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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

1989 FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 1989

180.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from to

Commission File Number 33-27258

G A F CORPORATION

Delaware	**13-3446412**
(State of Incorporation)	(I.R.S. Employer Identification No.)
1361 Alps Road, Wayne, New Jersey	**07470**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (201) 628-3000
Securities registered pursuant to Section 12(b) of the Act: None
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 __

As of March 16, 1990, 1,997,300 shares of common stock were outstanding. All of the voting stock of the Company held by non-affiliates is held by officers or employees of the Company and is not publicly traded. Sales of such stock may only be made pursuant to the terms of an agreement entered into by each officer and employee-owner with the Company.

PART I

Item 1. Business of the Company

The Company, through its wholly owned subsidiaries, is engaged principally in the manufacture and sale of specialty chemicals and building materials. The Company was incorporated under the laws of Delaware in 1987 and has its principal executive offices at 1361 Alps Road, Wayne, New Jersey 07470, telephone (201) 628-3000. The Company acquired its business on March 29, 1989 by the merger (the "Acquisition") of GAF Corporation, incorporated under the laws of Delaware in 1929 (the "Predecessor Company") with and into a subsidiary of the Company. The Predecessor Company was liquidated on April 10, 1989 and its assets and liabilities were distributed to the Company's other subsidiaries. For further information on the Acquisition, see "Corporate Developments." Except as the context otherwise requires, the "Company" refers to GAF Corporation and its subsidiaries and the Predecessor Company and its subsidiaries.

The Company's principal domestic operations are conducted through the following indirect, wholly owned subsidiaries: (i) GAF Chemicals Corporation ("GAF Chemicals") which operates ten specialty chemical plants and three mineral granules plants; (ii) GAF Building Materials Corporation ("GAF Building Materials"), which operates ten roofing plants, two glass fiber plants and one glass mat plant; and (iii) GAF Broadcasting Company, Inc. ("GAF Broadcasting"), which owns and operates a classical music FM radio station, WNCN, in the New York City market. The Company's international operations (consisting principally of the international sale of domestically produced specialty chemicals) are conducted through a number of indirect, wholly owned foreign subsidiaries, branches and independent distributors. In addition, a specialty chemical plant is operated by GAF-Hüls Chemie GmbH ("GAF-Hüls"), a joint venture between GAF Chemicals and Hüls A.G. in Marl, West Germany.

Financial information concerning the Company's industry segments required by Item 1 is included in Note 12 of the Notes to the Predecessor Company's Consolidated Financial Statements and Note 14 of the Company's Consolidated Financial Statements.

See "Recent Developments" for a description of the transfer of the Company's surfactants chemicals business in February 1990 to a limited partnership affiliated with Rhone-Poulenc Inc. in which the Company indirectly retains a beneficial interest.

GAF Chemicals Corporation

GAF Chemicals manufactures and sells two major groups of products: (i) specialty chemicals, which includes chemicals with consumer and industrial applications, preservatives, advanced materials, filtration products and surfactants, and (ii) mineral products. These products are grouped in separate business units, each with its distinct management, manufacturing operations and sales forces. The products which make up each business unit are as follows: chemicals with consumer and industrial applications and preservatives; advanced materials and filtration products; surfactants; and mineral products. The majority of GAF Chemicals' revenues are derived from sales of specialty chemicals.

Specialty Chemicals

GAF Chemicals manufactures more than 100 different specialty chemical products with consumer and industrial applications. These specialty chemicals are sold primarily to the pharmaceutical, cosmetics, personal care, plastics, automotive, agricultural, textiles, oil and gas, paper and paint coatings industries worldwide. Manufacturing of these chemicals is vertically integrated so that chemicals are upgraded through numerous chemical reactions and other processing steps which add value and result in highly specialized and more complex products. These products are marketed in four groups: intermediates, solvents, polymers and vinyl ethers.

Intermediates are used by GAF Chemicals as raw materials in manufacturing solvents, polymers and vinyl ethers. These products are also sold to customers who use them in the manufacture of engineering plastics, elastomers and other products.

Solvents are sold to customers as high performance products for use in agricultural chemicals, pharmaceuticals, binder resin and lithographic applications, wire and other coatings, plastics, electronic microchips and integrated circuits, and lubrication oil extraction and gas purification applications. Some of these materials are also used by GAF Chemicals as raw materials in the processes leading to the manufacture of polymers.

Polymers are sold for specific applications under a number of trademarks and trade names and are used by the Company's customers in the manufacture of their products. The major applications for Polyvinyl pyrrolidone ("PVP") polymers are in the cosmetic, personal care and pharmaceutical industries. PVP is used as a binder, stabilizer, dispersant, protective agent, film-former, adhesive detoxicant, viscosity modifier, solubilizer for pharmaceutical and other products, drug and vitamin tablet binder, coating agent and processing aid in fluid bed granulation. Polyplasdone® XL and XL10 products are used as drug and vitamin tablet disintegrants. Polyclar® AT and Polyclar® 10 are used as clarifiers and chill-hazing agents for beer, wine, fruit juices and other beverages. PVP-Iodine is a water soluble, non-staining, microbiocidal product used in human and veterinary applications. Gafquat® products are film-forming polymers used in hair care products such as the popular mousse products, as well as conditioners, gels and glazes. Ganex® polymers are used in cosmetic applications such as water-resistant eyeliner and lipstick, and industrial applications such as a film-former in shoe polishes and a dispersant in agricultural chemical formulations.

Vinyl ethers are marketed under the Gantrez® trademark and used in the cosmetic and pharmaceutical fields, primarily in hair and dental care products and in detergent formulations. Other vinyl ether monomers and oligomers are used in coatings for both consumer and industrial products.

In April 1989, GAF acquired the assets of Sutton Laboratories, Inc., including a manufacturing facility in Chatham, New Jersey. Sutton's product line includes Germall® 115, Germall® II, Germaben®II, Germaben® II-E, and Suttocide® A, all preservatives used in the cosmetics and personal care industries as well as Allantoin, a skin protectant.

GAF Chemicals is the sole domestic producer of the advanced materials iron pentacarbonyl and iron powders used in the aerospace, electronics, powder metallurgy, food and pharmaceuticals industries. Ferronyl® iron supplement is sold as an additive for food and vitamins. This business unit also manufactures and sells a processless electron imaging film and ionizing radiation dose detecting devices.

