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ISP

INTERNATIONAL SPECIALTY PRODUCTS INC

1999 ANNUAL REPORT

PROCESSED BY
MAY 02 2000
PRIMARK
CORPORATION

PROFILE

International Specialty Products Inc. (ISP) is one of the world's premier specialty chemicals companies. The Company has approximately 2,650 employees at more than 75 locations, including manufacturing facilities, research laboratories, and sales and customer service offices throughout the world, serving customers in more than 90 countries.

The Company manufactures two major groups of products—specialty chemicals and mineral products—and holds a significant market share in each of these principal product groups.

In its largest business, ISP produces a broad spectrum of specialty chemicals, which have a wide range of applications in such markets as pharmaceuticals, food and beverage, hair and skin care, plastics, agricultural, coatings and adhesives. The Company's products, while often representing a relatively small portion of customers' production costs, generally constitute key ingredients in the end products in which they are used. The business is characterized by an emphasis on technology, research and development, marketing and customer service. The Company believes it has been able to sustain its market share positions for its specialty chemicals by establishing and maintaining long-term relationships with its customers and working closely with them to develop chemicals tailored to their specific needs.

ISP's mineral products business manufactures ceramic-coated colored roofing granules, which are produced from rock deposits that are mined and crushed at the Company's three quarries and colored using a proprietary ceramic coating process. The Company's products 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 and heat deflection.

ISP's stock is traded on the New York Stock Exchange under the symbol "ISP".

Letter from the President and Chief Executive Officer

FELLOW SHAREHOLDERS:

ISP has a long history of revenue and earnings growth, regularly outpacing the specialty chemicals industry. However, the 1997-1999 period has been a disappointing one, primarily because of deterioration in the Company's intermediates and solvents businesses. Our Company's goal is to regain earnings growth momentum by achieving focused revenue growth in our core specialty chemicals business, through the development of new applications and products, the addition of new technology platforms and the acquisition of new businesses. Our strategy is to substantially expand our product lines and broaden our major strengths beyond the personal care and pharmaceutical markets.

Review of 1999

Focusing on Specialty Polymers

Our portfolio of specialty chemicals was enriched by the successful acquisition of the Kelco Alginates business from Monsanto in October 1999. Alginates are high value-added, naturally derived specialty polymers used primarily as thickeners and stabilizers in the food industry and as excipients in the pharmaceutical industry. Additionally, as part of a strategy to focus on our core specialty polymers business, we divested our pearlescent pigments business in April 1999 for $12 million and our filter products business in October 1999 for $62 million.

Specialty polymers, which represented 66% of ISP's 1999 sales, registered a solid 8.4% growth, with new products an important part of the story. Our Performance Chemicals business introduced several new applications, including Chromabond™, a second generation dye transfer inhibitor, and Viviprint™, used in coating media for digital printing. Our Personal Care business introduced Aquaflex™ FX-64 and Allianz™ LT-120, hair care polymers for low VOC applications, and Escalol® T, a patented product comprising a dispersion of an inorganic sunscreen in an organic sunscreen. Finally, the Company's Fine Chemicals business achieved record-level revenues and operating profits last year, as it completed a significant contract for a well-known pharmaceutical company. The challenge for our Fine Chemicals business in 2000 will be to replace this business, and I am pleased to report that we are well on our way to doing so.

Intermediates and Solvents Business Continued to Decline

The merchant market for our intermediates and solvents business, which includes butanediol, *N*-methyl pyrrolidone (NMP), and tetrahydrofuran (THF), continued to demonstrate the characteristics of an oversupplied commodity market with eroding prices and declining margins. As a result, we are currently reviewing our options with regard to butanediol production at our Texas City and Seadrift facilities.

Mineral Products

Revenues in our minerals business declined during 1999 primarily because we lost two customers due to a competitive situation. ISP is committed to regaining its former market share and is in the process of implementing a plan to accomplish that objective.

What the Future Holds

How will we regain earnings growth momentum?

Management's plan to regain earnings growth is based on the following:

(1) Achieving Revenue Growth

Numerous opportunities exist for increasing sales of our current polymers in several geographic markets that have potential for strong economic growth - particularly in Asia and in parts of Europe. Therefore, part of our revenue growth plan is to increase penetration in these markets by opening additional offices and adding to our global sales network.

Additionally, our plan focuses on these three items:

(a) We will continue to develop **new applications** for our current products in new markets. Applications are being successfully introduced in paper coatings, natural gas processing, and household detergents.

(b) We will continue to add **new technology platforms** for specialty chemicals in existing applications. A focused program has been established to add new polymer types to our product offerings through acquisitions, alliances with other specialty chemical companies, and internal R&D efforts. Recent examples of such growth initiatives include: *alginates*, through the acquisition of Kelco Alginates from Monsanto; *acrylates*, through our alliance with Rohm and Haas; and *pyridenes*, developed as a result of an internal R&D effort. Moreover, each is a platform for further revenue growth through the development of new applications for the personal care, pharmaceutical, food, or industrial markets.

(c) We will add **new specialty chemicals businesses.** In 1998, ISP acquired a dyes and photographic chemicals business from Polaroid. In 1999, ISP acquired the Kelco Alginates food ingredients business from Monsanto, and we would expect to make further acquisitions in order to further leverage our strength in global sales and technical service.

(2) Continued Focus on Cost Reduction

Opportunities to reduce both manufacturing costs and other operating expenses are being aggressively pursued. In 1999, we reduced fixed expenses by $10 million, on an annualized basis, through restructuring made possible by the successful implementation of the Company's new ERP system. We believe that ISP's infrastructure is capable of supporting significant additional revenues with minimal additions. Moreover, our strong capital investment program of $270 million during the 1996-1999 period has provided our manufacturing plant capacity for volume growth as well as capabilities for more complex manufacturing. Additionally, programs are in place to reduce manufacturing costs by at least 3% annually through continuous improvement programs.

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Prospects for 2000

It is anticipated that several of ISP's specialty chemicals businesses will demonstrate marked increases in revenues and operating income, including the Personal Care, and Pharmaceutical, Food, and Beverage businesses. It is also expected that these increases will be offset by lower revenues in the Company's Industrial, Fine Chemicals, and Mineral Products businesses. However, with the highest quality products, efficient plants, excellent people, and the proper growth and cost-containment programs in place - we have all the necessary ingredients to regain revenue and earnings growth momentum.

Sincerely,

Sunil Kumar
Chief Executive Officer and President
April 7, 2000

Addendum

ISP's Dexter Acquisition Effort

ISP began accumulating shares of Dexter Corporation in July 1998 and shares of Life Technologies Inc. (LTI), Dexter's then 52%-owned subsidiary, shortly thereafter. By September 1999, ISP had acquired approximately 2.3 million Dexter shares, consisting of a 9.9% interest in that company, and a beneficial ownership interest in approximately 5.4 million (including outright ownership of approximately 3.5 million shares) shares of Life Technologies, consisting of a 21.7% interest in that company.

Having been patient for some period of time, during which Dexter, instead of moving to maximize shareholder values, took a series of actions which we believe were antithetical to the interests of their shareholders, we recommended to Dexter certain measures which we believed would have helped to increase shareholder values. After Dexter flatly rejected our recommendations, we proposed in December to acquire Dexter for $45 per share in cash, subject to the execution of a mutually acceptable merger agreement, and have subsequently increased our price to $50 per share.

Dexter has since announced its intention to consider a sale of the company, and we are currently performing due diligence, with an indication that the process should be resolved sometime before the end of the second quarter. Finally, while our Dexter and LTI shares were initially acquired because they presented an attractive investment opportunity, we are convinced that Dexter, which consists of several attractive chemical businesses in the non-woven, specialty polymers, and life science areas, represents an excellent acquisition for ISP.

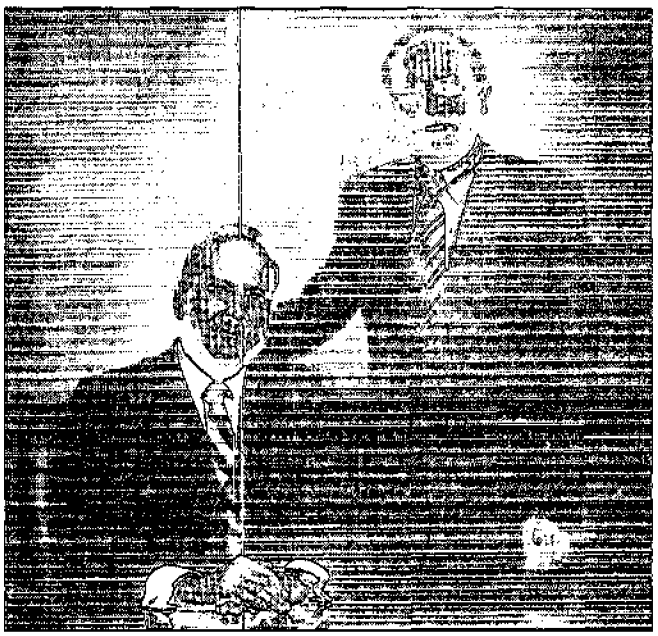
Acknowledgements

I am pleased to have this opportunity to welcome to our Company Sunil Kumar, who joined ISP last June as Chief Executive Officer, President, and a member of the Company's Board of Directors. Sunil was most recently the Chief Executive Officer, Building Materials Corporation of America, an ISP affiliate, where he had a tremendously impressive track record, having increased that company's sales by almost 60% during his three-year tenure there. We expect that he will make a substantial contribution to ISP as well.

At the same time, I would express our sincere appreciation to Carl Eckardt, who retired this past year after 25 years of dedicated service to our Company. He was recently Executive Vice President, Corporate Development, and previously served as President and Chief Operating Officer of our Company. Carl has probably had more to do with the success of our Company over the years than anyone, and we are delighted that he will remain a member of ISP's Board of Directors.

Sincerely,

Samuel J. Heyman
Chairman of the Board
April 7, 2000



Samuel J. Heyman, Chairman of the Board of Directors (left) and Sunil Kumar, Chief Executive Officer and President (right).

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1999

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 333-17827

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Exact name of registrant as specified in its charter)

Delaware (State of Incorporation)	**51-0376469** (I.R.S. Employer Identification No.)
300 Delaware Avenue **Suite 303** **Wilmington, Delaware** (Address of Principal Executive Offices)	**19801** (Zip Code)

Registrant's telephone number, including area code:

(302) 427-5715

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

Title of Each Class	Name of 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

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. X

As of March 24, 2000, 68,844,702 shares of common stock of the registrant were outstanding. The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 24, 2000 was $98,647,523. The aggregate market value was computed by reference to the closing price on the New York Stock Exchange of common stock of the registrant on such date ($6.50). For purposes of the computation, voting stock held by executive officers and directors of the registrant 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 the registrant.

Documents Incorporated by Reference

The Proxy Statement for the 2000 Annual Meeting of Stockholders of International Specialty Products Inc. to be filed within 120 days after the registrant's fiscal year-end (the "Proxy Statement") is incorporated by reference in Part III, Items 10, 11, 12 and 13.

PART I

Item 1. *Business*

General

International Specialty Products Inc. (formerly ISP Holdings Inc.) ("ISP") is a leading multinational manufacturer of specialty chemicals and mineral products.

We operate our business exclusively through our direct and indirect subsidiaries, including ISP Opco Holdings Inc., ISP Chemicals Inc., ISP Technologies Inc., ISP Van Dyk Inc., ISP Fine Chemicals Inc., ISP Freetown Fine Chemicals Inc. and ISP Alginates Inc. We were incorporated in Delaware in 1996.

On July 15, 1998, International Specialty Products Inc. ("Old ISP") merged with and into our company (then known as ISP Holdings Inc. ("ISP Holdings")). In connection with the merger, each share of common stock of Old ISP (other than those held by ISP Holdings) was automatically converted into one share of common stock of the surviving corporation, substantially all of the assets and liabilities of Old ISP were transferred to our subsidiary, ISP Opco Holdings Inc., and we changed our name to International Specialty Products Inc. Approximately 76% of our outstanding common stock is owned beneficially (as defined in Rule 13d-3 of the Securities Exchange Act of 1934) by Samuel J. Heyman, our Chairman of the Board of Directors.

Prior to January 1, 1997, ISP Holdings was a wholly-owned subsidiary of GAF Corporation ("GAF"). On January 1, 1997, GAF effected a series of 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 this distribution, we are no longer a subsidiary of GAF, and the assets and liabilities of other subsidiaries of GAF, including G-I Holdings Inc., Building Materials Corporation of America, U.S. Intec, Inc., and GAF Fiberglass Corporation are no longer included in our assets and liabilities.

On October 15, 1999, we acquired substantially all of the assets of the Kelco Alginates division of Monsanto Company. Our alginates business manufactures sodium alginate, propylene glycol alginate and other alginate derivatives at our San Diego, California and Girvan, Scotland plants. Algin is a naturally occurring hydrocolloid derived from brown seaweed and is used in food, pharmaceutical and industrial applications. As part of the transaction, we also acquired a research and administrative center in Tadworth, England and equity investments in three seaweed processing joint ventures located in Ireland, Iceland and Tasmania.

Prior to October 1, 1999, we manufactured and sold filter products, consisting of pressure filter vessels, filter bags and filter systems, primarily to the paint, automotive, chemical, pharmaceutical, petroleum and food and beverage industries. Effective October 1, 1999, we sold the stock of our filter products subsidiaries to Hayward Industrial Products, Inc.

The address and telephone number of our principal executive offices are 300 Delaware Avenue, Suite 303, Wilmington, Delaware 19801, (302) 427-5715.

Financial information concerning our industry segments and foreign and domestic operations required by Item 1 is included in Notes 15 and 16 to Consolidated Financial Statements contained in this Annual Report on Form 10-K.

Specialty Chemicals

Products and Markets. We manufacture a broad spectrum of specialty chemicals having numerous applications in consumer and industrial products. We use proprietary technology to convert various raw materials, through a chain of one or more processing steps, into increasingly complex and higher value-added specialty chemicals specifically developed to meet customer requirements.

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Our specialty chemicals business is organized based upon the markets for our products. Accordingly, we manage our specialty chemicals in the following three business segments:

- Personal Care—whose products are sold to the skin care and hair care markets;
- Pharmaceutical, Food and Beverage—whose products are sold to these three government-regulated industries; and
- Performance Chemicals, Fine Chemicals and Industrial—whose products are sold to numerous consumer and industrial markets.

For the year ended December 31, 1999, sales of specialty chemicals represented approximately 89% of our revenues. Most of our specialty chemical products fall within the following categories:

- *vinyl ether monomers*—includes several products for use in specialty and radiation-cured coatings. Our vinyl ether monomers are marketed by the Performance Chemicals group of our Performance Chemicals, Fine Chemicals and Industrial business segment.
- *vinyl ether copolymers*—includes our GANTREZ® line of products. These products serve as a bioadhesive resin in such consumer products as tartar-control toothpaste, denture adhesives and facial pore strips. Vinyl ether copolymers are marketed by our Personal Care and Pharmaceutical, Food and Beverage business segments.
- *polyvinyl pyrrolidone (PVP) polymers and copolymers*—represents our largest product group. These polymers and copolymers are marketed by all of our business segments. Our PLASDONE®, POLYCLAR® and GAFQUAT® product lines, which are used as tablet binders, beverage clarifiers and hair fixative resins, respectively, are included in this group.
- *intermediates*—includes butanediol, butenediol, butynediol, and propargyl alcohol for use in numerous industrial applications. Intermediates are marketed by our Performance Chemicals, Fine Chemicals and Industrial business segment. Our largest selling intermediate product is butanediol, which is utilized by industrial companies to manufacture spandex fibers and polybutylene terephthalate (PBT) plastics for use in automobiles.
- *solvents*—includes our M-PYROL® brand of *N*-methyl pyrrolidone (NMP), for use in metal degreasing and paint stripping, BLO® brand of *gamma*-butyrolactone, for use by electronics companies in the manufacture of semiconductors and micro-processing chips, and tetrahydrofuran (THF), which is used in the manufacture and installation of PVC pipe. Solvents are also marketed by our Performance Chemicals, Fine Chemicals and Industrial business segment.
- *alginates*—includes sodium alginate, propylene glycol alginate and other alginate derivatives for use as thickeners, stabilizers and viscosity modifiers. These products are marketed by our Pharmaceutical, Food and Beverage business segment, with the majority of our sales to the food industry.

The balance of our specialty chemical products includes fine chemicals (marketed by our Performance Chemicals, Fine Chemicals and Industrial business segment), sunscreens, preservatives, emollients (each marketed by our Personal Care business segment) and advanced materials (marketed by our Pharmaceutical, Food and Beverage business segment and our Performance Chemicals, Fine Chemicals and Industrial business segment).

Personal Care. Our Personal Care business segment markets numerous specialty chemicals that serve as critical ingredients in the formulation of many well-known skin care, hair care, toiletry and cosmetic products.

Our skin care ingredients include:

- ultraviolet (UV) light absorbing chemicals, which serve as sunscreens;
- emollients, which provide skin softness;
- moisturizers, which enhance the skin's water balance;

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- waterproofing agents, which enhance the performance of eye-liners and sunscreens in wet environments; and
- preservatives, which extend the shelf life of aqueous-based cosmetic formulations by preventing the growth of harmful bacteria.

Our ESCALOL® sunscreen actives serve as the primary active ingredient in many of the most popular sunscreens today and increasingly find applications in many other products such as lipsticks and facial creams. Our CERAPHYL® line of emollients and moisturizers provide a variety of popular bath products with their softening and moisturizing characteristics. We produce a growing number of specialty preservatives, including GERMALL® PLUS, a patented product that offers broad-spectrum anti-microbial activity, and SUTTOCIDE® A, a preservative gentle enough for infant care products.

Our hair care ingredients, marketed under the GANTREZ®, GAFQUAT®, and PVP/VA family of products, include a number of specially formulated fixative resins which provide hairsprays, mousses and gels with their holding power, as well as thickeners and stabilizers for shampoos and conditioners. Utilizing our combined expertise in hair care and sunscreen applications, we developed the world's first high performance hair protectant, ESCALOL® HP-610, to prevent sun damage to hair.

On April 2, 1999, we sold our pearlescent pigments business, a non-core product line that was part of the Personal Care business segment.

Pharmaceutical, Food and Beverage. Our specialty chemicals for the Pharmaceutical, Food and Beverage markets provide a number of end-use products with their unique properties while enabling these products to meet increasingly strict regulatory requirements.

In the pharmaceutical market, our specialty chemicals serve as key ingredients in the following types of products:

- prescription and over-the-counter tablets;
- injectable prescription drugs and serums;
- cough syrups;
- antiseptics;
- toothpastes; and
- denture adhesives.

Our PLASDONE® and POLYPLASDONE® polymers for tablet binders and tablet disintegrants are established excipients for use in the production of wet granulated tablets, and our GANTREZ® bioadhesive polymers serve as critical ingredients in denture adhesives and tartar control toothpastes.

Our advanced materials product line includes the FERRONYL® brand of dietary iron supplement, which is marketed to the pharmaceutical industry.

In the food and beverage markets, our alginates and acetylene-derived polymers serve as critical ingredients in the manufacture of numerous consumer products, including salad dressings, cheese sauces, fruit fillings, beer and health drinks. For example, our alginates products, marketed under the KELCOLOID® tradename, are used as stabilizers in many well-known consumer products, while our acetylene-based specialty polymers, marketed under the POLYCLAR® tradename, serve the beverage market by assuring the clarity and extending the shelf life of beer, wine and fruit juices.

Performance Chemicals, Fine Chemicals and Industrial. Our Performance Chemicals business includes acetylene-based polymers, vinyl ether monomers and advanced materials for consumer, agricultural and industrial applications. Our acetylene-based chemistry produces a number of Performance Chemicals for use in a wide range of markets including:

- coatings;
- agriculture;

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- imaging;
- detergents;
- electronics; and
- metalworking.

