP GLOBAL TECHNOLOGIES INC.
ISP INTERNATIONAL CORP.
By: /s/ RICHARD A. WEINBERG
Richard A. Weinberg
Senior Vice President,
General Counsel and Secretary

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED ON MARCH 26, 1997, BY THE FOLLOWING PERSONS IN THE CAPACITIES INDICATED.

SIGNATURE	TITLE
/s/ SAMUEL J. HEYMAN Samuel J. Heyman	Chief Executive Officer
/s/ WILLIAM H. BAUM William H. Baum	President and Director
/s/ RICHARD A. WEINBERG Richard A. Weinberg	Senior Vice President, General Counsel and Secretary; Director

/s/ RANDALL R. LAY Vice President and Chief Financial Officer Randall R. Lay (Principal Financial and Accounting Officer)

INTERNATIONAL SPECIALTY PRODUCTS INC.
FORM 10-K
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CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

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INTERNATIONAL SPECIALTY PRODUCTS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

1996 Compared With 1995
International Specialty Products Inc. (the 'Company') recorded net income in 1996 of $80.7 million (83 cents per share) compared with net income of $67.4 million (68 cents per share) in 1995. The 20% increase in net income was attributable to higher operating income (up $8.9 million), a $4.4 million reduction in interest expense, and a $6.4 million increase in other income.
Sales for 1996 were $716.5 million compared with $689 million for 1995. The sales growth was attributable to increased sales of specialty chemicals (up $25.2 million), primarily reflecting increased sales volumes ($31.3 million), partially offset by the unfavorable effect ($7.7 million) of the stronger U.S. dollar relative to other currencies in certain areas of the

world, and also reflected higher filter products sales (up $2.4 million) due to increased unit sales. Sales for the mineral products business decreased by $.5 million due to lower sales volumes (down $2.6 million) resulting from a lost customer and adverse winter weather conditions in the first quarter of 1996. The sales growth in 1996 reflected higher sales in all geographic regions.

Operating income for 1996 increased by 7% to $136 million compared with $127.1 million for 1995, while the Company's operating margin improved from 18.4% to 19.0%. The increase in operating income was due to higher specialty chemicals operating income (up $11.6 million or 11%), partially offset by lower filter products results (down $3.3 million due to lower gross profit margins). The higher specialty chemicals operating income resulted primarily from the higher sales levels and improved gross margins (up 2.4 percentage points) due to improved pricing and continued benefits from the Company's reengineering program. The gross margin improvement was attributable to the Company's increased focus on manufacturing process improvements through increased production yields, improvements in first pass quality, and increased capacity resulting from shorter production cycle times and increased on- line time for equipment. In addition, raw material costs were lower in 1996 than in 1995.

Selling, general and administrative expenses in 1996 increased by $14.3 million (11%) compared with 1995, and, as a percent of sales, increased from 19.5% to 20.7%. The most significant factors for the increase in such expenses were attributable to the Company's geographic expansion efforts ($3.0 million), increased research and development spending ($3.5 million) and normal salary increases ($3.0 million).

Of the $8.9 million increase in operating income in 1996, domestic operating income increased by $6.5 million, due primarily to increased sales volumes for specialty chemicals, as well as improved gross margins, while operating income for the European region increased by $6.6 million, also as a result of higher sales levels and improved gross margins for specialty chemicals. Operating income for the Asia- Pacific region decreased by $2.6 million as higher sales volumes were more than offset by increased expenses associated with the Company's geographic expansion program, and operating income from other foreign operations declined by $1.5 million.

Interest expense for 1996 was $28.7 million, a decrease of $4.4 million (13%) from $33.1 million in 1995. The decrease reflected lower average borrowings (average borrowings of $389.2 million in 1996 versus $442.3 million in 1995) and lower interest rates (average borrowing rate of 7.9% in 1996 versus 8.3% in 1995).

Other income (expense), net, comprises net investment income, foreign exchange gains/losses resulting from the revaluation of foreign currency- denominated accounts receivable and payable as a result of changes in exchange rates, and other nonoperating and nonrecurring items of income and expense. Other income, net was $13.1 million in 1996 compared with $6.7 million in 1995. The increase in 1996 was due principally to higher net investment income (up $3.6 million) and gains associated with the Company's program to hedge certain of its foreign currency exposures. See Note 1 to Consolidated Financial Statements.

1995 Compared With 1994

In 1995, the Company recorded net income of $67.4 million (68 cents per share) compared with net income of $44.5 million (45 cents per share) in 1994. Net income in 1994 included an extraordinary charge of $1.2 million (one cent per share) related to the refinancing of the Company's bank debt.

The results for 1995 reflected higher operating income (up $27.9 million), $3.4 million higher equity income from the GAF- Huls Chemie GmbH joint venture ('GAF- Huls'), and a $6.8 million increase in other income, partially offset by a $4.4 million increase in interest expense.

Sales for 1995 were $689 million compared with $600 million for 1994. The 15% sales growth was attributable to increased sales in all product lines, particularly specialty chemicals (up $74.8 million), and reflected double- digit sales increases in all regions of the world. The sales increase was primarily the result of increased sales volumes in all product lines (up $49.6 million) and higher selling prices and, to a lesser extent, the favorable effect ($14.3 million) of the weaker U.S. dollar relative to other currencies in certain areas of the world.

Operating income for 1995 increased by 28% to $127.1 million compared with $99.2 million for 1994. The increase was attributable to higher sales in all product lines and improved gross margins (up 1.1 percentage points) due primarily to higher selling prices, partially offset by higher manufacturing costs. The gross margin improvement was attributable to the Company's increased focus on manufacturing process improvements through increased production yields, improvements in first pass quality, and increased capacity resulting from shorter production cycle times and increased on- line time for equipment. In addition, raw material costs increased in the latter half of 1994 and continued through the first half of 1995. Operating income for the specialty chemicals business increased by $25.7 million (32%), reflecting the above factors.

Selling, general and administrative expenses for 1995 increased $14.4 million (12%) over 1994 due to operating expenses associated with higher sales levels; however, such expenses as a percent of sales decreased from 23% in 1993 to 19.9% and 19.5% in 1994 and 1995, respectively, primarily as a result of the Company's cost reduction and productivity programs announced in 1993. The Company's operating margin improved from 16.5% in 1994 to 18.4% in 1995.

Of the $27.9 million increase in operating income in 1995, domestic operating income increased by $16.6 million, due primarily to higher selling prices and increased sales volumes for specialty chemicals, as well as improved gross margins, while operating income for the European region increased by $9.4 million as a result of higher sales levels and improved gross margins. Operating income for the Asia- Pacific region increased by $3.6 million, with higher sales volumes partially offset by increased expenses associated with the Company's geographic expansion program, and operating income from other foreign operations declined by $1.7 million as higher sales were offset by additional expenses attributable to the geographic expansion program and a nonrecurring 1994 benefit resulting from the Brazilian government's economic program. To help offset the effects of inflation, this program allowed companies to add normal billing surcharges in 1994. The operating income benefit to the Company in 1994 of such surcharges was approximately $1.2 million. As inflation rates dropped, this program was discontinued in 1995. See Note 11 to Consolidated Financial Statements.

Interest expense for 1995 was $33.1 million, an increase of $4.4 million from $28.7 million in 1994. The increase was primarily the result of higher interest rates (average borrowing rate of 8.3% in 1995 versus 6.6% in 1994).

Other income (expense), net, comprises net investment income, foreign exchange gains/losses resulting from the revaluation of foreign currency- denominated accounts receivable and payable as a result of changes in exchange rates, and other nonoperating and nonrecurring items of income and expense. Other income, net was $6.7 million in 1995 compared with other expense, net of $.1 million in 1994. The increase in 1995 was due principally to higher net investment income (up $10.5 million). See Note 1 to Consolidated Financial Statements.

LIQUIDITY AND FINANCIAL CONDITION

During 1996, the Company generated cash from operations of $104.3 million, reinvested $54.6 million for capital programs and generated $5.4 million from net sales of available- for- sale and held- to- maturity securities and other short- term investments, for a net cash inflow of $55.1 million before financing activities. Cash from operations in 1996 included $5.7 million in dividends received from GAF- Huls and $5.7 million in proceeds from net sales of trading securities. Cash invested in additional working capital totaled $7.7 million during 1996. This principally reflected an $8.9 million increase in receivables due to higher sales levels, partially offset by $2.9 million higher payables and accrued liabilities.

Net cash used in financing activities in 1996 totaled $51.4 million, primarily reflecting a $55.3 million reduction in borrowings from affiliates and a $14.3 million decrease in short- term borrowings, partially offset by a $30.2 million increase in long- term debt which principally reflected increased borrowings under the Company's

bank revolving credit facility. Cash used in financing activities also reflected $15.1 million of expenditures in connection with the Company's common stock repurchase program. The Company's program, begun in 1994, involves open market repurchases from time to time of up to a total of 4,500,000 shares of its common stock. The repurchased shares are held for general corporate purposes, including issuance of shares under the Company's stock option plan. Through December 31, 1996, 3,594,900 shares of the Company's common stock had been repurchased pursuant to the program.

As a result of the foregoing factors, cash and cash equivalents increased by $3.7 million during 1996 to $17.8 million (excluding $123.7 million of trading, available- for- sale and held- to- maturity securities and other short- term investments).

The Company's investment strategy is to seek returns in excess of money market rates on its available cash while minimizing market risks. There can be no assurance that the Company will be successful in implementing such a strategy. The Company invests primarily in international and domestic arbitrage and securities of companies involved in acquisition or reorganization transactions, including at times, common stock short positions which are offsets against long positions in securities which are expected, under certain circumstances, to be exchanged or converted into the short positions. With respect to its equity positions, the Company is exposed to the risk of market loss. See Note 1 to Consolidated Financial Statements.

In July 1996, the Company entered into a new five- year revolving credit facility (the 'Credit Agreement') with a group of banks, which provides for loans of up to $400 million and letters of credit of up to $75 million (see Note 6 to Consolidated Financial Statements). As of December 31, 1996, loans in the amount of $70.4 million and letters of credit in the amount of $8.0 million were outstanding under the Credit Agreement. The Credit Agreement permits the Company to make loans to affiliates and to make available letters of credit for the benefit of affiliates in an aggregate amount of up to $75 million, none of which had been utilized as of December 31, 1996.

Borrowings by the Company, including those under the Credit Agreement, are subject to the application of certain financial covenants contained in such agreement and the indentures relating to the 9% Senior Notes due 2003 and 9 3/4% Senior Notes due 2002, both issued by ISP Holdings Inc. ('ISP Holdings'), the Company's parent and owner of approximately 83.5% of the Company's common stock. As of December 31, 1996, the Company was in compliance with

such covenants, and the application of such covenants would not have restricted the amount available for borrowing under the Credit Agreement. The Credit Agreement and the indenture relating to the Company's 9% Senior Notes due 1999 limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. See Note 6 to Consolidated Financial Statements.

As of December 31, 1996, the Company's scheduled repayments of long- term debt for the twelve months ending December 31, 1997 aggregated $.6 million.

Fluctuations in the value of foreign currencies may cause U.S. dollar translated amounts to change in comparison with previous periods and, accordingly, the Company cannot estimate in any meaningful way the possible effect of such fluctuations upon future income. The Company has a policy to manage these exposures to minimize the effects of fluctuations in foreign currencies, which includes entering into foreign exchange contracts in order to hedge its exposure. In respect of its foreign exchange contracts, the Company recognized pre- tax gains of $7.0 million during 1996 and losses of $7.4 and $6.6 million during 1995 and 1994, respectively. At December 31, 1996, the equivalent U.S. dollar fair value of outstanding forward foreign exchange contracts was $174.5 million, and the amount of deferred gains and losses on such instruments was immaterial. The equivalent U.S. dollar fair value of foreign exchange contracts outstanding as of December 31, 1996 as a hedge of non- local currency loans was $30.2 million, representing 100% of the Company's foreign currency exposure with respect to such loans. See Note 1 to Consolidated Financial Statements.

The objectives of the Company in utilizing interest rate swap agreements are to lower funding costs, diversify sources of funding and manage interest rate exposure. As of December 31, 1996, the total notional amount of interest rate swaps outstanding was $200 million and the amount of underlying debt relating to such swaps was $200 million. By utilizing interest rate swap agreements, the Company reduced its interest expense by $2.8, $1.8 and $5.3 million in 1996, 1995 and 1994, respectively. See Note 6 to Consolidated Financial Statements.

ISP Holdings was a wholly owned subsidiary of GAF Corporation ('GAF') until January 1, 1997, when its stock was distributed to the stockholders of GAF in a series of transactions involving GAF's subsidiaries. As a result, ISP Holdings and ISP are no longer direct or indirect subsidiaries of GAF or its subsidiary, G- I Holdings Inc.

ISP Holdings is a holding company without independent businesses or operations and, as such, is dependent upon the cash flows of the Company in order to satisfy its obligations. Such obligations include $325 million principal amount of ISP Holdings' 9% Senior Notes due 2003 and $199.9 million principal amount of ISP Holdings' 9 3/4% Senior Notes due 2002. ISP Holdings expects to satisfy such obligations from, among other things, refinancings of debt, dividends and loans from the Company, as to which there are restrictions under the Credit Agreement and the indenture relating to the Company's 9% Senior Notes (see Note 6 to Consolidated Financial Statements), and payments pursuant to the Tax Sharing Agreement between ISP Holdings and the Company (see Note 2 to Consolidated Financial Statements). The Company does not believe that the dependence of ISP Holdings on the cash flows of the Company should have a material adverse effect on the operations, liquidity or capital resources of the Company.

As the Company's stock price appreciates, ISP Holdings may at some future time consider selling shares of the Company's common stock, although it has no current intention to do so. If ISP Holdings were to own less than 80% of the outstanding common stock of the Company, payments pursuant to the Tax Sharing Agreement would not be available to it.

For information with respect to income taxes, see Note 2 to Consolidated Financial Statements.

The Company does not believe that inflation has had an effect on its results of operations during the past three years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because the Company has been able to implement cost efficient capacity expansions at its existing manufacturing facilities, based upon its current analyses of additional opportunities for expansion of existing capacity, end- use demand, and other relevant factors, the Company intends to proceed with the project by the end of 1997. Costs capitalized to date related to this project are included in 'Construction in progress'. The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, and has received approval from the New Jersey Turnpike Authority for a direct access ramp from the Turnpike to the site. Both the site designation and the access ramp approval have been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately $100 million and, if approved, the

facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters. See Note 12 to Consolidated Financial Statements for further information.

FORWARD- LOOKING STATEMENTS

The discussions in this Annual Report on Form 10- K contain both historical and forward- looking statements. Although the Company believes that any such forward- looking statements are based on reasonable assumptions, these statements involve uncertainties that affect, among other things, the Company's operations, markets, products, services and prices. These uncertainties include economic, competitive, governmental and technological factors.

INTERNATIONAL SPECIALTY PRODUCTS INC.

SELECTED FINANCIAL DATA

	YEAR ENDED DECEMBER 31,				
	1996	1995	1994	1993	1992
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
OPERATING DATA:					
Net sales	$ 716,481	$ 689,002	$ 600,047	$ 548,252	$ 570,757
Operating income	136,024	127,096	99,245	65,091	107,664
Interest expense	28,729	33,091	28,676	24,500	30,595
Income before income taxes	125,967	106,102	72,484	49,823	85,782
Income before extraordinary item and cumulative effect of accounting change	80,663	67,375	45,752	29,558	57,182
Net income	80,663	67,375	44,515	29,558	50,113
Earnings per common share:					
Income before extraordinary item and cumulative effect of accounting change	$ .83	$ .68	$ .46	$ .30	$ .57
Net income	$ .83	$ .68	$ .45	$ .30	$ .50
Dividends per common share	$ --	$ --	$ .05	$ .05	$ .05
OTHER DATA:					
Operating margin	19.0%	18.4%	16.5%	11.9%	18.9%
Depreciation	$ 38,279	$ 35,960	$ 32,753	$ 28,737	$ 25,610
Goodwill amortization	13,200	13,223	13,400	13,856	13,706
Capital expenditures and acquisitions	54,587	38,934	31,098	62,858	70,464

	DECEMBER 31,				
	1996	1995	1994	1993	1992
	(THOUSANDS)				
BALANCE SHEET DATA:					
Total working capital	$ 219,702	$ 142,550	$ 121,803	$ 78,263	$ 179,310
Total assets	1,316,914	1,312,938	1,251,304	1,243,315	1,270,418
Long-term debt	372,870	347,491	377,106	367,722	493,025
Stockholders' equity	701,493	643,244	582,368	534,012	516,999

The accompanying Notes to Consolidated Financial Statements are an integral part

of these statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

G-I_EPA0009659

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation and an 83.5% owned subsidiary of ISP Holdings Inc.) and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements and the schedule and supplementary financial information referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, schedule and supplementary financial information based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, appearing on pages F- 8 to F- 28 of this Form 10- K, present fairly, in all material respects, the financial position of International Specialty Products Inc. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule and supplementary financial information appearing on pages S- 1 to S- 4 of this Form 10- K are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
February 10, 1997

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net sales	$716,481	$689,002	$600,047
Costs and expenses:			
Cost of products sold	418,921	414,672	367,746
Selling, general and administrative	148,336	134,011	119,656
Goodwill amortization	13,200	13,223	13,400
Total costs and expenses	580,457	561,906	500,802
Operating income	136,024	127,096	99,245
Interest expense	(28,729)	(33,091)	(28,676)
Equity in earnings of joint venture	5,604	5,413	2,034
Other income (expense), net	13,068	6,684	(119)
Income before income taxes and extraordinary item	125,967	106,102	72,484
Income taxes	(45,304)	(38,727)	(26,732)
Income before extraordinary item	80,663	67,375	45,752
Extraordinary item, net of $733 income tax benefit	--	--	(1,237)
Net income	$ 80,663	$ 67,375	$ 44,515
Earnings per common share:			
Income before extraordinary item	$ .83	$ .68	$ .46
Extraordinary item	--	--	(.01)
Net income	$ .83	$ .68	$ .45
Weighted average number of common shares outstanding	97,197	98,613	99,888