GAF Chemicals' filtration products business manufactures and sells filtration systems which are used in the filtration of process liquids in the pharmaceuticals, cosmetics, paint, food and beverages industries.

GAF Chemicals' surfactants business was transferred in February 1990. See "Recent Developments." GAF Chemicals manufactures and sells a broad line of surfactants (surface active agents) and specialty phosphate esters for use in numerous other chemical products. Surfactants are organic chemical compounds that possess detergent, emulsifying, dispersing, foaming, penetrating and wetting properties. A major part of surfactant output is used in the production of packaged soaps and detergents for household, industrial and institutional uses. The balance is used in pulp and paper making; the manufacture of agricultural chemicals, cosmetics, polymer emulsions, metal lubricants, paints and pharmaceuticals; textile and leather processing; oil drilling operations; and many other products.

GAF Chemicals' broadest surfactant product line is the Igepal® series sold primarily to customers for use in detergents, chemicals used in latex paints and adhesives and textiles. Other surfactants produced by GAF Chemicals are sold to customers for the same uses as the Igepal® series and for specialized uses such as down-hole flooding in oil and gas recovery, deresination of hardwood pulps, corrosion inhibitors, high and low foaming additives, agricultural dispersants and cosmetics.

GAF Chemicals also produces, through Alkaril Chemicals, Ltd., a Canadian-based manufacturer of surfactants and other specialty chemicals, with a manufacturing facility in Ontario, Canada, and Alkaril Chemicals Inc. ("Alkaril U.S."), its U.S.-based affiliate with a manufacturing facility in Georgia, surfactants, polyelectrolytes, dispersants, polyols, textile processing aids and other materials used in industrial, agricultural, metal working and consumer products.

Mineral Products

GAF Chemicals mines and crushes basalt rock from its own quarries, producing natural and various colors of ceramic coated mineral granules which it sells to the roofing industry for use as a mineral surface on asphalt roofing. The use of granules in roofing contributes substantially to its weathering capability and imparts the decorative coloration to shingles. Two groups of by-products from the manufacture of granules are also marketed as mineral filler for the asphalt coating of shingles and as tennis court materials.

GAF Chemicals' mineral products business continued to grow in 1989 benefiting from, among other things, the increased popularity of heavyweight three-dimensional shingles which simulate wood and slate. These heavyweight shingles have increased granule demand because they require more granules than lower-cost, commodity shingles. GAF granules and their by-products are sold to asphalt roofing manufacturers throughout the United States. GAF Building Materials is GAF Chemicals' largest purchaser of granules. These purchases are at market prices.

Raw Materials. Most raw materials used in the production of chemical products are purchased from a large number of outside sources, in many cases pursuant to supply contracts. Certain of the raw materials, including acetylene, which is a significant raw material in the production of certain specialty chemicals, are obtained from limited sources pursuant to long-term supply contracts. Except for acetylene, GAF Chemicals believes that, in the event of interruption of supply of raw materials from current sources, it could obtain adequate supplies from alternate sources. With respect to acetylene, GAF Chemicals is supplied domestically at three locations by two unaffiliated suppliers. GAF Chemicals' products made from acetylene may also be manufactured from butanediol, a downstream product of acetylene which, though more expensive, is available from a larger number of sources. GAF Chemicals believes that in the event of interruption of supply of acetylene from current sources, adequate supplies could be obtained by taking increased quantities from remaining sources, increasing shipments of butanediol from GAF-Hüls or obtaining butanediol from other suppliers, although no assurances can be given.

Raw materials derived from petroleum or natural gas are used in many of GAF Chemicals' manufacturing processes and, consequently, the price and availability of petroleum and natural gas are material to the costs of operations. Generally, in 1989, crude oil prices increased, recovering from previous years' low levels. GAF Chemicals has obtained, and expects to continue to obtain, adequate supplies of these products at reasonable costs, although there can be no assurance that it will do so.

In connection with its mineral products operations, GAF Chemicals owns three quarries, with proven reserves of more than twenty years each, located on property adjoining each of its three plants. Over the past few years, the Company has purchased land adjacent to its quarries for additional granules reserves and has increased capacity at these plants.

International Operations. GAF Chemicals' international operations consist principally of the marketing and distribution internationally of chemical products manufactured by GAF Chemicals in the United States. Subsidiaries and branches are located in various countries of Western Europe and in Australia, Brazil, Canada, Japan, Korea, Hong Kong, Mexico, New Zealand, Singapore and Taiwan. In certain locations, sales are made through distributors rather than through local subsidiaries. Major product lines sold internationally include intermediates such as butanediol, other specialty chemicals and surfactants.

Filtration systems (consisting of filter bags manufactured by subsidiaries in Canada, Brazil and Belgium and hardware produced to the Company's specifications) are sold through GAF Chemicals' foreign subsidiaries outside the United States. GAF Chemicals also operates a plant in Brazil for the manufacture of filter vessels and custom process equipment marketed in South America and for export.

In addition, GAF-Hüls, the West German joint venture, operates a specialty chemical plant for the manufacture of butanediol, butynediol and tetrahydrofuran ("THF"), which are marketed through GAF Chemicals' and GAF-Hüls' sales forces. One of the intermediates produced in that plant, butanediol, is also sold to GAF Chemicals for use as a feedstock in its United States plants to supplement domestic sources. See "Raw Materials."

Through Alkaril Chemicals Ltd., GAF Chemicals operates an additional plant for the manufacture of surfactants and other specialty chemicals in Mississauga, Ontario, Canada. See "Recent Developments" for a description of the transfer of the surfactants chemicals business in February 1990.

In 1989, GAF Chemicals' international operations, including export sales from domestic operations, but excluding sales from Alkaril Chemicals Ltd., grew by 16% over 1988, and accounted for approximately 40% of GAF Chemicals' 1989 net sales. GAF Chemicals' international sales increased due to higher volumes in key product lines reflecting strong demand for certain of its acetylene derivatives, particularly in the cosmetics and pharmaceuticals markets and, to a lesser degree, pricing. Foreign exchange rates in 1989 depressed sales by approximately 2% as compared with 1988 sales but this was more than offset by the impact of higher volumes and pricing. The Company does not believe there are any unusual risks attendant on GAF Chemicals' foreign operations. See Note 14 of the Notes to the Predecessor Company's Consolidated Financial Statements and Note 16 of the Notes to the Company's Consolidated Financial Statements for financial information by geographic areas.