We believe that we are a leading producer of inert ingredients for the agricultural industry, where our solvents and polymers are used for the formulation of safer and more effective crop treatment products. For example, our AGRIMER® line of specialty polymers are EPA-approved inert ingredients which are used in seed-coating, crop dusting products, and as binders and disintegrants for a variety of pesticide tablets, pellets and granules.

Our advanced materials product line includes high-purity carbonyl iron powders, sold under the MICROPOWDER® name, for use in the aerospace, defense, electronics and powder metallurgy industries.

Our Fine Chemicals business focuses on the production of a variety of highly specialized products sold to the pharmaceutical, biotechnology, agricultural and imaging markets. We also offer custom manufacturing services for these industries.

We manufacture a broad range of fine chemicals under U.S. FDA current good manufacturing practices (cGMP) at our Columbus, Ohio facility. These fine chemicals include:

- bulk pharmaceuticals, such as flunixin meglumine, a veterinary drug, and mitotane, a cancer treatment drug;
- pharmaceutical intermediates, manufactured under contract for well-known pharmaceutical companies whose end products treat heart and kidney diseases, viral infections, and lower cholesterol; and
- pheromones, for use in insect population measurement and control.

We expanded our presence in the fine chemicals market with the February 1998 acquisition of our Freetown, Massachusetts manufacturing facility from Polaroid Corporation. We are expanding the facility's production capabilities to allow for the manufacture of certain specialty chemical product lines for our Personal Care business segment and to offer custom manufacturing capability to the pharmaceutical, biotechnology, agricultural and chemical process industries. As part of the acquisition of this facility, we entered into a multi-year agreement to supply the imaging dyes and polymers used by Polaroid in its instant film business.

In our Industrial business, we market several intermediate and solvent products, such as butanediol, tetrahydrofuran (THF) and *N*-methyl pyrrolidone (NMP), for use in a variety of industries, including:

- high performance plastics;
- lubricating oil and chemical processing;
- electronics cleaning; and
- coatings.

In addition, we offer a family of environmentally friendly products that can replace chlorinated and other volatile solvents for a variety of industrial uses, including cleaning, stripping and degreasing.

Effective April 1, 1998, we acquired the remaining 50% interest in GAF-Hüls Chemie GmbH, now known as ISP Marl GmbH ("ISP Marl"), our joint venture with a subsidiary of Hüls AG, based in Marl, Germany. As part of the transaction, we also acquired the fully-dedicated, modern production facility that provides ISP Marl with its primary raw material, acetylene. We believe that the production costs for butanediol and THF at ISP Marl are among the most competitive in the industry. We believe that this acquisition provides us with continued access to a low-cost supply of butanediol that is critical to the manufacture of many of our downstream polymers.

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During 1999, based on a review of our entire butanediol manufacturing network, which includes the Texas City, Texas; Calvert City, Kentucky; and Marl, Germany plants, we shut down the butanediol production unit at our Calvert City plant, writing off the associated assets, and evaluated curtailing production of butanediol at our Texas City plant. As a result of this evaluation, we wrote down to fair value certain butanediol assets at our Texas City and Seadrift, Texas manufacturing facilities and may shut down the butanediol production units at these facilities in the near future. We continue to produce polymers at our Calvert City and Texas City plants.

Marketing and Sales. We market our specialty chemicals using a worldwide marketing and sales force, typically chemists or chemical engineers, who work closely with our customers to familiarize themselves with our customers' products, manufacturing processes and markets. We conduct our domestic marketing and sales efforts from our facility in Wayne, New Jersey and regional offices strategically located throughout the United States.

International Operations. We conduct our international operations through 39 subsidiaries and 45 sales offices located in Europe, Canada, Latin America and the Asia-Pacific region. We also use the services of local distributors to reach markets that might otherwise be unavailable to us.

International sales of our specialty chemicals in 1999 were approximately 48% of our total sales for that period. Approximately 37% of our specialty chemicals sales in 1999 were in Europe and Japan. Sales in these regions are subject to exchange rate fluctuation risks. For a discussion of our 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 we have sales are subject to additional risks, including high rates of inflation, exchange controls, government expropriation and general instability.

We own and operate ISP Marl, primarily a butanediol manufacturing facility, and ISP Acetylene GmbH, an acetylene production plant. Both production facilities are located at Hüls' Chemiepark site in Marl, Germany, and each relies upon Hüls to provide certain services, including utilities, rail transport and waste handling. ISP Marl is the most modern butanediol production facility in our butanediol manufacturing network. ISP Acetylene, which employs electric arc technology for the production of acetylene from various hydrocarbon feedstocks, was built in 1992 to replace an older facility and utilizes state-of-the-art gas separation technology. ISP Acetylene's entire production is dedicated to fulfilling ISP Marl's requirements and has no third-party sales.

In October 1999, we acquired an alginates manufacturing plant in Girvan, Scotland and a research and administrative center in Tadworth, England. In addition, we acquired equity investments in three seaweed processing joint ventures located in Ireland, Iceland and Tasmania. These joint ventures serve to provide our alginates business with a steady supply of its primary raw material, seaweed.

Raw Materials. Because of the multi-step processes required to manufacture our specialty chemicals, we believe that our raw materials costs represent a smaller percentage of the cost of goods sold than for most other chemical companies. We estimate that approximately one-third of our manufacturing costs are for raw materials (including energy and packaging). As a result, we believe that fluctuations in the price of raw materials have less of an impact on our specialty chemicals business than on those chemical companies for which raw materials costs represent a larger percentage of manufacturing costs.

The principal raw materials used in the manufacture of our acetylene-based specialty chemicals are acetylene, methanol and methylamine. Most of the raw materials for consumption in the United States are obtained from third party sources pursuant to supply agreements. Acetylene, a significant raw material used in the production of most of our specialty chemicals, is obtained by us for domestic use from two unaffiliated suppliers pursuant to supply contracts. At our 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 the manufacture of ethylene. At our Calvert City, Kentucky facility, acetylene is supplied via pipeline by a neighboring company that generates it from calcium carbide.

Due to the nature of the manufacturing process, electricity and hydrocarbon feedstocks (primarily butane) are critical raw materials for the production of acetylene at our operations in Marl, Germany, where

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methanol is also a principal raw material. Electricity, butane and methanol for our Marl, Germany operations are supplied by Hüls pursuant to a long-term supply agreement.

We believe that the diversity of our acetylene supply sources and our use of a number of acetylene production technologies (ethylene by-product, calcium carbide and electric arc technology) provide us with a reliable supply of acetylene. In the event of a substantial interruption in the supply of acetylene from current sources, or, in the case of ISP Marl, electricity and hydrocarbon feedstocks, we cannot assure that we would be able to obtain as much acetylene from other sources as would be necessary to meet our supply requirements. To date, we have not experienced an interruption of our acetylene supply that has had a material adverse effect on our sales of specialty chemicals.

The principal raw material used in the manufacture of alginates is certain select species of seaweed. We process seaweed in both wet and dry forms. We use our own specially designed vessels to harvest, under government license, wet seaweed from leased kelp beds in the Pacific Ocean to supply our San Diego, California facility. Our Girvan, Scotland facility processes primarily dry seaweed purchased from our joint ventures in Iceland, Ireland and Tasmania, as well as from independent suppliers in South America. We believe that the species of seaweed required to manufacture alginates will remain readily available and that we will have adequate access to this seaweed to provide us with adequate supplies of this raw material for the foreseeable future.

Availability of other raw materials, including methanol and methylamine, remained adequate during 1999. We believe that, in the event of a supply interruption, we could obtain adequate supplies of such raw materials from alternate sources.

We use natural gas and raw materials derived from petroleum in many of our manufacturing processes and, consequently, the price and availability of natural gas and petroleum could be material to our operations. During 1999, crude oil and natural gas supplies remained adequate and the impact of rising crude oil prices was mitigated through operational efficiencies.

Mineral Products

Products and Markets. We manufacture mineral products consisting of ceramic-coated colored roofing granules, which are produced from rock deposits that are mined and crushed at our quarries and are colored and coated using a proprietary process. We sell our mineral roofing granules primarily to the North American roofing industry for use in the manufacture of asphalt roofing shingles. The granules help to provide weather resistance, decorative coloring, heat deflection and increased weight in the shingle. We are the second largest of only three major suppliers of colored roofing granules in North America.

We estimate 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. We estimate that the balance of the roofing industry's asphalt shingle production historically has been sold primarily for use in new housing construction. Sales of our 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. These shingles require, on average, approximately 60% more granules than traditional three-tab, lightweight roofing shingles.

Sales to Building Materials Corporation of America ("BMCA"), an affiliate, and its subsidiaries constituted approximately 66% of our mineral products net sales in 1999. See Item 13, "Certain Relationships and Related Transactions" and Note 14 to Consolidated Financial Statements. See also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—1999 Compared with 1998."

Raw Materials. We own rock deposits that have specific performance characteristics, including weatherability, the ability to reflect UV light, abrasion-resistance, non-staining characteristics and the ability

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to absorb pigments. We own three quarries, each with proven reserves, based on current production levels, of more than 20 years.

Competition

We believe that we are either the first or second largest seller, based on revenues, worldwide of our specialty chemicals derived from acetylene, other than butanediol and tetrahydrofuran, and the second largest seller, based on revenues, of alginates.

In each end-use market, there are a limited number of companies that produce substitutable products for our acetylene-derived specialty chemicals. These companies compete with us in the personal care, pharmaceutical, beverage and industrial markets and have the effect of limiting our market penetration and pricing flexibility. For our specialty chemicals not derived from acetylene, including alginates, sunscreens, emollients, moisturizers and fine chemicals, a number of world-wide competitors can provide similar products or services. We compete on quality, customer service and price in these markets.

Butanediol, which we produce primarily for use as a raw material, is also manufactured by a limited number of companies throughout the world for both their captive use or to supply the merchant market. We believe that there are four competitors of significance for merchant market butanediol. One of these competitors sources the merchant market from its plants in the United States and in Europe. Two other competitors each source the merchant market from their single manufacturing plants, one in the United States and the other in Europe. We believe the fourth competitor is nearing completion of its single plant in the United States and is expected to begin commercial production of butanediol during 2000. Tetrahydrofuran is manufactured by a number of companies throughout the world.

With regard to our mineral products, we have only one larger and one smaller competitor and believe that competition has been limited by:

- the substantial capital expenditures associated with the construction of new mineral processing and coloring plants and the acquisition of suitable rock reserves;
- the limited availability of proven rock sources;
- 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;
- 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
- the difficulty in obtaining the necessary permits to mine and operate a quarry.

Competition is largely based upon product and service quality, technology, distribution capability and price. We believe that we are well-positioned in the marketplace as a result of our broad product lines, sophisticated technology and worldwide distribution network.

Research and Development

Our worldwide research and development expenditures were $26.9, $25.9 and $23.0 million in 1997, 1998 and 1999, respectively.

Our research and development activities are conducted primarily at our 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; Freetown, Massachusetts; Columbus, Ohio; San Diego, California; and Girvan, Scotland, as well as at technical centers in the United Kingdom, Germany, China and Singapore. Our mineral products research and development facility, together with our customer design and color center, is located in Hagerstown, Maryland.

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Environmental Services

We have received site designation for the construction of a hazardous waste treatment, storage and disposal facility at our Linden, New Jersey property and have received approval from the New Jersey Turnpike Authority for a direct access ramp from the New Jersey Turnpike to the site. If we are successful in securing the necessary permits to construct and operate the hazardous waste facility, we intend to develop and operate the facility in a separate subsidiary, either on our own or in a joint venture with a suitable partner. We estimate 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. We anticipate utilizing internally generated cash and/or seeking project or other independent financing for this project. We also are investigating other development opportunities at this site.

Patents and Trademarks

As of December 31, 1999, we owned or licensed approximately 350 domestic and 460 foreign patents or patent applications and owned or licensed approximately 150 domestic and 1,890 foreign trademark registrations or applications related to our business. While we believe the patent protection covering certain of our products is material to those products, we do not believe that any single patent, patent application or trademark is material to our business or operations. We believe that the duration of the existing patents and patent licenses is consistent with our business needs.

Environmental Compliance

Since 1970, a wide variety of federal, state and local environmental laws and regulations relating to environmental matters have been adopted and amended. By reason of the nature of our operations and the operations of our predecessor and certain of the substances that are or have been used, produced or discharged at our or its plants or at other locations, we are affected by these environmental laws and regulations. We have made capital expenditures of less than $4.0 million in each of the three years ended December 31, 1999, in order to comply with these laws and regulations. These expenditures are included in additions to property, plant and equipment. We anticipate that aggregate capital expenditures relating to environmental compliance in 2000 and 2001 will be approximately $7.0 and $9.0 million, respectively.

The environmental laws and 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. We believe that our manufacturing facilities comply in all material respects with applicable environmental laws and regulations, and, while we cannot predict whether more burdensome requirements will be adopted in the future, we believe that any potential liability for compliance with environmental laws and regulations will not materially affect our business, liquidity, results of operations, cash flows or financial position.

We believe that we operate our manufacturing facilities in compliance in all material respects with applicable environmental, health and safety laws and regulations, but we cannot predict whether more burdensome requirements will be imposed by governmental authorities in the future.

Employees

At December 31, 1999, we employed approximately 2,650 people worldwide. Approximately 780 employees in the United States were subject to seven union contracts. We believe that our relations with our employees and their unions are satisfactory.

Other Developments

On January 27, 2000, we announced that we had notified Dexter Corporation of our intent to present at Dexter's 2000 Annual Meeting of Shareholders, and solicit proxies in favor of, a series of resolutions designed to facilitate our business combination proposal. Under the proposal, as amended on March 23, 2000, Dexter shareholders would receive at least $50 per share in cash, subject to the execution of a mutually acceptable merger agreement. We have filed with the Securities and Exchange Commission a preliminary

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proxy statement in connection with Dexter's Annual Meeting. We beneficially own approximately 10% of the outstanding shares of Dexter common stock and approximately 14% of the outstanding shares of the common stock of Life Technologies, Inc., a majority-owned subsidiary of Dexter. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Financial Condition" and Note 18 to Consolidated Financial Statements.

Item 2. *Properties*

Our corporate headquarters and principal research and development laboratories are located at a 100-acre campus-like office and research park owned by one of our subsidiaries 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, us are described below. Unless otherwise indicated, the properties are owned in fee. In addition to the principal facilities listed below, we maintain 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*	Specialty Chemicals
California		
San Diego	Plant*	Specialty Chemicals
Kentucky		
Calvert City	Plant	Specialty Chemicals
Maryland		
Hagerstown	Research Center, Design Center, Sales Office	Mineral Products
Massachusetts		
Freetown	Plant, Research Center	Specialty Chemicals
Missouri		
Annapolis	Plant, Quarry	Mineral Products
New Jersey		
Belleville	Plant, Sales Office, Research Center	Specialty Chemicals
Bridgewater	Sales Office*	Specialty Chemicals
Chatham	Plant, Sales Office, Research Center	Specialty Chemicals
Wayne	Headquarters, Corporate Administrative Offices, Research Center	Specialty Chemicals
Ohio		
Columbus	Plant, Research Center, Sales Office	Specialty Chemicals
Pennsylvania		
Blue Ridge Summit	Plant, Quarry	Mineral Products
Texas		
Seadrift	Plant	Specialty Chemicals
Texas City	Plant	Specialty Chemicals
Wisconsin		
Pembine	Plant, Quarry	Mineral Products

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Location	Facility	Product Line
	International	
Belgium		
Sint-Niklaas	Sales Office, Distribution Center	Specialty Chemicals
Brazil		
Sao Paulo	Sales Office*, Distribution Center*	Specialty Chemicals
Canada		
Mississauga, Ontario	Sales Office*, Distribution Center*	Specialty Chemicals
England		
Guildford	European Headquarters*, Research Center*	Specialty Chemicals
Manchester	Sales Office**, Distribution Center**	Specialty Chemicals
Tadworth	Research Center*, Sales Office*	Specialty Chemicals
Germany		
Cologne	Research Center*, Sales Office*	Specialty Chemicals
Marl	Plants**, Sales Office**	Specialty Chemicals
India		
Nagpur	Plant**	Specialty Chemicals
Japan		
Tokyo	Sales Office*	Specialty Chemicals
Scotland		
Girvan	Plant	Specialty Chemicals
Singapore	Sales Office*, Distribution Center*, Asia-Pacific Headquarters*, Warehouse*	Specialty Chemicals

* Leased property

** Long-term ground lease

We believe that our 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 1999, we made capital expenditures in the amount of $69.2 million relating to plant, property and equipment.

Item 3. ***Legal Proceedings***

Our 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.

We estimate that our liability in respect of all Environmental Claims (including those relating to our closed Linden, New Jersey plant described below), and certain other environmental compliance expenses, as of December 31, 1999, is $22.5 million, before reduction for insurance recoveries reflected on our balance sheet (discussed below) of $11.1 million that relate to both past expenses and estimated future liabilities ("estimated recoveries"). In the opinion of management, the resolution of such matters should not be material to our business, liquidity, results of operations, cash flows or financial position. However, adverse decisions or events, particularly as to the liability and the financial responsibility of our insurers and of the other parties involved at each site and their insurers, could cause us to increase our estimate of our 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, we believe that we will receive the estimated recoveries and that the recoveries could be well in excess of the current estimated liability for all

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Environmental Claims, although there can be no assurance in this regard. We believe we are entitled to substantially full defense and indemnity under our insurance policies for most Environmental Claims, although our insurers have not affirmed a legal obligation under the policies to provide indemnity for such claims.

In March 1995, GAF Corporation commenced litigation on behalf of itself and its predecessors, successors, subsidiaries and related corporate entities in the United States District Court for the District of New Jersey seeking amounts substantially in excess of the estimated recoveries. The court dismissed the action in December 1997 for lack of federal jurisdiction, and defendant insurers appealed the dismissal. The appeal was denied by the Third Circuit Court of Appeals in March 1999. In June 1997, GAF Corporation filed a similar action against the insurers in the Superior Court of New Jersey, Somerset County, which action is pending. While we believe that our claims are meritorious, we cannot be certain that we will prevail in our efforts to obtain amounts equal to, or in excess of, the estimated recoveries.

In June 1989, we entered into a Consent Order with the New Jersey Department of Environmental Protection ("NJDEP") requiring the development of a remediation plan for our closed Linden, New Jersey plant and the maintenance of financial assurances (currently $7.5 million) to guarantee our performance. This Consent Order does not address any potential natural resource damage claims. 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. We believe, although we cannot be certain, that, taking into account our plans for development of the site, we can comply with the NJDEP order at a cost of no more than $7.5 million. See Item 1, "Business—Environmental Services."

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

None.

Executive Officers of the Registrant

The following table sets forth the name, age, position and other information with respect to ISP's executive officers. 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. As used in this section, "ISP" refers to both Old ISP prior to the merger of Old ISP into ISP Holdings and ISP subsequent to the merger.