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

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 1996	1995
	(THOUSANDS)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 17,753	$ 14,080
Investments in trading securities	1,273	17,183
Investments in available-for-sale securities	114,323	109,214
Investments in held-to-maturity securities	1,977	4,618
Other short-term investments	6,149	4,885
Accounts receivable, trade, less reserve of $2,840 and $2,879	66,875	60,327
Accounts receivable, other	12,835	12,356
Receivable from related parties, net	5,518	--
Inventories	108,586	107,969
Other current assets	13,239	12,920
Total Current Assets	348,528	343,552
Property, plant and equipment, net	489,474	475,550
Excess of cost over net assets of businesses acquired, net of accumulated amortization of $105,025 and $91,825	417,258	430,458
Other assets	61,654	63,378
Total Assets	$1,316,914	$1,312,938
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ 22,275	$ 36,199
Current maturities of long-term debt	610	398
Loan payable to related party	--	50,597
Accounts payable	42,939	41,727
Accrued liabilities	57,134	56,538
Payable to related parties, net	--	9,429
Income taxes	5,868	6,114
Total Current Liabilities	128,826	201,002
Long-term debt less current maturities	310,294	280,254
Long-term notes payable to related parties	62,576	67,237
Deferred income taxes	52,665	55,743
Other liabilities	61,060	65,458
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $.01 par value per share; 20,000,000 shares authorized: 0 shares issued	--	--
Common stock, $.01 par value per share; 300,000,000 shares authorized: 99,888,646 shares issued	999	999
Additional paid-in capital	504,686	504,544
Treasury stock, at cost--3,451,522 and 2,122,395 shares	(30,874)	(16,718)
Excess of purchase price over the adjusted historical cost of predecessor company shares owned by GAF's stockholders	(63,483)	(63,483)
Retained earnings	280,297	199,634
Cumulative translation adjustment and other	9,868	18,268
Total Stockholders' Equity	701,493	643,244
Total Liabilities and Stockholders' Equity	$1,316,914	$1,312,938

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

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
		(THOUSANDS)	
Cash and cash equivalents, beginning of year	$ 14,080	$ 20,127	$ 11,022
Cash provided by operating activities:			
Net income	80,663	67,375	44,515
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	38,279	35,960	32,753
Goodwill amortization	13,200	13,223	13,400
Deferred income taxes	(2,494)	(18,809)	(16,494)
(Increase) decrease in working capital items	(7,650)	(5,105)	(12,010)
Purchases of trading securities	(42,002)	(66,483)	(267,181)
Proceeds from sales of trading securities	47,677	104,058	284,520
(Increase) decrease in other assets	780	56	(2,311)
Decrease in other liabilities	(31)	(1,343)	(2,090)
Change in net receivable from/payable to related parties	(14,947)	6,093	(247)
Change in cumulative translation adjustment	(8,376)	6,918	8,306
Other, net	(813)	1,868	(4,555)
Net cash provided by operating activities	104,286	143,811	78,606
Cash used in investing activities:			
Capital expenditures and acquisitions	(54,587)	(38,934)	(31,098)
Purchases of available-for-sale securities	(287,361)	(364,012)	(953)
Purchases of held-to-maturity securities	(14,331)	(5,592)	--
Purchases of other short-term investments	(1,264)	(2,188)	(2,697)
Proceeds from sales of available-for-sale securities	291,408	257,197	742
Proceeds from held-to-maturity securities	16,972	974	--
Net cash used in investing activities	(49,163)	(152,555)	(34,006)
Cash provided by (used in) financing activities:			
Proceeds (repayments) from sale of accounts receivable	2,000	3,768	(1,052)
Increase (decrease) in short-term debt	(14,256)	36,199	(12,848)
Increase (decrease) in borrowings under revolving credit facility	29,625	(4,200)	(82,250)
Other increase (decrease) in long-term debt	543	(1,435)	(798)
Increase (decrease) in loans from related parties	(55,258)	(15,216)	66,263
Dividends	--	--	(4,994)
Repurchases of common stock	(15,134)	(16,614)	(327)
Other, net	1,030	195	511
Net cash provided by (used in) financing activities	(51,450)	2,697	(35,495)

Net change in cash and cash equivalents.....	3,673	(6,047)	9,105
Cash and cash equivalents, end of year.....	$ 17,753	$ 14,080	$ 20,127

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS- - (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(THOUSANDS)		
Supplemental Cash Flow Information:			
Effect on cash from (increase) decrease in working capital items*:			
Accounts receivable.....	$(8,884)	$(10,892)	$(14,161)
Inventories.....	(575)	1,029	(5,087)
Other current assets.....	(967)	2,105	1,688
Accounts payable.....	1,186	(5,895)	8,187
Accrued liabilities.....	1,738	8,389	(4,162)
Income taxes.....	(148)	159	1,525
Net effect on cash from (increase) decrease in working capital items.....	$(7,650)	$ (5,105)	$(12,010)
Cash paid during the year for:			
Interest (net of amount capitalized).....	$33,015	$ 36,776	$ 31,140
Income taxes (including taxes paid pursuant to the Tax Sharing Agreement).....	61,701	44,489	44,499

* Working capital items exclude cash and cash equivalents, short- term investments, short- term debt and payables to and receivables from related parties. Working capital acquired in connection with acquisitions is reflected within 'Capital expenditures and acquisitions.' The effects of reclassifications between noncurrent and current assets and liabilities are excluded from the amounts shown above. In addition, the increase in accounts receivable shown above does not reflect the cash proceeds from the sale of the Company's domestic trade accounts receivable (see Note 3); such proceeds are reflected in cash from financing activities.

The accompanying Notes to Consolidated Financial Statements are an integral part

of these statements.

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)

	CAPITAL STOCK AND ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK AT COST	CUMULATIVE TRANSLATION ADJUSTMENT AND OTHER	RETAINED EARNINGS
	(THOUSANDS)			
December 31, 1993.....	$ 505,571	$ --	$ (814)	$ 92,738
Net income.....	--	--	--	44,515
Translation adjustment.....	--	--	8,306	--
Dividends declared ($.05 per common share).....	--	--	--	(4,994)
Repurchases of common stock--49,000 shares.....	--	(327)	--	--
Unrealized loss on available-for-sale securities, net of $621 income tax benefit.....	--	--	(1,063)	--
Adjustment of unfunded pension				

liability	--	--	1,919	--
December 31, 1994	$ 505,571	$ (327)	$ 8,348	$132,259
Net income	--	--	--	67,375
Translation adjustment	--	--	6,918	--
Repurchases of common stock--2,102,200 shares	--	(16,614)	--	--
Change in unrealized gain on available-for-sale securities, net of $1,198 income tax effect	--	--	2,618	--
Issuances under stock option plan--28,805 shares	--	223	--	--
Excess of cost of treasury stock issued over proceeds	(28)	--	--	--
Adjustment of unfunded pension liability	--	--	384	--
December 31, 1995	$ 505,543	$(16,718)	$18,268	$199,634
Net income	--	--	--	80,663
Translation adjustment	--	--	(8,376)	--
Repurchases of common stock--1,443,700 shares	--	(15,134)	--	--
Change in unrealized gain on available-for-sale securities, net of $48 income tax effect	--	--	(820)	--
Issuances under stock option plan--112,823 shares	--	957	--	--
Issuance of stock (1,750 shares) and options as incentives	323	21	--	--
Excess of cost of treasury stock issued over proceeds	(181)	--	--	--
Adjustment of unfunded pension liability	--	--	796	--
December 31, 1996	$ 505,685	$(30,874)	$ 9,868	$280,297

The accompanying Notes to Consolidated Financial Statements are an integral part

of these statements.

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

International Specialty Products Inc. (the 'Company') is a multinational manufacturer of a wide range of specialty chemicals, mineral products, filter products and advanced materials. See Notes 10 and 11 for financial information concerning the Company's industry segments and foreign and domestic operations. Approximately 83.5% of the Company's common stock is owned by ISP Holdings Inc. ('ISP Holdings').
ISP Holdings was a wholly owned subsidiary of GAF Corporation ('GAF') until January 1, 1997, when its stock was distributed to the stockholders of GAF in a series of transactions involving GAF's subsidiaries (the 'Separation Transactions'). As a result, ISP Holdings and the Company are no longer direct or indirect subsidiaries of GAF or its subsidiary, G- I Holdings Inc. ('G- I Holdings').

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

All subsidiaries are consolidated and intercompany transactions have been eliminated.

Financial Statement Estimates

The preparation of financial statements requires management to make certain estimates. Actual results could differ from those estimates. In the opinion of management, the financial statements herein contain all adjustments necessary to present fairly the financial position and the results of operations and cash flows of the Company for the periods presented. The

Company has a policy to review the recoverability of long- lived assets and identify and measure any potential impairments. The Company does not anticipate any changes in management estimates that would have a material impact on operations, liquidity or capital resources.

Investment in Joint Venture

The Company's 50% ownership of GAF- Huls Chemie GmbH ('GAF- Huls'), a joint venture which operates a chemical manufacturing plant in Germany, is accounted for by the equity method. The Company's equity in the net assets of GAF- Huls was $38.2 and $41.2 million as of December 31, 1996 and 1995, respectively, and is included in 'Other assets'. Dividends received by the Company from GAF- Huls totaled $5.7, $.3 and $4.4 million for 1996, 1995 and 1994, respectively.

Short- term Investments

For securities classified as 'trading' (including short positions), unrealized gains and losses are reflected in income. For securities classified as 'available- for- sale', unrealized gains (losses), net of income tax effect, are included in a separate component of stockholders' equity, 'Cumulative translation adjustment and other', and amounted to $.7 and $1.6 million as of

December 31, 1996 and 1995, respectively. Investments classified as 'held- to- maturity' securities are carried at amortized cost in the Consolidated Balance Sheets.

'Other income (expense), net', includes $20.5, $16.5 and $6.2 million of net realized and unrealized gains on securities in 1996, 1995 and 1994, respectively. The determination of cost in computing realized gains and losses is based on the specific identification method.

During the fourth quarter of 1995, the Company redesignated certain equity securities held long (which are offsets against short positions in certain other securities), with a fair market value of $18.1 million, as 'trading' and recorded unrealized gains on such securities, through the date of redesignation, in the amount of $2.1 million as 'Other income'.

As of December 31, 1996 and 1995, the market value of the Company's equity securities held long was $115.1 and $127.3 million, respectively, and the Company had $7.9 and $22 million, respectively, of short positions in common stocks. As of December 31, 1996 and 1995, the market value of the Company's held- to- maturity securities was $2.0 and $4.6 million, respectively. The market values referred to above are based on quotations as reported by various stock exchanges and major broker dealers. With respect to its investments in securities, the Company is exposed to the risk of market loss.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- - (CONTINUED)

'Other short- term investments' are investments in limited partnerships which are accounted for by the equity method. Gains and losses are reflected in 'Other income (expense), net'. Liquidation of partnership interests generally require a 30 to 45 day notice period.

Cash and cash equivalents include cash on deposit and debt securities purchased with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market. The LIFO (last- in, first- out) method is utilized to determine cost for a substantial portion of the Company's domestic inventories. All other inventories are determined principally based on the FIFO (first- in, first- out) method.

Property, Plant and Equipment

Depreciation is computed principally on the straight- line method based on the estimated economic lives of the assets. The Company uses an economic life of 10- 20 years for land improvements, 40 years for buildings, and 3- 20 years for machinery and equipment, which includes furniture and fixtures. Certain interest charges are capitalized during the period of construction as part of the cost of

property, plant and equipment.

Foreign Exchange Contracts

The Company enters into forward foreign exchange instruments with off- balance- sheet risk in order to hedge a portion of both its borrowings denominated in foreign currency and its firm or anticipated purchase commitments related to the operations of foreign affiliates. Gains and losses on instruments used to hedge firm purchase commitments are deferred, and amortization is included in the measurement of the foreign currency transactions hedged. Gains and losses on instruments used to hedge anticipated purchases are recognized within 'Other income (expense), net'.

Forward contract agreements require the Company and the counterparty to exchange fixed amounts of U.S. dollars for

fixed amounts of foreign currency on specified dates. The market value of such contracts varies with changes in the market exchange rates. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the forward contract agreements. However, the Company does not anticipate nonperformance by the counterparties. The Company does not generally require collateral or other security to support these financial instruments.

As of December 31, 1996 and 1995, the equivalent dollar fair value of outstanding forward foreign exchange contracts was $174.5 and $183.1 million, respectively, and the amount of deferred gains and losses on such instruments was immaterial at each of such dates. All forward contracts are in major currencies with highly liquid markets and mature within one year. The Company uses quoted market prices obtained from major financial institutions to determine the market value of its outstanding forward exchange contracts. The U.S. dollar equivalent fair value of foreign exchange contracts outstanding as of December 31, 1996 as a hedge of non- local currency loans was $30.2 million, representing 100% of the Company's foreign currency exposure with respect to such loans.

The Company continually monitors its risk from the effect of foreign currency fluctuations on its operations and on the derivative products used to hedge its risk. The Company utilizes real- time, on- line foreign exchange data and news as well as evaluation of economic information provided by financial institutions. Mark- to- market valuations are made on a regular basis. Hedging strategies are approved by senior management before being implemented.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- - (CONTINUED)

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries, other than those located in highly inflationary countries, are translated at year- end exchange rates. The effects of these translation adjustments are reported in a separate component of stockholders' equity, 'Cumulative translation adjustment and other', and amounted to $9.1 and $17.5 million as of December 31, 1996 and 1995, respectively. Income and expenses are translated at average exchange rates prevailing during the year. Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, and translation adjustments of subsidiaries in countries with highly inflationary economies, are included in 'Other income (expense), net'.

Excess of Purchase Price Over the Adjusted Historical Cost of Predecessor Company Shares

Stockholders' equity reflects a reduction of $63.5 million which arose from a management- led buyout in March 1989 of the predecessor company to the Company's former parent company, GAF (the 'Acquisition'), because certain members of the management group owned shares of the predecessor company's common stock before the Acquisition and own shares of GAF after the Acquisition. Accordingly, a step- up in asset values to fair value as required by the purchase method of accounting (which was applied to the Acquisition) does not apply to their shares.

Excess of Cost Over Net Assets of Businesses Acquired ('Goodwill')

Goodwill, which arose principally from the Acquisition, is amortized on the straight- line method over a period of approximately 40 years. The Company believes that the goodwill is recoverable. The primary financial indicator to assess recoverability of goodwill is operating income before amortization of goodwill. The assessment is based on an undiscounted analysis.

```
  Debt Issuance Costs
     Debt issuance costs are amortized to expense over the life of the related
debt.
  Interest Rate Swaps
```

Gains (losses) on interest rate swap agreements ('swaps') are deferred and amortized as a reduction (increase) of interest expense over the remaining life of the debt issue with respect to which the swaps were entered.

Research and Development

Research and development costs are charged to operations as incurred and
amounted to $25.4, $21.9 and $20.3 million for 1996, 1995 and 1994, respectively.

Environmental Liability

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters. The Company estimates that its liability in respect of such environmental matters, and certain other environmental compliance expenses, as of December 31, 1996, is $18.5 million, before reduction for insurance recoveries reflected on its balance sheet of $6.9 million. The Company's liability is reflected on an undiscounted basis. See Note 12 for further discussion with respect to environmental liabilities and estimated insurance recoveries.

Reclassifications
Certain amounts in the 1995 and 1994 Consolidated Financial Statements and Notes to Consolidated Financial Statements have been reclassified to conform to the 1996 presentation.

NOTE 2. INCOME TAXES

Income tax (provision) benefit consists of the following:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(THOUSANDS)		
Federal:			
Current	$(38,968)	$(48,955)	$(36,055)
Deferred	2,071	17,794	16,051
Total Federal	(36,897)	(31,161)	(20,004)
Foreign--current	(6,648)	(6,432)	(6,019)
State and local:			
Current	(2,182)	(2,149)	(1,152)
Deferred	423	1,015	443
Total state and local	(1,759)	(1,134)	(709)
Income tax provision	$(45,304)	$(38,727)	$(26,732)

The differences between the income tax provision computed by applying the statutory Federal income tax rate to pre- tax income, and the income tax provision reflected in the Consolidated Statements of Income are as follows:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(THOUSANDS)		
Statutory tax provision	$(44,045)	$(37,136)	$(25,369)
Impact of:			
Foreign operations	1,848	3,633	1,657
Nondeductible goodwill amortization	(4,620)	(4,628)	(4,690)
Percentage depletion	1,668	1,824	1,684
Other, net	(155)	(2,420)	(14)
Income tax provision	$(45,304)	$(38,727)	$(26,732)

The components of the net deferred tax liability are as follows:

	DECEMBER 31,	
	1996	1995
	(THOUSANDS)	
Deferred tax liabilities related to:		
Property, plant and equipment	$ 90,103	$ 90,854
Other	1,948	6,019
Total deferred tax liabilities	92,051	96,873
Deferred tax assets related to:		
Expenses not yet deducted for tax purposes	(16,798)	(14,099)
Deferred income	(22,921)	(19,912)
Foreign tax credits not yet utilized under the Tax Sharing Agreement	--	(3,326)
Other	(5,534)	(10,389)
Total deferred tax assets	(45,253)	(47,726)
Net deferred tax liability	46,798	49,147
Deferred tax assets reclassified to other current assets	5,867	6,596
Noncurrent deferred tax liability	$ 52,665	$ 55,743

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- - (CONTINUED)

NOTE 2. INCOME TAXES- - (CONTINUED)

Effective January 1, 1997, the Company and its domestic subsidiaries entered into a Tax Sharing Agreement with ISP Holdings with respect to the payment of Federal income taxes and certain related matters (the 'Tax Sharing Agreement'). During the term of the Tax Sharing Agreement, which extends as long as the Company or any of its domestic subsidiaries, as the case may be, are included in a consolidated Federal income tax return filed by ISP Holdings, or a successor entity, the Company is obligated to pay to ISP Holdings an amount equal to those Federal income taxes the Company would have incurred if, subject to certain exceptions, the Company (on behalf of itself and its domestic subsidiaries) filed its own consolidated Federal income tax return. These exceptions include, among others, that the Company may utilize certain favorable tax attributes i.e., losses, deductions and credits (except for a certain amount of foreign tax credits and, in general, net operating losses) only at the time such attributes reduce the Federal income tax liability of ISP Holdings and its consolidated subsidiaries (the 'ISP Holdings Group'); and that the Company may carry back or carry forward its favorable tax attributes only after taking into account current tax attributes of the ISP Holdings Group. In general, subject to the foregoing limitations, unused tax attributes carry forward for use in reducing amounts payable by the Company to ISP Holdings in future years. Subject to certain exceptions, actual payment for such attributes will be made by ISP Holdings to the Company only when ISP Holdings receives an actual refund of taxes from the IRS or, under certain circumstances, the earlier of (i) the dates of the filing of Federal income tax returns of the Company for taxable years of the Company following the last taxable year in which it was a member of the ISP Holdings Group, or (ii) when ISP Holdings no longer owns more than 50% of the Company. Foreign tax credits not utilized by the Company in computing its tax sharing payments will be refunded by ISP Holdings to the Company, if such credits expire unutilized, upon the termination of the statute of limitations for the year of expiration.

The Tax Sharing Agreement provides for analogous principles to be applied to any consolidated, combined or unitary state or local income taxes. Under the Tax Sharing Agreement, ISP Holdings makes all decisions with respect to all matters relating to taxes of the ISP Holdings Group. The provisions of the Tax Sharing Agreement take into account both the Federal income taxes the Company would have incurred if it filed its own separate Federal income tax return and the fact that the Company is a member of the ISP Holdings Group for Federal income tax purposes.