Patents, Trademarks, etc. GAF Chemicals owns approximately 445 domestic and 320 foreign patents and approximately 123 domestic and 653 foreign trademark registrations related to the business of GAF Chemicals. The Company believes GAF Chemicals' rights under its existing patents and patent applications to be material in order to maintain its present position in the industry. The duration of the existing patents and patent licenses is deemed generally satisfactory.

Method of Distribution and Competitive Conditions. GAF Chemicals sells its products primarily through its own sales force in the United States.

GAF Chemicals is the sole United States producer of a complete line of high-pressure acetylene-based chemicals. GAF Chemicals competes in its specialty chemicals line with a major foreign competitor and with another large company which manufactures substantial quantities of butanediol and THF for its own use and for sale to others. However, no single company is dominant in the industry with respect to these products.

In the balance of its chemical businesses, GAF Chemicals competes with many companies, certain of which are substantially larger than GAF Chemicals and offer a broader range of products. Generally, GAF Chemicals has responded to this competition by emphasizing product innovation, product quality, reliability of supply and customer service. The Company believes that the great size and diversified nature of the chemical industry make it impossible to give a meaningful estimate of the relative position of GAF Chemicals in the industry.

Research and Development. Research and Development expenses for both GAF Chemicals and GAF Building Materials in 1989, 1988 and 1987 are presented in Note 1 of the Notes to the Predecessor Company's Consolidated Financial Statements and Note 2 of the Notes to the Company's Consolidated Financial Statements. Most of the amounts shown were expended by GAF Chemicals.

As of December 31, 1989, approximately 175 employees were engaged in the Company's research and development activity with new products, new processes, new applications for existing products and custom-tailored products to respond to specific customer needs and changing safety and health requirements in the U.S. and abroad. This research and development program, which has grown substantially each year since 1983, led to the design, testing and production for sale or customer evaluation of a number of new or improved products in each of its product lines in 1989, including the continued introduction into the market of Surfadone products; vinyl ethers for radiation curing of inks and coatings; new hair fixatives based on caprolactam chemistry; and a line of engineered solvents to address certain environmental concerns.

GAF Building Materials Corporation

GAF Building Materials manufactures and sells roofing materials to the residential and commercial industries.

Residential Roofing. GAF Building Materials is a leading manufacturer of a complete line of residential roofing products.

GAF Building Materials' principal products are its Sentinel®, Royal Sovereign®, GAF Wood Line®, Timberline® and Slateline® shingles. All of GAF Building Materials' shingles have a Class A fire rating. Shingles are made from glass fiber mat, coated with waterproofing asphalt on both sides and surfaced with ceramic coated mineral granules. Sentinel® shingles are GAF Building Materials' standard strip shingle and residential volume leader. Royal Sovereign® shingles are designed to capitalize on the emerging "middle market" for quality roofing shingles at a slightly higher price than standard Sentinel shingles. GAF Building Materials' GAF Wood Line® shingle, a mid-weight laminated asphalt shingle, is gaining wide acceptance by builders and contractors as an economical trade-up for buyers of strip shingles. Timberline® premium roofing shingles are a heavyweight laminated product which offers the appearance of a wood shake shingle but with superior fire resistance and durability. Timberline Ultra® is a super heavyweight shingle with a 40-year limited warranty. GAF Building Materials' Slateline® shingle is an asphalt shingle which offers the appearance of slate and labor savings because of its large size.

Other products include Timbertex® Hip & Ridge shingles, Shingle-Mate® underlayment and Weather Watch® ice and water barrier, a waterproof underlayment, which enable GAF Building Materials to offer a complete system of residential roofing components.

Commercial Roofing. GAF Building Materials markets a full line of built-up roofing and modified bitumen products and accessories for use in the application of commercial roofing. Most of these commercial products are assembled on the roof by applying successive layers of roofing membrane with asphalt and topped, in some applications, with gravel. Thermal insulation may be applied beneath the membrane.

GAF Building Materials manufactures a quality glass membrane under the trademark GAFGLAS®, which is made from asphalt impregnated glass fiber mat for use as a component in built-up roofing systems. GAF Building Materials also manufactures base sheets, flashings and package asphalt for use in these systems. In addition, GAF Building Materials sells isocyanurate foam and perlite insulations and accessories such as vent stacks, roof insulation fasteners, cements and coatings.

Modified bitumen products are sold under the trademark Ruberoid® MB and have proven very successful, especially in small re-roofing applications. These products consist of a roofing membrane utilizing polymer-modified asphalt reinforced with a tough polyester nonwoven mat. Modified bitumen systems provide high performance characteristics, such as weather and water resistance, and labor cost savings due to ease of application.

Raw Materials. The major raw materials required for the manufacture of GAF Building Materials' roofing products are asphalt, glass fiber, glass fiber mat, mineral stabilizer (generally crushed or pulverized limestone) and granules. Asphalt and mineral stabilizer are available from a large number of suppliers. GAF Building Materials currently has contracts with several of these suppliers, with others available as substitutes. Prices of most raw materials have been reasonably stable, rising moderately with general industrial prices. The price of asphalt tends to move in step with the price of crude oil. Five of GAF Building Materials' roofing plants have easy access to deep water ports allowing delivery of asphalt by ship, the most economical means of transport. GAF Building Materials has a plant which makes glass fiber mat for internal consumption and two plants which manufacture chopped glass fiber for mat substrate, permitting complete integration of the roofing manufacturing process. GAF Building Materials has obtained, and expects to continue to obtain, supplies of raw materials at reasonable costs, although there can be no assurance that it will do so. See "GAF Chemicals Corporation—Mineral Products."

Patents, Trademarks, etc. GAF Building Materials owns approximately 47 domestic and 55 foreign patents and approximately 68 domestic and 173 foreign trademark registrations. The Company believes the patent protection covering certain of its products to be material to those products, but patents are not of material significance to the business of GAF Building Materials, or to the industry generally. The duration of the existing patents and patent licenses is deemed generally satisfactory.