Name and Position Held	Age	Present Principal Occupation or Employment and Five-Year Employment History
Samuel J. Heyman ..... Chairman of the Board	61	Mr. Heyman has been a director and Chairman of the Board of ISP since its formation and was Chief Executive Officer of ISP and certain of its subsidiaries from their formation to June 1999. Mr. Heyman also has been a director, Chairman of the Board, President and Chief Executive Officer of GAF Corporation and certain of its subsidiaries for more than five years. He has been a director and Chairman of the Board of BMCA since its formation, and has served as Chief Executive Officer of BMCA and certain of its subsidiaries since June 1999, which position he also held from June 1996 to January 1999. 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.
Sunil Kumar ..... President and Chief Executive Officer	50	Mr. Kumar has been a director, President and Chief Executive Officer of ISP and President and Chief Executive Officer of certain of its subsidiaries since June 1999. Mr. Kumar was a director, President and Chief Executive Officer of BMCA and certain of its subsidiaries from May 1995, July 1996 and January 1999, respectively, to June 1999. He also was Chief Operating Officer of BMCA and certain of its subsidiaries from March 1996

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Name and Position Held	Age	Present Principal Occupation or Employment and Five-Year Employment History
		to January 1999. Mr. Kumar was President, Commercial Roofing Products Division, and Vice President of BMCA from February 1995 to March 1996. From 1992 to February 1995, he was Executive Vice President of Bridgestone/Firestone Inc., a retail distributor and manufacturer of tires and provider of automobile services.
Andrew G. Mueller ..... Executive Vice President—Operations	57	Mr. Mueller has been Executive Vice President—Operations of ISP and certain of its subsidiaries since May 1997. He was employed by BASF Corporation as Group Vice President, Colorants & Textile/Leather Chemicals from December 1995 to April 1997 and as Vice President, Fiber Intermediates for more than five years until November 1995.
Richard A. Weinberg..... Executive Vice President, General Counsel and Secretary	40	Mr. Weinberg has been Executive Vice President, General Counsel and Secretary of ISP and its subsidiaries since May 1998 and was Senior Vice President, General Counsel and Secretary of ISP and its subsidiaries from May 1996 to May 1998. Mr. Weinberg has held the same positions during the same time periods with GAF Corporation and certain of its subsidiaries, including BMCA. He has been a director of certain of ISP's subsidiaries since May 1996 and a director of GAF Corporation since February 2000. He was Vice President and General Counsel of BMCA from September 1994 to May 1996.
Randall R. Lay ..... Executive Vice President and Chief Financial Officer	45	Mr. Lay has been Executive Vice President and Chief Financial Officer of ISP and its subsidiaries since July 1999, was Senior Vice President and Chief Financial Officer of ISP and its subsidiaries from December 1998 to July 1999 and was Vice President and Chief Financial Officer of ISP and its subsidiaries from April 1995 to December 1998. From August 1993 to April 1995, he served as Controller, Specialty Derivatives of ISP.
Susan B. Yoss..... Senior Vice President and Treasurer	41	Ms. Yoss has been Senior Vice President and Treasurer of ISP and its subsidiaries since July 1999 and was Vice President and Treasurer of ISP and its subsidiaries from February 1998 to June 1999. She also has been Senior Vice President and Treasurer of BMCA and its subsidiaries and Senior Vice President, Chief Financial Officer and Treasurer of GAF Corporation and certain of its subsidiaries since July 1999. Ms. Yoss was Vice President and Treasurer of BMCA from February 1998 to June 1999. She was Assistant Treasurer of Joseph E. Seagram & Sons, Inc., a global beverage and entertainment company for more than five years until February 1998.
Ronald E. Brandt ..... Senior Vice President, Sales and Commercial Director—Americas	52	Mr. Brandt has been Senior Vice President, Sales and Commercial Director—Americas of ISP and certain of its subsidiaries since July 1999 and was Senior Vice President, Personal Care and Fine Chemicals Group of ISP and certain of its subsidiaries from December 1998 to July 1999. He served as Vice President and General Manager, Performance and Fine Chemicals of ISP and certain of its subsidiaries from July 1998 to December 1998 and as Vice President, Performance and Fine Chemicals of ISP and certain of its subsidiaries from October 1997 to July 1998. From July 1996 to January 1997, Mr. Brandt was Senior Vice President of Lawson Mardon Wheaton, a packaging manufacturer, and from 1992 to June 1996, he served as Senior Vice President of Lonza Inc., a chemicals manufacturer.

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PART II

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 March 24, 2000, there were 209 holders of record of ISP's outstanding common stock. For purposes of this section, "ISP" refers to both Old ISP for the periods prior to the merger of Old ISP into ISP Holdings and ISP for the periods subsequent to the merger.

	1999 by Quarter				1998 by Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Price Range of Common Stock:								
High	$13 13/16	$10 5/16	$10 1/4	$10 3/16	$18 1/2	$20 1/2	$18 13/16	$15 7/16
Low	7 1/2	7	8 9/16	7	13 9/16	16 13/16	12	9 9/16

ISP announced in the second quarter of 1995 that its Board of Directors had eliminated the 2½ 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 Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 11 to Consolidated Financial Statements for information regarding restrictions on the payment of dividends set forth on pages F-2 to F-10 and page F-28, 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-11.

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

See page F-2.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Financial Condition—Market Sensitive Instruments and Risk Management" on page F-8.

Item 8. *Financial Statements and Supplementary Data*

See Index on page F-1 and Financial Statements and Supplementary Data on pages F-13 to F-45.

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

None.

PART III

Item 10. *Directors and Executive Officers of the 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, see "Executive Officers of the Registrant" in Part I of this report.

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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:

Exhibit Number	Descriptions
3.1	— Amended and Restated Certificate of Incorporation of ISP (incorporated by reference to Exhibit 4.1 to Post-Effective Amendment No. 1 of Form S-8 to the Registration Statement on Form S-4 of ISP (Registration No. 333-53709) (the "ISP Registration Statement")).
3.2	— By-laws of ISP (incorporated by reference to Exhibit 99.2 to the ISP Registration Statement).
4.1	— 9% Note Indenture, dated as of October 18, 1996, between ISP Holdings and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 of ISP Holdings (Registration No. 333-17827) (the "Holdings Registration Statement")).
4.2	— 9¾% Note Indenture, dated as of October 18, 1996, between ISP Holdings and The Bank of New York, as trustee (incorporated by reference to Exhibit 4.2 to the Holdings Registration Statement).
10.1	— Amended and Restated Management Agreement, dated as of January 1, 1999, among GAF Corporation, G-I Holdings Inc., G Industries Corp., Merick Inc., GAF Fiberglass Corporation, ISP, GAF Building Materials Corporation, GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Opco Holdings Inc. (the "Management Agreement") (incorporated by reference to Exhibit 10.1 to BMCA's Annual Report on Form 10-K for the fiscal year ended December 31, 1998).
10.2	— Amendment No. 1 to the Management Agreement, dated as of January 1, 2000.
10.3	— Indemnification Agreement, dated as of October 18, 1996, among GAF Corporation, G-I Holdings Inc., ISP Holdings, G Industries Corp. and GAF Fiberglass Corporation (incorporated by reference to Exhibit 10.7 to the Holdings Registration Statement).
10.4	— Tax Sharing Agreement, dated as of January 1, 1997, among ISP Holdings, International Specialty Products Inc. and certain subsidiaries of International Specialty Products Inc. (incorporated by reference to Exhibit 10.8 to the Holdings Registration Statement).

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10.5 — Non-Qualified Retirement Plan Letter Agreement (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 of International Specialty Products Inc. (Registration No. 33-40351)).*

10.6 — International Specialty Products Inc. 1991 Incentive Plan for Key Employees and Directors, as amended (incorporated by reference to Exhibit 4.3 to Post-Effective Amendment No. 1 on Form S-8 to the ISP Registration Statement).*

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

10.8 — Letter Agreement, dated September 29, 1999, between International Specialty Products Inc. and Sunil Kumar (incorporated by reference to Exhibit 10 to the ISP Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 1999).*

10.9 — Compensation and Indemnification Agreement among Charles M. Diker, Burt Manning and ISP, dated October 10, 1997 (incorporated by reference to Exhibit 10.23 to the ISP Registration Statement).*

10.10 — Consulting Agreement, dated November 23, 1999, between Carl R. Eckardt and ISP.*

10.11 — Agreement and Plan of Merger between ISP Holdings and International Specialty Products Inc., dated as of March 30, 1998 (incorporated by reference to Exhibit A to Amendment No. 2 to ISP Holdings Schedule 13D with respect to the common stock of International Specialty Products Inc. filed with the Securities and Exchange Commission on April 1, 1998).

21 — Subsidiaries of ISP.

23 — Consent of Arthur Andersen LLP.

27 — Financial Data Schedule for fiscal year 1999, 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 1999.

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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.

INTERNATIONAL SPECIALTY PRODUCTS INC.

By: /s/ RANDALL R. LAY
Randall R. Lay
Executive Vice President and Chief Financial Officer

Date: March 29, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 29, 2000, by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title
/s/ SAMUEL J. HEYMAN Samuel J. Heyman	Chairman of the Board; Director
/s/ SUNIL KUMAR Sunil Kumar	President and Chief Executive Officer; Director (Principal Executive Officer)
/s/ CARL R. ECKARDT Carl R. Eckardt	Director
/s/ HARRISON J. GOLDIN Harrison J. Goldin	Director
/s/ CHARLES M. DIKER Charles M. Diker	Director
/s/ SANFORD KAPLAN Sanford Kaplan	Director
/s/ BURT MANNING Burt Manning	Director
/s/ RANDALL R. LAY Randall R. Lay	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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INTERNATIONAL SPECIALTY PRODUCTS INC.
FORM 10-K

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INTERNATIONAL SPECIALTY PRODUCTS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On July 15, 1998, International Specialty Products Inc. ("Old ISP") merged (the "Merger") with and into ISP Holdings Inc. ("ISP Holdings"). In connection with the Merger, ISP Holdings changed its name to International Specialty Products Inc. (the "Company"). In the Merger, each outstanding share of Old ISP's common stock, other than those held by ISP Holdings, was converted into one share of common stock of the Company, and the outstanding shares of Old ISP's common stock which were held by ISP Holdings were converted into an aggregate of 53,833,333 shares (or approximately 78%) of the outstanding shares of common stock of the Company. The financial statements presented herein for periods prior to the Merger represent the results of the former ISP Holdings.

In October 1999, the Company sold the stock of its filter products ("Filter Products") subsidiaries (see Note 3 to Consolidated Financial Statements). Accordingly, the results of operations and assets and liabilities of the Filter Products subsidiaries have been classified as a "Discontinued Operation" within the Consolidated Financial Statements for all periods presented. The following discussion is on a continuing operations basis.

Results of Operations

1999 Compared With 1998

The Company recorded income from continuing operations in 1999 of $49.6 million ($.72 diluted earnings per share) compared with $2.8 million ($.05 diluted earnings per share) in 1998. Including income from discontinued operations of $25.3 million, which reflected an after-tax gain of $23.5 million from the sale of Filter Products, net income in 1999 was $74.9 million ($1.09 diluted earnings per share) versus net income of $4.8 million ($.08 diluted earnings per share) in 1998.

The results for 1999 include an $8.5 million pre-tax gain from the sale of the Company's pearlescent pigments business, a non-core product line. The results for 1998 reflected a restructuring and impairment loss of $73.0 million and $12.8 million of charges related to the Merger. In 1999, the Company reversed previously recorded restructuring reserves in the amount of $1.9 million and also established a staff reduction program for which a pre-tax provision for severance of $2.3 million was recorded (see Note 5 to Consolidated Financial Statements and "Results of Operations—1998 Compared With 1997"). In 1998, the Company also recorded a pre-tax gain of $1.2 million from the sale of its tennis court materials business, which was part of the Mineral Products business segment. Excluding the effect of such nonrecurring items in each period, income from continuing operations for 1999 was $44.4 million ($.65 diluted earnings per share) compared with $60.4 million ($.98 diluted earnings per share) in 1998. On a comparable basis, the lower income from continuing operations in 1999 was the result of lower investment income and, to a lesser extent, lower operating income.

Sales for 1999 were $787.4 million compared with $784.6 million in 1998. The increase in sales was attributable to product exchange arrangements pursuant to which the Company sold butanediol, at cost, to other butanediol producers, accounting for $15.3 million of sales, increased revenues in the Fine Chemicals business ($14.7 million), the acquisition of Monsanto Company's Kelco Alginates business (see Note 7 to Consolidated Financial Statements), which recorded sales of $12.8 million in 1999 after the date of its acquisition, and higher sales in the Pharmaceutical business. Such sales increases were offset by lower sales in the Industrial business and in the Mineral Products and Personal Care business segments. The overall sales increase was attributable to increased sales volumes ($51.9 million), offset by unfavorable pricing, principally in the Industrial business, and the unfavorable effect ($5.4 million) of the stronger U.S. dollar relative to other currencies in certain areas of the world. Sales in 1999 reflect slightly higher sales in the U.S., Europe and in the Asia-Pacific region, partially offset by 10% lower sales in Latin America.

Operating income was $146.0 million in 1999 compared with $66.2 million in 1998. Excluding nonrecurring items in each year, operating income for 1999 was $137.8 million compared with $150.8 million in 1998. The lower results in 1999 were attributable to lower gross margins as a result of lower pricing in intermediates (including butanediol) and solvents and unabsorbed manufacturing costs across all business segments that

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resulted from the Company's program to reduce inventory levels during the fourth quarter of 1999. The results in 1999 were also impacted by lower operating profits for the Mineral Products business segment, partially offset by lower operating expenses that resulted from the Company's third quarter 1999 reduction in corporate staff and other expense reduction efforts. Total selling, general and administrative expenses decreased by 3% in 1999 and, as a percent of sales, decreased from 19.8% in 1998 to 19.1% in 1999. Operating income in 1999 decreased in the U.S., Europe and Latin America, all due to the factors discussed above, while the Asia-Pacific region experienced a slight growth in operating income in 1999 over 1998.

Interest expense for 1999 was $78.6 million, a $3.0 million (4%) increase over the $75.6 million recorded in 1998, with the increase due primarily to higher average borrowings, partially offset by lower average interest rates.

Other income, 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 $9.0 million in 1999 versus $35.1 million in 1998, with the decrease principally reflecting $26.9 million lower net investment income.

Business Segment Review

A discussion of operating results for each of the Company's business segments follows. The Company operates its Specialty Chemicals business through three reportable business segments, in addition to the Minerals Products segment. In 1999, the Company transferred its agricultural polymers and solvents product lines from the Pharmaceutical, Agricultural and Beverage ("PAB") segment to the Performance Chemicals, Fine Chemicals and Industrial segment. Accordingly, prior year financial information for these two segments have been restated to conform to the 1999 presentation. The effect on the years 1997 and 1998 was to reduce sales for the PAB segment by $58.1 and $52.7 million, respectively, and reduce operating income by $5.5 and $8.6 million, respectively, and increase sales and operating income for the Performance Chemicals, Fine Chemicals and Industrial segment by like amounts. The PAB segment has been renamed the Pharmaceutical, Food and Beverage segment and includes the alginates business, which was acquired in October 1999. See Notes 15 and 16 to Consolidated Financial Statements for additional business segment and geographic information.

Personal Care

The Personal Care segment provides products to the skin and hair care markets. Sales in 1999 were $187.1 million compared with $189.4 million in 1998, while operating income in 1999, including an $8.5 million pre-tax gain on the sale of the pearlescent pigments business, a non-core product line, improved to $45.7 million from $34.7 million in 1998. The lower sales in 1999 primarily resulted from the sale of the pearlescent pigments business and lower average pricing in both skin care and hair care. The sunscreen market continued to experience lower average price levels in some products in 1999. In addition, the skin care business experienced a decline in sales volumes to a major customer who advised the Company that its application has been discontinued. These factors combined to offset sales volume improvements due to growth in new products and in preservatives.

Operating income, excluding the gain on the sale of the pearlescent pigments business, improved by 7% in 1999 as the operating margin increased to 19.9% compared with 18.3% in 1998. The improvements reflected cost containment in operating expenses, specifically selling and supply chain costs.

Pharmaceutical, Food and Beverage ("PFB")

Sales for the PFB segment were $177.3 million in 1999, including $12.8 million in sales for the alginates business after the date of its acquisition in October 1999, compared with $157.9 million in 1998. Excluding the alginates business, sales for the Pharmaceutical and Beverage businesses increased 4% to $164.5 million in 1999. The increased sales reflected sales volume increases, primarily in the Asia-Pacific region and Europe and favorable pricing in North America, partially offset by the unfavorable impact of the U.S. dollar versus the Euro ($1.8 million).

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The increased sales in the PFB segment were principally attributable to higher sales volumes in the Pharmaceutical business. The sales growth primarily reflected increased volumes in the excipients and oral care markets and, to a lesser extent, the denture adhesives market, with strong growth registered in the Asia-Pacific region. Favorable pricing in the U.S. for PVP-Iodine and the GANTREZ® product line also contributed to the sales growth.

Decreased sales in the Beverage business partially offset the sales gains in the Pharmaceutical business. Beverage sales declined primarily due to lower sales volumes, particularly in Latin America. The adverse impact of the stronger U.S. dollar versus the Euro and competitive pricing pressures in Europe further contributed to the sales decline.

Operating income for the PFB segment was $44.9 million in 1999, a 19% improvement compared with $37.2 million in 1998, while operating margins improved from 23.6% in 1998 to 25.3% in 1999. The improved results reflected the higher sales volumes and favorable pricing in the Pharmaceutical business, as well as favorable manufacturing and selling costs.

Performance Chemicals, Fine Chemicals and Industrial

Sales for the Performance Chemicals, Fine Chemicals and Industrial segment were $335.7 million for 1999 compared with $342.8 million in 1998, while operating income declined to $41.2 million in 1999 compared with $63.3 million in 1998. The decrease in sales was attributable mainly to lower Industrial and Performance Chemicals sales, partially offset by a 26% increase in Fine Chemicals sales.

Sales for the Performance Chemicals business decreased by $4.8 million (5%) in 1999, while operating income decreased by $1.0 million (6%). The primary factor for the decline in sales was significantly lower volumes and lower pricing for the solvent chemicals market in all regions, particularly in Europe. Excluding the negative impact resulting from the solvents market, sales for the Performance Chemicals business grew 10% in 1999. The growth in the non-solvents markets was driven by new products and applications in Europe, combined with an increase in the U.S. base business.

Sales for the Fine Chemicals business increased $14.7 million (26%) in 1999, while operating income improved $5.1 million (29%). The higher sales and operating income in 1999 was primarily attributable to the increase in sales of an intermediate to a pharmaceutical company. Sales of this product contributed $32.2 million of sales and $17.4 million of gross margin in 1999. Sales and operating income for the Fine Chemicals business will be significantly impacted in the year 2000, as this customer has advised the Company that it will produce this product in-house.

Sales for the Industrial business decreased by $17.0 million in 1999. Excluding sales of $15.3 million from product exchange arrangements pursuant to which the Company sold butanediol, at cost, to other butanediol producers, the sales decline for the year was $32.3 million (17%), primarily resulting from unfavorable selling prices and sales volume declines for butanediol and *N*-methyl pyrrolidone and unfavorable pricing for tetrahydrofuran. As a result of such sales decreases, the Industrial business experienced a 90% decrease in operating profits in 1999.

Mineral Products

Sales for the Mineral Products segment in 1999 were $87.3 million, a $7.2 million (8%) decrease compared with sales of $94.5 million in 1998, while operating income decreased $4.4 million (21%) to $16.1 million in 1999. The lower sales and operating income resulted from a $5.3 million decrease in sales to an affiliate, BMCA (see Note 14 to Consolidated Financial Statements), resulting primarily from lower pricing and, to a lesser extent, lower volumes. Sales to trade customers were down $1.9 million (6%) in 1999 due primarily to the sale of the tennis court materials business in September 1998, which accounted for $1.4 million of sales in 1998. During the fourth quarter of 1999, the Mineral Products segment lost two major trade customers for colored roofing granules, which together accounted for approximately 68% of Mineral Products trade sales in 1999 and approximately 23% of total Mineral Products sales in 1999. Sales and operating income for the Mineral Products business will be significantly impacted in the year 2000 as a result of the loss of these two customers.