The Company was a party to tax sharing agreements with members of the GAF consolidated group (the 'GAF Group'). As a result of the Separation Transactions, the Company is no longer included in the consolidated Federal income tax returns of GAF, and therefore, such tax sharing agreements are no longer applicable with respect to the future tax liabilities of the Company. The Company remains obligated, however, with respect to tax liabilities imposed or that may be imposed for periods prior to the Separation Transactions. Among other things, those tax sharing agreements provide for the sharing of the GAF Group's consolidated tax liability based on each member's share of the tax as if such member filed on a separate basis. Accordingly, a payment of tax would be made to GAF equal to the Company's allocable share of the GAF Group's consolidated tax liability. Alternatively, the Company would be entitled to refunds if losses or other attributes reduce the GAF Group's consolidated tax liability. Moreover, foreign tax credits generated by the Company not utilized by GAF will be refunded by GAF or its subsidiary to the Company, if such credits expire unutilized upon termination of the statute of limitations for the year of expiration. Furthermore, those tax sharing agreements provide for an indemnification to the Company for any tax liability attributable to another member of the GAF Group.

In connection with Rhone- Poulenc Surfactants and Specialties, L.P. (the 'Surfactants Partnership'), GAF Fiberglass Corporation ('GFC') (formerly known as GAF Chemicals Corporation, and an indirect subsidiary of GAF), has recorded a deferred tax liability in the amount of $131.4 million, which is reflected as a liability on the consolidated balance sheet of G- I Holdings. Payment of this liability (subject to reduction to reflect utilization of the tax attributes of GAF and its subsidiaries) is not expected earlier than 1999 under present circumstances. In certain circumstances, GFC could be required to satisfy this liability earlier than 1999. GAF, G- I Holdings and certain subsidiaries of GAF have agreed to jointly and severally indemnify the Company against such tax liability. Prior to the Separation Transactions, the Company was a member of the same consolidated Federal

INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTE 2. INCOME TAXES- - (CONTINUED)

income tax group as GFC. Subject to such indemnification, the Company would be severally liable for any tax liability imposed in connection with the Surfactants Partnership should GAF, G- I Holdings and such subsidiaries be unable to satisfy such liability. GAF has advised the Company that, in the event the tax liability becomes payable, GAF believes that it will have access to sufficient funds to satisfy this liability if so required.

NOTE 3. SALE OF ACCOUNTS RECEIVABLE

In June 1993, the Company sold its domestic trade accounts receivable, without recourse, for a maximum of $25 million in cash to be made available to the Company based on eligible domestic receivables outstanding from time to time. As of November 6, 1996, the agreement under which the Company sells its domestic trade accounts receivable was extended for one year on substantially the same terms and conditions, and the maximum purchase amount was increased to $29 million. The excess of accounts receivable sold over the net proceeds received is included in 'Accounts receivable, other'. The effective cost to the Company varies with LIBOR or commercial paper rates and is included in 'Other income (expense), net'.

In 1996, the Financial Accounting Standards Board issued SFAS No. 125, relating to accounting for transfers and servicing of financial assets and extinguishments of liabilities, which will be adopted in 1997. The Company does not anticipate that the implementation of SFAS No. 125 will have a material effect on the Company's results of operations or financial position.

NOTE 4. INVENTORIES

At December 31, 1996 and 1995, $49.2 and $56.2 million, respectively, of domestic inventories were valued using the LIFO method. Inventories comprise the following:

	DECEMBER 31,	
	1996	1995
	(THOUSANDS)	
Finished goods	$ 68,436	$ 71,431
Work in process	24,261	20,540
Raw materials and supplies	17,814	18,634
Total	110,511	110,605
Less LIFO reserve	(1,925)	(2,636)
Inventories	$108,586	$107,969

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprises the following:

	DECEMBER 31,	
	1996	1995
	(THOUSANDS)	
Land and land improvements	$ 71,653	$ 69,504
Buildings and building equipment	85,693	80,880
Machinery and equipment	475,917	438,579
Construction in progress	45,341	46,547
Total	678,604	635,510
Less accumulated depreciation	(189,130)	(159,960)
Property, plant and equipment, net	$ 489,474	$ 475,550

See Note 12 for information regarding capital leases.

NOTE 6. LONG- TERM DEBT

Long- term debt comprises the following:

	DECEMBER 31, 1996	1995
	(THOUSANDS)	
9% Senior Notes due 1999	$200,000	$200,000
Borrowings under revolving credit facility	70,425	40,800
Obligation on mortgaged property due 1999	38,125	38,125
Obligations under capital leases (Note 12)	2,068	1,727
Other	286	--
Total long-term debt	310,904	280,652
Less current maturities	(610)	(398)
Long-term debt less current maturities	$310,294	$280,254

In connection with the issuance of the 9% Senior Notes due 1999 (the '9% Notes'), the Company entered into interest rate swap agreements ('swaps') with banks in an aggregate notional principal amount of $200 million. In 1993, the Company terminated the swaps, resulting in gains of $25.1 million, and entered into new swaps. The gains were deferred and are being amortized as a reduction of interest expense over the remaining life of the 9% Notes. As a result of the new swaps, the effective interest cost to the Company of the 9% Notes varies at a fixed spread over LIBOR. Based on the fair value of the swaps at December 31, 1996 and 1995, the Company would have incurred losses of $4.8 and $2.8 million, respectively, representing the estimated amount that would be payable by the Company if the swaps were terminated at such dates.

The Company may be considered to be at risk, to the extent of the costs of replacing such swaps at current market rates, in the event of nonperformance by counterparties. However, since the counterparties are major financial institutions, the credit ratings of which are continually monitored by the Company, the risk of such nonperformance is considered by the Company to be remote.

In connection with the refinancing of the Company's bank facility in October 1994, the Company recorded an extraordinary charge of $1.2 million (after an income tax benefit of $.7 million), representing the write- off of deferred financing fees related to the previous bank credit agreement. In July 1996, the Company refinanced this credit facility with a $400 million five- year revolving credit facility (the 'Credit Agreement'). Borrowings under the Credit Agreement bear interest at a floating rate (6.67% on December 31, 1996) based on the banks' base rate, federal funds rate, Eurodollar rate or a competitive bid rate (which may be based on LIBOR or money market rates), at the option of the Company.

As of December 31, 1996, letters of credit in the amount of $8.0 million were outstanding under the Credit Agreement. The Credit Agreement permits the Company to make loans to affiliates, and to make available letters of credit for the benefit of affiliates, in an aggregate amount of up to $75 million, none of which had been utilized as of December 31, 1996.

The Company has a $38.1 million mortgage obligation, due 1999, on its headquarters property. Interest on the mortgage is at a floating rate based on

LIBOR.

Borrowings by the Company, including those under the Credit Agreement, are subject to the application of certain financial covenants contained in such agreement and in the indentures relating to ISP Holdings' 9% Senior Notes due 2003 and 9 3/4% Senior Notes due 2002. As of December 31, 1996, the Company was in compliance with such covenants, and the application of such covenants would not have restricted the amount available for borrowing under the Credit Agreement. The Credit Agreement and the indenture relating to the 9% Notes also limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. As of December 31, 1996, under the most restrictive of such limitations, the Company could have paid dividends in the aggregate amount of $80.2 million.

The Credit Agreement and the indenture relating to the 9% Notes contain

additional affirmative and negative covenants, including restrictions on liens, investments, transactions with affiliates, sale- leaseback

NOTE 6. LONG- TERM DEBT- - (CONTINUED)

transactions, and restrictions on mergers and transfers of all or substantially all of the assets of the Company or its subsidiaries. The Credit Agreement also provides for a default if there is a change in control (as defined) of the Company. Neither the Credit Agreement nor the 9% Notes are secured by any assets of the Company or its subsidiaries. The indenture governing the 9% Notes provides, subject to certain exceptions, that if the Company issues any debt secured by a lien on the stock of certain of its subsidiaries or upon any principal property, then such notes must be equally and ratably secured.

The Company believes that the fair value of its non- public variable rate indebtedness approximates the book value of such indebtedness because the interest rates on such indebtedness are at floating short- term rates. The Credit Agreement also provides for adjustments to the interest rate if there is a change in the credit rating of the Company. With respect to the Company's publicly traded debt securities, the Company has obtained estimates of fair values from an independent source believed to be reliable. The estimated fair value of the 9% Notes as of December 31, 1996 and 1995 was $207.8 and $214.6 million, respectively.

The aggregate maturities of long- term debt as of December 31, 1996 for the next five years are as follows:

	(THOUSANDS)
1997....	$ 610
1998....	628
1999....	238,503
2000....	350
2001....	83,277

In the above table, 1999 maturities include the $200 million of 9% Notes and the $38.1 million mortgage obligation. Maturities in 2001 include the $70.4 million of borrowings outstanding under the Credit Agreement as of December 31, 1996, based on the expiration of the Credit Agreement in July 2001, and $12.6 million of borrowings from ISP Holdings pursuant to a note agreement maturing in July 2001 (see Note 9).

At December 31, 1996, the Company's foreign subsidiaries had total available short- term lines of credit aggregating $38.5 million, of which $16.2 million were unused, and the Company also had a domestic bank line of credit of $10 million, none of which was utilized. The weighted average interest rate on the Company's short- term borrowings as of December 31, 1996 and 1995 was 4.6% and 5.8%, respectively.

NOTE 7. BENEFIT PLANS

Eligible, full-time employees of the Company are covered by various benefit plans, as described below.

Defined Contribution Plan

The Company provides a defined contribution plan for eligible employees. The Company contributes up to 7% of participants' compensation (of which up to 4% of participants' compensation, at the participants' option, is contributed in the form of the Company's common stock at a $.50 per share discount from the market price on the date of contribution), and also contributes fixed amounts, ranging from $50 to $750 per year depending on age, to the accounts of participants who are not covered by a Company- provided postretirement medical benefit plan. The aggregate contributions by the Company were $6.4, $6.3 and $6.1 million for 1996, 1995 and 1994, respectively.

Defined Benefit Plans

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees (the 'Hourly Retirement Plan'). Benefits under this plan are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA.

NOTE 7. BENEFIT PLANS- - (CONTINUED)

The Company's net periodic pension cost for the Hourly Retirement Plan included the following components:

	YEAR ENDED DECEMBER 31, 1996	1995	1994
	(THOUSANDS)		
Service cost	$ 315	$ 287	$ 363
Interest cost	1,439	1,349	1,253
Actual income on plan assets	(1,733)	(976)	(924)
Net deferral and amortization of unrecognized prior service cost and actuarial losses	174	275	343
Net periodic pension cost	$ 195	$ 935	$1,035

The following table sets forth the funded status of the Hourly Retirement Plan:

	DECEMBER 31, 1996	1995
	(THOUSANDS)	
Accumulated benefit obligation:		
Vested	$ 16,914	$ 16,919
Nonvested	3,117	2,273
Total accumulated benefit obligation	$ 20,031	$ 19,192
Projected benefit obligation	$ 20,031	$ 19,192
Fair value of plan assets, primarily listed stocks and U.S. Government securities	(19,076)	(15,314)
Projected benefit obligation in excess of plan assets	955	3,878
Unrecognized prior service cost	(1,202)	(1,956)
Unrecognized net loss	--	(796)
Unfunded (prepaid) accrued pension cost	$ (247)	$ 1,126)

At December 31, 1996, the difference between the 'Projected benefit obligation in excess of plan assets' and the 'Unfunded (prepaid) accrued pension cost', in the amount of $1,202,000, has been recorded by the Company as an intangible asset. The foregoing amount will be amortized to expense over a
period of approximately 15 years, as the Company continues to fund the benefits under the Hourly Retirement Plan.
In determining the projected benefit obligation, the weighted average assumed discount rate was 7.75% and 7.5% for 1996 and 1995, respectively. The expected long- term rate of return on assets, used in determining net periodic pension cost, was 11% for 1996 and 9% for 1995.
The Company also provides a nonqualified defined benefit retirement plan for certain key employees. Expense accrued for this plan was $.6, $1.4 and $1.2 million for 1996, 1995 and 1994, respectively.
Postretirement Medical and Life Insurance
The Company generally does not provide postretirement medical and life insurance benefits, although it subsidizes such benefits for certain employees and certain retirees. Such subsidies were reduced or ended as of January 1, 1997.

NOTE 7. BENEFIT PLANS- - (CONTINUED)

The following table shows the components of the accrued postretirement health care cost obligation as of December 31, 1996 and 1995:

	DECEMBER 31, 1996	1995
	(THOUSANDS)	
Accumulated postretirement benefit obligation:		
Retirees, dependents and beneficiaries eligible for benefits	$ 8,141	$ 9,053
Active employees fully eligible for benefits	1,941	2,042
Active employees not fully eligible for benefits	123	121
Total accumulated postretirement benefit obligation	10,205	11,216

Fair value of plan assets	--	--
Unrecognized prior service cost and unrecognized net gains (losses)	573	(241)
Accrued postretirement benefit obligation	$10,778	$10,975

The net periodic postretirement benefit cost included the following components:

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(THOUSANDS)		
Service cost	$ 4	$ 3	$ 39
Interest cost	805	884	845
Amortization of unrecognized prior service cost	(39)	(145)	(25)
Net periodic postretirement benefit cost	$ 770	$ 742	$ 859

For purposes of calculating the accumulated postretirement benefit obligation, the following assumptions were made. Retirees as of December 31, 1996 who were formerly salaried employees (with certain exceptions) were assumed to receive a Company subsidy of $700 to $1,000 per year. For retirees over age 65, this subsidy may be replaced by participation in a managed care program. With respect to retirees who were formerly hourly employees, most such retirees are subject to a $5,000 per person lifetime maximum benefit. Subject to such lifetime maximum, a 13% and 7% annual rate of increase in the Company's per capita cost of providing postretirement medical benefits was assumed for 1997 for such retirees under and over age 65, respectively. To the extent that the lifetime maximum benefits have not been reached, the foregoing rates were assumed to decrease gradually to 7% and 6%, respectively, by the year 2003 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.75% and 7.5% for 1996 and 1995, respectively.

The health care cost trend rate assumption has an effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1996 by $877,000 and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year 1996 by $118,000.

NOTE 8. STOCK OPTION PLAN

The 1991 Incentive Plan for Key Employees and Directors, as amended ('the Plan'), authorizes the grant of options to purchase a maximum of 5,000,000 shares of the Company's common stock. In December 1996, the Company's Board of Directors approved an amendment to the Plan, subject to stockholder approval, increasing the number of shares as to which options may be granted under the Plan to 7,000,000. In December 1995, the Company's Board of Directors approved an amendment to the Plan, which was approved by the Company's stockholders in 1996, to permit the Compensation Committee of the Board of Directors (the 'Committee') to determine the exercise price and vesting schedule of options

granted under the Plan. In December 1995 and December 1996, the Company granted options to certain employees to purchase 215,500 and 338,645 shares, respectively, of the Company's common stock at exercise prices ranging from $.625 to $5.625 below the fair

NOTE 8. STOCK OPTION PLAN- - (CONTINUED)

market value of such shares on the date of grant. The difference between the exercise price and the fair market value of such shares on the date of grant is recognized as compensation expense over the vesting periods of 2 1/2 to 3 years. Compensation expense was $.3 million and $0 in 1996 and 1995, respectively, for such options. All other employee options granted under the Plan have a term of nine years, have an exercise price equal to the fair market value of such shares on the date of grant and become exercisable at a rate determined by the Committee at the time of grant. Special vesting rules apply to options granted to non- employee directors.

The Company has elected the disclosure- only provisions of SFAS No. 123, 'Accounting for Stock- Based Compensation', and applies APB Opinion No. 25 and related interpretations in accounting for the Plan. If the Company had elected to recognize compensation cost based on the fair value of awards at grant dates, the Company's pro forma net income for the years 1996 and 1995 would have been $80.0 and $67.2 million, respectively, and pro forma earnings per share would have been $.82 and $.68, respectively. The SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, and the resulting pro forma compensation expense may not be indicative of pro forma expense in future years.

The fair value of the Company's stock options used to compute pro forma net income and earnings per share is the estimated present value at the date of grant using the Black- Scholes option- pricing model with the following weighted- average assumptions: risk- free interest rate of 6%; expected life of 6 years; expected volatility of 27%; and dividend yield of 0%.

The following is a summary of transactions pertaining to the Plan:

	YEAR ENDED DECEMBER 31, 1996		YEAR ENDED DECEMBER 31, 1995	
	SHARES (000's)	WEIGHTED AVERAGE EXERCISE PRICE	SHARES (000's)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, January 1.....	3,277	$ 7.86	2,200	$ 7.72
Granted.....	2,110	11.31	1,355	8.05
Exercised.....	(115)	6.90	(29)	6.76
Forfeited.....	(258)	8.17	(249)	7.79
Outstanding, December 31.....	5,014	$ 9.32	3,277	$ 7.86
Options exercisable, December 31...	1,140	$ 8.45	708	$ 8.65

Based on calculations using the Black- Scholes option- pricing model, the weighted- average fair value of options granted in 1996 for which the exercise price equaled the fair market value of such shares on the date of grant was $3.50 per share, and such weighted average fair value of options granted in 1996 for which the exercise price was less than the fair market value of such shares on the date of grant was $5.99 per share.

The following is a summary of the status of stock options outstanding and exercisable under the Plan as of December 31, 1996:

	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	SHARES (000's)	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	SHARES (000's)	WEIGHTED AVERAGE EXERCISE PRICE
$ 5.00-$ 7.50....	1,945	$ 6.71	5.99 years	654	$ 6.76
$ 7.51-$11.25....	1,023	9.15	7.75 years	186	8.71
$11.26-$14.00....	2,046	11.88	8.17 years	300	11.96
Total.....	5,014	$ 9.32	7.24 years	1,140	$ 8.45

NOTE 9. RELATED PARTY TRANSACTIONS

Building Materials Corporation of America ('BMCA'), an indirect wholly owned subsidiary of GAF and an affiliate of the Company, purchases all of its colored roofing granule requirements from the Company (except for the requirements of its California roofing plant) under a requirements contract which was renewed for 1997 and is subject to annual renewal unless terminated by the Company or BMCA. In addition, in December 1995, U.S. Intec, Inc. ('USI') an indirect subsidiary of GAF and, as of January 1, 1997, a subsidiary of BMCA, commenced purchasing substantially all of its requirements for colored roofing granules from the Company (except for the requirements of its Stockton, California and

Corvallis, Oregon plants) pursuant to a requirements contract which expires December 31, 1997. In 1996, BMCA and USI purchased a total of $50.5 million of mineral products from the Company, representing approximately 7% of the Company's total net sales and approximately 59% of the Company's net sales of mineral products. Sales by the Company to BMCA and USI totaled $45.8 and $42.5 million for 1995 and 1994, respectively.

The receivable from BMCA for sales of mineral products as of December 31, 1996 and 1995 was $3.5 and $2.7 million, respectively, and the receivable from USI for sales of mineral products at each of December 31, 1996 and 1995 was $.1 million.