Seasonal Variations and Working Capital. Sales of roofing products in the northern regions of the United States generally decline during the winter months due to adverse weather conditions. To maintain a more constant level of manufacturing and sales, GAF Building Materials follows the practice of "winter dating" in such regions, pursuant to which advantageous extended credit terms are offered to creditworthy customers who order and accept delivery of roofing products during the winter months.

Generally, GAF Building Materials' inventory practice includes increasing inventory levels throughout the first quarter in order to meet peak season demand (April through October).

Method of Distribution and Competitive Conditions. GAF Building Materials markets its roofing products through its own sales force with district sales offices located across the United States. A major portion of its sales are to wholesale distributors who resell to roofing contractors and dealers. The remainder of the sales are either to retailers who sell to the consumer market or direct sales to the construction industry.

The roofing products industry is highly competitive and includes at least four major competitors, including GAF Building Materials, and numerous smaller regional competitors. Competition is based largely upon product and service quality, distribution capability, price and credit terms. GAF Building Materials is well positioned in the marketplace as a result of strong sales and distribution capabilities, favorable raw material costs and broad product lines.

For several years, prices in the roofing industry have declined. To meet this trend, GAF Building Materials maintains aggressive programs to reduce raw material and other costs, automate production facilities, introduce new products, emphasize sales of profitable high value-added products and maintain sales at a relatively high level in relation to plant capacities.

Research and Development. GAF Building Materials is engaged in new products development and process improvements which have led to cost savings, increased manufacturing efficiencies and the introduction of the following new major products in the years 1984-1988: the Royal Sovereign®, GAF Wood Line®, Slateline® and Timbertex® Hip & Ridge shingles, Ruberoid® MB modified bitumen product lines of smooth and granule-surfaced membrane and flashing accessories, Shingle-Mate® and heavy duty utility felt underlayment, Weather Watch® ice and water barrier and GAFGLAS® Ply 6 premium grade built-up roofing. In 1989, GAF Building Materials introduced Timberline Ultra® shingle, a super heavyweight shingle and Flashstick, a conveniently available stick of special modified bitumen material for application around roof details.

GAF Broadcasting Company, Inc.

GAF Broadcasting owns and operates WNCN, 104.3-FM, a commercial radio station broadcasting classical music and cultural programs in the New York City metropolitan area. WNCN is on the air 24 hours a day, 7 days a week.

Investments

On February 12, 1990, the Company's surfactants chemicals business was transferred to a limited partnership affiliated with Rhone-Poulenc Inc. The Company retains an indirect beneficial interest in the partnership. For a description of this transaction, see "Recent Developments." The partnership is engaged in the production and marketing of surfactants and specialty chemicals.

Protection of the Environment

The discussion as to asbestos-related and environmental lawsuits involving the Company, and appearing in response to "Item 3. Legal Proceedings," is incorporated herein by reference.

Since 1970, a wide variety of federal, state and local environmental laws and regulations have been adopted and continue to be adopted and amended. By reason of the nature of the Company's past and present operations and certain of the substances which are, or have been used, produced or discharged by the Company's plants or other locations, the Company is affected by these laws and regulations.

The Clean Air Act, Clean Water Act, Safe Drinking Water Act, and similar or local counterparts of those federal laws regulate air and water emissions or discharges into the environment. The Resource Conservation and Recovery Act ("RCRA"), the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund") and the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), among others, address the storage, treatment, transportation and disposal of solid waste, and releases, and preparedness in the event of releases, of hazardous substances to the environment. The Company's current operations necessitate compliance with the Toxic Substances Control Act and related laws designed to assess the risk to health or the environment at early development stages for new products. Workplace safety and health standards are regulated by the Occupational Safety and Health Act. Laws already adopted or proposed in various states require that industrial property be environmentally sound before it can be transferred or sold.

The Company believes that compliance with environmental control requirements as presently interpreted and enforced will not materially affect its capital expenditures, earnings and competitive position in the industries in which it is engaged, although no assurance therefor can be given.

Employees

At December 31, 1989, the Company employed approximately 4,542 people worldwide. At such date, approximately 1,682 employees in the United States and Canada were subject to 21 union contracts, which are effective in most cases for two- or three-year periods. Of these contracts, six expired and were renegotiated in 1989. During 1989, there were no strikes or work stoppages.

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

Corporate Developments

On March 29, 1989, the Predecessor Company was acquired by a management group of the Company (the "Management Group") led by Samuel J. Heyman, its Chairman and Chief Executive Officer. In the Acquisition, each outstanding share of common stock of the Predecessor Company (other than certain shares beneficially owned by Mr. Heyman and other members of the Management Group which were exchanged for $52 million of equity and $48 million of debt of the companies established by the Management Group to effect the Acquisition) were converted into the right to receive the "Acquisition Consideration" consisting of (i) $46.00 in cash and (ii) $7.00 principal amount of G-I Holdings Inc. Subordinated Debentures due 2005 which floating interest rate was set initially at 16.62%, and currently is set at 15.83% (the "Merger Debentures"). G-I Holdings Inc. is a wholly owned subsidiary of the Company.

The Acquisition was financed by the issuance of $283 million principal amount of Increasing Rate Notes due 1994 (the "Notes") and loans of up to $885 million pursuant to a credit agreement with a syndicate of banks led by The Chase Manhattan Bank, N.A. Interest on the Notes was initially set at 14.125%. The bank debt bears interest at a floating rate initially set at 13.5% and will mature on October 11, 1990, although the maturity may be extended for up to six additional months at the option of the Company. As of March 16, 1990, the Company has outstanding borrowings under the bank debt at rates between 11.6% and 12%. For a discussion of the redemption of the Notes and a partial prepayment of the bank debt which occurred in the first quarter of 1990, see "Recent Developments."

To facilitate the Acquisition, the Company conducted tender offers and consent solicitations to amend the indentures pursuant to which the Company had issued its 11⅜% Senior Subordinated Notes due 1995, 10⅜% Senior Subordinated Notes due 1994 and 10⅞% Senior Subordinated Debentures due 2001. The requisite majority consents were obtained for all those issues and the indentures amended. The tender offer expired on March 28, 1989 and the Company accepted for payment all validly tendered Securities constituting approximately 95%, 91% and 100%, respectively, of each issue. See also Note 8 of the Notes to the Predecessor Company's Consolidated Financial Statements.