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Results of Operations

1998 Compared With 1997

The Company recorded income from continuing operations in 1998 of $2.8 million ($.05 diluted earnings per share) compared with $51.7 million ($.96 diluted earnings per share) in 1997. The results for 1998 reflected a restructuring and impairment loss of $73.0 million and $12.8 million of charges related to the Merger, and also included a $1.2 million pre-tax gain from the sale of the Company's tennis court materials business. Excluding the effect of such nonrecurring items, income from continuing operations for 1998 was $60.4 million ($.98 diluted earnings per share), with the increase attributable to higher operating and other income, partially offset by higher interest expense.

Sales for 1998 were $784.6 million, an 11% increase compared with $709.0 million for 1997. The sales growth in 1998 was primarily attributable to the Company's acquisition, effective April 1, 1998, of the remaining 50% interest in its joint venture with Hüls AG, GAF-Hüls Chemie GmbH, now known as ISP Marl GmbH ("ISP Marl"), and to the acquisition of the Freetown fine chemicals facility (see Note 7 to Consolidated Financial Statements), which together accounted for $74.5 million of the increase. In addition, the sales increase was attributable to increased sales volumes ($9.7 million), offset by the unfavorable effect ($9.6 million) of the stronger U.S. dollar relative to other currencies in certain areas of the world. The higher sales in 1998 reflected increased sales in the U.S., Europe (due to the sales of ISP Marl) and Latin America, partially offset by lower sales in the Asia-Pacific region.

As discussed in Note 5 to Consolidated Financial Statements, the Company recorded $73.0 million in 1998 for provisions for restructuring and impairment loss, primarily related to its decision to shut down its butanediol production unit at its Calvert City, Kentucky manufacturing facility. As a result of significant adverse changes in the butanediol market, and in conjunction with the decision to shut down the Calvert City butanediol production unit, the Company also reviewed the recoverability of its butanediol production assets at its Texas City and Seadrift, Texas facilities and, based on this review, recognized an impairment loss of $16.6 million. The total charge related to the above shutdown and impairment aggregated $59.3 million, including write-offs of property, plant and equipment aggregating $38.7 million, the write-off of $13.1 million of goodwill related to the butanediol business and an accrual of $7.5 million for cash costs to be incurred, mainly for decommissioning, demolition and remediation, and severance costs. In addition, also as a result of the adverse changes in the butanediol market and as a result of the acquisition of ISP Marl, the Company decided not to continue its plans to acquire or develop a European manufacturing facility. Costs incurred in previous years for this project aggregating $10.7 million were therefore deemed not recoverable and were written off in 1998. Also, in the third quarter of 1998, the Company reserved $3.0 million for the consolidation of offices in the Company's European operations.

As a result of the Merger, the Company incurred $12.8 million of charges against operating income in 1998, consisting of a $7.9 million charge in connection with the termination of ISP Holdings' stock appreciation rights and preferred stock option programs, a $2.6 million charge related to purchase accounting adjustments and $2.2 million of other expenses relating to investment banking, legal and other fees.

Operating income, before the impact of the $84.6 million of nonrecurring items discussed above, was $150.8 million for 1998, a 10% increase over the $137.7 million recorded in 1997. The improved results were primarily attributable to higher operating income for the Performance Chemicals, Fine Chemicals and Industrial business segment (up $25.9 million), mainly due to the acquisitions of ISP Marl and the Freetown fine chemicals facility, and also due to higher operating income for Mineral Products (up $3.5 million), partially offset by lower results for Personal Care (down $9.3 million) and Pharmaceutical and Beverage (down $3.9 million). See below for a further discussion of business segment results. The overall operating results, in addition to the favorable effect of the acquisitions, were favorably impacted by increased sales volumes, partially offset by the adverse effect of the stronger U.S. dollar ($15.7 million) and 8% higher selling, general and administrative expenses due primarily to higher distribution and marketing expenses. Selling, general and administrative expenses as a percent of sales decreased from 20.3% in 1997 to 19.8% in 1998.

Of the $13.1 million increase in operating income, excluding the nonrecurring items, domestic operating income increased by $3.3 million (10%) due to increased sales volumes reflecting the acquisition of the Freetown

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fine chemicals facility and higher Mineral Products sales and, to a lesser extent, slightly higher gross margins. Operating income for Europe increased $13.0 million (20%) due mainly to the ISP Marl acquisition, partially offset by the effect of the stronger U.S. dollar, while in the Asia-Pacific region, operating income decreased by $5.5 million (24%) due to lower sales volumes. Operating income for the Latin America region increased by $2.3 million (16%) due to increased sales volumes and improved margins.

Interest expense for 1998 was $75.6 million, a $2.0 million (3%) increase over the $73.6 million recorded in 1997, with the increase due primarily to higher average borrowings.

Other income, net, was $35.1 million in 1998 compared with $34.2 million in 1997, as $1.8 million lower other nonoperating and nonrecurring expense items were partially offset by $1.2 million lower net investment income.

Business Segment Review

Personal Care

Sales for the Personal Care segment were $189.4 million in 1998 compared with $187.4 million in 1997, while operating income declined in 1998 to $34.7 million from $44.0 million in 1997. Sales volumes increased by $7.1 million in 1998, led by $4.0 million in sales of new products. The stronger U.S. dollar adversely impacted sales by $3.1 million and, in addition, the sunscreen market continued to experience lower average price levels in some products, which offset volume improvements.

The decline in operating income in 1998 in the Personal Care segment was attributable to a $4.7 million adverse impact of the stronger U.S. dollar, unfavorable prices in skin care products, and $6.3 million higher selling, general and administrative expenses. The latter was primarily the result of increased expenses for new product development, marketing and development expenses related to government regulations to reduce the emission of volatile organic compounds (VOCs) in hairsprays to 55% levels, and, to a lesser extent, higher distribution costs.

Pharmaceutical and Beverage ("P&B")

Sales for the P&B segment were $157.9 million in 1998 compared with $150.3 million in 1997, while operating income decreased to $37.2 million in 1998 from $41.1 million in 1997. The increased sales reflected higher sales volumes ($2.5 million) and favorable pricing, offset by the adverse impact of the stronger U.S. dollar ($3.7 million). The same factors impacted P&B's operating income, with the decline in operating income reflecting a $6.2 million adverse impact of the stronger U.S. dollar, mostly offset by favorable pricing and increased sales volumes and by lower selling and distribution costs.

The Pharmaceutical business registered another year of strong growth, primarily reflecting increased sales volumes in the oral care and excipients markets. The effects of the economic slowdown in Asia were largely offset by higher sales in Europe and North and South America. The growth in the oral care market came primarily through increased sales of the GANTREZ® product line, which has applications in both toothpaste and denture adhesives. In the excipients market, increased revenues were generated through higher sales of PLASDONES®, which are polymers used as a drug tablet binder. Sales for 1998 in the antiseptic area were slightly down from 1997.

In the Beverage business, the economic situation in Asia and in certain parts of Eastern Europe had an unfavorable impact on sales, while sales in the Latin America region continued to grow in 1998.

Performance Chemicals, Fine Chemicals and Industrial

The Performance Chemicals, Fine Chemicals and Industrial segment experienced a 19% increase in sales in 1998, with sales increasing to $342.8 million from $288.1 million in 1997. Operating income improved to $63.3 million, a 69% increase over the $37.4 million recorded in 1997, excluding the restructuring and impairment loss previously discussed related to the butanediol business. The sales increase was attributable to the acquisition of the remaining 50% interest in ISP Marl and the acquisition of the Freetown fine chemicals facility (see Note 7 to Consolidated Financial Statements), which together accounted for $74.5 million of sales in 1998, and also

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reflected a substantial increase in the sales of pharmaceutical intermediates. The results for ISP Marl are included in the Company's results on a consolidated basis from the date of its acquisition, including sales of $53.0 million for 1998. Sales for Performance Chemicals in 1998 were 7% lower than in 1997 due to weak economies in Asia and Eastern Europe. Pricing gains for Performance Chemicals were more than offset by the adverse impact of the stronger U.S. dollar.

The higher operating income for the Performance Chemicals, Fine Chemicals and Industrial segment in 1998 was also primarily attributable to the acquisitions of ISP Marl and the Freetown facility and to the impact of sales volume increases, partially offset by unfavorable pricing, the adverse impact of the stronger U.S. dollar and, to a lesser extent, unfavorable manufacturing costs.

Mineral Products

Sales for the Mineral Products segment in 1998 were $94.5 million, a 14% increase compared with $83.2 million in 1997, while operating income improved 21% to $20.5 million in 1998 compared with $17.0 million in 1997. The sales growth resulted from an $11.5 million increase in sales to an affiliate, BMCA (see Note 14 to Consolidated Financial Statements), resulting principally from higher volumes and slightly higher pricing. Sales to trade customers were flat due to consolidation in the roofing industry and plant closures at certain of the Company's trade customers. The Company also sold its tennis court materials business in 1998.

The improvement in operating income in 1998 resulted from the increased sales volumes and cost containment controls, and, to a lesser extent, a $1.2 million pre-tax gain from the sale of the tennis court materials business.

Liquidity and Financial Condition

During 1999, the Company's net cash flow before financing activities was $42.4 million, including $93.6 million of cash generated from operations, the reinvestment of $109.0 million for capital programs and the acquisition of the alginates business (see below and Note 7 to Consolidated Financial Statements), $73.5 million of cash generated from the sale of the filters and pearlescent pigments businesses, and the use of $15.7 million of cash for net purchases of available-for-sale and held-to-maturity securities and other short-term investments.

Cash from operations reflected a $15.6 million cash inflow from net sales of trading securities. Cash invested in additional working capital totaled $11.9 million, primarily reflecting a $17.3 million increase in receivables, partially offset by a $7.6 million decrease in inventories (excluding inventories acquired in the acquisition of the alginates business) as a result of the Company's program to reduce inventory levels during the fourth quarter of 1999.

Net cash used in financing activities in 1999 totaled $42.2 million, reflecting the repayment of the Company's $200 million 9% Senior Notes in March 1999 and a $6.9 million reduction in short-term borrowings, partially offset by a $162.4 million increase in borrowings under the Company's bank revolving credit facility and $5.6 million of proceeds from the sale of the Company's accounts receivable. In addition, financing activities included a $5.0 million cash outlay for repurchases of common stock pursuant to the Company's repurchase program. The Company announced in March 1999 that its Board of Directors had approved the repurchase of an additional 1.5 million shares of its common stock. This amount is in addition to the repurchase of one million shares, announced in September 1998, which has been completed. The repurchased shares will be held for general purposes, including the issuance of shares under the Company's stock option plan.

As a result of the foregoing factors, cash and cash equivalents increased by $0.2 million during 1999 to $23.3 million, excluding $397.2 million of trading and available-for-sale securities and other short-term investments.

As of December 31, 1999, the Company's current maturities of long-term debt, scheduled to be repaid during 2000, totaled $38.5 million, including a $38.1 million mortgage obligation on its headquarters property.

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

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(see Note 11 to Consolidated Financial Statements). As of December 31, 1999, loans in the amount of $295.0 million and letters of credit in the amount of $7.9 million were outstanding under the Credit Agreement.

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 the Company's 9% Senior Notes due 2003 and 9 3/4% Senior Notes due 2002 (collectively, the "Notes"). As of December 31, 1999, 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 indentures relating to the Notes limit the amount of cash dividends, purchases of treasury stock, and other restricted payments (as defined) by the Company. See Note 11 to Consolidated Financial Statements.

On January 27, 2000, the Company announced that it had notified Dexter Corporation ("Dexter") of its intent to present at Dexter's Annual Meeting of Shareholders scheduled to be held on April 27, 2000, and solicit proxies in favor of, a series of resolutions designed to facilitate the Company's business combination proposal. Under the proposal, as amended on March 23, 2000, Dexter shareholders would receive at least $50 per share in cash, subject to the execution of a mutually acceptable merger agreement. The Company has filed with the Securities and Exchange Commission a preliminary proxy statement in connection with Dexter's Annual Meeting. On March 23, 2000, the Company received a binding commitment from a financial institution to provide, subject to customary conditions, senior credit facilities in the aggregate amount of $1.825 billion to, among other things, finance the acquisition of Dexter. See also Notes 2 and 18 to Consolidated Financial Statements.

In October 1999, the Company acquired substantially all of the assets of the Kelco Alginates division of Monsanto Company. See Note 7 to Consolidated Financial Statements.

For information with respect to income taxes, see Note 6 to Consolidated Financial Statements.

Effective January 1, 1999, member states of the European Union converted to a common currency, the Euro. This conversion has not had a material impact on the Company's business, results of operations or financial condition. The Company is currently billing customers in Euro if they so request, and this has not had an impact on the Company's administrative systems.

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 has received 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. If the Company is successful in securing the necessary permits to construct and operate the hazardous waste facility, the Company intends to develop and operate the facility in a separate subsidiary, either on its own or in a joint venture with a suitable partner. 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 for this project. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources. The Company is also investigating other development opportunities at this site.

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters. See Note 17 to Consolidated Financial Statements for further information.

Market-Sensitive Instruments and Risk Management

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,

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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 2 to Consolidated Financial Statements.

The Company enters into financial instruments in the ordinary course of business in order to manage its exposure to market fluctuations in interest rates, foreign currency rates and on its short-term investments. The financial instruments the Company employs to reduce market risk include swaps, futures, forwards and other hedging instruments. The financial instruments are subject to strict internal controls and their use is primarily confined to the hedging of the Company's debt, foreign currency exposure and short-term investment portfolio. The counterparties to these financial instruments are major financial institutions with high credit standings. The amounts subject to credit risk are generally limited to the amounts, if any, by which the counterparties' obligations exceed the obligations of the Company. The Company controls credit risk through credit approvals, limits and monitoring procedures. The Company does not anticipate nonperformance by counterparties to these instruments.

	December 31, 1998		December 31, 1999	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Millions)			
Interest rate financial instruments	$425.0	$(10.2)	$100.0	$ 0.7
Foreign currency financial instruments	$ 90.8	$ (4.4)	$ 57.4	$(0.3)
Equity-related financial instruments	$332.8	$ 0	$ 56.6	$ 0

All of the financial instruments in the above table have a maturity of less than one year, except that $100 million notional amount of interest rate swap agreements, with a fair value of $0.7 million as of December 31, 1999, mature in 2002.

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, 1999, the Company had entered into interest rate swap agreements with a notional value of $100 million in order to convert to fixed rates $100 million of its exposure to floating interest rates. By utilizing fixed to floating interest rate swap agreements, the Company reduced its interest expense by $2.1, $1.7 and $0.3 million in 1997, 1998 and 1999, respectively.

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 its foreign subsidiaries. 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. All forward contracts are in major currencies with highly liquid markets and mature within one year. Hedging strategies are approved by senior management before they are implemented.

As of December 31, 1998 and 1999, the U.S. dollar equivalent fair value of outstanding forward foreign exchange contracts was $90.8 and $57.4 million, respectively. The U.S. dollar equivalent fair value of foreign exchange contracts outstanding as of December 31, 1998 and 1999, which were entered into as a hedge of non-local currency intercompany loans, was $18.4 and $33.9 million, respectively, representing 100% of the Company's foreign currency exposure with respect to such loans.

As of December 31, 1999, equity-related financial instruments employed by the Company to reduce market risk include long contracts valued at $50.1 million and short contracts valued at $6.5 million, both of which are marked-to-market each month, with unrealized gains and losses included in the results of operations. As such, there is no economic cost at December 31, 1999 to terminate these instruments and therefore the fair market value is zero.

Year 2000 Compliance

During 1999, the Company completed a formal year 2000 program (the "Year 2000 Program") to address the potential issues relating to the inability of some of its information technology ("IT") and non-IT equipment to accurately read and process certain dates, including dates in the year 2000 and afterwards (the "Year 2000 Issues"). As part of the Year 2000 Program, the Company also requested information on the Year 2000 Issues of third parties significant to the Company's business and, accordingly, developed contingency plans to minimize

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the impact of Year 2000 Issues on its business. The costs to complete the Year 2000 Program were not material to the Company's financial position or results of operations. To date, the Company has not experienced any significant consequences related to Year 2000 Issues, and the Company reasonably believes that potential undiscovered Year 2000 Issues will not have a material effect on its business, financial condition or results of operations.

* * *

Forward-looking Statements

This Annual Report on Form 10-K contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. These forward-looking statements are only predictions and generally can be identified by use of statements that include phrases such as "believe," "expect," "anticipate," "intend," "plan," "foresee" or other words or phrases of similar import. Similarly, statements that describe the Company's objectives, plans or goals also are forward-looking statements. The Company's operations are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. The forward-looking statements included herein are made only as of the date of this Annual Report on Form 10-K and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. No assurances can be given that projected results or events will be achieved.

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INTERNATIONAL SPECIALTY PRODUCTS INC.

SELECTED FINANCIAL DATA

Set forth below are selected consolidated financial data of International Specialty Products Inc. (the "Company"), formerly ISP Holdings Inc. ("ISP Holdings"), and its subsidiaries. On July 15, 1998, International Specialty Products Inc. ("Old ISP") merged (the "Merger") with and into ISP Holdings. In connection with the Merger, ISP Holdings changed its name to International Specialty Products Inc. The financial information presented herein for periods prior to the Merger of Old ISP and ISP Holdings represent the results of the former ISP Holdings. Prior to January 1, 1997, ISP Holdings was a wholly-owned subsidiary of GAF Corporation ("GAF"). On January 1, 1997, GAF effected a series of transactions that resulted in, among other things, the capital stock of ISP Holdings being distributed to the stockholders of GAF. As a result of such distribution, ISP ceased to be a direct or indirect subsidiary of GAF, and GAF's subsidiaries are no longer included in the consolidated assets and liabilities of ISP. The results of operations and assets and liabilities of GAF's subsidiaries, as well as GAF Broadcasting Company, Inc. (whose assets were sold in August 1996), have been classified as "Discontinued Operations" within the Selected Financial Data below for all periods presented prior to January 1, 1997. In October 1999, the Company sold the stock of its Filter Products subsidiaries (see Note 3 to Consolidated Financial Statements). Accordingly, the results of operations and assets and liabilities of the Filter Products subsidiaries have been classified as a "Discontinued Operation" within the Consolidated Financial Statements for all periods presented.