Pursuant to a Management Agreement, which expires at the end of 1997, the Company provides certain general management, administrative, and facilities services to ISP Holdings and certain of its affiliates, including GAF, BMCA, USI, G- I Holdings and GFC. Charges by the Company for providing such services aggregated $4.9, $4.5 and $4.4 million for 1996, 1995 and 1994, respectively, and are reflected as reductions of 'Selling, general and administrative' expense. The basis for such charges is an estimate of the costs the Company incurs to provide management services, including, but not limited to, executive, legal, tax, treasury and accounting services, and the costs to the Company of providing and maintaining facilities services at the corporate headquarters, which is owned by a subsidiary of the Company. In addition to the management services charge, BMCA paid approximately $.8 million to the Company in 1996 and $.7 million in each of 1995 and 1994, primarily for telecommunications and information services, and ISP Holdings, G- I Holdings and BMCA paid an aggregate of approximately $.5, $.2 and $.3 million in 1996, 1995 and 1994, respectively, to the Company for certain legal services, which in each case were not encompassed within the Management Agreement. In connection with the Separation Transactions, the Management Agreement was modified to incorporate such services, and, in that connection, the total charges for management fees were increased to an annual rate of $5.5 million, effective January 1, 1997.

See Note 2 for a discussion of the Tax Sharing Agreement.

Under the terms of the Credit Agreement, the Company or any of its subsidiaries are permitted to make loans to affiliates, and provide letters of credit issued for the benefit of such affiliates, up to an aggregate amount not to exceed $75 million outstanding at any time (see Note 6).

The Company and its subsidiaries also borrow from ISP Holdings and G- I Holdings and its subsidiaries at the same rates available to the Company under the Credit Agreement. Such borrowings outstanding from G- I Holdings at December 31, 1995 comprised $50.6 million, classified as current, and $67.2 million, classified as long- term pursuant to an interest-bearing note maturing in July 2001. Such borrowings from G- I Holdings were repaid in 1996, and, as a result of the Separation Transactions, loans between the Company and G- I Holdings are prohibited by ISP Holdings' debt instruments.

At December 31, 1996, the Company had total borrowings from ISP Holdings of $62.6 million, $50 million pursuant to a note agreement maturing in December 2006 and $12.6 million pursuant to a note agreement maturing in July 2001.

Certain executive officers of the Company were granted stock appreciation rights relating to ISP Holdings' common stock. Compensation expense in connection with such stock appreciation rights is reflected in ISP Holdings' operating expense and was immaterial for 1996, 1995 and 1994, respectively.

ISP Holdings has issued options to certain employees to purchase shares of its Redeemable Convertible Preferred Stock; such shares are convertible, at the holder's option, into shares of common stock of ISP Holdings at a formula price. The common stock is subject to repurchase by ISP Holdings under certain circumstances at a

NOTE 9. RELATED PARTY TRANSACTIONS- - (CONTINUED)

price equal to current Book Value as defined. No expense is accrued in connection with the preferred stock options.

NOTE 10. BUSINESS SEGMENT INFORMATION

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
	(MILLIONS)		
Net sales:			
Specialty Chemicals	$ 587.2	$ 562.0	$ 487.2
Mineral Products(1)	85.6	86.1	81.1
Other	43.7	40.9	31.7
Net sales	$ 716.5	$ 689.0	$ 600.0
Operating income:			

Specialty Chemicals(2)	$ 117.9	$ 106.3	$ 80.6
Mineral Products	16.5	16.3	14.6
Other	1.6	4.5	4.0
Total operating income	$ 136.0	$ 127.1	$ 99.2
Identifiable assets:			
Specialty Chemicals(3)	$ 958.1	$ 953.5	$ 962.5
Mineral Products	154.5	154.6	158.5
Other	27.7	25.0	20.0
General Corporate(4)	176.6	179.8	110.3
Total assets	$1,316.9	$1,312.9	$1,251.3
Capital expenditures and acquisitions:			
Specialty Chemicals	$ 41.6	$ 31.1	$ 22.5
Mineral Products	9.5	6.0	8.3
Other	3.5	1.8	.3
Total	$ 54.6	$ 38.9	$ 31.1
Depreciation and goodwill amortization:			
Specialty Chemicals	$ 41.0	$ 38.6	$ 36.1
Mineral Products	9.6	9.7	9.3
Other	.9	.9	.8
Total	$ 51.5	$ 49.2	$ 46.2

(1) Includes sales to BMCA of $48.1, $45.7 and $42.5 million for 1996, 1995 and 1994, respectively, and sales to USI of $2.4 and $.1 million for 1996 and 1995, respectively.

(2) Does not include operating income of the Company's 50% ownership of GAF- Huls. The Company's equity in the earnings of GAF- Huls is reflected in the Consolidated Statements of Income as 'Equity in earnings of joint venture' below Operating Income.
(3) Identifiable assets of Specialty Chemicals include the Company 50% ownership of GAF- Huls. See Note 1.
(4) General Corporate assets primarily represent the Company's investments in trading, available- for- sale and held- to- maturity securities and other short- term investments, which are held for general corporate purposes and are not allocated to industry segments.
The Company manufactures a broad spectrum of specialty chemicals having numerous applications in consumer and industrial products encompassing such worldwide markets as pharmaceuticals, hair and skin care, plastics, agricultural, coatings and adhesives. The Company's mineral products business manufactures ceramic- coated colored roofing granules which are sold primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles. Over 50% of the Company's sales of mineral products are to BMCA (see Note 9). The Company also manufactures filter products and advanced materials.

NOTE 11. GEOGRAPHIC INFORMATION

Results set forth below for foreign operations represent sales and operating income of foreign- based subsidiaries.

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
		(MILLIONS)	
Net sales:			
Domestic operations(1)	$ 361.0	$ 345.2	$ 306.4
Europe(2)	212.3	209.1	180.9
Asia-Pacific	102.9	101.2	83.4
Other foreign operations	40.3	33.5	29.3
Net sales	$ 716.5	$ 689.0	$ 600.0
Operating income:			
Domestic operations	$ 64.4	$ 57.9	$ 41.3
Europe	53.1	46.5	37.1
Asia-Pacific	17.5	20.2	16.6
Other foreign operations	1.0	2.5	4.2
Operating income	136.0	127.1	99.2
Equity in earnings of joint venture	5.6	5.4	2.0
Interest expense and other, net	(15.6)	(26.4)	(28.7)
Income before income taxes and extraordinary			

item	$ 126.0	$ 106.1	$ 72.5
Identifiable assets:			
Domestic operations	$ 948.4	$ 954.1	$ 974.3
Europe(3)	130.8	133.1	128.9
Asia-Pacific	41.4	32.2	28.5
Other foreign operations	19.7	13.7	9.3
General Corporate(4)	176.6	179.8	110.3
Total assets	$1,316.9	$1,312.9	$1,251.3

(1) Net sales- - domestic operations excludes sales by the Company's domestic subsidiaries to foreign- based subsidiaries of $160.1, $140.9 and $135.1 million for 1996, 1995 and 1994, respectively.

(2) Net sales- - Europe excludes sales by the Company's European subsidiaries to domestic and other foreign- based subsidiaries of $20.7, $19.9 and $12.8 million for 1996, 1995 and 1994, respectively.
(3) Identifiable assets- - Europe include the Company's 50% ownership of GAF- Huls. See Note 1.
(4) General Corporate assets primarily represent the Company's investments in trading, available- for- sale and held- to- maturity securities and other short- term investments, which are held for general corporate purposes.
Approximately 60% of the Company's international sales in 1996 were in countries in Western Europe and Japan which are subject to currency exchange rate fluctuation risks. See Note 1 for a discussion of the Company's policy to manage these risks. Other countries in which the Company has sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation and general instability.

NOTE 12. COMMITMENTS AND CONTINGENCIES

ISP Holdings is a holding company without independent businesses or operations and, as such, is dependent upon the cash flows of the Company in order to satisfy its obligations. Such obligations include $325 million principal amount of ISP Holdings' 9% Senior Notes due 2003 and $199.9 million principal amount of ISP Holdings' 9 3/4% Senior Notes due 2002. ISP Holdings expects to satisfy such obligations from, among other things, refinancings of debt, dividends and loans from the Company, as to which there are restrictions under the Credit Agreement and the indenture relating to the 9% Notes (see Note 6), and payments pursuant to the Tax

NOTE 12. COMMITMENTS AND CONTINGENCIES- - (CONTINUED)

Sharing Agreement (see Note 2). The Company does not believe that the dependence of ISP Holdings on the cash flows of the Company should have a material adverse effect on the operations, liquidity or capital resources of the Company.
Asbestos Litigation Against GAF
GAF and G- I Holdings have established reserves for asbestos bodily injury claims, as of December 31, 1996, in the amount of $333.8 million (before estimated present value of recoveries from products liability insurance policies of $190.5 million and related deferred tax benefits of $51.7 million). GAF and G- I Holdings have advised the Company that certain components of the
asbestos- related liability and the related insurance recoveries have been reflected on a discounted basis in their financial statements, and that the aggregate undiscounted liability as of December 31, 1996, before estimated recoveries from products liability insurance policies, was $370.6 million. GAF and G- I Holdings have also advised the Company that they believe that their reserves adequately reflect their asbestos- related liabilities. GAF's and G- I Holdings' estimate of liability for asbestos claims is based on a pending settlement of future asbestos bodily injury claims (the 'Settlement') becoming effective and on assumptions which relate, among other things, to the number of new cases filed, the cost of resolving (either by settlement or litigation or through the mechanism established by the Settlement) pending and future claims, the realization of related tax benefits, the favorable resolution of pending litigation against certain insurance companies and the amount of recoveries from various insurance companies.
Neither the Company nor the assets or operations of the Company, which was operated as a division of a corporate predecessor of GAF prior to July 1986, have been employed in the manufacture or sale of asbestos products. The Company believes that it should have no legal responsibility for damages in connection with asbestos- related claims.

Environmental Litigation

The Company, together with other companies, is a party to a variety of administrative proceedings and lawsuits involving environmental matters ('Environmental Claims') in which recovery is sought for the cost of cleanup of contaminated sites, a number of which are in the early stages or have been dormant for protracted periods.

The Company estimates that its liability in respect of all Environmental Claims, as of December 31, 1996, will be approximately $18.5 million, before reduction for insurance recoveries reflected on the Company's balance sheet (discussed below) of $6.9 million ('estimated recoveries'). The gross environmental liability is included within 'Accrued liabilities' and 'Other liabilities', and the estimated recoveries are included within 'Other current assets' and 'Other assets'.

In the opinion of the Company's management, the resolution of the Environmental Claims should not be material to the business, liquidity, results of operations, cash flows or financial position of the Company. However, adverse decisions or events, particularly as to the liability and the financial responsibility of the Company's insurers and of the other parties involved at each site and their insurers, could cause the Company to increase its estimate of its liability in respect of such matters. It is not currently possible to estimate the amount or range of any additional liability.

After considering the relevant legal issues and other pertinent factors, the Company believes that it will receive the estimated recoveries and it may receive amounts substantially in excess thereof. The Company believes it is entitled to substantially full defense and indemnity under its insurance policies for the Environmental Claims, although the Company's insurers have not affirmed a legal obligation under the policies to provide indemnity for such claims.

The estimated recoveries are based in part upon interim agreements with certain insurers. The Company terminated these agreements in 1995 and commenced litigation seeking amounts substantially in excess of the estimated recoveries. While the Company believes that its claims are meritorious, there can be no assurance that the Company will prevail in its efforts to obtain amounts at or in excess of the estimated recoveries.

NOTE 12. COMMITMENTS AND CONTINGENCIES- - (CONTINUED)

In June 1989, the Company entered into a Consent Order with the New Jersey Department of Environmental Protection (NJDEP) requiring the development of a remediation plan for its closed Linden, New Jersey plant and the maintenance of financial assurances (currently $7.5 million) to guarantee the Company's performance. In April 1993, NJDEP issued orders which require the prevention of discharge of contaminated groundwater and stormwater from the site and the elimination of other potential exposure concerns. The Company believes, although there can be no assurance, that, taking into account its plans for development of the site, it can comply with the NJDEP order at a cost of no more than $7.5 million (in connection with which the Company anticipates insurance recoveries of approximately $5 million).

Lease Commitments

Leases for certain equipment at two of the Company's mineral products plants are accounted for as capital leases and are included in 'Property, plant and equipment, net', at December 31, 1996 and 1995 in the amount of $2.3 and $2.1 million, respectively. The Company also has operating leases for transportation, production and data processing equipment and for various buildings. Rental expense on operating leases was $8.7, $8.2 and $7.4 million for 1996, 1995 and 1994, respectively. Future minimum lease payments for properties which were held under long- term noncancelable leases as of December 31, 1996 were as follows:

	CAPITAL LEASES	OPERATING LEASES
	(THOUSANDS)	
1997	$ 735	$ 2,865
1998	694	1,985
1999	399	1,330
2000	346	756
2001	251	598
Later years	49	988
Total minimum payments	2,474	$ 8,522
Less interest included above	(406)	---
Present value of net minimum lease payments	$ 2,068	

Other Commitments

The Company intends to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. While the originally anticipated commencement date of the European project has been deferred because the Company has been able to implement cost efficient capacity expansions at its existing manufacturing facilities, based upon its current analyses of additional opportunities for expansion of existing capacity, end- use demand, and other relevant factors, the Company intends to proceed with the project by the end of 1997. Costs capitalized to date related to this project are included in 'Construction in progress'. The Company anticipates utilizing internally generated funds, existing credit facilities and/or independent financing to fund the cost of the project.

The Company has received conditional site designation from the New Jersey Hazardous Waste Facilities Siting Commission for the construction of a hazardous waste treatment, storage and disposal facility at its Linden, New Jersey property, and has received approval from the New Jersey Turnpike Authority for a direct access ramp from the Turnpike to the site. Both the site designation and the access ramp approval have been appealed to the Courts by the City of Linden. The Company estimates that the cost of constructing the facility will be approximately $100 million and, if approved, the facility is anticipated to be in operation three years after commencement of construction. The Company anticipates utilizing internally generated cash and/or seeking project or other independent financing therefor. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources.

INTERNATIONAL SPECIALTY PRODUCTS INC.

SUPPLEMENTARY DATA (UNAUDITED)

QUARTERLY FINANCIAL DATA (UNAUDITED)

	1996 BY QUARTER				1995 BY QUARTER			
	FIRST	SECOND	THIRD	FOURTH	FIRST	SECOND	THIRD	FOURTH
	(MILLIONS, EXCEPT PER SHARE AMOUNTS)							
Net sales	$185.6	$185.0	$173.6	$172.3	$179.9	$182.6	$167.8	$158.7
Cost of products sold	112.9	107.1	100.3	98.6	113.2	109.2	99.9	92.4
Gross profit	$ 72.7	$ 77.9	$ 73.3	$ 73.7	$ 66.7	$ 73.4	$ 67.9	$ 66.3
Operating income	$ 34.2	$ 38.0	$ 33.5	$ 30.3	$ 31.2	$ 36.2	$ 31.8	$ 27.9
Income before income taxes	$ 31.3	$ 35.6	$ 31.3	$ 27.8	$ 24.1	$ 29.6	$ 27.5	$ 24.9
Income taxes	(11.4)	(13.0)	(11.2)	(9.7)	(9.0)	(11.1)	(9.9)	(8.7)
Net income	$ 19.9	$ 22.6	$ 20.1	$ 18.1	$ 15.1	$ 18.5	$ 17.6	$ 16.2
Earnings per common share(1)	$ .20	$ .23	$ .21	$ .19	$ .15	$ .19	$ .18	$ .17

(1) Earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the quarters.

SCHEDULE II

INTERNATIONAL SPECIALTY PRODUCTS INC.

VALUATION AND QUALIFYING ACCOUNTS

	YEAR ENDED DECEMBER 31, 1996			
DESCRIPTION	BALANCE JANUARY 1, 1996	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE DECEMBER 31, 1996
	(THOUSANDS)			
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts	$ 2,879	$ 272	$ 311(a)	$ 2,840
Reserve for inventory market valuation	13,978	8,329	9,495	12,812

	YEAR ENDED DECEMBER 31, 1995			
DESCRIPTION	BALANCE JANUARY 1, 1995	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE DECEMBER 31, 1995

			(THOUSANDS)	
Valuation and Qualifying Accounts				
Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts.....	$ 2,292	$ 681	$ 94(a)	$ 2,879
Reserve for inventory market valuation....	9,631	8,861	4,514	13,978

	YEAR ENDED DECEMBER 31, 1994			
DESCRIPTION	BALANCE JANUARY 1, 1994	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE DECEMBER 31, 1994
		(THOUSANDS)		
Valuation and Qualifying Accounts				
Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts.....	$ 2,313	$ 325	$ 346(a)	$ 2,292
Reserve for inventory market valuation....	8,991	7,052	6,412	9,631

Notes:
(a) Represents write- offs of uncollectible accounts net of recoveries.

INTERNATIONAL SPECIALTY PRODUCTS INC.

SUPPLEMENTARY FINANCIAL INFORMATION

GUARANTOR FINANCIAL DATA (FOR THE ISSUERS AND THE SUBSIDIARY GUARANTORS)

The 9% Senior Notes discussed in Note 6 to Consolidated Financial Statements were issued by ISP Chemicals Inc. and ISP Technologies Inc., domestic subsidiaries of ISP (the 'Issuers') and are guaranteed by ISP and certain of its domestic subsidiaries (the 'Subsidiary Guarantors'). Presented below is combined condensed financial information for the Issuers and the Subsidiary Guarantors, which together are interdependent and with their subsidiaries constitute all of the domestic subsidiaries of ISP, except for International Specialty Products Funding Corporation, a special purpose subsidiary of ISP which is the seller of the Company's accounts receivable. See Note 3 to Consolidated Financial Statements. This financial information should be read in conjunction with ISP's Consolidated Financial Statements and related notes included in this Form 10- K. Financial information for ISP's foreign subsidiaries, including its investment in GAF- Huls, is reflected in the following financial information by the equity method of accounting.

COMBINED CONDENSED STATEMENTS OF INCOME

FOR THE ISSUERS AND THE SUBSIDIARY GUARANTORS

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
		(MILLIONS)	
Net sales.....	$521.1	$486.0	$441.6
Costs and expenses:			
Cost of products sold.....	355.2	333.7	309.9
Selling, general and administrative.....	88.3	81.2	77.0
Goodwill amortization.....	13.2	13.2	13.4
Total costs and expenses.....	456.7	428.1	400.3
Operating income.....	64.4	57.9	41.3
Interest expense.....	(27.3)	(34.3)	(28.6)
Equity in income from foreign subsidiaries and 50% owned joint venture.....	61.8	53.3	39.4
Other income, net.....	20.2	22.4	14.3
Income before income taxes and extraordinary item.....	119.1	99.3	66.4
Income taxes.....	(38.6)	(31.9)	(20.7)
Income before extraordinary item.....	80.5	67.4	45.7
Extraordinary item, net of related income tax benefit.....	--	--	(1.2)
Net income.....	$ 80.5	$ 67.4	$ 44.5

INTERNATIONAL SPECIALTY PRODUCTS INC.