As a result of the Acquisition, all members of the Board of Directors of the Predecessor Company resigned, except Mr. Heyman; the officers of the Predecessor Company became officers of the Company.

Recent Developments

On February 12, 1990, pursuant to an Asset Sale Agreement, GAF Chemicals and Alkaril U.S. sold the assets (the "Surfactants Assets") of their surfactants business (the "GAF Surfactants Business") to two newly formed grantor trusts (the "Purchaser Trusts"), of which GAF Chemicals and Alkaril U.S. are the sole beneficiaries. The Purchaser Trusts then contributed the Assets to Rhone-Poulenc Specialty Chemicals, L.P. (the "Partnership"), in exchange for limited partnership interests and, in turn, contributed such interests to a third trust which became a successor limited partner of the Partnership (the "Limited Partner Trust"). The Partnership is affiliated with Rhone-Poulenc Inc. ("RPI"), a wholly owned subsidiary of Rhone-Poulenc S.A., a French Corporation. RPI also contributed businesses to the Partnership. The total consideration for the transferred Surfactants Assets was valued at approximately $490 million, including the assumption and payment of certain liabilities relating to the Surfactants Assets. As a result of the transaction, GAF Chemicals and Alkaril U.S. received $450 million in cash and, through their beneficial interests in the Purchaser Trusts, retain a continuing interest in the Limited Partner Trust, and consequently in the Partnership. The Limited Partner Trust borrowed the funds to pay the cash portion of the purchase price under the Asset Sale Agreement. The cash portion of the consideration is subject to a post-closing adjustment. The Consolidated Financial Statements of the Company reflect the limited partnership investments in the Partnership as well as the debt incurred by the Limited Partner Trust. Under the partnership agreement, the Limited Partner Trust will receive a priority distribution representing a return on the limited partnership investment, which it is anticipated will exceed the interest on the debt of the Limited Partner Trust.

A portion of the proceeds of the surfactants transaction was used by the Company to prepay $200 million of its bank debt and to redeem the Notes. The proceeds from the redemption of $48 million of the Notes were exchanged for new notes on substantially identical terms.

For recent developments concerning certain litigation matters affecting the Company, including the disposition of certain criminal and civil matters relating to allegations of securities law violations against the Company, see "Item 3. Legal Proceedings."

Item 2. Properties of the Company

The corporate headquarters, principal research and development laboratories, general administrative and financial operations and principal electronic data processing facility of the Company and of its subsidiaries, GAF Chemicals and GAF Building Materials, are located on approximately 100 acres of land and in 10 buildings at 1361 Alps Road, Wayne, New Jersey 07470. The Company leases the facilities and land from a wholly owned subsidiary, GAF Realty Corporation. The premises are subject to a first mortgage.

The WNCN-FM studio and GAF Broadcasting are located in leased offices at 1180 Avenue of the Americas, New York, New York 10036.

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

Location	Facility	Segment
DOMESTIC		
Alabama		
Huntsville	Plant*	Chemicals
Mobile	Plant, Sales Office	Building Materials
California		
Fontana	Plant, Sales Office	Building Materials
Irwindale	Plant	Building Materials
Florida		
Tampa	Plant, Sales Office	Building Materials
Georgia		
Savannah	Plant, Sales Office	Building Materials
Winder(1)	Plant, Sales Office, Research	Chemicals
Indiana		
Mount Vernon	Plant, Sales Office	Building Materials
Kentucky		
Calvert City	Plant	Chemicals
Maryland		
Baltimore	Plant	Building Materials
Hagerstown	Research	Chemicals (granules)
Massachusetts		
Millis	Plant, Sales Office	Building Materials
Minnesota		
Minneapolis	Plant, Sales Office, Warehouse*	Building Materials
Missouri		
Annapolis	Plant, Quarry	Chemicals (granules)
New Jersey		
Bound Brook	Sales Office	Chemicals (granules)
Chatham	Plant, Sales Office, Research	Chemicals
Linden	Plant	Chemicals
Wayne	Corporate and Subsidiaries Headquarters*, Administrative Offices*, Research*	Corporate Building Materials Chemicals
New York		
New York	Office*, Studios*	GAF Broadcasting
Pennsylvania		
Blue Ridge Summit	Plant, Quarry	Chemicals (granules)
Erie	Plant, Sales Office	Building Materials

Location	Facility	Segment
South Carolina		
Chester	Plant	Building Materials
Spartanburg(1)	Plant	Chemicals
Tennessee		
Nashville	Plant, Research	Building Materials
Texas		
Dallas	Plant, Sales Office	Building Materials
Seadrift	Plant	Chemicals
Texas City	Plant	Chemicals
Wisconsin		
Pembine	Plant, Quarry	Chemicals (granules)
INTERNATIONAL		
Belgium		
Sint-Niklaas	Sales Office, Distribution Center	Chemicals
Brazil		
Sao Paulo	Plant*, Sales Office*, Distribution Center*	Chemicals
Canada		
Mississauga, Ontario	Sales Office*, Distribution Center*	Chemicals
Mississauga, Ontario(1)	Plant, Sales Office, Research	Chemicals
Great Britain		
Guildford	European Headquarters*, Research	Chemicals
Singapore		
Singapore	Sales Office*, Distribution Center*, Asia Pacific Headquarters*, Warehouse*	Chemicals
Affiliate:		
GAF-Hüls Chemie GmbH Marl, West Germany	Plant, Sales Office	Chemicals

(1) These properties were transferred as part of the transfer of the GAF Surfactants Business. See "Item 1. Business of the Company—Recent Developments."

* Leased Property

The Company believes that, in general, these plants and facilities, which are of widely varying ages and of different types of construction, have been adequately maintained, are in good condition and are suitable and adequate for the Company's operations. The Company's major facilities are generally satisfactorily utilized and many chemicals production units operate at high capacity levels. Granules facilities operate at high capacity levels during peak season. Each plant has adequate transportation facilities for both raw materials and finished products. As part of the Company's continuing capital expansion and improvements program, major projects for the renovation and expansion of some of the plants and installation of new equipment were completed in 1989 and more are planned. Capital expenditures were approximately $42.8 million in 1989. These expenditures were or are allocable to GAF Chemicals and GAF Building Materials as follows (dollars in millions):

	1989
GAF Chemicals	$28.5
GAF Building Materials	13.6

Item 3. Legal Proceedings

In July 1988, a federal grand jury in the Southern District of New York indicted the Company, two of its subsidiaries, Jay & Company, Inc. and GAF Chemicals, and its vice chairman and chief administrative officer, James T. Sherwin. The indictment arose out of allegations that the defendants attempted to increase the price of Union Carbide common stock on October 29 and 30, 1986, through the brokerage firm of Jefferies & Company, in connection with the Company's disposition of a portion of its Union Carbide stock position; the Company sold five million such shares in a single block trade to an investment banking firm on November 10, 1986.