	Year Ended December 31,				
	1995	1996	1997	1998	1999
	(Dollars in thousands, except per share amounts)				
Operating Data:					
Net sales	$ 651,834	$ 676,951	$ 708,971	$ 784,616	$ 787,356
Gross profit	258,593	283,186	295,199	321,105	304,959
Operating income	123,599	135,784	137,689	66,177	145,978
Interest expense	33,091	38,333	73,612	75,564	78,552
Income from continuing operations before income taxes and extraordinary losses	102,605	116,388	104,219	27,168	76,454
Income from continuing operations before extraordinary losses	52,848	60,683	51,702	2,779	49,632
Net income	32,828	53,933	54,005	4,812	74,930
Income from continuing operations per common share:					
Basic	$ .98	$ 1.13	$ .96	$ .05	$ .72
Diluted	$ .98	$ 1.13	$ .96	$ .05	$ .72
Other Data:					
Gross profit margin	39.7%	41.8%	41.6%	40.9%	38.7%
Operating margin	19.0%	20.1%	19.4%	8.4%	18.5%
Depreciation	$ 35,533	$ 37,801	$ 41,236	$ 49,272	$ 48,590
Goodwill amortization	13,223	13,200	13,294	15,025	16,344
Capital expenditures and acquisitions	37,138	51,411	67,674	163,850	108,955

	December 31,				
	1995	1996	1997	1998	1999
	(Thousands)				
Balance Sheet Data:					
Total working capital	$ 290,001	$ 476,846	$ 322,080	$ 406,654	$ 438,083
Total assets	1,460,382	1,600,114	1,483,977	1,763,870	1,835,308
Long-term debt less current maturities	280,254	834,284	798,762	896,095	820,141
Stockholders' equity (deficit)	(1,707)	42,653	261,841	501,723	587,261

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To International Specialty Products Inc.:

We have audited the accompanying consolidated balance sheets of International Specialty Products Inc. (a Delaware corporation) and subsidiaries as of December 31, 1998 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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-13 to F-44 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, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, 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 appearing on page S-1 of this Form 10-K is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states 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 28, 2000

G-I_EPA0010960

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	1997	1998	1999
	(Thousands, except per share amounts)		
Net sales	$708,971	$784,616	$787,356
Cost of products sold	(413,772)	(463,511)	(482,397)
Selling, general and administrative	(144,216)	(155,257)	(150,768)
Provision for restructuring, staff reduction and impairment loss	—	(73,049)	(410)
Merger-related expenses	—	(12,786)	—
Gain on sale of assets	—	1,189	8,541
Goodwill amortization	(13,294)	(15,025)	(16,344)
Operating income	137,689	66,177	145,978
Interest expense	(73,612)	(75,564)	(78,552)
Equity in earnings of joint venture	5,909	1,455	—
Other income, net	34,233	35,100	9,028
Income from continuing operations before income taxes	104,219	27,168	76,454
Income taxes	(37,825)	(14,110)	(26,822)
Minority interest in income of subsidiary	(14,692)	(10,279)	—
Income from continuing operations	51,702	2,779	49,632
Discontinued operation:			
Income from discontinued operation, net of income taxes	2,303	2,033	1,769
Gain on sale of discontinued operation, net of income taxes of $12,725	—	—	23,529
Income from discontinued operation	2,303	2,033	25,298
Net income	$ 54,005	$ 4,812	$ 74,930
Earnings per common share:			
Basic:			
Income from continuing operations	$ .96	$ .05	$ .72
Income from discontinued operation	.04	.03	.37
Net income	$ 1.00	$ .08	$ 1.09
Diluted:			
Income from continuing operations	$ .96	$ .05	$ .72
Income from discontinued operation	.04	.03	.37
Net income	$ 1.00	$ .08	$ 1.09
Weighted average number of common and common equivalent shares outstanding:			
Basic	53,833	60,971	68,536
Diluted	53,833	61,278	68,685

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

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INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 1998	December 31, 1999
	(Thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 23,130	$ 23,309
Investments in trading securities	67,333	10,395
Investments in available-for-sale securities	233,625	344,905
Investments in held-to-maturity securities	12,287	—
Other short-term investments	41,708	41,900
Accounts receivable, trade, less reserve of $2,494 and $3,411	74,839	82,201
Accounts receivable, other	20,649	23,410
Receivable from related parties, net	7,769	16,901
Inventories	129,050	151,775
Net current assets of discontinued operation	18,514	—
Other current assets	19,197	20,569
Total Current Assets	648,101	715,365
Property, plant and equipment, net	547,555	570,218
Excess of cost over net assets of businesses acquired, net of accumulated amortization of $133,344 and $149,688	526,928	510,578
Net noncurrent assets of discontinued operation	5,724	—
Other assets	35,562	39,147
Total Assets	$1,763,870	$1,835,308
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ 87,937	$ 82,531
Current maturities of long-term debt	583	38,543
Accounts payable	59,784	63,852
Accrued liabilities	83,684	86,350
Income taxes	9,459	6,006
Total Current Liabilities	241,447	277,282
Long-term debt less current maturities	896,095	820,141
Deferred income taxes	60,282	89,796
Other liabilities	64,323	60,828
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $.01 par value per share; 20,000,000 shares authorized: no shares issued	—	—
Common stock, $.01 par value per share; 300,000,000 shares authorized: 69,546,456 shares issued	695	695
Additional paid-in capital	489,285	486,137
Treasury stock, at cost—735,744 and 754,199 shares	(8,388)	(7,344)
Retained earnings	44,892	119,822
Accumulated other comprehensive loss	(24,761)	(12,049)
Total Stockholders' Equity	501,723	587,261
Total Liabilities and Stockholders' Equity	$1,763,870	$1,835,308

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

G-I_EPA0010962

INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1997	1998	1999
		(Thousands)	
Cash and cash equivalents, beginning of year	$ 17,477	$ 20,137	$ 23,130
Cash provided by (used in) operating activities:			
Net income	54,005	4,812	74,930
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from discontinued operation	(2,303)	(2,033)	(25,298)
Gain on sale of assets	—	(1,189)	(8,541)
Provision for restructuring, staff reduction and impairment loss	—	73,049	410
Depreciation	41,236	49,272	48,590
Goodwill amortization	13,294	15,025	16,344
Deferred income taxes	28,570	(6,816)	6,064
Unrealized (gains) losses on trading securities and other short-term investments	(9,539)	1,484	(6,778)
(Increase) decrease in working capital items	(17,080)	2,842	(11,851)
Purchases of trading securities	(196,513)	(223,062)	(209,649)
Proceeds from sales of trading securities	119,864	272,027	225,291
(Increase) decrease in other assets	2,210	3,136	(513)
Increase in other liabilities	9,702	128	503
(Increase) decrease in receivable from related parties	1,112	(3,645)	(9,132)
Change in cumulative translation adjustment	(6,238)	2,975	(19,367)
Change in minority interest in subsidiary	13,552	9,730	—
Other, net	1,328	(6,608)	7,261
Net cash provided by continuing operations	53,200	191,127	88,264
Net cash provided by discontinued operation	455	1,315	5,293
Net cash provided by operating activities	53,655	192,442	93,557
Cash provided by (used in) investing activities:			
Capital expenditures and acquisitions	(67,674)	(163,850)	(108,955)
Proceeds from sale-leaseback transaction	—	56,050	—
Proceeds from sale of assets	—	2,400	11,533
Proceeds from sale of discontinued operation	—	—	62,000
Purchases of available-for-sale securities	(301,207)	(671,842)	(432,782)
Purchases of held-to-maturity securities	(1,623)	(12,287)	(3,459)
Purchases of other short-term investments	—	(10,000)	(5,600)
Proceeds from sales of available-for-sale securities	344,408	477,014	395,659
Proceeds from held-to-maturity securities	3,289	311	15,746
Proceeds from sales of other short-term investments	—	—	14,716
Net cash used in investing activities	(22,807)	(322,204)	(51,142)
Cash provided by (used in) financing activities:			
Proceeds (repayments) from sale of accounts receivable	—	(4,951)	5,558
Increase (decrease) in short-term debt	16,794	48,861	(6,866)
Increase (decrease) in borrowings under revolving credit facility	(35,425)	97,600	162,400
Repayments of long-term debt	(153)	(643)	(200,378)
Repurchases of common stock	—	(9,326)	(4,987)
Subsidiary's repurchases of common stock	(10,240)	—	—
Other, net	836	1,214	2,037
Net cash provided by (used in) financing activities	(28,188)	132,755	(42,236)
Net change in cash and cash equivalents	2,660	2,993	179
Cash and cash equivalents, end of year	$ 20,137	$ 23,130	$ 23,309

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INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

	Year Ended December 31,		
	1997	1998	1999
		(Thousands)	
Supplemental Cash Flow Information:			
Effect on cash from (increase) decrease in working capital items*:			
Accounts receivable	$ (9,849)	$ 11,127	$ (17,276)
Inventories	(10,822)	(12,290)	7,627
Other current assets	(2,438)	823	156
Accounts payable	2,338	8,674	3,972
Accrued liabilities	4,473	(6,910)	(1,616)
Income taxes	(782)	1,418	(4,714)
Net effect on cash from (increase) decrease in working capital items	$ (17,080)	$ 2,842	$ (11,851)
Cash paid during the period for:			
Interest (net of amount capitalized)	$ 71,512	$ 76,589	$ 83,948
Income taxes paid (refunded) (including taxes paid pursuant to the Tax Sharing Agreement)	(3,554)	20,471	23,957
Acquisition of remaining 50% interest in GAF-Hüls Chemie GmbH joint venture, net of $23,732 cash acquired**:			
Fair market value of assets acquired		$ 48,003	
Purchase price of acquisition		23,381	
Liabilities assumed		$ 24,622	
Acquisition of Kelco Alginates business, net of $269 cash acquired:			
Fair market value of assets acquired			$ 41,619
Purchase price of acquisition			39,731
Liabilities assumed			$ 1,888

* Working capital items exclude cash and cash equivalents, short-term investments, short-term debt, receivables from related parties and net current assets of discontinued operations. 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 8); such proceeds are reflected in cash from financing activities.

** The Company had a 50% equity interest in the cash held by the joint venture prior to the acquisition, which was classified within "Other assets" on the Consolidated Balance Sheet.

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

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INTERNATIONAL SPECIALTY PRODUCTS INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Capital Stock and Additional Paid-In Capital	Treasury Stock at Cost	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Comprehensive Income (Loss)
			(Thousands)		
Balance, December 31, 1996	$ 46,426	$ —	$ 10,152	$ (13,925)	
Comprehensive income, year ended December 31, 1997:					
Net income	—	—	—	54,005	$ 54,005
Other comprehensive income (loss), net of tax:					
Unrealized holding gains, net of income taxes of $7,849	—	—	16,467	—	16,467
Less: Reclassification adjustment for gains included in net income, net of income taxes of $4,781	—	—	10,834	—	10,834
Unrealized gains on available-for-sale securities	—	—	5,633	—	5,633
Translation adjustment	—	—	(6,238)	—	(6,238)
Effect of Separation Transactions on components of accumulated other comprehensive income (loss)	—	—	(155)	—	(155)
Minimum pension liability adjustment	—	—	(582)	—	(582)
Comprehensive income					$ 52,663
Effect of Separation Transactions	165,840	—	—	—	
Effect of purchases of treasury stock	(1,851)	—	—	—	
Effect of exercises of subsidiary's stock options	1,945	—	—	—	
Effect of subsidiary's issuances of stock and options as incentives	591	—	—	—	
Balance, December 31, 1997	$212,951	$ —	$ 8,810	$ 40,080	
Comprehensive income (loss), year ended December 31, 1998:					
Net income	—	—	—	4,812	$ 4,812
Other comprehensive income (loss), net of tax:					
Unrealized holding losses, net of income tax benefit of $600	—	—	(5,546)	—	(5,546)
Less: Reclassification adjustment for gains included in net income, net of income taxes of $13,322	—	—	26,782	—	26,782
Unrealized losses on available-for-sale securities	—	—	(32,328)	—	(32,328)
Translation adjustment	—	—	2,975	—	2,975
Effect of the Merger on components of accumulated other comprehensive loss	—	—	(196)	—	(196)
Minimum pension liability adjustment	—	—	(4,022)	—	(4,022)
Comprehensive loss					$(28,759)
Repurchases of common stock of ISP Holdings	—	(1,312)	—	—	
Effect of the Merger	275,982	1,312	—	—	
Repurchases of common stock—816,300 shares	—	(9,326)	—	—	
Issuances under stock option plan—80,556 shares	—	938	—	—	
Excess of proceeds over cost of treasury stock issued	1,570	—	—	—	
Effect of exercises of subsidiary's stock options	(2,019)	—	—	—	
Effect of issuances of stock options as incentives	1,496	—	—	—	
Balance, December 31, 1998	$489,980	$(8,388)	$(24,761)	$ 44,892	
Comprehensive income, year ended December 31, 1999:					
Net income	—	—	—	74,930	$ 74,930
Other comprehensive income, net of tax:					
Unrealized holding gains, net of income taxes of $12,054	—	—	27,949	—	27,949
Less: Reclassification adjustment for gains included in net income, net of income taxes of $2,544	—	—	2,068	—	2,068
Unrealized gains on available-for-sale securities	—	—	25,881	—	25,881
Translation adjustment	—	—	(19,367)	—	(19,367)
Less: Reclassification adjustment for translation adjustment included in net income, net of income tax effect of $521	—	—	(1,483)	—	(1,483)
Net translation adjustment	—	—	(17,884)	—	(17,884)
Minimum pension liability adjustment	—	—	4,715	—	4,715
Comprehensive income					$ 87,642
Repurchases of common stock—629,000 shares	—	(4,987)	—	—	
Issuances under stock option plan—291,946 shares	—	2,931	—	—	
Excess of cost of treasury stock issued over proceeds	(890)	—	—	—	
Stock issued pursuant to Executive purchase agreement—318,599 shares	(3,100)	3,100	—	—	
Effect of issuances of stock options as incentives	842	—	—	—	
Balance, December 31, 1999	$486,832	$(7,344)	$(12,049)	$ 119,822	

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

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INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Formation of the Company and Merger of International Specialty Products Inc. into ISP Holdings Inc.

On July 15, 1998, International Specialty Products Inc. ("Old ISP") merged (the "Merger") with and into ISP Holdings Inc. ("ISP Holdings"). In connection with the Merger, ISP Holdings changed its name to International Specialty Products Inc. (the "Company"). In the Merger, each outstanding share of Old ISP's common stock, other than those held by ISP Holdings, was converted into one share of common stock of the Company, and the outstanding shares of Old ISP's common stock which were held by ISP Holdings were converted into an aggregate of 53,833,333 shares (or approximately 78%) of the outstanding shares of common stock of the Company. The financial statements presented herein for periods prior to the Merger represent the results of the former ISP Holdings.

As a result of the Merger, the Company incurred $12.8 million of charges against operating income in 1998, consisting of a $7.9 million charge in connection with the termination of ISP Holdings' stock appreciation rights and preferred stock option programs, a $2.6 million charge related to purchase accounting adjustments and $2.2 million of other expenses relating to investment banking, legal and other fees.

Prior to January 1, 1997, ISP Holdings was a wholly-owned subsidiary of GAF Corporation ("GAF"). ISP Holdings was formed on August 6, 1996 and 10 shares of its common stock were issued to GAF in exchange for all of the capital stock of G-I Holdings Inc. ("G-I Holdings"), which resulted in G-I Holdings becoming a direct wholly-owned subsidiary of ISP Holdings.

On January 1, 1997, GAF effected a series of transactions (the "Separation Transactions") that resulted in, among other things, the capital stock of ISP Holdings being distributed to the stockholders of GAF. As a result of such distribution, ISP Holdings and Old ISP are no longer direct or indirect subsidiaries of GAF. Conversely, the assets and liabilities of the other wholly-owned subsidiaries of G-I Holdings are no longer included in the consolidated assets and liabilities of the Company.

The Company is engaged principally in the manufacture and sale of a wide range of specialty chemicals and mineral products. See Notes 15 and 16 for a description of and financial information relating to the Company's business segments and foreign and domestic operations.

Note 2. 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 in conformity with generally accepted accounting principles 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.

Short-term Investments

For securities classified as "trading" (including short positions), unrealized gains and losses are reflected in the results of operations. For securities classified as "available-for-sale," unrealized gains (losses), net of income tax effect, are included in a separate component of stockholders' equity, "Accumulated other comprehensive loss," and amounted to $(24.0) and $1.8 million as of December 31, 1998 and 1999, respectively. Investments classified as "held-to-maturity" securities are carried at amortized cost in the Consolidated Balance Sheets.

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Note 2. Summary of Significant Accounting Policies—(Continued)

Included in "Investments in available-for-sale securities" at December 31, 1998 and 1999, respectively, is a $136.3 and $149.5 million investment (based on market value) in Life Technologies, Inc. Such investment represents approximately 14% of the outstanding common stock of Life Technologies, Inc. at December 31, 1999. Included in "Investments in available-for-sale securities" at December 31, 1999 is a $91.4 million investment (based on market value) in Dexter Corporation ("Dexter"). Such investment represents approximately 10% of the outstanding common stock of Dexter at December 31, 1999. See Note 18.

"Other income, net," includes $46.7, $43.2 and $17.9 million of net realized and unrealized gains on securities in 1997, 1998 and 1999, respectively. The determination of cost in computing realized gains and losses is based on the specific identification method.

As of December 31, 1998 and 1999, the market value of the Company's equity securities held long was $320.7 and $359.2 million, respectively, and the Company had $82.4 and $56.8 million, respectively, of short positions in common stocks, based on market value. As of December 31, 1998, the market value of the Company's held-to-maturity securities was $12.3 million. The Company enters into equity-related financial instruments with off-balance-sheet risk as a means to manage its exposure to market fluctuations on its short-term investments. As of December 31, 1999, the value of equity-related long contracts was $50.1 million, while the value of equity-related short contracts was $6.5 million, both of which are marked-to-market each month, with unrealized gains and losses included in the results of operations. 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.

"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, 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

Property, plant and equipment is stated at cost less accumulated depreciation. 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 subsidiaries. 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, net."

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Note 2. Summary of Significant Accounting Policies—(Continued)

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, 1998 and 1999, the U.S. dollar equivalent fair value of outstanding forward foreign exchange contracts was $90.8 and $57.4 million, respectively, and the amount of net unrealized losses on such instruments was $4.4 and $0.3 million, respectively. 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. In addition, the U.S. dollar equivalent fair value of foreign exchange contracts outstanding as of December 31, 1998 and 1999, which were entered into as a hedge of non-local currency intercompany loans, was $18.4 and $33.9 million, respectively, representing 100% of the Company's foreign currency exposure with respect to such loans.

The Company continually monitors its risk from the effects 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.

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, "Accumulated other comprehensive loss," and amounted to $4.0 and $(13.9) million as of December 31, 1998 and 1999, 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, net."

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

Goodwill, which arose principally from the 1989 management-led buyout of the predecessor company to the Company's former parent company, GAF, and as a result of the Merger (see Note 1), is amortized on the straight-line method over a period of approximately 40 years. The Company believes that the goodwill is recoverable. To determine if goodwill is recoverable, the Company compares the net carrying amount to undiscounted projected cash flows of the underlying businesses to which the goodwill pertains. If goodwill is not recoverable, the Company would record an impairment based on the difference between the net carrying amount and fair value.

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.

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Note 2. Summary of Significant Accounting Policies—(Continued)

Research and Development

Research and development costs are charged to operations as incurred and amounted to $26.9, $25.9 and $23.0 million for 1997, 1998 and 1999, respectively.

Earnings per Common Share

In February 1997, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," which requires the Company to present Basic Earnings per Share and Diluted Earnings per Share. Earnings per share data for all periods prior to the Merger are calculated based on the 53,833,333 shares of the Company's common stock held by ISP Holdings' stockholders. For periods subsequent to the Merger, "Basic Earnings per Share" are calculated based on the total weighted average number of shares of the Company's common stock outstanding during the period. "Diluted Earnings per Share" for periods subsequent to the Merger give effect to all potential dilutive common shares outstanding during the period under the Company's 1991 Incentive Plan for Key Employees and Directors (see Note 13).

Investment in Joint Venture

Prior to April 1, 1998, the Company had a 50% equity ownership in GAF-Hüls Chemie GmbH, now known as ISP Marl GmbH ("ISP Marl"), a joint venture which operated a chemical manufacturing plant in Germany, and was accounted for by the equity method. Effective April 1, 1998, the Company acquired the remaining 50% interest in ISP Marl (see Note 7). Dividends received by the Company from the joint venture totaled $6.3 and $8.1 million for 1997 and 1998, 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, 1999, is $22.5 million, before reduction for insurance recoveries reflected on its balance sheet of $11.1 million. The Company's liability is reflected on an undiscounted basis. See Note 17 for further discussion with respect to environmental liabilities and estimated insurance recoveries.

Accumulated Other Comprehensive Income (Loss)

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting comprehensive income and its components in annual and interim financial statements. In the Company's case, Comprehensive Income includes net income, unrealized gains and losses from investments in available-for-sale securities, net of income tax effect, foreign currency translation adjustments, and minimum pension liability adjustments. The Company has chosen to disclose Comprehensive Income (Loss) in the Consolidated Statements of Stockholders' Equity.