SUPPLEMENTARY FINANCIAL INFORMATION

GUARANTOR FINANCIAL DATA (FOR THE ISSUERS AND THE SUBSIDIARY GUARANTORS)- - (CONTINUED)

COMBINED CONDENSED BALANCE SHEETS

FOR THE ISSUERS AND THE SUBSIDIARY GUARANTORS

	DECEMBER 31, 1996	1995
	(MILLIONS)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5.3	$ 3.3
Investments in trading securities	.7	17.3
Investments in available-for-sale securities	59.8	71.4
Other short-term investments	6.1	4.9
Accounts receivable, net	4.9	10.4
Receivable from related parties, net	5.0	--
Loan receivable from related party	2.6	--
Inventories	67.5	72.5
Other current assets	11.0	10.1
Total Current Assets	162.9	189.9
Property, plant and equipment, net	459.7	449.8
Excess of cost over net assets of businesses acquired, net	417.3	430.5
Advances to and equity in investment in foreign subsidiaries and 50% owned joint venture	192.2	161.1
Other assets	22.1	21.4
Total Assets	$1,254.2	$1,252.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ --	$ 13.0
Current maturities of long-term debt	.6	.4
Loan payable to related party	--	50.6
Accounts payable	29.7	26.3
Accrued liabilities	39.9	42.0
Payable to related parties, net	--	9.4
Total Current Liabilities	70.2	141.7
Long-term debt less current maturities	310.0	280.3
Long-term notes payable to related parties	62.6	67.2
Deferred income taxes	52.7	55.7
Other liabilities	59.7	64.6
Stockholders' Equity	699.0	643.2
Total Liabilities and Stockholders' Equity	$1,254.2	$1,252.7

INTERNATIONAL SPECIALTY PRODUCTS INC.

SUPPLEMENTARY FINANCIAL INFORMATION

GUARANTOR FINANCIAL DATA (FOR THE ISSUERS AND

COMBINED CONDENSED STATEMENTS OF CASH FLOWS

FOR THE ISSUERS AND THE SUBSIDIARY GUARANTORS

	YEAR ENDED DECEMBER 31,		
	1996	1995	1994
		(MILLIONS)	
Cash and cash equivalents, beginning of year....	$ 3.3	$ 9.9	$ 1.1
Cash provided by operating activities:			
Net income.....	80.5	67.4	44.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation.....	35.4	33.6	30.6
Goodwill amortization.....	13.2	13.2	13.4
Deferred income taxes.....	(2.5)	(18.8)	(16.5)
(Increase) decrease in working capital items.....	9.4	(7.1)	(.6)
Purchases of trading securities.....	(10.3)	(66.5)	(267.2)
Proceeds from sales of trading securities.....	19.5	104.1	284.5
Change in advances to and equity in investment in foreign subsidiaries and 50% owned joint venture.....	(34.4)	(26.8)	(10.5)
Change in net receivable from/payable to related parties.....	(14.5)	6.1	(.2)
Change in cumulative translation adjustment...	(8.4)	6.9	8.3
Other, net.....	(4.6)	8.1	(10.0)
Net cash provided by operating activities.....	83.3	120.2	76.3
Cash used in investing activities:			
Capital expenditures.....	(45.5)	(34.4)	(29.2)
Purchases of available-for-sale securities....	(170.0)	(325.3)	(.9)
Purchases of other short-term investments.....	(1.3)	(2.2)	(2.7)
Proceeds from sales of available-for-sale securities.....	188.9	255.6	.7
Net cash used in investing activities.....	(27.9)	(106.3)	(32.1)
Cash provided by (used in) financing activities:			
Proceeds (repayments) from sale of accounts receivable.....	2.0	3.7	(1.1)
Increase (decrease) in short-term debt.....	(13.0)	13.0	(12.7)
Increase (decrease) in borrowings under revolving credit facility.....	29.6	(4.2)	(82.3)
Other increase (decrease) in long-term debt...	.4	(1.4)	(.8)
Increase (decrease) in loans from related parties.....	(57.9)	(15.2)	66.3
Dividends.....	--	--	(5.0)
Repurchases of common stock.....	(15.1)	(16.6)	(.3)
Other, net.....	.6	.2	.5
Net cash used in financing activities.....	(53.4)	(20.5)	(35.4)
Net change in cash and cash equivalents.....	2.0	(6.6)	8.8
Cash and cash equivalents, end of year.....	$ 5.3	$ 3.3	$ 9.9

The advances to and equity in investment in foreign subsidiaries and 50% owned joint venture and the related equity in income from foreign subsidiaries and 50% owned joint venture include the net assets and operating results, respectively, of ISP's wholly owned foreign subsidiaries and its 50% owned joint venture, GAF- Huls. Domestic operating income includes $39.4, $28.4 and $32.1 million of profits on sales made by ISP's domestic subsidiaries to its foreign- based subsidiaries for 1996, 1995 and 1994, respectively. Profits earned on sales to the foreign- based subsidiaries which were included in the foreign- based subsidiaries' inventories at the end of each period have been eliminated from domestic operating income and from advances to and equity in investment in foreign subsidiaries.

Dividends received from foreign- based subsidiaries and GAF- Huls aggregated $18.7, $26 and $59.8 million for 1996, 1995 and 1994, respectively.

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3.1	-- Certificate of Incorporation of ISP (incorporated by reference to Exhibit 3.1 to ISP's Registration Statement on Form S-1, Registration No. 33-40337) (the 'Common Stock Registration Statement').
3.2	-- By-laws of ISP (incorporated by reference to Exhibit 3.2 to the Common Stock Registration Statement).
3.3	-- Certificate of Incorporation of ISP Chemicals (incorporated by reference to Exhibit 3.3 to ISP's Registration Statement on Form S-1, Registration No. 33-44862) (the '9% Note Registration Statement').
3.4	-- By-laws of ISP Chemicals (incorporated by reference to Exhibit 3.4 to the 9% Note Registration Statement).
3.5	-- Certificate of Incorporation of ISP Technologies (incorporated by reference to Exhibit 3.5 to the 9% Note Registration Statement).
3.6	-- By-laws of ISP Technologies (incorporated by reference to Exhibit 3.6 to the 9% Note Registration Statement).
4	-- Indenture, dated as of March 1, 1992, relating to ISP's 9% Senior Notes due March 1, 1999 (incorporated by reference to Exhibit 4 to the 9% Note Registration Statement).
10.1	-- Management Agreement, dated as of March 3, 1992 ('Management Agreement'), among GAF, G-I Holdings, G Industries Corp., ISP, GAF Building Materials Corporation and GAF Broadcasting Company, Inc. (incorporated by reference to Exhibit 10.5 to ISP's Annual Report on Form 10-K for the year ended December 31, 1993).
10.2	-- Amendment No. 1, dated as of January 1, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.10 to ISP's Annual Report on Form 10-K for the year ended December 31, 1993).
10.3	-- Amendment No. 2, dated as of May 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.1 to ISP's Quarterly Report on Form 10-Q for the quarter ended July 3, 1994).
10.4	-- Amendment No. 3, dated as of December 31, 1994, to the Management Agreement (incorporated by reference to Exhibit 10.4 to ISP's Annual Report on Form 10-K for the year ended December 31, 1994).
10.5	-- Amendment No. 4, dated as of December 31, 1995, to the Management Agreement (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-4 of G-I Holdings, Registration No. 333-2436).
10.6	-- Amendment No. 5, dated as of October 18, 1996, to the Management Agreement (incorporated by reference to Exhibit 10.6 to ISP Holdings' Registration Statement on Form S-4, Registration No. 333-17827) (the 'ISP Holdings Registration Statement').
10.7	-- Amendment No. 6, dated as of January 1, 1997, to the Management Agreement (incorporated by reference to Exhibit 10.8 to BMCA's Registration Statement on Form S-4 (Registration No. 333-20859)).
10.8	-- Tax Sharing Agreement, dated as of January 1, 1997, among ISP Holdings, ISP and certain subsidiaries of ISP (incorporated by reference to Exhibit 10.8 to the ISP Holdings Registration Statement).
10.9	-- Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to ISP's Registration Statement on Form S-1, Registration No. 33-40337).*
10.10	-- ISP Amended and Restated 1991 Incentive Plan for Key Employees and Directors ('Incentive Plan')(incorporated by reference to Exhibit 99 to ISP's Registration Statement on Form S-8, Registration No. 33-92518).*
10.11	-- Amendment to the Incentive Plan.*

EXHIBIT NUMBER	DESCRIPTION
10.12	-- Agreement, dated July 30, 1993, between ISP and Carl R. Eckardt (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-4 of G-I Holdings (Registration No. 33-72220)).*
10.13	-- Letter Agreement, dated October 15, 1996, between GAF and Dr. Peter

Heinze (incorporated by reference to Exhibit 10.14 to the ISP Holdings Registration Statement).*

10.14 -- Form of Maintenance Agreement between ISP and ISP Chemicals (incorporated by reference to Exhibit 10.18 to the 9% Note Registration Statement).

10.15 -- Form of Assignment and Assumption Agreement between G Industries Corp. and ISP (incorporated by reference to Exhibit 10.19 to the 9% Note Registration Statement).

10.16 -- Form of Assignment and Assumption Agreement among ISP, ISP Chemicals and ISP Technologies (incorporated by reference to Exhibit 10.20 to the 9% Note Registration Statement).

10.17 -- Form of Intercompany Term Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.21 to the 9% Note Registration Statement).

10.18 -- Form of Intercompany Term Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.22 to the 9% Note Registration Statement).

10.19 -- Form of Intercompany Revolving Note of ISP payable to the order of ISP Chemicals (incorporated by reference to Exhibit 10.23 to the 9% Note Registration Statement).

10.20 -- Form of Intercompany Revolving Note of ISP payable to the order of ISP Technologies (incorporated by reference to Exhibit 10.24 to the 9% Note Registration Statement).

10.21 -- Form of Option Agreement relating to Cumulative Redeemable Preferred Stock of ISP Holdings.*

10.22 -- Form of ISP Holdings Stock Appreciation Right Agreement.*

21 -- Subsidiaries of ISP and ISP Chemicals; ISP Technologies has no subsidiaries.

23 -- Consent of Arthur Andersen LLP.

27 -- Financial Data Schedule for fiscal year 1996, which is submitted electronically to the Securities and Exchange Commission for information only.

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* Management and/or compensation plan or arrangement.

AMENDMENT TO THE

INTERNATIONAL SPECIALTY PRODUCTS INC.

1991 INCENTIVE PLAN FOR KEY EMPLOYEES

AND DIRECTORS, AS AMENDED

1. This Amendment (the "Amendment") to the International Specialty Products Inc. 1991 Incentive Plan for Key Employees and Directors, as amended (the "Plan"), is effective as of December 31, 1995, subject to stockholder approval.
2. Section 9 of the Plan is hereby amended by deleting such section in its entirety and substituting in lieu thereof a new Section 9 to read in its entirety as follows:
"9. KEY EMPLOYEE OPTION PRICE.

Except as otherwise provided in this Section 9, the Committee shall have full authority, in its discretion, to determine the Option price per share at which Options granted under the Plan shall be exercisable; provided, however, that (a) the Option price of any Non- Qualified Option shall be not less than 50% of the Fair Market Value of the shares of Common Stock subject to such Option on the date such Option is granted and (b) the Option price of any Qualified Option shall be not less than 100% of the Fair Market Value of the shares of Common Stock subject to such Option on the date such Option is granted; and provided further that the Option price of any Qualified Option granted to a Key Employee who is an Over- Ten- Percent Shareholder shall be not less than 110% of the Fair Market Value of the shares of Common Stock subject to such Option on the date such Option is granted. In any event, the Option price shall not be less than the par value of the shares subject to the Option."

3. Section 11 of the Plan is hereby amended by deleting such section in

its entirety and substituting in lieu thereof a new Section 11 to read in its entirety as follows:

"11. EXERCISE OF OPTIONS BY KEY EMPLOYEES.

Subject to Section 16 hereof, and except as otherwise provided in this Section 11, the Committee shall have full authority, in its discretion, to determine the expiration date of any Option granted under the Plan and the vesting period, if any, over which an Option shall be exercisable by a Key Employee; provided, however, that the Committee may, in its discretion, on a case- by- case basis, amend each outstanding Option exercisable by a Key Employee to allow the exercise of such Option, in whole or in part, upon, a Change in Control of the Corporation. No Qualified Option granted to a Key Employee who is an Over- Ten- Percent Shareholder shall be exercisable as to all or any portion of the shares of Common Stock subject
thereto more than five years after the date of grant."

ISP Holdings Inc.
c/o ISP Management Company, Inc.
1361 Alps Road
Wayne, New Jersey 07470

January 1, 1997

[NAME]

[ADDRESS]

Dear Optionee:

ISP Holdings Inc. (the "Company") hereby agrees with you as follows:

1. Option to Purchase.

(a) Subject to the terms and conditions of this Agreement, the Company hereby grants you the option (the "Option") to purchase _____ shares of the Company's Series A Cumulative Redeemable Convertible Preferred Stock ("Preferred Stock"), $.01 par value (the "Preferred Shares"), for a purchase price per Preferred Share equal to the product of (i) $100 multiplied by (ii) a fraction (1) the numerator of which is the Book Value (as hereinafter defined) immediately after giving effect to the Spin- Off Transactions (as hereinafter defined) and (2) the denominator of which is the GAF Book Value (as hereinafter defined) (such product being referred to herein as the "Exercise Price"). The Preferred Shares shall have the rights and preferences set forth in the Certificate of Designation, the form of which is attached as Exhibit A hereto (the "Certificate of Designation"). The Company agrees to file the Certificate of Designation with the Secretary of State of the State of Delaware on or prior to March 31, 1997. For purposes of Section 6 of the Certificate of Designation, (i) the "Applicable Date" with respect to any Preferred Shares purchased by you upon exercise of the Option shall be [date of initial grant of GAF option or GAF SAR in connection with which ISP Holdings option is being granted], (ii) the "Applicable Rate" shall mean six percent (6%) per annum and (iii) the "Base Book Value" shall mean the ISPHI Book Value as defined in that certain agreement (the "GAF SAR Agreement"), dated as of the date hereof, pursuant to which GAF (as hereinafter defined) granted to you a stock appreciation right (the "GAF SAR")
based upon the appreciation in value of _____ shares of GAF Common Stock (as hereinafter defined).

(b) For purposes of this Agreement, the following terms have the meanings specified in this Section 1(b):

(i) "Book Value" means, as of any date of determination, the book value per share of the common stock ("Common Stock"), par value $.001 per share,
of the Company as of that date, as determined in accordance with generally accepted accounting principles after charges such as declaration of dividends on any capital stock of the Company or payments with respect to repurchases by the Company of any capital stock from holders thereof but excluding (1) any amounts reflecting the liquidation preferences of any outstanding preferred stock of the Company, (2) any reductions resulting from purchases of GAF's capital stock by persons who participated in promoting the "Acquisition" referred to in the Prospectus dated March 24, 1989 relative to the GAF Common Stock and certain other securities of GAF (predecessor cost basis adjustment), (3) any charges relating to amortization of goodwill and other intangibles arising from the Acquisition and related transactions, (4) that portion of depreciation charges attributable to the write- up of assets as a result of the application of purchase accounting in

connection with the Acquisition and (5) any charges relating to amortization of deferred financing costs and expenses incurred in connection with the Acquisition; provided, however, that (i) any adjustments to the Book Value shall include the tax effects, if any, associated therewith, (ii) any charges specified in subclauses (3), (4) or (5) above, relating to a business or assets of the Company or any of its subsidiaries, which charges shall have been incurred on or after the date of the Acquisition but which, because of the operation of said subclauses (3), (4) and/or (5), shall not theretofore have been included in the calculation of the Book Value, shall be so included following a transaction involving such business or assets that, in accordance with the next sentence, is deemed a sale or disposition thereof, and (iii) for purposes of clause (ii), an asset, liability or charge not exclusively attributable to the specific business or assets deemed to have been sold or otherwise disposed of shall, if attributable to such business or assets and to other businesses or assets, be deemed to relate to the business or assets sold or otherwise disposed of and to such other businesses or assets pro rata based on relative business and assets values immediately following consummation of the Acquisition; and provided further, that, in calculating the Book Value, if any stock appreciation rights issued by the Company based upon appreciation in value of

shares of Common Stock are outstanding at the time of calculation, the shares of Common Stock upon which such appreciation in value is based ("SAR Shares") shall be deemed outstanding. The Board of Directors of the Company shall determine (i) whether a transaction involving a business or assets of the Company or any of its subsidiaries is a sale or disposition for purposes of the definition and calculation of the Book Value and (ii) if such transaction is a sale or disposition, the amount of the gain or loss thereon. The gain or loss on any sale or disposition shall be the actual economic benefit to GAF from such transaction, as determined by the Board of Directors of the Company.

(ii) "GAF" means GAF Corporation, a Delaware corporation.

(iii) "GAF Book Value" means the book value per share of GAF Common Stock immediately prior to the consummation of the Spin- Off Transactions, as determined in accordance with the GAF SAR Agreement.

(iv) "GAF Common Stock" means common stock, par value $.001 per share, of GAF.

(v) "Market Price" as of any date means the average of the daily market prices per share of Common Stock for the fifteen (15) consecutive business days immediately preceding such date. The daily market price for each such business day shall be (1) the last sale price on such day on the principal stock exchange on which the Common Stock is then listed or admitted to trading, (2) if no sale takes place on such day on any such exchange, the average of the last reported closing bid and asked prices on such day as officially quoted on any such exchange, (3) if the Common Stock is not then listed or admitted to trading on any stock exchange, the average of the last reported closing bid and asked prices furnished by the National Association of Securities Dealers Automated Quotation System or the National Quotation Bureau, Inc., (iv) if neither such corporation at the time is engaged in the business of reporting such prices, as furnished by any similar firm then engaged in such business or (v) if there is no such firm, as furnished by any member of the National Association of Securities Dealers, Inc. selected by the Company.

(vi) "Spin- Off Transactions" means the series of transactions that shall result in, among other things, each holder of a share of GAF Common Stock receiving one share of Common Stock for each share of GAF Common Stock held by such holder.

(c) The Option shall vest and become exercisable commencing on the following dates: as to 25% of the Preferred Shares on [two and one- half years from date of grant](1) , as to an additional 15% of the Preferred Shares on _____ in each of [three and one- half years after date of grant] through [six and one- half years after date of grant] and as to the remainder of the Preferred Shares on [seven years after date of grant], in each case to the extent that you are employed by the Company or its affiliates on such date.

(d) The Option will terminate on the earlier of (i) 30 days after the termination of your employment with the Company and its affiliates for any reason other than your death or permanent disability or (ii) one year after the termination of your employment with the Company and its affiliates as a result of your death or permanent disability. You will be deemed to be permanently disabled if you become physically or mentally incapacitated or disabled to the extent that you are unable to perform for the Company or its affiliates substantially the same services as you performed prior to incurring such incapacity or disability (the Company, at its option and expense, being entitled to retain a physician reasonably acceptable to you to confirm the existence of the incapacity or disability, and the determination of that physician being binding upon the Company and you), and your incapacity or disability continues for a period of six consecutive months; provided, however, that if at the time of your permanent disability you are a party to an employment agreement with the Company or any of its affiliates that contains a definition of disability that is inconsistent with the provisions hereof, the definition contained in that employment agreement shall govern for purposes of this Section 1(d). In the event of your death or disability, the Option may be exercised by your executors or personal representatives; provided, however, that such

persons shall be bound by the provisions of this Agreement, including, without limitation, Sections 3 and 4, as if they were parties to this Agreement.