The original ten-count indictment charged the Company, its two subsidiaries and Mr. Sherwin each with one count of conspiracy, one count of stock price manipulation, three counts of securities fraud, three counts of wire fraud, one count of causing the creation of false entries in a broker-dealer's books and records, and one count of obtaining improper margin loans to finance stock purchases. The improper margin loan count was withdrawn by the Government prior to trial. The first trial of this matter commenced in December 1988. On January 10, 1989, the trial judge declared a mistrial because of prosecutorial misconduct, and a second trial commenced on January 17, 1989. At the close of the Government's case, one of the securities fraud counts was dismissed by the Government. On March 22, 1989, the trial judge declared a second mistrial when the jury advised it was unable to reach a verdict. A third trial commenced on November 1, 1989 and on December 13, 1989, a jury returned guilty verdicts on the remaining eight counts against the Company and Mr. Sherwin. The two subsidiaries were acquitted on all counts. On March 30, 1990, the Company was fined $2,000,000. Mr. Sherwin received a sentence of six months imprisonment. Both the Company and Mr. Sherwin will appeal and the sentences were stayed pending appeal.

On March 8, 1990, the Company and Mr. Sherwin, without admitting or denying the allegations in a proposed complaint by the Securities and Exchange Commission involving the same matters which were the subject of the criminal case discussed above, each consented to the entry of separate judgments enjoining, respectively, the Company from violating Sections 10(b), 13(b)(2)(A) and 13(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act"), and Rules 10b-5 and 13d-2 thereunder, and Mr. Sherwin from violating Section 10(b) of the Exchange Act and Rules 10b-5 and 13b2-1 thereunder, and from aiding and abetting violations of Sections 13(b)(2)(A) and 13(d)(2) of the Exchange Act and Rule 13d-2 thereunder. The Company also agreed to pay the sum of $1,250,000 plus prejudgment interest from October 30, 1986 to March 8, 1990.

In September and October 1988, two purported class actions were filed in the U.S. District Court in Newark, against the Company, its two subsidiaries, Jay & Company, Inc. and GAF Chemicals, the Predecessor Company's directors and Edward E. Shea, a former director of the Predecessor Company, by two purported Predecessor Company shareholders (one acting in his capacity as a trustee) on their own behalf and on behalf of other shareholders similarly situated who purchased shares of the Predecessor Company in the period from October 2, 1986 through July 6, 1988. The complaints allege certain violations of the Securities Exchange Act of 1934, common-law fraud, and negligent misrepresentation, arising from the charges set forth in the aforesaid indictment. Unspecified compensatory and punitive damages are asserted, based on the plaintiffs' contentions that had they and other putative class members known of the defendants' misconduct and that the value of the shares of the Predecessor Company had been "artificially inflated" by the "false 'profits' " realized and unrealized from the buying and selling of

Union Carbide stock by the Company, they would not have purchased those shares at such artificial prices. The Court, in November 1988, denied a general stay sought by the defendants without prejudice to later renewal of the motion, but ordered discovery limited solely to the issue of class certification. In December 1988, the defendants made a motion to dismiss the complaint. In February 1989, in response to this motion, the Court signed an order, proposed by the plaintiffs, staying all proceedings for 120 days. Subsequently, these actions were administratively terminated by the Court, subject to application by any party to restore them to active status. On March 1, 1990, the actions were restored to active status by plaintiffs' application, which was not opposed by the defendants. While these cases are still at their earliest stage, management believes that their ultimate disposition will not have a material adverse effect on the Company's financial position.

As of December 31, 1989, the Company was named as a co-defendant, together with numerous other companies, in approximately 58,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber. The Company has resolved approximately 53,000 other lawsuits involving similar claims through December 31, 1989. It is anticipated that additional suits will be filed by persons allegedly exposed to asbestos at sites where it is claimed asbestos containing materials manufactured by the Company and others may have been used. It is impossible to predict the number of such additional lawsuits. In 1971, the Company discontinued the sale of its principal asbestos insulation products and, in 1975, withdrew from the sale of all asbestos products except products in which the asbestos fiber was fully bonded or encapsulated, which products the Company discontinued in 1981.

In May 1979, the Company commenced an action in the Los Angeles, California Superior Court against its insurance carriers to obtain a judicial determination that such carriers are obligated to defend and indemnify the Company, under policies issued from 1947 to 1979, in all present and future asbestos bodily injury cases. In addition, the Company sought compensatory and punitive damages for breach of insurance contracts, violations of the California Insurance Code, bad faith and certain other claims. The action was later consolidated in the San Francisco Superior Court with actions by other asbestos producers against their insurers. Trial commenced in March 1985, and in preliminary decisions in various phases of this case the Court held, *inter alia*, that the insureds are entitled to coverage for asbestos bodily injury claims under all insurance policies in effect from the date of the claimant's initial exposure through the earlier of diagnosis of disease or death; that the Company may utilize certain insurance policies issued to the Company before the 1967 merger with The Ruberoid Co. to pay for asbestos bodily injury claims; that the Company may allocate responsibility among the Company's insurers for these claims on bases favorable to the Company; and that periods when the Company was uninsured, self-insured, or had insurance with deductible or retentions are not considered "other insurance" which would be available to the Company's insurers when they allocate monies paid for such claims amongst themselves. The Court also approved, as reasonable, settlement agreements between, *inter alia*, the Company and certain of its insurers. The remainder of the trial continued with respect to parties and issues not involving the Company. Final judgment on all phases of the trial was entered by the Court on February 8, 1990.