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Note 2. Summary of Significant Accounting Policies—(Continued)

Changes in the components of "Accumulated other comprehensive income (loss)" for the years 1997, 1998 and 1999 are as follows:

	Unrealized Gains (Losses) on Available-for-Sale Securities	Cumulative Foreign Currency Translation Adjustment	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)
		(Thousands)		
Balance, December 31, 1996	$ 3,082	$ 7,153	$ (83)	$ 10,152
Change for the year 1997	4,925	(5,768)	(499)	(1,342)
Balance, December 31, 1997	$ 8,007	$ 1,385	$ (582)	$ 8,810
Change for the year 1998	(32,044)	2,606	(4,133)	(33,571)
Balance, December 31, 1998	$(24,037)	$ 3,991	$(4,715)	$(24,761)
Change for the year 1999	25,881	(17,884)	4,715	12,712
Balance, December 31, 1999	$ 1,844	$(13,893)	$ —	$(12,049)

New Accounting Standard

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement.

SFAS No. 133, as amended by SFAS No. 137, is effective for fiscal years beginning after June 15, 2000, but may be adopted earlier. The Company has not yet determined the effect of adoption of SFAS No. 133 and has not determined the timing or method of adoption of the statement. Adoption of SFAS No. 133 could increase volatility in earnings and other comprehensive income.

Reclassifications

Certain reclassifications have been made to conform to the 1999 presentation.

Note 3. Discontinued Operation

On October 1, 1999, the Company sold the stock of its Filter Products subsidiaries to Hayward Industrial Products, Inc. for a purchase price of $62 million. The gain on disposal was $23.5 million, after income taxes of $12.7 million. Accordingly, the Filter Products business segment is reported as a discontinued operation, and the Consolidated Financial Statements have been reclassified to report separately the operating results of the Filter Products business segment. The Company's prior year financial statements have been restated to reflect continuing operations.

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Note 3. Discontinued Operation—(Continued)

Summary operating results for the Filter Products business are as follows:

	Year Ended December 31,		
	1997	1998	1999
		(Thousands)	
Net sales	$40,237	$39,322	$28,730
Income before income taxes	$ 3,615	$ 3,248	$ 2,726
Income taxes	(1,312)	(1,215)	(957)
Net income	$ 2,303	$ 2,033	$ 1,769

	December 31, 1998
	(Thousands)
Assets:	
Current assets	$20,260
Other noncurrent assets	5,731
Total Assets	$25,991
Liabilities:	
Current liabilities	$ 1,746
Other noncurrent liabilities	7
Total Liabilities	$ 1,753

Note 4. Disposition of Assets

In September 1998, the Company sold its tennis court materials business that was part of the Mineral Products business segment, which resulted in a pre-tax gain of $1.2 million. The tennis court materials business accounted for $1.4 million of sales in 1998. As a result, the sale did not have a material impact on the Company's results of operations for the year 1999.

On April 2, 1999, the Company sold its pearlescent pigments business, a non-core product line that was part of the Personal Care business segment, which resulted in a pre-tax gain of $8.5 million. The pearlescent pigments product line accounted for $4.9 million of the Company's net sales in 1998. As a result, the sale did not have a material impact on the Company's results of operations for the year 1999.

Note 5. Provision for Restructuring, Staff Reduction and Impairment Loss

The Company announced in January 1999 that it was shutting down its butanediol production unit at its Calvert City, Kentucky manufacturing facility. The decision to shut down this production unit, the Company's highest-cost butanediol production, resulted from significant adverse changes in the butanediol market and the Company's acquisition of the remaining 50% interest in ISP Marl (see Note 7). Accordingly, the Company recorded a one-time restructuring charge against operating income in 1998 of $42.7 million, as detailed below.

In conjunction with the decision to shut down the butanediol production unit in Calvert City, the Company also reviewed its butanediol production assets at its Texas City and Seadrift, Texas manufacturing facilities to determine if the carrying amount of such assets was recoverable. As a result of determining that the expected undiscounted cash flows of the assets was less than their carrying amount, the Company recognized an impairment loss of $16.6 million in 1998 to write down these assets to fair value.

Prior to acquiring the remaining 50% interest in ISP Marl, the Company intended to acquire or develop a European manufacturing facility to meet the needs of the Company's European business. Costs incurred in

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Note 5. Provision for Restructuring, Staff Reduction and Impairment Loss—(Continued)

previous years for this project totaled $10.7 million and were included in "Construction in progress" at December 31, 1997. Such costs represented site evaluation, engineering, infrastructure and future technology. Based on the Company's decision to discontinue this project as no longer needed due to the adverse changes in the butanediol market and the ISP Marl acquisition, these costs were no longer recoverable and were written off in the fourth quarter of 1998.

In the third quarter of 1998, the Company reserved $3.0 million for the consolidation of offices in its European operations, consisting of $0.5 million for severance related to 52 terminated employees in the sales and marketing, finance and accounting, and the supply chain departments, $1.7 million for lease obligations and $0.8 million for the relocation of headquarters operations and other related expenses. This program was completed in 1999.

The components of the $73.0 million provision for restructuring and impairment loss are as follows:

	(Millions)
Write-off of Calvert City production assets	$22.1
Impairment loss on Texas City and Seadrift assets	16.6
Write-off of goodwill related to the butanediol business	13.1
Write-off of fixed asset costs related to the terminated European expansion project	10.7
Accrual for decommissioning, demolition and remediation costs	4.7
Accrual for severance costs	0.9
Accrual for costs related to the termination of raw material contracts and other related costs	1.9
Accrual for consolidation of European offices	3.0
Total provision	$73.0

Of the total $70.0 million provision recorded in the fourth quarter of 1998, $7.5 million represented cash costs to be incurred, including severance costs of $0.9 million for 41 terminated employees who were operators and supervisors in the butanediol production unit that was shut down. During 1999, $4.8 million of costs were charged to this accrual, principally for decommissioning activities and severance. In 1999, the Company reversed $1.9 million of such previously recorded restructuring reserves, representing an excess demolition reserve of $0.8 million and $1.1 million of other reserves, mainly for raw material contract terminations, which were no longer required. The total restructuring reserve balance as of December 31, 1999 was $0.8 million, principally for demolition and severance costs to be incurred in the first half of 2000. The Company expects this program to be completed by June 2000.

As a result of the write-off of property, plant and equipment and goodwill, the Company's depreciation expense has been lowered by approximately $4.5 million per year and goodwill amortization has been lowered by approximately $0.4 million per year.

In the third quarter of 1999, the Company implemented a staff reduction program impacting corporate and worldwide executive and administrative staff positions. As a result, a total of 79 positions were eliminated in 1999 through normal attrition or termination, for which the Company recorded a pre-tax provision for severance of $2.3 million. The applicable severance reserve remaining as of December 31, 1999 was $0.5 million.

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Note 6. Income Taxes

Income tax (provision) benefit for continuing operations consists of the following:

	Year Ended December 31,		
	1997	1998	1999
		(Thousands)	
Federal:			
Current	$ (2,233)	$ (370)	$ (1,342)
Deferred	(27,832)	6,598	(10,403)
Total Federal	(30,065)	6,228	(11,745)
Foreign:			
Current	(4,772)	(19,106)	(16,830)
Deferred	—	—	5,185
Total foreign	(4,772)	(19,106)	(11,645)
State and local:			
Current	(2,250)	(1,450)	(2,586)
Deferred	(738)	218	(846)
Total state and local	(2,988)	(1,232)	(3,432)
Income tax provision	$(37,825)	$(14,110)	$(26,822)

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,		
	1997	1998	1999
		(Thousands)	
Statutory tax provision	$(36,477)	$ (9,509)	$(26,746)
Impact of:			
Foreign operations	2,500	2,022	4,388
State and local taxes, net of Federal benefits	(1,942)	(801)	(2,231)
Nondeductible goodwill amortization	(4,611)	(9,858)	(5,723)
Percentage depletion	1,680	1,929	1,943
Other, net	1,025	2,107	1,547
Income tax provision	$(37,825)	$(14,110)	$(26,822)

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Note 6. Income Taxes—(Continued)

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

	December 31,	
	1998	1999
	(Thousands)	
Deferred tax liabilities related to:		
Property, plant and equipment	$ 95,776	$ 96,444
Other	(9,540)	30,290
Total deferred tax liabilities	86,236	126,734
Deferred tax assets related to:		
Expenses not yet deducted for tax purposes	(12,323)	(20,185)
Deferred income	(499)	(67)
Carryover AMT and R&D credits	(7,802)	(11,347)
Other	(15,682)	(18,095)
Total deferred tax assets	(36,306)	(49,694)
Net deferred tax liability	49,930	77,040
Deferred tax assets reclassified to other current assets	10,352	12,756
Noncurrent deferred tax liability	$ 60,282	$ 89,796

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 tax liabilities of the Company for periods subsequent to the Separation Transactions. 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.

On September 15, 1997, GAF received a notice from the Internal Revenue Service (the "IRS") of a deficiency in the amount of $84.4 million (after taking into account the use of net operating losses and foreign tax credits otherwise available for use in later years) in connection with the formation in 1990 of Rhône-Poulenc Surfactants and Specialties, L.P. (the "surfactants partnership"), a partnership in which a subsidiary of GAF, GAF Fiberglass Corporation ("GFC"), held an interest. The claim of the IRS for interest and penalties, after taking into account the effect on the use of net operating losses and foreign tax credits, could result in GAF incurring liabilities significantly in excess of the deferred tax liability of $131.4 million that it recorded in 1990 in connection with this matter. GAF has advised the Company that it believes that it will prevail in this matter, although there can be no assurance in this regard. The Company believes that the ultimate disposition of this matter will not have a material adverse effect on its business, financial position or results of operations. GAF and certain subsidiaries of GAF have agreed to jointly and severally indemnify the Company against any tax liability associated with the surfactants partnership, which the Company would be severally liable for, together with GAF and several current and former subsidiaries of GAF, should GAF be unable to satisfy such liability. See Note 17.

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Note 7. Acquisitions

In February 1998, the Company acquired Polaroid Corporation's Freetown, Massachusetts fine chemicals facility. In connection with the acquisition, the Company entered into a sale-leaseback arrangement for the facility's equipment with a third party. The lease has been accounted for as an operating lease, with an initial term of four years and, at the Company's option, up to three one-year renewal periods. As part of the acquisition transaction, the Company entered into a long-term supply and license agreement with Polaroid for the imaging chemicals and polymers manufactured at the facility and used by Polaroid in its instant film business. The results of the Freetown facility are included in the Company's financial statements from the date of its acquisition and were not material to 1998 operations.

Effective April 1, 1998, the Company acquired the remaining 50% interest in ISP Marl, its joint venture with Hüls AG. ISP Marl consists of a manufacturing facility that produces primarily butanediol and tetrahydrofuran. As part of the transaction, the Company also acquired Hüls' production facility that supplies ISP Marl with acetylene, its primary raw material. The results of ISP Marl are included in the Company's financial statements on a consolidated basis from the date of its acquisition, including sales of $53.0 million for 1998.

On October 15, 1999, the Company acquired substantially all of the assets of the Kelco Alginates division of Monsanto Company, including manufacturing facilities in San Diego, California and Girvan, Scotland, a research facility in Tadworth, England and equity investments in three seaweed processing joint ventures in Ireland, Iceland and Tasmania. The alginates business manufactures sodium alginate, propylene glycol alginate and other alginate derivatives. Algin is a naturally occurring hydrocolloid, derived from brown seaweed, and is used in food, pharmaceutical and industrial applications. The results of the alginates business, including sales of $12.8 million for 1999, are included in the Company's financial statements from the date of its acquisition and were not material to 1999 operations.

Note 8. 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. The agreement under which the Company sells its domestic trade accounts receivable was renewed each year through 1998 for one-year periods on substantially the same terms and conditions, and the maximum purchase amount was increased in January 1998 to provide for up to $33 million in cash. In June 1999, the agreement was extended through May 2000, and the maximum purchase amount was increased to provide for up to $36 million in cash. 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, net" and amounted to $1.8, $1.8 and $2.5 million in 1997, 1998 and 1999, respectively.

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Note 9. Inventories

At December 31, 1998 and 1999, $61.8 and $47.7 million, respectively, of domestic inventories were valued using the LIFO method. Inventories comprise the following:

	December 31,	
	1998	1999
	(Thousands)	
Finished goods	$ 83,068	$110,248
Work in process	23,736	18,457
Raw materials and supplies	25,526	25,735
Total	132,330	154,440
Less LIFO reserve	(3,280)	(2,665)
Inventories	$129,050	$151,775

Note 10. Property, Plant and Equipment

Property, plant and equipment comprises the following:

	December 31,	
	1998	1999
	(Thousands)	
Land and land improvements	$ 74,057	$ 76,111
Buildings and building equipment	90,330	99,800
Machinery and equipment	492,335	586,831
Construction in progress	96,623	75,879
Total	753,345	838,621
Less accumulated depreciation	(205,790)	(268,403)
Property, plant and equipment, net	$547,555	$570,218

See Note 17 for information regarding capital leases.

Note 11. Long-term Debt and Lines of Credit

Long-term debt comprises the following:

	December 31,	
	1998	1999
	(Thousands)	
9% Senior Notes due 2003	$324,378	$324,508
9¾% Senior Notes due 2002	199,871	199,871
9% Senior Notes due 1999	200,000	—
Borrowings under revolving credit facility	132,600	295,000
Obligation on mortgaged property, due 2000	38,125	38,125
Obligations under capital leases (Note 17)	1,317	945
Other	387	235
Total long-term debt	896,678	858,684
Less current maturities	(583)	(38,543)
Long-term debt less current maturities	$896,095	$820,141

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11. Long-term Debt and Lines of Credit—(Continued)

In October 1996, the Company issued $325 million principal amount of 9% Senior Notes due 2003 (the "9% Senior Notes"). The net cash proceeds of $317.2 million were utilized to consummate a cash tender offer for all of G-I Holdings' Senior Discount Notes and Series B Senior Discount Notes due 1998.

In October 1996, the Company consummated an offer to exchange (the "Exchange Offer") $1,000 principal amount of 9¾% Senior Notes due 2002 (the "9¾% Senior Notes") for each $1,000 principal amount of G-I Holdings' Series B 10% Senior Notes due 2006 (the "10% Notes"). Pursuant to the Exchange Offer, an aggregate amount of $199.9 million of 9¾% Senior Notes were issued to the former holders of the 10% Notes.

Holders of the 9% Senior Notes and the 9¾% Senior Notes (collectively, the "Notes") have the right to require the Company to purchase the Notes at a price of 101% of their principal amount, and the Company has the right to redeem the Notes at their principal amount plus the Applicable Premium (as defined), together with any accrued and unpaid interest, in the event of a Change of Control (as defined). Under the indentures relating to the Notes, the incurrence of additional debt and the issuance of preferred stock by the Company would be restricted unless, subject to certain exceptions, the ratio of consolidated income before income taxes, interest, depreciation and amortization expense to the consolidated interest expense (as defined) for the most recently completed four fiscal quarters is at least 2 to 1. For the four quarters ended December 31, 1999, the Company was in compliance with such test.

In connection with the issuance of the 9% Senior Notes which matured on March 1, 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 were amortized as a reduction of interest expense over the remaining life of the 9% Notes. During 1997, the Company entered into five-year swaps with banks in the aggregate notional principal amount of $100 million in order to fix a portion of its interest expense and reduce its exposure to floating interest rates. These swaps require the Company to pay a fixed rate and receive LIBOR for a period of five years. In 1998, the Company entered into forward-starting swaps in the aggregate notional principal amount of $125 million in order to convert to fixed rates $125 million of its exposure to floating interest rates. Such swaps matured on March 1, 1999. Based on the fair value of the outstanding swaps at December 31, 1998 and 1999, the Company would have incurred gains (losses) of $(10.2) and $0.7 million, respectively, representing the estimated amount that would be payable or receivable 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 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. Borrowings under the Credit Agreement bear interest at a floating rate (6.60% on December 31, 1999) 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, 1999, letters of credit in the amount of $7.9 million were outstanding under the Credit Agreement.

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11. Long-term Debt and Lines of Credit—(Continued)

The Company has a $38.1 million mortgage obligation, due April 2000, 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 the Notes. As of December 31, 1999, 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 indentures relating to the 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, 1999, under the most restrictive of such limitations, the Company could have paid dividends and other restricted payments of up to $112.4 million.

The Credit Agreement and the indentures relating to the Notes contain additional affirmative and negative covenants, including restrictions on liens, investments, transactions with affiliates, sale-leaseback transactions, and 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.

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% Senior Notes as of December 31, 1998 and 1999 was $341.4 and $318.8 million, respectively, and the estimated fair value of the 9¾% Senior Notes as of December 31, 1998 and 1999 was $212.4 and $200.4 million, respectively. The estimated fair value of the 9% Notes as of December 31, 1998 was $201.0 million.

The aggregate maturities of long-term debt as of December 31, 1999 for the next five years are as follows:

	(Thousands)
2000	$ 38,543
2001	295,346
2002	200,040
2003	324,755
2004	—

In the above table, 2000 maturities include the $38.1 million mortgage obligation. Maturities in 2001 include the $295.0 million of borrowings outstanding under the Credit Agreement as of December 31, 1999, based on the expiration of the Credit Agreement in July 2001. Maturities in 2002 include the $199.9 million of 9¾% Senior Notes. Maturities in 2003 include the $324.5 million of 9% Senior Notes, based on their accreted value as of December 31, 1999.

At December 31, 1999, the Company's foreign subsidiaries had total available short-term lines of credit aggregating $17.5 million, of which $9.6 million were unused. The weighted-average interest rate on the Company's short-term borrowings as of December 31, 1998 and 1999 was 5.5% and 5.7%, respectively.

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Note 12. 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 (any portion of which can be contributed, at the participants' option, 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 $7.0, $8.0 and $8.1 million for 1997, 1998 and 1999, respectively.

Defined Benefit Plans

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees in the U.S. (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.

ISP Marl provides a noncontributory defined benefit retirement plan for its hourly and salaried employees (the "ISP Marl Plan"). Benefits under this plan are based on average earnings over each employee's career with the Company.

The Company's net periodic pension cost (income) for the Hourly Retirement Plan and the ISP Marl Plan included the following components:

	Hourly Retirement Plan			ISP Marl Plan	
	Year Ended December 31,			Year Ended December 31,	
	1997	1998	1999	1998	1999
	(Thousands)				
Service cost	$ 284	$ 313	$ 310	$140	$176
Interest cost	1,481	1,586	1,678	172	236
Expected return on plan assets	(2,152)	(2,366)	(2,314)	—	—
Amortization of actuarial losses	—	—	215	—	12
Amortization of unrecognized prior service cost	174	174	174	12	11
Net periodic pension cost (income)	$ (213)	$ (293)	$ 63	$324	$435

The following tables set forth, for the years 1998 and 1999, reconciliations of the beginning and ending balances of the benefit obligation, fair value of plan assets, funded status, amounts recognized in the Consolidated Balance Sheets and changes in Accumulated Other Comprehensive Loss related to the Hourly Retirement Plan and the ISP Marl Plan:

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Note 12. Benefit Plans—(Continued)

	Hourly Retirement Plan December 31,		ISP Marl Plan December 31,	
	1998	1999	1998	1999
	(Thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	$21,718	$24,015	$ 2,359	$ 3,378
Service cost	313	310	140	176
Interest cost	1,586	1,678	172	236
Actuarial (gains) losses	1,298	(1,574)	707	6
Benefits paid	(900)	(1,000)	—	—
Benefit obligation at end of year	24,015	23,429	3,378	3,796
Change in plan assets:				
Fair value of plan assets at beginning of year	21,426	21,008	—	—
Actual return on plan assets	(358)	2,602	—	—
Employer contributions	840	1,051	—	—
Benefits paid	(900)	(1,000)	—	—
Fair value of plan assets at end of year	21,008	23,661	—	—
Reconciliation of funded status:				
Funded status	(3,007)	232	(3,378)	(3,796)
Transition obligation	—	—	228	159
Unrecognized prior service cost	1,236	1,062	—	515
Unrecognized actuarial losses	4,715	2,637	—	—
Net amount recognized in Consolidated Balance Sheets	$ 2,944	$ 3,931	$ (3,150)	$ (3,122)
Amounts recognized in Consolidated Balance Sheets:				
Prepaid (accrued) benefit cost	$(3,007)	$ 3,931	$ (3,150)	$ (3,122)
Intangible asset	1,236	—	—	—
Accumulated other comprehensive loss	4,715	—	—	—
Net amount recognized	$ 2,944	$ 3,931	$ (3,150)	$ (3,122)
Change for the year in accumulated other comprehensive loss:				
Change in intangible asset	$ 174	$ 1,236	—	—
Change in additional minimum liability	3,849	(5,951)	—	—
Total	$ 4,023	$(4,715)	—	—

In determining the projected benefit obligation, the weighted-average assumed discount rate was 7% and 7.75% for 1998 and 1999, respectively, for the Hourly Retirement Plan, and was 6% and 6.5%, respectively, for the ISP Marl Plan. The expected long-term rate of return on assets, used in determining net periodic pension cost (income) for the Hourly Retirement Plan, was 11% for 1998 and 1999.