(e) If a Sale Transaction (as hereinafter defined) occurs with respect to International Specialty Products Inc. ("ISP") or its direct or indirect parent or Building Materials Corporation of America or its direct or indirect parent and you are employed by the entity with respect to which such Sale Transaction shall have occurred or any subsidiary thereof and you are not offered

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(1) For all purposes, the date of grant is deemed to be the date of initial grant of the GAF SAR or option in connection with which ISP Holdings option is being granted.

employment by an entity controlled by Samuel J. Heyman, a member of Mr. Heyman's immediate family, a partnership, limited liability company, trust or other entity established for the benefit of a member or members of Mr. Heyman's immediate family or their respective affiliates (a "Heyman Entity") on terms substantially similar to those pursuant to which you were employed prior to such Sale Transaction then, irrespective of any other provision of this Agreement, the Option shall vest and become fully exercisable upon consummation of such Sale Transaction. If you are offered employment with a Heyman Entity following such Sale Transaction on the terms specified in the immediately preceding sentence, you accept such employment, such employment is terminated by the Heyman Entity (other than for Cause (as hereinafter defined)) [and such termination occurs (i)]2 within twelve (12) months following the consummation of such Sale Transaction, then, irrespective of any other provision of this Agreement, the Option shall vest and become fully exercisable upon such termination of your employment [or (ii) more than twelve (12) months following the consummation of such Sale Transaction, but prior to [two and one half years after date of grant], then, irrespective of any other provision of this Agreement, the Option shall vest and become exercisable as to 25% of the Preferred Shares]2. Any of the events specified in the two immediately preceding sentences shall be referred to herein as an "Acceleration Event". Notwithstanding any provision contained in the Certificate of Designation, if an Acceleration Event shall have occurred and you shall convert any Preferred Shares into Common Shares (as defined in Section 2) on a date on which, absent the occurrence of such Acceleration Event, the Option would not have been fully vested [(or, in the case of clause (ii) of the immediately preceding sentence, vested as to 25% of the Preferred Shares)]2, the date of such conversion shall be deemed to be, for purposes of determining the Interest Amount pursuant to Section 6 of the Certificate of Designation, the date on which the Option would have been fully vested [(or, in the case of clause (ii) of the immediately preceding sentence, vested as to 25% of the Preferred Shares)](2) absent the occurrence of such Acceleration Event. "Sale Transaction" shall mean, with respect to any entity, the sale by such entity (by stock sale, asset sale (including, without limitation, by sale of stock or assets of a subsidiary of such entity), merger or consolidation or otherwise) of all or substantially all of such entity's assets. "Cause"

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(2) Provided in certain agreements

shall mean (i) the commission of a felony, the commission of a misdemeanor involving moral turpitude or the commission of any other act involving dishonesty, disloyalty or fraud with respect to your employer or any affiliate thereof, (ii) substantial and repeated failure by you to perform your duties, (iii) gross negligence or willful misconduct with respect to your employer or any affiliate thereof or (iv) a material breach of any of the terms or provisions of any employment agreement to which you may be party; provided, however, that if at the time of termination of the Grantee's employment the Grantee is a party to an employment agreement with the Heyman Entity that contains a definition of Cause that is inconsistent with the provisions hereof, the definition contained in that employment agreement shall govern for purposes of this Agreement.

(f) The Option shall not be exercisable after its expiration. Prior thereto, the vested portion of the Option may be exercised in whole or in part at any time or from time to time.

(g) Unless otherwise agreed to by the Company and you, the purchase price for the Preferred Shares shall be paid by you to the Company in full upon exercise of the Option, in cash or by certified or official bank check or wire transfer.

(h) The Company hereby represents and warrants to you that, upon the issuance and purchase of (and payment for) the Preferred Shares, the Preferred Shares shall be duly authorized, validly issued, fully paid and nonassessable.

2. Legend on Certificates. Each stock certificate of the Company issued to represent any Preferred Shares, or shares of the Common Stock issued upon conversion of the Preferred Shares (the shares of Common Stock issued upon conversion of the Preferred Shares being referred to herein as the "Common Shares"), shall bear the following (or a substantially equivalent) legend on its face or reverse side:
"These securities have not been registered under the Securities Act of 1933, as amended, or under the applicable securities laws of any other jurisdiction. These securities may not be sold unless registered under the Securities Act of 1933, as amended, and any other applicable securities laws, unless an exemption from such registration is available. In addition, the transfer of these securities is subject to restrictions set forth in an Option Agreement, dated as of January 1, 1997, and any amendments thereto, a copy of which is available for inspection at the office of the Company."

Any stock certificate issued at any time in exchange or substitution for any certificate bearing such legend shall also bear the same legend, unless and to the extent, in the opinion of counsel acceptable to the Company (which counsel may be an employee of the Company or its affiliates), the Preferred Shares or Common Shares, as the case may be, represented thereby are no longer subject to the restrictions referred to in such legend. For purposes of this Agreement, the term "Preferred Shares" and "Common Shares" shall mean any securities or property into which the Preferred Shares or Common Shares, as the case may be, may be converted or exchanged pursuant to a recapitalization, stock split, combination, reorganization, merger, exchange or similar transaction occurring after the date hereof.
3. Transfer of Preferred Shares.
(a) You agree that you will not, prior to [seventh anniversary after date of grant], directly or indirectly, sell, pledge, give, bequeath, transfer, assign or in any other way whatsoever encumber or dispose of (hereinafter collectively called "transfer") any Preferred Shares or Common Shares or any interest therein, or any stock certificate representing, or any voting trust certificate issued with respect to, any Preferred Shares or Common Shares (voluntarily, involuntarily, by operation of law or otherwise), except as otherwise permitted by this Agreement or as may be specifically authorized by the Board of Directors of the Company.
(b) If, after [seventh anniversary after date of grant], you desire to sell any of your Preferred Shares or Common Shares, you must first offer to sell to the Company such Preferred Shares at the Exercise Price, plus accrued and unpaid dividends to the purchase date, and such Common Shares at their Book Value or, if securities of the same class of the Common Shares are then registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Market Price, in either case determined as of the end of the calendar quarter in which the offer is made. You must notify the Company in writing of the number of Preferred Shares and/or Common Shares you wish to sell (the "Sale Notice"). Upon receipt of your Sale Notice, the Company shall have the option, exercisable for 30 days after the Company receives the Sale Notice (the "Option Period"), to purchase all (but not less than all) of the Preferred Shares and Common Shares specified in the Sale Notice. The option may be exercised by giving notice to you within the Option Period. If the Company elects to purchase the Preferred Shares and Common Shares you have offered, it

shall be obligated to purchase, and you will be obligated to sell, those Preferred Shares and Common Shares at the price and on the terms described above. If the Company does not elect to purchase the Preferred Shares and Common Shares you have offered, and if otherwise permitted under this Section 3, you may, at any time thereafter within a period of 120 days after the expiration of the Option Period, transfer those Preferred Shares and Common Shares to any party; provided, however, that, in the event that you have not transferred the Preferred Shares and Common Shares within 120 days after expiration of the Option Period, then any transfer of those Preferred Shares and Common Shares shall thereafter again be subject to all of the restrictions contained in this
Section 3.
(c) You understand that neither the Preferred Shares nor the Common Shares have been registered under the Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of certain states, in reliance upon specific exemptions from registration thereunder, and you agree that your Preferred Shares and Common Shares may not be sold, offered for sale, transferred, pledged, hypothecated or otherwise disposed of except in compliance with the Securities Act and applicable state securities laws and the restrictions of this Agreement on the transfer thereof. You have been advised that the Company has no obligation and does not intend to cause the Preferred Shares or Common Shares to be registered under the Securities Act or to comply with any exemption under the Securities Act, including but not limited to that set forth in Rule 144 promulgated under the Securities Act, that would permit them to be sold by you. You understand that it

is not anticipated that there will be any market for resale of the Preferred Shares or Common Shares and that it may not be possible for you to liquidate an investment in the Preferred Shares or Common Shares. You understand the legal consequences of the foregoing to mean that you must bear the economic risk of your investment therein except as otherwise provided in this Agreement. You agree that you will not transfer any Preferred Shares or Common Shares except in compliance with the Securities Act. The Company will not transfer on its books any certificate representing Preferred Shares or Common Shares in violation of the provisions of this Agreement.

4. Purchase and Sale of Common Stock.

(a) In the event that you are not employed by the Company and its affiliates for any reason on or after the date hereof (any such date of leaving is called the "Termination Date"), you may, at your

option, exercisable by a notice delivered to the Company during the Put/Call Period, elect to sell and, upon the giving of the notice, you shall be obligated to sell, and the Company shall be obligated to purchase all, but not less than all, the Common Shares owned by you at the time such notice is given, at their Book Value or, if securities of the same class as the Common Shares are then registered under the Exchange Act, the Market Price, in either case determined as of the last day of the calendar quarter during which such notice is given to the Company.

(b) In each calendar year you may, at your option, exercisable by notice delivered to the Company on or before March 31 of that year, elect to sell and, upon the giving of the notice, the Company shall be obligated to purchase and you shall be obligated to sell, as many Common Shares owned by you as you may elect to sell, at their Book Value or, if securities of the same class of the Common Shares are then registered under the Exchange Act, the Market Price, in either case determined as of the last day of the preceding year, provided that you have owned such Common Shares for at least six months prior to the date on which you make such election.

(c) In the event that you are not employed by the Company and its affiliates for any reason on or after the date hereof, the Company may, at its option, exercisable by notice delivered to you during the Put/Call Period, elect to purchase and, upon the giving of the notice, you shall be obligated to sell and the Company shall be obligated to purchase all, but not less than all, the Common Shares owned by you at the time such notice is given, at their Book Value or, if securities of the same class of the Common Shares are then registered under the Exchange Act, the Market Price, in either case determined as of the last day of the calendar quarter during which such notice is given to you. This Section 4(c) shall not apply to Common Shares that are freely tradeable under the Securities Act.

(d) As used herein, the "Put/Call Period" shall mean the 30- day period commencing with the later of (i) the date which is six months after the date on which the Common Shares are issued to you upon conversion of Preferred Shares owned by you or (ii) the Termination Date.

(e) Notwithstanding the foregoing, you shall not be entitled to require the Company to purchase the Common Shares or any portion thereof under Section 4(a) or 4(b), and the Company shall not be entitled to purchase Common Shares pursuant to Section 4(c), unless

you exercise the comparable right to require GAF to purchase a like portion of, or GAF exercises the comparable right to purchase, as applicable, the GAF SAR. Any negative value of either the Common Shares or the GAF SAR shall be offset against the purchase price of the other security; provided, however, that (i) any negative value of the GAF SAR shall not be offset against the value of the Common Shares if a Sale Transaction with respect to the Company shall have occurred and (ii) if such offset is effected and the aggregate net value of such securities is less than zero, then the aggregate value of both securities shall be deemed to be zero.

(f) In the event that a purchase of Common Shares by the Company pursuant to this Section 4 shall be prohibited or would cause a default under the terms of any institutional credit agreement, indenture or other like instrument with respect to the borrowing of money (in each case as the same may be amended from time to time), or in the opinion of the Board of Directors of the Company would not be feasible due to the impairment of the financial ability of the Company that would result from the satisfaction of all notices then and theretofore given under similar provisions of agreements with other holders of Preferred Shares or similar provisions of agreements between the Company and holders of Common Stock and holders of stock appreciation rights based on shares of Common Stock, then your obligation to deliver Common Shares and the Company's obligation to pay the purchase price shall be suspended until such prohibition, default or impairment lapses or is waived or cured. In such event the price to be paid by the Company for your Common Shares shall be the greater of (i) the price that would have been paid had the purchase been completed without deferral or (ii) the Book Value

as of the last day of the calendar quarter preceding the quarter during which such prohibition, default or impairment lapses or is cured.

5. Terms of Payment, Etc.
(a) Any sales and purchases pursuant to Section 3 or 4 shall take place at the principal executive offices of the Company within thirty (30) days after the later of (i) if applicable, the date on which the Book Value or Market Price, as the case may be, on which the purchase price is based is determined or (ii) the date on which the right to sell or purchase is exercised.
(b) The purchase price payable by the Company under Section 3 or 4 shall be paid by the Company to you in full, in cash or by

certified or official bank check or wire transfer, at the closing pursuant to such Section.
(c) Any Preferred Shares or Common Shares sold pursuant to Section 3 or Section 4 shall be delivered by you to the Company at the closing, free and clear of all liens, charges and encumbrances of any kind. In addition, you shall take such actions as the Company shall request as may be necessary to vest in the Company at the closing good and marketable title to the Preferred Shares and/or Common Shares being sold, free and clear of all liens, charges and encumbrances.
6. Deposit of Amount in Trust.
If a Sale Transaction shall have occurred with respect to ISP or its direct or indirect parent and the Option is not fully vested or does not become fully vested at the time of the consummation of such Sale Transaction, then the Company shall place in trust, for your benefit, an amount (the "Trust Amount") equal to the amount, if any, by which the product of (i) the number of Common Shares into which the Preferred Shares issuable upon exercise of such unvested portion of the Option are convertible, multiplied by (ii) the Sale Value (as hereinafter defined), exceeds the Exercise Price of such unvested portion of the Option. "Sale Value" shall mean (i) if the Company is the entity with respect to which the Sale Transaction shall have occurred and such Sale Transaction is the sale of the stock of, or a merger or consolidation with respect to, the Company, the aggregate consideration received by the holders of Common Stock, divided by the number of shares of Common Stock outstanding (treating as outstanding any SAR Shares) on the date of the consummation of such Sale Transaction or (ii) in the case of any other Sale Transaction, the Book Value immediately after giving effect to the consummation of such Sale Transaction or, if securities of the same class as the Common Shares are then registered under the Exchange Act, the Market Price for the period ending with the date of the consummation of such Sale Transaction. Upon the repurchase by the Company of any Common Shares into which the Preferred Shares issuable upon exercise of such unvested portion of the Option have been converted, you shall be entitled to receive the purchase price therefor shall be the Trust Amount as the sole consideration for the repurchase thereof. The terms of the trust shall provide that if the Option or any portion thereof, any stock appreciation rights relating to the Common Stock or any other stock options relating to the Preferred Stock shall expire unexercised,

the Trust Amount and any other amounts deposited for the benefit of persons who as of such date hold any such stock appreciation rights or stock options shall be allocated pro rata among such persons and holders of shares of Common Stock as of the date the Sale Transaction is consummated, subject to the vesting of such stock appreciation rights and stock options.
7. Tag- Along Rights.
(a) At least ten (10) days prior to the consummation, prior to [seven years after date of grant] and after the Option is exercisable (or if the Option would be exercisable as a result of an Acceleration Event arising from the contemplated sale), of any sale or transfer by any member of the Heyman Group of shares of the Company's Common Stock to any unrelated third party, the Company shall cause those members of the Heyman Group (the "Selling Members") to deliver to you a written notice (a "Sale Notice"), which shall fully disclose the identity of the prospective transferee and the terms and conditions of the proposed sale. The Company shall cause the Selling Members not to consummate any such sale until ten (10) days after the Sale Notice has been mailed to you. You may elect to sell Common Shares owned by you in the contemplated sale by delivering written notice to the Selling Members within seven (7) days of receipt of such Sale Notice. If you elect to sell Common Shares owned by you in the contemplated sale, you will be entitled to sell in the contemplated sale, at the same price and on the same terms applicable to the Selling Members, in amounts bearing the same proportion to your holdings of Common Shares (including shares issuable upon exercise of vested Options, including vesting arising in connection with a related Acceleration Event) as the amounts to be so transferred by the

Selling Members bear to the Heyman Group's aggregate holdings of shares of the Company's Common Stock. This Section 7(a) shall apply to any sales or transfers of the Company's Common Stock, excluding sales pursuant to a registration statement in accordance with the Securities Act or in brokerage transactions on a national securities exchange or in the over- the- counter market. The "Heyman Group" shall mean Samuel J. Heyman, Heyman Holdings Associates Limited Partnership (a Connecticut limited partnership the general partner of which is Mr. Heyman and the limited partners of which are partnerships and trusts as to which the children or further issue of Mr. Heyman have the beneficial interests), or any other person or entity controlled by or under common control with Mr. Heyman.

(b) The Company will cause the Heyman Group not to sell any shares of Common Stock unless the purchaser of such stock agrees to purchase all of the Common Shares that you have elected, and are permitted, to sell pursuant to Section 7(a).

8. Notices. All notices or other communications under this Agreement shall be given in writing and shall be deemed duly given and received on the third full business day following the date of its mailing by registered or certified mail, return receipt requested, or when delivered personally, as follows:

(a) if to the Company:
ISP Holdings Inc.
c/o ISP Management Company, Inc.
1361 Alps Road
Wayne, New Jersey 07470
Attention: Chief Executive Officer

or at such other place as the Company shall have designated by notice as herein provided to you; and

(b) if to you, at your address as it appears below your name on the first page of this Agreement, or at such other address as you shall have designated by notice as herein provided to the Company.

9. Delivery of Notice of Base Book Value. On or prior to March 31, 1997, the Company shall deliver to you a written notice setting forth the Base Book Value.

10. Specific Performance. It is acknowledged that the Company will be irreparably damaged in the event that this Agreement is not specifically enforced. In the event of a breach or threatened breach of the terms, covenants and/or conditions of this Agreement by you, the Company shall, in addition to all other remedies, be entitled (without any bond or other security being required) to a temporary and/or permanent injunction, without showing any actual damage or that monetary damages would not provide an adequate remedy, and/or a decree for specific performance, enjoining such breach or ordering compliance with the provisions of this Agreement.

11. Miscellaneous.

(a) This Agreement, together with the instruments referred to herein, constitutes the entire agreement of the parties to this Agreement with respect to the subject matter hereof and may not be modified or amended except by a written agreement signed by the Company (following the specific approval of such modification or amendment by the Company's Board of Directors) and you.

(b) No waiver of any breach or default hereunder shall be considered valid unless in writing, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

(c) Except as otherwise expressly provided in this Agreement, this Agreement, as amended (including any waivers or consents pursuant to Section 10(b) hereof), shall be binding upon and inure to the benefit of the Company, its successors and assigns, and you and your heirs, personal representatives and assigns; provided, however, that you shall not have the right to assign the Option or any of your rights under this Agreement except as expressly provided herein; and provided further, that nothing contained in this Agreement shall be construed as granting you the right to transfer any of your Preferred Shares or Common Shares except in accordance with this Agreement.

(d) If any provision of this Agreement shall be invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render invalid or unenforceable any other severable provision of this Agreement, and this Agreement shall be carried out as if any such invalid or unenforceable provision were not contained in this Agreement.