In January 1987, the Company entered into settlement agreements with five of its defendant-carriers in the California litigation described above (whose coverage constituted the major portion of the insurance coverage in issue under such litigation). These five settlements resolved all of the Company's outstanding claims against these insurers with respect to their asbestos bodily injury coverage and will provide the Company with substantial insurance with respect to pending and prospective asbestos bodily injury claims and related expenses. These carriers were dismissed from that litigation. The Company's suit against the remaining ten insurers in that litigation continued. Subsequent to the entry of the aforesaid final judgment, however, four of those remaining insurers entered into a settlement agreement in principle with the Company confirming the availability of their coverage for asbestos bodily injury claims.

In connection with the January 1987 settlements described above, the Company joined the Wellington Asbestos Claims Facility (the "Facility"), an organization of insurance companies and asbestos producers formed in 1985 to coordinate the administration of asbestos bodily injury claims. From and after January 1987, the Facility assumed defense and settlement of the Company's pending, threatened and future asbestos bodily injury claims. The Company's share of the costs of settlements, judgments and legal expenses with respect to all claims handled by the Facility, were borne by the Facility, which was reimbursed by the Company's insurers on the basis of the amounts provided under the Facility's agreement with the Company, and to the extent of the coverage afforded the Company under its policies of insurance and the aforesaid settlement agreements. At the same time, the Company entered into a separate agreement with another insurer, with which the Company had previously settled its insurance coverage claims, so as to conform the Company's arrangement with such insurer regarding such settlements and with the Company's entry into the Facility.

In October 1988, the Facility was formally dissolved. Effective as of that same date, the Company joined a newly created claims-handling organization, called the Center for Claims Resolution (the "Center"), composed of approximately 21 producers, which functions generally in the same fashion as did the Facility with respect to the handling of all pending, threatened and future asbestos bodily injury claims on behalf of the Company and the other members of the Center. As of December 31, 1989, there were approximately 69,000 pending claims being handled by the Center, a portion of which claims have previously been disposed of separately by the Company and for which the Company will not bear a share of responsibility as a member of the Center. The Center has no insurer members, but a group of insurers, composed generally of the same insurers who were members of the Facility, have agreed to abide by the allocation percentages for liability and defense expenses established among the Center's members, and to pay their (the insurers') respective shares of such allocated liability and defense expenses, based on the insurance coverage provisions established pursuant to the June 1985 Agreement under which the Facility had been established. These insurers have also agreed to share with the Center's members a portion of the operating expenses of the Center. Additionally, under the agreement establishing the Center, any member can withdraw from the Center upon 60 days' prior notice. In connection with joining the Center, the Company entered into a separate agreement with a group of eight insurers providing the Company, in lieu of the Insurance Defense Program (available to the Company as a member of the Facility) which was discontinued when the Facility was dissolved, with additional coverage which will be available to the Company to pay asbestos bodily injury claims and related expenses when all other insurance coverage and other funding sources available to the Company for the payment of asbestos related claims have been exhausted (the "Additional Coverage"). The Additional Coverage will be available to the Company regardless of whether the Company remains a member of the Center. The Company's existing insurance coverage under its insurance policies and settlement agreements will also remain in effect notwithstanding the dissolution of the Facility or whether the Company remains a member of the Center or joins and/or remains a member of any other claims-handling organization.

In October 1986, the Company commenced a declaratory judgment action in Los Angeles, California Superior Court with respect to the obligations for asbestos bodily injury coverage of certain underwriters at Lloyd's and British insurance companies under liability policies issued to the Company for the years 1979 to 1983. In February 1989, the Company and these defendant insurers entered into a settlement agreement whereby, subject only to slight modification of applicable deductibles of the policies involved, the availability and accessibility of this post-1979 coverage for asbestos bodily injury claims has been confirmed.

In the opinion of management, with respect to the aforesaid health claim lawsuits, the ultimate disposition of such lawsuits will not have a material adverse effect on the Company's financial position.

As of December 31, 1989, the Company, together with numerous other companies, was named as a co-defendant in approximately 66 pending actions, commenced by school districts, municipalities and similar governmental entities and building owners which allege economic and property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises. The Company, as of December 31, 1989, has resolved approximately 66 such actions. The plaintiffs seek to recover the cost of inspections, removal and/or the replacement of asbestos materials plus health screening examinations, counsel fees and expenses incurred in connection with litigation and compensatory and punitive damages. Most of these actions are still in early pre-trial stages. One of these lawsuits, in the U.S. District Court for the Eastern District of Pennsylvania, has been certified as a class action for certain issues, including punitive damages.

This case is in the pre-trial stage. The Company did not sell asbestos spray or acoustical ceiling products, which are the primary products presently being removed from buildings.

On January 30, 1990, the Washington State Attorney General, on behalf of himself and 28 other State Attorneys General, moved in the U.S. Supreme Court for permission to file suit in that Court against 26 former asbestos producers, including the Company, seeking a declaration that these firms are liable to the 29 States involved for the costs of asbestos abatement in public buildings owned by those States to remedy the alleged hazards caused by the claimed failure of the companies to provide safe products or warn the States of dangers posed by the products installed. The proposed complaint asks the Court to appoint a Special Master to "fashion such relief as is equitable and appropriate to effectuate restitution to the States." Briefs in opposition to the motion seeking permission to bring suit will be filed by the Company and by others named on April 12, 1990.

In October 1983, the Company filed a lawsuit in Los Angeles, California Superior Court against its past insurance carriers to obtain a judicial determination that such carriers were obligated to defend and indemnify the Company in the asbestos-in-building cases referred to above. The Company is seeking declaratory relief as well as compensatory damages. This action is presently in the pre-trial pleading stage. The parties have agreed to hold this action in abeyance until such time as they are better able to evaluate developments as they may occur in the underlying asbestos-in-building cases. One of the Company's insurance carriers is currently paying, under reservations of rights, all costs of defense of the asbestos-in-building litigation. Because such litigation is in its early stages and evidence and interpretations of important legal questions are presently unavailable, it is not possible to predict the future of such litigation. In the opinion of management, with respect to the aforesaid asbestos-in-building lawsuits, the ultimate disposition of such lawsuits will not have a material adverse effect on the Company's financial position.