The Company also provides a nonqualified defined benefit retirement plan for certain key employees. Expense accrued for this plan was $0.6, $1.0 and $0.9 million for 1997, 1998 and 1999, respectively.

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Note 12. Benefit Plans—(Continued)

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.

The net periodic postretirement benefit cost included the following components:

	Year Ended December 31,		
	1997	1998	1999
	(Thousands)		
Service cost	$ 4	$ 6	$ 7
Interest cost	752	619	608
Amortization of unrecognized prior service cost	(179)	(179)	(179)
Net periodic postretirement benefit cost	$ 577	$ 446	$ 436

The following table sets forth, for the years 1998 and 1999, reconciliations of the beginning and ending balances of the postretirement benefit obligation, funded status and amounts recognized in the Consolidated Balance Sheets related to postretirement medical and life insurance benefits:

	December 31,	
	1998	1999
	(Thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 10,324	$ 9,249
Service cost	6	7
Interest cost	619	608
Actuarial gains	(968)	(1,393)
Benefits paid	(732)	(831)
Benefit obligation at end of year	9,249	7,640
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Employer contributions	732	831
Benefits paid	(732)	(831)
Fair value of plan assets at end of year	—	—
Reconciliation of funded status:		
Funded status	(9,249)	(7,640)
Unrecognized prior service cost	(1,154)	(975)
Unrecognized actuarial (gains) losses	185	(1,209)
Net amount recognized in Consolidated Balance Sheets as accrued benefit cost	$ (10,218)	$ (9,824)

For purposes of calculating the accumulated postretirement benefit obligation, the following assumptions were made. Retirees as of December 31, 1999 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, an 11% and 6% annual rate of increase in the Company's per capita cost of providing postretirement medical benefits was assumed for 1999 for such retirees under and over age 65, respectively. To

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Note 12. Benefit Plans—(Continued)

the extent that the lifetime maximum benefits have not been reached, the foregoing rates were assumed to decrease gradually to an ultimate rate of 7% and 6%, respectively, by the year 2003 and remain at that level thereafter. The weighted-average assumed discount rate used in determining the accumulated postretirement benefit obligation was 7% and 7.75% for 1998 and 1999, 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, 1998 and 1999 by $419,000 and $346,000, respectively, and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the years 1998 and 1999 by $30,000 and $25,000, respectively. A decrease of one percentage point in each year would decrease the accumulated postretirement benefit obligation as of December 31, 1998 and 1999 by $373,000 and $308,000, respectively, and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the years 1998 and 1999 by $27,000 and $22,000, respectively.

Note 13. Stock Option Plans and Stock Appreciation Rights

The 1991 Incentive Plan for Key Employees and Directors, as amended (the "Plan"), authorizes the grant of options to purchase a maximum of 9,000,000 shares of the Company's common stock. In June 1999, 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 13,000,000. The Compensation Committee of the Board of Directors (the "Committee") determines the exercise price and vesting schedule of options granted under the Plan. In 1997, 1998 and 1999, the Company granted options to certain employees to purchase 264,344, 2,029,301 and 369,230 shares, respectively, of the Company's common stock at exercise prices ranging from $1.50 to $5.00 below the fair 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 period of 2½ to 5 years. Compensation expense for such options was $0.7, $1.9 and $0.8 million in 1997, 1998 and 1999, respectively. 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 under the Plan at grant dates, the Company's pro forma net income for the years 1997, 1998 and 1999 would have been $51.8, $2.2 and $71.2 million, respectively, and pro forma basic earnings per share would have been $.96, $.04 and $1.04, 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 24%; and dividend yield of 0%.

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Note 13. Stock Option Plans and Stock Appreciation Rights—(Continued)

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

	Year Ended December 31, 1997		Year Ended December 31, 1998		Year Ended December 31, 1999	
	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
Outstanding, January 1	5,014	$ 9.32	4,733	$ 9.68	6,989	$12.06
Granted	515	11.99	3,117	15.05	3,468	9.47
Exercised	(306)	8.08	(351)	7.70	(292)	7.03
Forfeited	(490)	9.37	(510)	11.19	(2,137)	12.78
Outstanding, December 31	4,733	9.68	6,989	12.06	8,028	10.93
Options exercisable, December 31	1,294	8.37	2,190	10.63	3,162	10.81

Based on calculations using the Black-Scholes option-pricing model, the weighted-average fair value of options granted in 1997, 1998 and 1999 under the Plan for which the exercise price equaled the fair market value of such shares on the date of grant was $4.17, $4.40 and $2.91 per share, respectively, and such weighted-average fair value of options granted in 1997, 1998 and 1999 for which the exercise price was less than the fair market value of such shares on the date of grant was $7.93, $6.42 and $5.64 per share, respectively.

The following is a summary of the status of stock options outstanding and exercisable under the Plan as of December 31, 1999:

	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
$ 3.781—$ 5.875	425	$ 4.95	4.72 years	109	$ 5.88
$ 5.876—$ 8.938	1,490	7.55	4.01 years	1,138	7.31
$ 8.939—$13.313	4,268	10.70	7.25 years	1,295	11.76
$13.314—$18.625	1,845	15.58	7.43 years	620	16.10
Total	8,028	10.93	6.55 years	3,162	10.81

ISP Holdings issued options in 1996 to certain employees to purchase 138,983 shares of ISP Holdings' redeemable convertible preferred stock ("Preferred Stock"), exercisable at a price of $111.44 per share. Each share of Preferred Stock was convertible, at the holder's option, into shares of common stock of ISP Holdings at a formula price based on the sum of the determined initial Book Value (as defined) plus interest on such Book Value at a specified rate. The options vested over seven years, subject to earlier vesting under certain circumstances including in connection with a change of control.

ISP Holdings also issued stock appreciation rights ("SARs") in 1996 related to 27,748 shares of ISP Holdings' common stock. The SARs represented the right to receive a cash payment based upon the appreciation in value of the specified number of shares of common stock of ISP Holdings over the sum of the determined initial Book Value (as defined) per share of common stock of ISP Holdings plus interest on such Book Value at a specified rate. The SARs vested over a five-year period, subject to earlier vesting under certain circumstances including in connection with a change of control. Compensation expense related to SARs was $1.3 million for 1997.

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Note 13. Stock Option Plans and Stock Appreciation Rights—(Continued)

As a result of the Merger (see Note 1), ISP Holdings' Preferred Stock option and SAR programs were terminated, and the Company charged $7.9 million against operating income for cash payments made in 1998 for amounts vested at that time. Additional expenses totaling $3.1 million may be recorded over the remaining vesting period from the date of the Merger through 2003, including $0.8 million expensed in 1998 after the Merger and $0.9 million in 1999.

Note 14. Related Party Transactions

Included in the Consolidated Balance Sheets are the following receivable balances with related parties, which arise from operating transactions between the Company and its affiliates, including the sales of mineral products and the management agreement, as discussed below:

	December 31,	
	1998	1999
	(Thousands)	
Building Materials Corporation of America ("BMCA")	$5,853	$15,037
GAF/G-I Holdings/G Industries Corp	1,836	1,350
Other	80	514
Receivable from related parties, net	$7,769	$16,901

BMCA, an indirect subsidiary of GAF and an affiliate of the Company, and its subsidiaries purchase all of their colored roofing granules requirements from the Company under a requirements contract, except for the requirements of their California and Oregon roofing plants and a portion of the requirements of their Indiana roofing plant, which are supplied by a third party. Effective January 1, 1999, this contract was amended to cover, among other things, purchases of colored roofing granules by BMCA's subsidiaries. This contract is subject to annual renewal, unless terminated by either party to such agreement. In 1999, BMCA and its subsidiaries purchased a total of $57.3 million of mineral products from the Company, representing 7.3% of the Company's total net sales and 65.7% of the Company's net sales of mineral products. Sales by the Company to BMCA and its subsidiaries totaled $51.1 and $62.6 million for 1997 and 1998, respectively. The receivable from BMCA and its subsidiaries for sales of mineral products as of December 31, 1998 and 1999 was $5.6 and $2.9 million, respectively.

Pursuant to a management agreement (the "Management Agreement"), the Company has provided certain general management, administrative, legal, telecommunications, information and facilities services to certain of its affiliates, including GAF, BMCA, G-I Holdings and GFC. Charges by the Company for providing such services aggregated $5.6, $5.1 and $6.1 million for 1997, 1998 and 1999, respectively, and are reflected as reductions of "Selling, general and administrative" expense. Such charges consist of management fees and other reimbursable expenses attributable to, or incurred by the Company for the benefit of, the respective parties, which are based on an estimate of the costs the Company incurs to provide such services. The receivable from such affiliates for management fees as of December 31, 1998 and 1999 was $1.7 and $3.1 million, respectively. Effective January 1, 2000, the term of the Management Agreement was extended through the end of 2000, and the management fees payable thereunder were increased. In addition, the Management Agreement was amended to provide that the Company pay to G-I Holdings lease payments due to a subsidiary of G-I Holdings for the use of one of the Company's sales offices. The Company and BMCA also allocate a portion of the management fees payable by BMCA under the Management Agreement to separate lease payments for the use of BMCA's headquarters. Based on the services provided by the Company in 1999 under the Management Agreement, the aggregate amount payable to the Company under the Management Agreement for 2000, net of the lease payments to G-I Holdings, is expected to be approximately $6.1 million.

In September 1999, the Company granted its President and Chief Executive Officer the right to purchase, and such officer purchased, 318,599 shares of its common stock held in treasury for a purchase price of $9.563

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Note 14. Related Party Transactions—(Continued)

per share, or an aggregate of $3.047 million. Pursuant to the purchase agreement, the Company loaned such officer $3.047 million to purchase the shares of common stock, which loan is evidenced by a recourse promissory note. The recourse promissory note bears interest at the rate of 6% per annum. The principal amount of the note is payable in four installments starting in June 2001 through January 2004. However, if such officer remains continuously employed by the Company through each installment date, the principal amount due on such installment date will be forgiven. As the loan is forgiven, compensation expense will be recorded. The Company has accounted for this loan as a reduction of "Additional paid-in capital." The difference between the market value of the shares issued of $9.563 per share and the average cost per share in treasury of $9.73 per share, amounting to $53,000, was also reflected as a reduction of "Additional paid-in capital."

Note 15. Business Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for companies to report information about operating segments in annual financial statements, based on the approach that management utilizes to organize the segments within the Company for management reporting and decision making.

The Company is a leading multinational manufacturer of a broad spectrum of specialty chemicals and mineral products. In addition to the Mineral Products business segment, the Company operates its Specialty Chemicals business through three reportable business segments, organized based upon the markets for their products and the internal management of the Company, as follows:

Personal Care products serve as critical ingredients in the formulation of many well-known skin care, hair care, toiletry and cosmetic products. Skin care ingredients include sunscreen actives, waterproofing agents, preservatives, emollients and moisturizers. Hair care ingredients include a number of specially formulated fixative resins for hairsprays, mousses and gels, as well as thickeners and stabilizers for shampoos and conditioners.

Pharmaceutical, Food and Beverage products are sold to these three government-regulated industries. In the pharmaceutical market, the Company's products serve as key ingredients in prescription and over-the-counter tablets, injectable prescription drugs and serums, cough syrups, antiseptics, toothpastes and denture adhesives. The Company's food products are comprised of the alginates business which was acquired in October 1999 (see Note 7). Algin is a naturally occurring hydrocolloid, derived from brown seaweed, and is used in food, pharmaceutical and industrial applications. The Company's specialty polymers serve the beverage market by assuring the clarity and extending the shelf life of beer, wine and fruit juices.

Performance Chemicals, Fine Chemicals and Industrial. The Company's Performance Chemicals business includes acetylene-based polymers, vinyl ether monomers, and advanced materials for consumer, agricultural and industrial applications. The Company's acetylene-based chemistry produces a number of performance polymers for use in a wide range of industrial markets including coatings, agricultural, imaging, detergents, electronics and metalworking. The Performance Chemicals business also includes inert ingredients for the agricultural industry, where the Company's solvents and polymers are used for the formulation of safer and more effective crop treatment products. The Company manufactures a broad range of highly specialized Fine Chemicals which are sold to the pharmaceutical, biotechnology, agricultural and imaging markets, including bulk pharmaceuticals, pharmaceutical intermediates, and pheromones for use in insect population measurement and control. The Company's Industrial business markets several intermediate and solvent products, such as butanediol, tetrahydrofuran (THF) and N-methyl pyrrolidone (NMP), which are sold primarily to industrial markets for use in high performance plastics, lubricating oil and chemical processing, electronics cleaning, and coatings.

Mineral Products. The Company manufactures ceramic-coated colored roofing granules that are sold primarily to the North American roofing industry for use in the production of asphalt roofing shingles.

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Note 15. Business Segment Information—(Continued)

The following segment data are presented based on the Company's internal management reporting system for the four reportable business segments. The Company evaluates segment performance based on operating income. Therefore, the measure of profit or loss that is reported to management for each segment is operating income. Interest expense, other income items and income taxes are not allocated to the business segments for management reporting. At this time, the Company's internal management reporting system does not report assets by segment for the three specialty chemicals reportable segments (Personal Care; Pharmaceutical, Food and Beverage; and Performance Chemicals, Fine Chemicals and Industrial), as many of the Company's plant assets are utilized by several of the segments. Therefore, the following asset-related segment data are presented only for Specialty Chemicals and Mineral Products.

In 1999, the Company transferred its agricultural polymers and solvents product lines from the Pharmaceutical, Agricultural and Beverage ("PAB") segment to the Performance Chemicals, Fine Chemicals and Industrial segment. Accordingly, prior year financial information for these two segments have been reclassified to conform to the 1999 presentation. The effect on the years 1997 and 1998 was to reduce sales for the PAB segment by $58.1 and $52.7 million, respectively, and reduce operating income by $5.5 and $8.6 million, respectively, and increase sales and operating income for the Performance Chemicals, Fine Chemicals and Industrial segment by like amounts. The PAB segment has been renamed the Pharmaceutical, Food and Beverage segment, and encompasses the alginates business which was acquired in October 1999 (see Note 7), including sales in 1999 after the date of its acquisition of $12.8 million.

Sales of Mineral Products to BMCA and its subsidiaries in 1997, 1998 and 1999 accounted for 61.5%, 66.2% and 65.7%, respectively, of the Company's net sales of Mineral Products, representing 7.2%, 8.0% and 7.3%, respectively, of the Company's total net sales. No other customer accounted for more than 5% of the Company's total net sales in 1997, 1998 or 1999.

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Note 15. Business Segment Information—(Continued)

	Year Ended December 31,		
	1997	1998	1999
		(Millions)	
Net sales:			
Personal Care	$ 187.4	$ 189.4	$ 187.1
Pharmaceutical, Food and Beverage	150.3	157.9	177.3
Performance Chemicals, Fine Chemicals and Industrial	288.1	342.8	335.7
Total Specialty Chemicals	625.8	690.1	700.1
Mineral Products(1)	83.2	94.5	87.3
Net sales	$ 709.0	$ 784.6	$ 787.4
Operating income:			
Personal Care(2)	$ 44.0	$ 34.7	$ 45.7
Pharmaceutical, Food and Beverage	41.1	37.2	44.9
Performance Chemicals, Fine Chemicals and Industrial	37.4	63.3	41.2
Total Specialty Chemicals	122.5	135.2	131.8
Mineral Products(2)	17.0	20.5	16.1
Total segment operating income	139.5	155.7	147.9
Unallocated corporate office expenses	(1.8)	(3.7)	(1.5)
Provision for restructuring, staff reduction and impairment loss(3)	—	(73.0)	(0.4)
Merger-related expenses	—	(12.8)	—
Total operating income	137.7	66.2	146.0
Interest expense and other, net	(33.5)	(39.0)	(69.5)
Income from continuing operations before income taxes	$ 104.2	$ 27.2	$ 76.5
Assets:			
Specialty Chemicals(4)	$ 985.7	$1,050.3	$1,182.0
Mineral Products	155.2	157.6	153.3
General Corporate(5)	319.6	531.8	500.0
Net assets of discontinued operation	23.5	24.2	—
Total assets	$1,484.0	$1,763.9	$1,835.3
Capital expenditures and acquisitions:			
Specialty Chemicals	$ 56.3	$ 153.8	$ 101.5
Mineral Products	11.2	10.1	7.5
Unallocated corporate office	0.2	—	—
Total	$ 67.7	$ 163.9	$ 109.0
Depreciation and goodwill amortization:			
Specialty Chemicals	$ 44.0	$ 50.3	$ 53.1
Mineral Products	10.1	11.8	11.4
Unallocated corporate office	0.4	2.2	0.4
Total	$ 54.5	$ 64.3	$ 64.9

(1) Includes sales to BMCA and its subsidiaries of $51.1, $62.6 and $57.3 million for 1997, 1998 and 1999, respectively.

(2) Personal Care operating income for the year 1999 includes a pre-tax gain of $8.5 million from the sale of the pearlescent pigments product line. Mineral Products operating income for the year 1998 includes a pre-tax gain of $1.2 million from the sale of its tennis court materials business. See Note 4.

(3) Of the $73.0 million restructuring and impairment loss in 1998, $70.0 million related to the Performance Chemicals, Fine Chemicals and Industrial business segment. The remaining $3.0 million provision related to the consolidation of European offices and affects all business segments except Mineral Products.

(Footnotes continued on next page)

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Note 15. Business Segment Information—(Continued)

(Footnotes continued from previous page)

(4) Identifiable assets of Specialty Chemicals as of December 31, 1997 include the Company's 50% ownership of ISP Marl. See Notes 2 and 7.

(5) 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 business segments.

Note 16. Geographic Information

Financial information set forth below for foreign operations represent sales and long-lived assets (property, plant and equipment) of foreign-based subsidiaries. Net sales are attributed to countries based on the location of customers and reflect the Company's internal management reporting system.