(e) The section headings contained herein are for convenience only and are not intended to define or limit the contents of any section.
(f) Nothing in this Agreement shall confer on you any right to continue in the employ of the Company or any subsidiary or affiliate of the Company or any successor to any of them, affect the right of the Company or any such subsidiary, affiliate or successor to terminate your employment at any time, or be deemed a waiver or modification of any provision contained in any agreement

between you and the Company or any such subsidiary, affiliate or successor.
(g) Each party to this Agreement shall cooperate and shall take such further action and shall execute and deliver such further documents as may be reasonably requested by any other party in order to carry out the provisions and purposes of this Agreement.
(h) Whenever the pronouns "he" or "his" are used in this Agreement, they shall also be deemed to mean "she" or "hers" or "it" or "its" whenever applicable. Words in the singular shall be read and construed as though in the plural and words in the plural shall be read and construed as though in the singular in all cases where they would so apply.
(i) This Agreement may be executed in counterparts, all of which taken together shall be deemed one original.
(j) This Agreement shall be deemed to be a contract under the laws of the State of New York and for all purposes shall be construed and enforced in accordance with the internal laws of that state without regard to the principles of conflicts of law.

[Remainder of page intentionally left blank]

If you are in agreement with the foregoing, please sign and return the extra copy of this Agreement, whereupon this Agreement shall become a binding

agreement between you and the Company.

Very truly yours,
ISP HOLDINGS INC.
By:_____
Name:_____

Title:_____

AGREED AND ACCEPTED:

EXHIBIT A

FORM OF

CERTIFICATE OF DESIGNATIONS

OF ISP HOLDINGS INC.

Pursuant to Section 151 of the General

Corporation Law of the State of Delaware

We, the undersigned, Senior Vice President and Secretary,

respectively, of ISP Holdings Inc. (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware (the "General Corporation Law"), in accordance with the provisions of Section 151 thereof, do hereby certify that the Board of Directors of the Corporation duly adopted the following resolutions by unanimous consent dated as of _____, 1996:

RESOLVED, that pursuant to the authority expressly granted to and vested in the Board of Directors of the Corporation by the provisions of the Certificate of Incorporation of the Corporation, this Board of Directors hereby creates and authorizes the issuance of a series of Series A Cumulative Redeemable Convertible Preferred Stock, par value $.01 per share, and hereby fixes the designation, dividend rate, redemption provisions, voting powers,
rights on liquidation, dissolution or winding up, and other preferences and relative, participating, optional or other special rights, and the qualifications, limitations, or restrictions thereof, as follows:

3. Designation. The Preferred Stock created and authorized hereby shall be designated as the "Series A Cumulative Redeemable Convertible Preferred Stock" (the "Series A Preferred Stock"). The number of shares of Series A Preferred Stock shall be _____. The liquidation preference of the Series A Preferred Stock shall be $_____(1) per share (the "Liquidation Preference").

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(1) $100 multiplied by ISP Holdings Adjustment Factor.

4. Dividends.

(a) Each holder of a share of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of the funds of the Corporation legally available therefor pursuant to the General Corporation Law (the "Legally Available Funds"), cumulative cash dividend payments of $_____(2) per share for each full Quarterly Dividend Period (as defined in Section 2(f) hereof) that such share of Series A Preferred Stock is outstanding; provided, however, that if a share of Series A Preferred Stock is not outstanding for a full Quarterly Dividend Period, the dividend payment per share in respect of such partial Quarterly Dividend Period shall be equal to $_____(3) multiplied by a fraction, the numerator of which is the number of days such share was outstanding (but not more than thirty (30) days for any calendar month fully occurring in such portion), and the denominator of which is 90. Such dividends, if and to the extend declared, shall be payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year (each, a "Dividend Payment Date"); provided, however, that if any such date is not a Business Day (as defined in Section 2(f) hereof), then the applicable dividend shall be payable, if and to the extent declared, on the next succeeding Business Day. Such dividends shall be fully cumulative.

(b) Dividends shall accrue (whether or not declared or paid) on each share of Series A Preferred Stock from the date on which such share is issued.

(c) Quarterly dividends, if and to the extent declared, shall be paid to the holders of record of shares of Series A Preferred Stock as they appear on the stock register of the Corporation on the record date therefor, which record date shall be the December 15, March 15, June 15 and September 15 immediately preceding the Dividend Payment Date relating thereto.

(d) If dividends are not paid in full, or not declared in full and sums set apart for the payment thereof, on the Series A Preferred Stock and any Capital Stock (as defined in Section 2(f) hereof) of the Corporation ranking on a parity with the Series A Preferred Stock as to the payment of dividends, all dividends

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(2) [1.5]% of Liquidation Preference.

(3) [1.5]% of Liquidation Preference.

declared upon shares of Series A Preferred Stock and shares of such other stock shall be declared pro rata so that in all cases the amount of dividends declared per share on the Series A Preferred Stock and such other stock share bear to each other the same ratio that accumulated, unpaid dividends per share on the Series A Preferred Stock and such other stock shall bear to each other. Except as provided in the preceding sentence, unless full cumulative dividends on the Series A Preferred Stock have been paid or declared in full and sums set aside for the payment thereof, no dividends shall be declared or paid or set aside for payment, or other distribution made, on any Capital Stock of the Corporation ranking on a parity with or junior to the Series A Preferred Stock as to the payment of dividends, nor shall any such stock be purchased, redeemed or otherwise acquired, except as provided in Section 2(e) hereof, for any consideration (or any payment made to or available for a sinking fund for the redemption of any such stock).

(e) Except as provided in Section 2(d) hereof, the Corporation may not pay cash dividends or make cash distributions on, or repurchase, redeem or otherwise acquire (except in exchange for shares of Capital Stock ranking junior to the Series A Preferred Stock as to the payment of dividends and as to the distribution of assets upon liquidation, dissolution or winding up of the Corporation or options, rights or warrants to acquire such shares) any of its Capital Stock other than Capital Stock ranking senior to the Series A Preferred Stock as to the payment of dividends, if, at such date, there are accumulated, unpaid dividends on the Series A Preferred Stock; provided, however, that the Corporation may purchase outstanding shares of Common Stock from the holders thereof in accordance with the terms and conditions of the Employee Stockholder Agreements (as defined in Section 2(f) hereof).
(f) The following terms shall have the meanings set forth below:
"Applicable Date," "Applicable Rate" and "Base Book Value" shall have the respective meanings specified in each Stock Option Agreement entered into between the Corporation and the optionee party thereto.

"Business Day" means any day other than a Saturday, a Sunday or any other day on which commercial banking institutions in the City of New York are authorized by law to be closed.
"Capital Stock" of any person means any and all shares, interests, participations or other equivalents (however designated) of equity interests in such person.
"Common Stock" means the Corporation's common stock, par value $.001 per share, and any securities or property into which the Corporation's Common
Stock may be converted or exchanged pursuant to a recapitalization, stock split, combination, reorganization, merger, exchange or similar transaction.
"Corporation" means the party named as such in the preamble to this Certificate.
"Employee Stockholder Agreements" means the agreements among the Company and holders of Common Stock, other than Samuel J. Heyman and his affiliates, and the option agreements relating to the Series A Preferred Stock.
"person" means any individual, partnership, limited liability

company, joint venture, firm, corporation, association, trust or other enterprise or any government or political subdivision or agency, department or instrumentality thereof.
"Quarterly Dividend Period" means the applicable period from January 1 through the next March 31, from April 1 through the next June 30, from July 1 through the next September 30 or from October 1 through the next December 31.
5. Redemption.
(a) The Series A Preferred Stock shall be redeemable, at any time in whole or from time to time in part, out of Legally Available Funds, at the option of the Corporation, upon giving notice as provided in Section 3(b) hereof, at the Liquidation Preference thereof plus accumulated but unpaid dividends to the date of redemption.
(b) At least thirty (30) days but not more than sixty (60) days prior to the date fixed for the redemption of shares of the Series A Preferred Stock pursuant to Section 3(a) hereof (each a

"Redemption Date"), written notice of such redemption shall be mailed to each holder of record of shares of Series A Preferred Stock to be redeemed in a postage prepaid envelope addressed to such holder at his mailing address as shown on the records of the Corporation; provided, however, that no failure of any holder of Series A Preferred Stock to receive such notice nor any defect therein shall affect the validity of the proceeding for the redemption of the shares of Series A Preferred Stock to be redeemed. Each such notice shall state: (i) the Redemption Date; (ii) the number of shares of Series A Preferred Stock to be redeemed and, if fewer than all of the shares held by such holder are to be redeemed from such holder, the number of shares to be redeemed from such holder; (iii) the cash redemption price being paid; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed shall cease to accrue on the Redemption Date. On or after the Redemption Date, each holder of shares of Series A Preferred Stock to be redeemed shall present and surrender his certificate or certificates for such shares to the Corporation at the place designated in such notice and thereupon the redemption price of such shares shall be paid to the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be
cancelled. In case fewer than all of the shares represented by such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares. From and after the Redemption Date (unless default shall be made by the Corporation in payment of the redemption price) all dividends on the shares of Series A Preferred Stock designated for redemption in such notice shall cease to accrue and all rights of the holders thereof as stockholders of the Corporation,

except the right to receive the redemption price thereof, without interest, upon the surrender of certificates representing the same, shall cease and terminate and such shares shall not thereafter be transferred (except with the written consent of the Corporation) on the books of the Corporation and such shares shall not be deemed to be outstanding for any purpose whatsoever.

(c) If fewer than all of the shares of Series A Preferred Stock are to be redeemed, the Board of Directors of the Corporation shall select the shares to be redeemed on such basis as the Board of Directors shall determine in its sole discretion. The Board of Directors shall not be required to redeem shares of Series A Preferred Stock on a pro rata basis. The Board of

Directors may elect to redeem shares of Series A Preferred Stock held by one holder or group of holders and elect not to redeem shares of Series A Preferred Stock held by other holders. Regardless of the method used, the calculation of the number of shares to be redeemed shall be based upon whole shares, such that the Corporation shall in no event be required to issue fractional shares of Series A Preferred Stock or cash in lieu thereof. In the event a method requiring proration is used, the number of shares to be redeemed from a holder shall be rounded downward to the nearest whole number of shares. The holders of Series A Preferred Stock shall have no right to request the Corporation to redeem such shares at any time, and the Corporation shall have no obligation to honor any such request if made.

6. Voting Rights. The holders of Series A Preferred Stock shall be entitled to one vote for each share held on all matters to be voted on by the stockholders of the Corporation and shall vote together as a single class with the holders of Common Stock and the holders of any other class of stock entitled to vote in such manner. The holders of Series A Preferred Stock shall not, except as required by law, be entitled to vote as a separate class. Without limiting the generality of the preceding sentence, a class vote or the consent of the holders of the outstanding shares of Series A Preferred Stock as a separate class shall not be required in connection with: (i) the creation of any class or series of Capital Stock of the Corporation; (ii) any merger, consolidation or transfer of all or substantially all the assets of the Corporation or other transaction involving the Corporation and a third party in which the Corporation is the survivor or in which the Corporation is not the survivor and in which the Series A Preferred Stock shall (a) remain outstanding as an equivalent security of the survivor with no adverse change to the powers, preferences or special rights provided for in this Certificate or (B) be redeemed for an amount per share equal to the Liquidation Preference plus accrued and unpaid dividends; or (iii) any increase in the total number of authorized or issued shares of Capital Stock of any class, including without limitation Series A Preferred Stock.

7. Priority of Series A Preferred Stock in Event of Liquidation, Dissolution or Winding Up. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, after payment or provision for payment of the debts and other liabilities of the Corporation, the holders of the

Series A Preferred Stock shall be entitled to receive, out of the remaining net assets of the Corporation, an amount per share in cash equal to the Liquidation Preference plus all dividends accrued and unpaid on each such share up to the date fixed for distribution before any distribution shall be made to the holders of any Capital Stock of the Corporation ranking junior to the Series A Preferred Stock as to the distribution of assets upon the liquidation, dissolution or winding up of the Corporation. If, upon any liquidation, dissolution or winding up of the Corporation, the assets distributable among the holders of Series A Preferred Stock and any Capital Stock of the Corporation ranking on a parity with the Series A Preferred Stock as to the distribution of assets upon the liquidation, dissolution or winding up of the Corporation shall be insufficient to permit the payment in full to the holders of the Series A Preferred Stock and such other stock of all preferential amounts payable to all such holders, then the assets thus distributable shall be distributed ratably among the holders of the Series A Preferred Stock and any Capital Stock of the Corporation ranking on a parity with the Series A Preferred Stock as to the distribution of assets upon liquidation, dissolution or winding up of the Corporation in proportion to the respective amounts that would be payable per share if such assets were sufficient to permit payment in full. Except as otherwise provided in this Section 5, holders of Series A Preferred Stock shall not be entitled to any distribution in the event of liquidation, dissolution or winding up of the affairs of the Corporation. For the purposes of this Section 5, neither the voluntary sale, lease, conveyance, exchange or transfer (for cash, securities or other consideration) of all or substantially all the property or assets of the Corporation, nor the consolidation or merger of the Corporation with one or more other corporations, shall be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary.

8. Conversion.

(a) The holders of shares of Series A Preferred Stock shall have the right, at any time or from time to time, at their option,

to convert all or any portion of such shares into shares of Common Stock on the following basis: Each share of Series A Preferred Stock shall be convertible into the number of shares of Common Stock equal to _____(4) divided by the sum of (i) an amount equal

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(4) Liquidation Preference.

to the Base Book Value and (ii) the Interest Amount (as hereinafter defined).
"Interest Amount" means interest on such Base Book Value at the Applicable Rate per annum from the Applicable Date to the date of conversion. The Corporation may, at its option, pay to any holder cash in lieu of any fractional share of Common Stock issuable upon conversion of shares of Series A Preferred Stock.
(b) In the case of a redemption pursuant to Section 3 hereof of any shares of Series A Preferred Stock, the right of conversion under this Section 6 shall cease and terminate, as to the shares to be redeemed, at the close of business on the second day preceding the date fixed for such redemption, unless default shall be made in the payment of the Redemption Price for the shares to be so redeemed.
(c) In order to convert shares of Series A Preferred Stock into shares of Common Stock pursuant to the right of conversion set forth in Section 6(a), the holder thereof shall surrender the certificate or certificates representing Series A Preferred Stock, duly endorsed to the Corporation or in blank, at the principal office of the Corporation and shall give written notice to the Corporation that such holder elects to convert the same. Within five (5) business days, the Corporation shall deliver at said office to such holder of Series A Preferred Stock a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Shares of Series A Preferred Stock shall be deemed to have been converted as of the date of the surrender of such shares for conversion as provided above, and the person entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Common Stock on such date. Upon conversion of only a portion of the number of shares covered by a certificate representing shares of Series A Preferred Stock surrendered for conversion, the Corporation shall issue and deliver to the holder of the certificate so surrendered for conversion, at the expense of the Corporation, a new certificate covering the number of shares of Series A Preferred Stock representing the unconverted portion of the certificate so surrendered, which new certificate shall entitle the holder thereof to the rights of the shares of Series A Preferred Stock represented thereby to the same extent as if the certificate theretofore covering such unconverted shares had not been surrendered for conversion.

(d) The issuance of certificates for shares of Common Stock upon the conversion of shares of Series A Preferred Stock shall be made without charge to the converting stockholder for any original issue or transfer tax in respect of the issuance of such certificates and any such tax shall be paid by the Corporation.
(e) The Corporation shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of Series A Preferred Stock, the full number of shares of Common Stock then deliverable upon the conversion of all shares of Series A Preferred Stock at the time outstanding. The Corporation shall take at all times such corporate action as shall be necessary in order that the Corporation may validly and legally issue fully paid and nonassessable shares of Common Stock upon the conversion of Series A Preferred Stock in accordance with the provisions hereof, free from all taxes,
liens, charges and security interests with respect to the issue thereof. The Corporation will, at its expense, use its best efforts to cause such shares to be listed (subject to issuance or notice of issuance) on all stock exchanges, if any, on which the Common Stock may become listed.
9. Cancellation of Reacquired Series A Preferred Stock. Shares of Series A Preferred Stock that have been issued and reacquired in any manner, including shares purchased or redeemed, shall (upon compliance with any applicable provisions of the laws of the State of Delaware) have the status of authorized and unissued shares of

preferred stock undesignated as to series and may be redesignated and reissued as part of any series of preferred stock.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be duly executed on its behalf, this ___ day of _____, 1997.

ISP HOLDINGS INC.

By:_____
Senior Vice President

ATTEST:

Secretary
(Corporate Seal)

Stock Appreciation Right

ISP Holdings Inc., a Delaware corporation ("ISPHI"), hereby grants _____(the "Grantee") the right to receive ("SAR") an amount in cash based upon the appreciation in value of _____ shares (the "Shares") of common stock ("Common Stock"), par value $.001 per share, of ISPHI. The SAR shall be on the following terms:

1. Capitalized terms used herein that are not defined elsewhere herein shall have the following meanings:

(a) "Appreciation Value" means an amount equal to the Base Book Value, multiplied by the number of Shares, plus interest on such product from [date of grant](1) at the rate of ____% per annum.

(b) "Base Book Value" means the product of (1) [initial base book value of GAF SAR] multiplied by (2) a fraction (i) the numerator of which is the Book Value immediately after giving effect to the Spin- Off Transactions and (ii) the denominator of which is the GAF Book Value immediately prior to the Spin- Off Transactions.
(c) "Book Value" means, as of any date of determination, the book value per share of Common Stock as of that date, as determined in accordance with generally accepted accounting principles after charges such as declaration of dividends on any capital stock of ISPHI or payments with respect to repurchases by ISPHI of any capital stock from holders thereof but excluding (1) any amounts reflecting the liquidation preferences of any outstanding preferred stock of ISPHI, (2) any reductions resulting from purchases of GAF's capital stock by persons who participated in promoting the "Acquisition" referred to in the Prospectus dated March 24, 1989 relative to the GAF Common Stock and certain other securities of GAF (predecessor cost basis adjustment), (3) any charges relating to amortization

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(1) For all purposes, the date of grant is deemed to be the date of initial grant of the GAF SAR or option in connection with which the ISP Holdings SAR is being granted.

of goodwill and other intangibles arising from the Acquisition and related transactions, (4) that portion of depreciation charges attributable to the write- up of assets as a result of the application of purchase accounting in connection with the Acquisition and (5) any charges relating to amortization of deferred financing costs and expenses incurred in connection with the Acquisition; provided, however, that (i) any adjustments to the Book Value shall include the tax effects, if any, associated therewith, (ii) any charges specified in subclauses (3), (4) or (5) above, relating to a business or assets of ISPHI or any of its subsidiaries, which charges shall have been incurred on or after the date of the Acquisition but which, because of the operation of said subclauses (3), (4) and/or (5), shall not theretofore have been included in the calculation of the Book Value, shall be so included following a transaction involving such business or assets that, in accordance with the next sentence, is deemed a sale or disposition thereof, and (iii) for purposes of clause (ii), an asset, liability or charge not exclusively attributable to the specific business or assets deemed to have been sold or otherwise disposed of shall, if attributable to such business or assets and to other businesses or assets, be deemed to relate to the business or assets sold or otherwise disposed of and to such other businesses or assets pro rata based on relative business and assets values immediately following consummation of the Acquisition; and provided further, that, in calculating the Book Value, if any stock appreciation rights issued by ISPHI based upon appreciation in value of shares of Common Stock are outstanding at the time of calculation, the shares of Common Stock upon which such appreciation in value is based ("SAR Shares") shall be deemed outstanding. The Board of Directors of ISPHI shall determine (i) whether a transaction involving a business or assets of ISPHI or any of its subsidiaries is a sale or disposition for purposes of the definition and calculation of the Book Value and (ii) if such transaction is a sale or disposition, the amount of the gain or loss thereon. The gain or loss on any sale or disposition shall be the actual economic benefit to ISPHI from such transaction, as determined by the Board of Directors of ISPHI.

(d) "Current Value" means an amount equal to the Book Value as of the date of determination multiplied by the number of

Shares increased by an amount equal to any cash dividends or distributions that would have been paid on the Shares from the date hereof through the date of determination if they had been outstanding; provided, however, that, if securities of the same class as the Shares are then registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Market Price shall be substituted for Book Value in calculating Current Value.

(e) "Exercise Value" means (i) zero if the grantee's employment with ISPHI and its affiliates is terminated prior to [two and one half years after date of grant], (ii) 40% of the Spread if the grantee's employment with ISPHI and its affiliates is terminated on or after [two and one half years after date of grant] but prior to [three years after date of grant], (iii) 60% of the Spread if the Grantee's employment with ISPHI and its affiliates is terminated on or after [three years after date of grant] but prior to [four years after date of grant]; (iv) 80% of the Spread if the Grantee's employment is terminated on or after [four years after date of grant] but prior to [five years after date of grant]; and (v) 100% of the Spread if the Grantee's employment is terminated on or after [five years after date of grant].

(f) "GAF" means GAF Corporation, a Delaware corporation.

(g) "GAF Book Value" means the book value per share of GAF Common Stock as determined in accordance with that certain agreement, dated as of the date hereof, pursuant to which GAF granted to the Grantee a stock appreciation right based upon the appreciation in value of ____ shares of GAF Common Stock.

(h) "GAF Common Stock" means common stock, par value $.001 per share, of GAF.

(i) "Market Price" as of any date means the average of the daily market prices per Share for the fifteen (15) consecutive business days immediately preceding such

date. The daily market price for each such business day shall be (i) the last sale price on such day on the principal stock exchange on which the Shares are then listed or admitted to trading, (ii) if no sale takes place on such day on any such exchange, the average of the last reported closing bid and asked prices on such day as officially quoted on any such exchange, (iii) if the Shares are not then listed or admitted to trading on any stock exchange, the average of the last reported closing bid and asked prices furnished by the National Association of Securities Dealers Automated Quotation System or the National Quotation Bureau, Inc., (iv) if neither such corporation at the time is engaged in the business of reporting such prices, as furnished by any similar firm then engaged in such business or (v) if there is no such firm, as furnished by any member of the National Association of

Securities Dealers, Inc. selected by ISPHI.

(j) The "Restricted Period" means the period commencing on [date of grant] and ending [seven years after date of grant].

(k) "Spin- Off Transactions" means the series of transactions that shall result in, among other things, each holder of a share of GAF Common Stock receiving one share of Common Stock for each share of GAF Common Stock held by such holder.

(l) The "Spread" as of any date of determination means the excess, if any, of the Current Value over the Appreciation Value.

2. In the event that the Grantee is not employed by ISPHI and its affiliates for any reason on or after the date hereof, ISPHI shall have the right, but not the obligation, exercisable by notice to the Grantee within thirty (30) days after termination of employment, to repurchase the SAR for an amount in cash equal to the Exercise Value, with the Current Value determined as of the last day of the calendar quarter next preceding the calendar quarter in which termination of employment occurs.

3. In the event that the Grantee is not employed by ISPHI and its affiliates for any reason on or after the date hereof, the Grantee shall have the right, exercisable by notice to ISPHI

within thirty (30) days after termination of employment, to require ISPHI to repurchase the SAR for an amount in cash equal to the Exercise Value, with the Current Value based upon the lowest amount thereof determined as of the last day of the following calendar quarters: the calendar quarter (the "Quarter") immediately preceding the calendar quarter in which the termination of employment occurred and the first, second and third calendar quarter immediately succeeding the Quarter.

4. In each calendar year the Grantee may, at the Grantee's option, exercisable by notice delivered to ISPHI on or before March 31 of that year, elect to cause ISPHI to repurchase the SAR (or any portion thereof) for an amount in cash equal to the Exercise Value determined as of the last day of the preceding year.

5. (a) Notwithstanding the foregoing, ISPHI shall not be entitled to repurchase the SAR under paragraph 2, and the Grantee shall not be entitled to cause ISPHI to repurchase the SAR or any portion thereof under paragraph 3 or 4, unless

GAF exercises the comparable right to repurchase, or the Grantee exercises the comparable right to cause GAF to repurchase a like portion of, as applicable, the stock appreciation right ("GAF SAR") with respect to ____ shares of GAF Common Stock granted by GAF to the Grantee on the date hereof. Any negative value of either the SAR or the GAF SAR shall be offset against the purchase price of the other security; provided, however, that (i) any negative value of the GAF SAR shall not be offset against the value of the SAR if a Sale Transaction (as hereinafter defined) with respect to ISPHI shall have occurred and (ii) if such offset is effected and the aggregate net value of such securities is less than zero, then the value of both securities shall be deemed to be zero.

(b) The closing of any repurchase by ISPHI of the SAR or a portion

thereof shall be held at the principal offices of ISPHI within thirty (30) days after the later of (i) if applicable, the date on which the Book Value or Market Price, as the case may be, on which the Current Value is based is determined or (ii) the date on which the right to sell or repurchase is exercised. The purchase price shall be paid by delivery to the Grantee of a certified or official bank check or wire transfer.

(c) In the event a repurchase of the SAR or a portion thereof pursuant to paragraph 2, 3 or 4 hereof shall be prohibited, or would cause a default, under the terms of any institutional credit agreement, indenture or other like instrument with respect to borrowed money to which ISPHI or any of its affiliates may be a party or be bound, in each case as the same may be amended from time to time, or shall be prohibited by law, the rights and obligations of the Grantee and ISPHI pursuant to paragraph 2, 3 or 4 hereof, as the case may be, shall be suspended until the prohibition lapses or is waived and no default would be caused. If the Board of Directors of ISPHI shall determine in good faith that, in light of the financial condition or financial resources of ISPHI, it would be imprudent for ISPHI to repurchase the SAR or a portion thereof pursuant to paragraph 3 or 4, the rights and obligations of the Grantee and ISPHI pursuant to paragraph 3 or 4 shall be suspended until the Board of Directors determines that such repurchase would be prudent in such light. Upon the lapse or waiver of the restrictions or upon such determination that the purchase would be prudent, as the case may be, the purchase price to be paid by ISPHI for the SAR or such portion thereof shall be determined as of the last day of the calendar quarter in which such restrictions are waived or lapse or such determination occurs, and the purchase price shall be paid with interest thereon at the rate of ___% per annum from the first anniversary of the event giving rise to the repurchase obligation to the date of payment.

6. At least ten (10) days prior to the consummation during the Restricted Period of any sale or transfer by any member of the Heyman Group (as hereinafter defined) to any unrelated third party of securities of the same class as Shares, ISPHI shall cause those members of the Heyman Group (the "Selling Members") to deliver to the Grantee a written notice (a "Sale Notice"), which shall fully disclose the identity of the prospective transferee and the terms and conditions of the proposed sale. The Grantee may elect to participate in the contemplated sale by delivering written notice to the Selling Members within seven (7) days of receipt of such Sale Notice. If the Grantee elects to participate in the contemplated sale, he will be entitled to sell in the contemplated sale or, if ISPHI elects, to ISPHI or to ISPHI's designee, for an amount per Share equal to the sales price per Share received by the Selling Members minus the Appreciation Value per Share and, to the extent applicable, on

the same terms applicable to the Selling Members, that portion of the SAR bearing the same relationship to the number of Shares represented hereby of the class being transferred as the amounts to be so transferred by the Selling Members bear to the Heyman Group's aggregate holdings of securities of such class. This paragraph 6 shall apply to any sales or transfers of Shares, whether or not made pursuant to an effective registration statement in accordance with the Securities Act of 1933, as amended, and shall not apply to any sale of securities of the same class as Shares in brokerage transactions on a national securities exchange or in the over- the- counter market. The term "Heyman Group" shall mean Samuel J. Heyman, Heyman Holdings Associates Limited Partnership or any other person or entity controlled by or under common control with Mr. Heyman.

7. If a Sale Transaction (as hereinafter defined) occurs with respect to International Specialty Products Inc. ("ISP") or its direct or indirect parent or Building Materials Corporation of America or its direct or indirect parent and the Grantee is employed by the entity with respect to which such Sale Transaction shall have occurred or any subsidiary thereof and the Grantee is not offered employment by an entity controlled by Samuel J. Heyman, a member of Mr. Heyman's immediate family, a partnership, limited liability company, trust or other entity established for the benefit of a member or members of Mr. Heyman's immediate family or their respective affiliates (a "Heyman Entity") on terms substantially similar to those pursuant to which he was employed prior to such Sale Transaction then, irrespective of any other provision of this Agreement, the Exercise Value shall be deemed to be 100% of the Spread following such Sale Transaction. If the Grantee is offered employment with a Heyman Entity following such Sale Transaction on the terms specified in the immediately

preceding sentence, the Grantee accepts such employment and such employment is terminated by the Heyman Entity (other than for Cause (as hereinafter defined)) within twelve (12) months following the consummation of such Sale Transaction, then, irrespective of any other provision of this Agreement, the Exercise Value shall be deemed to be 100% of the Spread. Either of the events specified in the two immediately preceding sentences shall be referred to herein as an "Acceleration Event". If an Acceleration Event shall have occurred and ISPHI shall repurchase the SAR on a date on which, absent the occurrence of such Acceleration Event, the Exercise Value of the SAR would have been less than 100% of the Spread, the date of such repurchase shall be deemed to be, for purposes

of determining the interest accrual in calculation of the Appreciation Value as of such date, the date on which the Exercise Value of the SAR would have been 100% of the Spread absent the occurrence of such Acceleration Event. "Sale Transaction" shall mean, with respect to any entity, the sale by such entity (by stock sale, asset sale (including, without limitation, by sale of stock or assets of a subsidiary of such entity), merger or consolidation or otherwise) of all or substantially all of such entity's assets. "Cause" shall mean (i) the commission of a felony, the commission of a misdemeanor involving moral turpitude or the commission of any other act involving dishonesty, disloyalty or fraud with respect to the Grantee's employer or any affiliate thereof, (ii) substantial and repeated failure by the Grantee to perform his duties, (iii) gross negligence or willful misconduct with respect to the Grantee's employer or any affiliate thereof or (iv) a material breach of any of the terms or provisions of any employment agreement to which the Grantee may be party; provided, however, that if at the time of termination of the Grantee's employment the Grantee is a party to an employment agreement with the Heyman Entity that contains a definition of Cause that is inconsistent with the provisions hereof, the definition contained in that employment agreement shall govern for purposes of this Agreement.

8. If a Sale Transaction shall have occurred with respect to ISP or its direct or indirect parent and the Exercise Value of the SAR is not 100% of the Spread at the time of the consummation of such Sale Transaction, then ISPHI shall place in trust, for the benefit of the Grantee, an amount (the "Trust Amount") equal to 100% less the percentage of the Spread on which the Exercise Value would have been based if the Exercise Value were calculated on the date on which such Sale Transaction is consummated, multiplied by the Sale Value (as hereinafter defined). "Sale Value" shall mean (i) if ISPHI is the entity with respect to which the Sale Transaction shall have occurred and such Sale Transaction is the sale of the stock of, or a merger or consolidation with respect to, ISPHI, the product of (x) the aggregate consideration received by the holders of Common Stock divided by the number of shares of Common Stock outstanding (treating as outstanding any SAR Shares) on the date of the consummation of such Sale Transaction multiplied by (y) the number of Shares or (ii) in the case of any other Sale Transaction, the Current Value, with the Book Value calculated immediately after giving effect to the consummation of such Sale Transaction or, if securities of the same class as the Shares are

then registered under the Exchange Act, Market Value calculated for the period ending with the date of the consummation of such Sale Transaction. Upon the repurchase of the SAR, the Grantee shall be entitled to receive from such trust the Trust Amount as the sole consideration for the repurchase thereof. The terms of the trust shall provide that if the SAR or any portion thereof, any other stock appreciation rights relating to the Common Stock or any stock options relating to the Series A Cumulative Redeemable Convertible Preferred Stock, par value $.01 per share, of ISPHI shall expire unexercised, the Trust Amount and any other amounts deposited for the benefit of persons who as of such date hold any such stock appreciation rights or stock options shall be allocated pro rata among such persons and holders of shares of Common Stock as of the date the Sale Transaction was consummated, subject to the vesting of such stock appreciation rights and stock options.

9. The Shares shall include any securities that would have been received by the Grantee, if the Shares had been outstanding, in any split- up, recapitalization, combination, dividend, distribution, merger or exchange of or relating to the Common Stock, including any securities of a subsidiary of ISPHI distributed to stockholders of ISPHI, and if any such event shall occur the Board of Directors of ISPHI shall make such adjustments in Book Value, Appreciation Value and Current Value as they determine in good faith are appropriate.

10. The Grantee may not sell, pledge, give, transfer, assign, encumber or dispose of the SAR (or any interest herein or therein) except by will or intestacy.

11. All determinations by the Board of Directors of ISPHI hereunder shall be made in good faith and shall be binding and conclusive.

12. (a) All notices or other communications hereunder shall be given in writing and shall be deemed duly given and received on the third full business day following the date of mailing by registered or certified mail, return receipt requested, or when delivered personally, as follows:

(i) if to ISPHI:
ISP Holdings Inc.
c/o ISP Management Company, Inc.
1361 Alps Road
Wayne, New Jersey 07470
Attention: Chief Executive Officer

or at such other place as ISPHI shall have designated by

notice as herein provided to the Grantee;

(ii) if to the Grantee, at his last address appearing in ISPHI's records or at such other place as the Grantee shall have designated by notice as herein provided to ISPHI.

(b) On or prior to March 31, 1997, ISPHI shall deliver to the Grantee a written notice setting forth the Base Book Value.

(c) This writing constitutes the entire agreement of the parties hereto with respect to the subject matter hereof, supersedes all agreements between the parties with respect to the subject matter hereof and may not be modified or amended except by a written agreement signed by ISPHI (following the specific approval of such modification or amendment by ISPHI's Board of Directors) and the Grantee. This Agreement shall be binding upon and inure to the benefit of ISPHI its successors and

assigns and the Grantee and his heirs and personal

representatives.

(d) Nothing in this Agreement shall confer on you any right to continue in the employ of ISPHI or any subsidiary or affiliate of ISPHI or any successor to any of them, affect the right of ISPHI or any such subsidiary, affiliate or successor to terminate your employment at any time, or be deemed a waiver or modification of any provision contained in any agreement between you and ISPHI or any such subsidiary, affiliate or successor.

(e) If any provision of this Agreement shall be invalid or unenforceable, such invalidity or unenforceability shall attach only to such provision and shall not in any manner affect or render invalid or unenforceable any other severable provision of this Agreement, and this Agreement shall be carried out as if any such

invalid or unenforceable provision were not contained in this Agreement.

(f) This Agreement shall be deemed to be a contract under the laws of the State of New York and for all purposes shall be construed and enforced in accordance with the internal laws of that state without regard to principles of conflicts of law.

IT WITNESS WHEREOF, the undersigned has executed this instrument as of the 1st day of January, 1997.

ISP HOLDINGS INC.
By:_____
Name:_____
Title:_____

AGREED AND ACCEPTED:
_____

LIST OF SUBSIDIARIES

COMPANY	STATE OF INCORPORATION
International Specialty Products Inc.	Delaware
ISP Management Company, Inc.	Delaware
ISP Minerals Inc.	Delaware

ISP Filters Inc.	Delaware
ISP Technologies Inc.	Delaware
ISP Mineral Products Inc.	Delaware
ISP Environmental Services Inc.	Delaware
Bluehall Incorporated	Delaware
Verona Inc.	Delaware
ISP Realty Corporation	Delaware
ISP Real Estate Company, Inc.	Delaware
International Specialty Products Funding Corporation	Delaware
ISP Chemicals Inc.	Delaware
ISP Newark Inc.	Delaware
ISP Van Dyk Inc.	Delaware
ISP Fine Chemicals Inc.	Delaware
ISP Investments Inc.	Delaware
ISP Global Technologies Inc.	Delaware
ISP International Corp.	Delaware
ISP (Puerto Rico) Inc.	Delaware
GAF Huls Chemie GmbH	Germany
ISP International Filters Inc.	Delaware
ISP Andina, C.A.	Venezuela
ISP Argentina S.A.	Argentina
ISP Asia Pacific Pte Ltd.	Singapore
ISP (Australasia) Pte Ltd.	Australia
ISP (Belgium) N.V.	Belgium
ISP (Belgium) International N.V.	Belgium
ISP do Brasil Ltda.	Brazil
ISP (Canada) Inc.	Canada
ISP Ceska Republika Spol, S.R.O.	Czech. Rep.
ISP (China) Limited	China
ISP Filters (Canada) Inc.	Canada
ISP Filters Pte Ltd.	Singapore
ISP Freight Service N.V.	Belgium
ISP Global Operations (Barbados) Inc.	Barbados
ISP Global Technologies (Belgium) S.A.	Belgium
ISP Global Technologies (Germany) Holding GmbH	Germany
ISP Global Technologies Deutschland GmbH	Germany
HPF-Hanseatic Filterprodukte GmbH	Germany
International Specialty Products ISP (France) S.A	France
ISP Ireland(1)	Ireland
ISP (Great Britain) Co. Ltd.	England
ISP (Hong Kong) Limited	Hong Kong
ISP (Italia) S.r.l.	Italy
ISP (Japan) Ltd.	Japan
ISP (Korea) Limited	Korea
ISP Mexico, S.A. de C.V.	Mexico
ISP (Norden) A.B.	Sweden
ISP (Osterreich) Ges.m.g.h.	Austria
ISP (Polska) Sp.z. o.p.	Poland
ISP Sales (Barbados) Inc.	Barbados
ISP Sales (U.K.) Limited	Ireland
ISP (Singapore) Pte Ltd.	Singapore
ISP (Switzerland) A.G.	Switzerland
ISP (Thailand) Co., Ltd.	Thailand
Chemfields Pharmaceuticals Private Limited(2)	India

<FN>
(1) 25% owned by ISP (Italia) S.r.l.; 75% owned by International Specialty Products ISP (France) S.A.
(2) 50.1% owned by ISP Global Technologies Inc.
</FN>

[LETTERHEAD OF ARTHUR ANDERSEN LLP]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated February 10, 1997, included in or made part of this Form 10- K, into International Specialty Products Inc.'s previously filed Registration Statements on Forms S- 8 File Nos. 33- 54724, 33- 92518 and 33- 94020.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
March 27, 1997

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE ANNUAL
REPORT ON FORM 10-K OF INTERNATIONAL SPECIALTY PRODUCTS INC. AND IS QUALIFIED IN
ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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