	Year Ended December 31,		
	1997	1998	1999
		(Millions)	
Net sales:			
North America:			
United States	$370.7	$407.5	$410.5
Canada	13.9	16.4	16.9
Total North America	384.6	423.9	427.4
Europe:			
Germany(1)	32.1	84.4	89.0
United Kingdom	35.0	34.6	39.8
France	20.5	21.2	17.3
Italy	16.0	15.7	15.9
Switzerland	14.0	12.4	7.7
Other European countries	62.9	64.4	64.4
Total Europe	180.5	232.7	234.1
Asia-Pacific:			
Japan	36.8	26.3	24.7
China	11.9	9.4	12.7
Australia	11.2	11.0	11.5
Taiwan	13.5	13.3	9.6
Other Asia-Pacific countries	32.0	27.0	30.4
Total Asia-Pacific	105.4	87.0	88.9
Latin America:			
Brazil	13.0	14.7	12.7
Mexico	9.8	12.1	12.3
Other Latin American countries	15.7	14.2	12.0
Total Latin America	38.5	41.0	37.0
Total net sales	$709.0	$784.6	$787.4

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Note 16. Geographic Information—(Continued)

	December 31,		
	1997	1998	1999
		(Millions)	
Property, plant and equipment, net:			
United States	$499.4	$476.4	$504.8
Germany(2)	0.3	53.5	48.0
All other foreign countries	13.9	17.7	17.4
Total property, plant and equipment, net	$513.6	$547.6	$570.2

(1) Net sales for Germany for 1997 do not include sales of the ISP Marl joint venture, which was accounted for by the equity method prior to the Company's acquisition, effective April 1, 1998, of the remaining 50% interest in ISP Marl. See Notes 2 and 7.

(2) The Company's other principal long-lived asset in Germany as of December 31, 1997 was the 50% ownership of ISP Marl of $34.3 million. See Notes 2 and 7.

Approximately 48% of the Company's sales in 1999 were in foreign countries which are subject to currency exchange rate fluctuation risks. See Note 2 for a discussion of the Company's policy to manage these risks. Certain 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 17. Commitments and Contingencies

Asbestos Litigation Against GAF

GAF Corporation has advised that, as of December 31, 1999, it was defending approximately 115,000 pending alleged asbestos-related bodily injury claims relating to the inhalation of asbestos fiber ("Asbestos Claims"), having received notice of approximately 43,100 new Asbestos Claims during 1999. GAF has advised that the Center for Claims Resolution ("CCR"), a non-profit organization set up to administer and handle asbestos-related personal injury claims against the participating companies and in which GAF Corporation was a member, terminated GAF's membership, effective January 17, 2000. GAF has advised the CCR that such termination was unauthorized and that it intends to take appropriate measures to protect its rights to pursue claims against the CCR and its member companies arising out of this improper termination and for other improper actions. The disputes between GAF and the CCR are the subject of pending Alternative Dispute Proceedings.

GAF Corporation has confirmed that it has experienced a significant increase in the rate of new Asbestos Claims, principally involving claimants without any asbestos-related impairment, and amounts demanded to settle such claims. GAF anticipates that these trends could well continue for the foreseeable future, and that the percentage of Asbestos Claims filed by individuals with no physical impairment will remain high. GAF has advised that it expects an increasingly adverse litigation environment in particular jurisdictions. GAF believes that these trends and the CCR's termination of GAF's membership resulted from, or were induced by, in no small part, retaliatory actions taken by asbestos lawyers against GAF in connection with GAF's active support of proposed legislation currently pending in Congress to address the national asbestos litigation crisis. GAF has advised that depending upon whether such trends continue, whether other retaliatory actions are taken, the ultimate resolution of the disputes between GAF and the CCR, and whether the proposed legislation currently pending in Congress is enacted into law, its financial condition could be materially adversely affected by one or more of these factors.

GAF Corporation has stated that it is committed to effecting a comprehensive resolution of Asbestos Claims, and that it is exploring options to accomplish this resolution, including the support of the proposed Congressional legislation, but there can be no assurance that these efforts will be successful.

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Note 17. Commitments and Contingencies—(Continued)

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 involved 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. Should GAF, however, be unable to satisfy judgments against it in asbestos-related lawsuits, its judgment creditors might seek to enforce their judgments against the assets of GAF and, in that regard, seek to recapture assets distributed by GAF, including assets distributed in the Separation Transactions. Although the Company does not believe any such action to unwind the Separation Transactions would be successful, there can be no assurance in that regard. If a creditor were successful in recapturing assets distributed in the Separation Transactions, such creditor could seek to enforce any asbestos-related judgment against GAF's assets, including the capital stock of the Company, and such enforcement could result in a change of control of the Company. See Note 11 for a discussion of the Credit Agreement.

The Company has been advised by GAF Corporation and Samuel J. Heyman, its Chairman of the Board, that in January 2000, an action was commenced against Mr. Heyman, individually, in the United States District Court for the Southern District of New York by a purported class of persons who hold an asbestos-related personal injury claim against GAF Corporation or who have become holders of such a claim arising out of asbestos exposure before January 1, 1997. The action alleges, among other things, that the distribution by GAF of the capital stock of the Company in the Separation Transactions was without fair consideration and a fraudulent conveyance. The action seeks, among other things, to set aside such distribution and to require Mr. Heyman to return to GAF the capital stock of the Company held by him as well as an unspecified amount of damages. GAF Corporation and Mr. Heyman have advised that they believe this action is being funded by a consortium of asbestos lawyers as part of the retaliatory actions described above and is without merit. Mr. Heyman has advised that he intends to vigorously oppose this action.

Environmental Litigation

The Company, together with other companies, is a party to a variety of 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 Environmental Claims are in the early stages or have been dormant for protracted periods.

The Company estimates that its liability in respect of all Environmental Claims (including those relating to its closed Linden, New Jersey plant described below), as of December 31, 1999, is approximately $22.5 million, before reduction for insurance recoveries reflected on the Company's balance sheet (discussed below) of $11.1 million that relate to both past expenses and estimated future liabilities ("estimated recoveries"). The gross environmental liability is included within "Accrued liabilities" and "Other liabilities," and the estimated recoveries are included within "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 the legal expenses incurred on the Company's behalf and that the recoveries could be well in excess of the current estimated liability for all Environmental Claims, although there can be no assurances in this regard. 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.

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Note 17. Commitments and Contingencies—(Continued)

In March 1995, GAF commenced litigation on behalf of itself and its predecessors, successors, subsidiaries and related corporate entities 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, 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. This Consent Order does not address any potential natural resource damage claims. 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.

Lease Commitments

Leases for certain equipment at the Company's mineral products plants are accounted for as capital leases and are included in "Property, plant and equipment, net," at December 31, 1998 and 1999 in the amount of $2.2 and $1.9 million, respectively. The Company also has operating leases related to the sale-leaseback transaction discussed in Note 7 and for transportation, production and data processing equipment and for various buildings. Rental expense on operating leases was $9.7, $15.1 and $17.3 million for 1997, 1998 and 1999, respectively. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 1999 were as follows:

	Capital Leases	Operating Leases
	(Thousands)	
2000	$ 434	$ 9,917
2001	341	8,803
2002	145	7,731
2003	140	6,987
2004	—	6,325
Later years	—	3,948
Total minimum payments	1,060	$43,711
Less interest included above	115	
Present value of net minimum lease payments	$ 945	

Other Matters

The Company has received 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. If the Company is successful in securing the necessary permits to construct and operate the hazardous waste facility, the Company intends to develop and operate the facility in a separate subsidiary, either on its own or in a joint venture with a suitable partner. 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 for this project. Accordingly, the Company would not expect such facility to impact materially its liquidity or capital resources. The Company is also investigating other development opportunities at this site.

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Note 17. Commitments and Contingencies—(Continued)

See Note 6 for information regarding additional contingencies.

Note 18. Subsequent Event

On January 27, 2000, the Company announced that it had notified Dexter of its intent to present at Dexter's 2000 Annual Meeting of Shareholders, and solicit proxies in favor of, a series of resolutions designed to facilitate the Company's business combination proposal. Under the proposal, as amended on March 23, 2000, Dexter shareholders would receive at least $50 per share in cash, subject to the execution of a mutually acceptable merger agreement.

The proposals include increasing the number of seats on Dexter's Board of Directors from ten to seventeen, and electing ten Company nominees (including eight nominees independent of the Company) to Dexter's Board who are committed to considering and pursuing the Company's proposal, or a superior proposal. The Company is also proposing a bylaw amendment and a shareholder resolution requiring the removal of Dexter's "poison pill" in favor of offers for all shares of at least $50 per share in cash.

The Company commenced a lawsuit in federal court in Connecticut on January 27, 2000 to, among other things, declare valid the Company's proposed resolutions, invalidate the "poison pill" and Dexter's supermajority bylaw voting requirement and order Dexter's Annual Meeting to be held no later than April 30, 2000.

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INTERNATIONAL SPECIALTY PRODUCTS INC.

SUPPLEMENTARY DATA (UNAUDITED)

Quarterly Financial Data (Unaudited)

	1998 by Quarter				1999 by Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
	(Millions)							
Net sales	$191.1	$209.6	$197.5	$186.4	$201.6	$193.2	$188.2	$204.4
Cost of products sold	113.5	120.1	115.4	114.5	119.4	111.4	106.9	144.7
Gross profit	$ 77.6	$ 89.5	$ 82.1	$ 71.9	$ 82.2	$ 81.8	$ 81.3	$ 59.7
Operating income (loss)(1)	$ 37.0	$ 46.5	$ 25.3	$ (42.6)	$ 46.8	$ 38.5	$ 38.5	$ 22.2
Income (loss) from continuing operations before income taxes	$ 30.5	$ 37.1	$ 17.8	$ (58.2)	$ 17.7	$ 25.0	$ 23.5	$ 10.3
Income tax (provision) benefit	(11.1)	(14.1)	(6.7)	17.8	(6.2)	(8.8)	(8.3)	(3.6)
Minority interest in income of subsidiary	(4.2)	(5.0)	(1.1)	—	—	—	—	—
Income (loss) from continuing operations	15.2	18.0	10.0	(40.4)	11.5	16.2	15.2	6.7
Discontinued operation:								
Income from discontinued operation, net of income taxes	0.5	1.0	0.3	0.2	0.5	0.9	0.4	—
Gain on sale of discontinued operation, net of income taxes	—	—	—	—	—	—	24.5	(1.0)
Income (loss) from discontinued operation	0.5	1.0	0.3	0.2	0.5	0.9	24.9	(1.0)
Net income (loss)	$ 15.7	$ 19.0	$ 10.3	$ (40.2)	$ 12.0	$ 17.1	$ 40.1	$ 5.7
Earnings per common share(2):								
Basic:								
Income (loss) from continuing operations	$ .28	$ .33	$ .15	$ (.58)	$ .16	$ .24	$ .23	$ .10
Income (loss) from discontinued operation	.01	.02	—	—	.01	.01	.36	(.02)
Net income (loss)	$ .29	$ .35	$ .15	$ (.58)	$ .17	$ .25	$ .59	$ .08
Diluted:								
Income (loss) from continuing operations	$ .28	$ .33	$ .15	$ (.58)	$ .16	$ .24	$ .23	$ .10
Income (loss) from discontinued operation	.01	.02	—	—	.01	.01	.36	(.02)
Net income (loss)	$ .29	$ .35	$ .15	$ (.58)	$ .17	$ .25	$ .59	$ .08

(1) Operating income for the third quarter of 1998 reflects $12.8 million of merger-related expenses and $3.0 million of restructuring charges related to the consolidation of offices in the Company's European operations. Operating income (loss) for the fourth quarter of 1998 reflects $70.0 million of restructuring and impairment losses. See Note 5 to Consolidated Financial Statements. Operating income for the first quarter of 1999 reflects a pre-tax gain of $8.5 million from the sale of the Company's pearlescent pigments business. See Note 4 to Consolidated Financial Statements.

(2) 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. Earnings per share for all periods prior to the Merger are calculated based on the 53,833,333 shares of the Company's common stock held by ISP Holdings' stockholders. See Note 1 to Consolidated Financial Statements.

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SCHEDULE II

INTERNATIONAL SPECIALTY PRODUCTS INC.

VALUATION AND QUALIFYING ACCOUNTS

Year Ended December 31, 1997
(Thousands)

Description	Balance January 1, 1997	Charged to Costs and Expenses	Deductions	Balance December 31, 1997
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts	$ 2,710	$ 338	$ 439(a)	$ 2,609
Reserve for inventory market valuation	11,657	7,631	5,703(a)	13,585

Year Ended December 31, 1998
(Thousands)

Description	Balance January 1, 1998	Charged to Costs and Expenses	Deductions	Other	Balance December 31, 1998
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:					
Allowance for doubtful accounts	$ 2,609	$ 78	$ 291(a)	$ 98(b)	$ 2,494
Reserve for inventory market valuation	13,585	15,410	7,762(a)	127(b)	21,360
Reserves for restructuring	—	10,503	1,161	—	9,342

Year Ended December 31, 1999
(Thousands)

Description	Balance January 1, 1999	Charged to Costs and Expenses	Deductions	Balance December 31, 1999
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts	$ 2,494	$2,026	$ 1,109(a)	$ 3,411
Reserve for inventory market valuation	21,360	5,063	11,275(a)	15,148
Reserves for restructuring and staff reduction	9,342	2,273(c)	10,291(d)	1,324

Notes:

(a) Represents write-off of uncollectible accounts net of recoveries, and the effects of foreign currency translation.

(b) Represents balance acquired in acquisitions.

(c) Reflects a reserve established for a staff reduction program in 1999 (see Note 5 to Consolidated Financial Statements).

(d) Includes $1,863 of excess reserves which were reversed and credited to the Consolidated Statement of Income (see Note 5 to Consolidated Financial Statements).

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BOARD OF DIRECTORS

Charles M. Diker
Chairman of the Board, Cantel Industries Inc.
Carl R. Eckardt
Former President and Chief Operating Officer,
International Specialty Products Inc.
Harrison J. Goldin
Partner, Goldin Associates, L.L.C.
Samuel J. Heyman
Chairman of the Board,
International Specialty Products Inc.
Sanford Kaplan
Private Investor
Sunil Kumar
President and Chief Executive Officer,
International Specialty Products Inc.
Burt Manning
President, Brookbound Inc.;
Chairman of the Board, Emeritus
J. Walter Thompson Company

CORPORATE OFFICERS AND EXECUTIVE MANAGEMENT

Executive Officers:
Samuel J. Heyman
Chairman of the Board
Sunil Kumar
President and
Chief Executive Officer
Richard A. Weinberg
Executive Vice President,
General Counsel and Secretary
Randall R. Lay
Executive Vice President and
Chief Financial Officer
Andrew G. Mueller
Executive Vice President,
Operations

Senior Vice Presidents:
Paul J. Aronson
Senior Vice President,
Taxes
Ronald E. Brandt
Senior Vice President and
Commercial Director, Americas
Roger J. Cope
Senior Vice President and
Commercial Director, Europe
Jeffrey J. Kaplowitz
Senior Vice President,
Human Resources
Susan B. Yoss
Senior Vice President and
Treasurer

Vice Presidents:
S. Dan Andrews
Vice President, Engineering
Jay Ansell, Ph.D.
Vice President,
Product Stewardship
Harry R. Asplund
Vice President,
Strategic Business Systems
Barry Belfer
Vice President and Assistant Treasurer
Warren Bishop
Vice President and General Manager,
Asia Pacific
Alan J. Carlin
Vice President,
Process Technology
Gary Castellino
Vice President,
Information Services
Andrew J. Diamond
Vice President and Controller
James Fischer
Vice President,
Corporate Real Estate
Robert J. Flugger
Vice President, Risk Management
Peter J. Ganz
Vice President,
Legal Affairs and Deputy General Counsel
Lawrence J. Grenner
Vice President and Business Director,
Personal Care
Catherine Joy
Vice President, Sales
Personal Care, Pharmaceutical and Beverage
Jared L. Landaw
Vice President, Law
Melvin W. Martin
Vice President, Purchasing
Robert M. Mininni, Ph.D.
Vice President, Research
Joseph Nassif
Vice President and Business Director,
Pharmaceutical and Beverage Products
Christopher W. Nolan
Vice President,
Corporate Development and Investor Relations
John R. Palmer
Vice President, Sales
Performance and Industrial Products
Steven E. Post
Vice President, Food Products and
President, ISP Alginates Inc.
Paul Taylor, Ph.D.
Vice President,
Technical Development and
Quality Assurance

Locations

UNITED STATES

MANUFACTURING FACILITIES
- Alabama, Huntsville
- California, San Diego
- Kentucky, Calvert City
- Massachusetts, Freetown
- Missouri, Annapolis
- New Jersey, Belleville
- New Jersey, Chatham
- Ohio, Columbus
- Pennsylvania, Blue Ridge Summit
- Texas, Seadrift
- Texas, Texas City
- Wisconsin, Pembine

RESEARCH LABORATORIES
- Alabama, Huntsville
- California, San Diego
- Kentucky, Calvert City
- Maryland, Hagerstown
- Massachusetts, Freetown
- New Jersey, Belleville
- New Jersey, Chatham
- New Jersey, Wayne
- Ohio, Columbus
- Texas, Texas City

SALES OFFICES
- California, San Diego
- California, Sherman Oaks
- Illinois, Lombard
- Maryland, Hagerstown
- New Jersey, Bound Brook
- New Jersey, Wayne
- North Carolina, Charlotte
- Ohio, Columbus
- Texas, Keller

INTERNATIONAL

MANUFACTURING FACILITES
- Germany, Marl
- Scotland, Girvan

RESEARCH LABORATORIES
- China, Shanghai
- England, Tadworth
- Germany, Cologne
- Scotland, Girvan
- Singapore

SALES OFFICES
- Argentina, Buenos Aires
- Australia, Box Hill, Victoria
- Australia, Silverwater, N.S.W.
- Belgium, Sint-Niklaas
- Brazil, São Paulo
- Bulgaria, Sofia
- Canada, Mississauga
- China, Beijing
- China, Chengdu
- China, Guangzhou
- China, Hong Kong
- China, Shanghai
- Czech Republic, Prague
- England, Guildford
- France, Paris
- Germany, Cologne
- Hungary, Budapest
- India, Mumbai
- India, Hyderabad
- Indonesia, Jakarta
- Italy, Milan
- Japan, Osaka
- Japan, Tokyo
- Korea, Seoul
- Malaysia, Kuala Lumpur
- Mexico, Mexico City
- Philippines, Manila
- Poland, Warsaw
- Puerto Rico, Caguas
- Russia, Moscow
- Singapore
- Spain, Barcelona
- Sweden, Arsta
- Switzerland, Baar
- Taiwan, Taipei
- Thailand, Bangkok
- Turkey, Istanbul
- Venezuela, Caracas

JOINT VENTURES
- Iceland, Reykholar
  - Thorungaverksmidjan h.f.
- India, Nagpur
  - Chemfields Pharmaceuticals Pvt. Ltd.
- Ireland, Kilkieran
  - Arramara Teoranta
- Tasmania, King Island
  - Kelp Industries Pty. Ltd.

Shareholder Information

ANNUAL MEETING

The 2000 Annual Meeting of Shareholders is scheduled to be held at 10:00 a.m., Monday, May 15, 2000 at:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
25th Floor
New York, New York 10153

ANNUAL REPORT ON FORM 10-K

Additional copies of the Company's Annual Report on Form 10-K (including financial statements and schedules), as filed with the Securities and Exchange Commission, may be obtained free of charge by writing to:

International Specialty Products
Shareholder Relations Department
1361 Alps Road
Wayne, New Jersey 07470

Or you may call: 1-800-526-5315

STOCK TRANSFER AGENT AND REGISTRAR

The Bank of New York
101 Barclay Street
New York, New York 10007
Telephone: (800) 524-4458

INVESTOR RELATIONS

Inquiries should be directed to:
Christopher W. Nolan
Vice President, Corporate Development and Investor Relations
International Specialty Products
1361 Alps Road
Wayne, New Jersey 07470
Telephone: (973) 628-3463
e-mail: cnolan@ispcorp.com

International Specialty Products Inc. common stock is listed on the New York Stock Exchange (symbol: "ISP").

Visit our Internet website at http://www.ispcorp.com

International Specialty Products
1361 Alps Road
Wayne, New Jersey 07470
www.ispcorp.com