The Company is a party to a variety of administrative proceedings and lawsuits involving environmental matters, including being named as a defendant, together with numerous other companies, in several lawsuits under the CERCLA and similar state laws which seek to recover from generators of hazardous waste the cost of cleaning up contaminated waste disposal sites. Most of the lawsuits involving these dumpsites are in the early stages. Due to the practices of waste disposal haulers and disposal facilities prior to adoption and implementation of the environmental laws and regulations, evidence is difficult to obtain or evaluate and important legal questions have not yet been answered. The Company has been successful in obtaining and continues to seek dismissal of some of the lawsuits and proceedings on grounds that there appears to be no substantial evidence that there is any hazardous waste of the Company present at the dumpsites in question. In other cases the Company will seek such resolution as may be appropriate. In each lawsuit, management of the Company anticipates, although there can be no assurance, that liability, if any, will eventually be apportioned among the companies found responsible for the presence of hazardous waste at the dumpsite. Based on evidence presently available, it is impossible to predict the eventual liability of the Company in these dumpsite lawsuits. In the opinion of management, these lawsuits should be resolved gradually over a period of years for amounts which are not material in the aggregate to the business or financial position of the Company. The Company has an understanding with its comprehensive general liability insurers for such insurers to cover the majority of the Company's liability and all of its expenses in connection with damages or losses occurring prior to November 1, 1984 in connection with such dumpsites.

In November 1988, the Mass Media Bureau of the Federal Communications Commission ("FCC") approved the application filed in March 1988 by the Predecessor Company for authority to transfer control of its subsidiary, GAF Broadcasting Company, Inc., as licensee of WNCN-FM, in connection with the then proposed Acquisition, which was subsequently consummated in March 1989. (See "Item 1. Business of the Company—Corporate Developments," for a description of the Acquisition.) In December 1988, Listeners' Guild, Inc., a New York not-for-profit corporation, composed of individual radio listeners, whose petition to deny the transfer application had been denied by the FCC in November 1988, filed a petition with the FCC for reconsideration of the FCC's grant of approval, which petition is still pending.

The Company and certain directors of the Predecessor Company are defendants in a lawsuit pending in New York State Supreme Court, New York County, involving claims by the estate of Jesse Werner, the former Chairman and Chief Executive Officer of the Predecessor Company, that they wrongfully prevented him from exercising options to purchase 240,000 shares of common stock of the Predecessor Company and seeking to recover $800,000 in compensatory damages and $5,000,000 in punitive and exemplary damages (the "Stock-option Action"). The complaint was subsequently amended to increase the damages sought to $13,897,000 and $20,000,000, respectively, based primarily on the increase in the price of the Predecessor Company's common stock after the commencement of the action. The Court, however, ruled, in response to a motion by the Company, that the estate would be precluded from introducing evidence in support of the amended compensatory damage claim, and that damages, to the extent any are awarded, must be measured by and limited to the difference between the market price of the stock at the time exercise of the option was denied to Werner and the exercise price of the options. In the alternative, the amended complaint seeks specific performance of Werner's options. In March 1984, the Company commenced a lawsuit in New York State Supreme Court, New York County, against Werner and certain directors of the Predecessor Company seeking to recover compensatory damages in connection with Werner's compensation arrangements and costs incurred in waging the 1983 proxy contest plus $50,000,000 in punitive damages, which is pending (the "Waste Action").

In January 1990, Werner's estate moved to dismiss the Waste Action and certain affirmative defenses in the Stock-option Action on grounds of *res judicata* and collateral estoppel, contending that an award in an earlier arbitration proceeding in which the estate was awarded approximately $2.8 million in connection with Werner's claim for breach of his 1981 employment agreement had determined and therefore barred certain of the issues involved in the pending actions. The other defendants in the Waste Action have joined in that motion, which is pending. Under the Company's By-Laws and under the Delaware General Corporation Law, the present and former directors and officers of the Company and the Predecessor Company are entitled to indemnification against certain liabilities, costs and expenses in any action, suit or proceeding as a result of their service in such capacity unless it is finally determined that they failed to act in good faith and in a manner which they reasonably believed to be in, or not opposed to, the best interests of the Company. The Company maintained company reimbursement and directors and officers liability insurance policies which were in effect during the period when the foregoing lawsuits were commenced and which should provide for reimbursement of amounts that might be paid in fulfillment of such indemnification obligations.

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

By written consent dated as of May 8, 1989, a holder of a majority of the Company's outstanding voting stock elected the directors of the Company. By written consent, dated as of December 28, 1989, holders of a majority of each of the Company's Series A and Series B Cumulative Redeemable Convertible Preferred Stock ("Series A Preferred Stock" and "Series B Preferred Stock", respectively) approved amendments to their respective certificates of designations. The amendments require that quarterly dividends, if and to the extent declared, shall be paid pro rata to holders of record for each day during the quarter for which dividends are declared that such holders appear on the stock register of the Company. In addition, the certificate of designation related to the Series B Preferred Stock was amended to extend the date for conversion of certain shares of Series B Preferred Stock owned beneficially by Samuel J. Heyman into Series A Preferred Stock. The amendments relating to the Series A Preferred Stock were consented to by the holder of 100% of the series. The amendments relating to the Series B Preferred Stock were consented to by holders representing 54.4% of the series.

PART II

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

There is no established trading market for the Company's common equity securities. The Common Stock is held of record by 77 holders.

Since the Acquisition, the Company has not paid dividends on its common equity. See Note 10 to the Company's Consolidated Financial Statements for a description of the restrictions on the ability of the Company's subsidiaries to transfer funds to the Company to pay dividends which are imposed by certain debt obligations of the subsidiaries.

On March 29, 1989, the Predecessor Company's common stock was delisted from the New York Stock Exchange. See "Item 1. Business of the Company—Corporate Developments." On that date, the closing price on the New York Stock Exchange for the Predecessor Company's common stock was $52.125, and there were 27,936,285 outstanding shares of common stock held by 16,467 holders of record.

Item 6. Selected Historical Consolidated Financial Data of the Company

See page F-9.

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

See page F-3.

Item 8. Financial Statements and Supplementary Data

See Index on page F-1.

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

None.

PART III

Item 10. Directors and Executive Officers of the Company

BOARD OF DIRECTORS

The name, age, principal occupation or employment at the present time and during the last five years and the name and principal business of any corporation or other organization in which such occupation is or was conducted, of each director are set forth below. Each person listed below is a citizen of the United States. Unless otherwise stated, all employments have continued for at least five years. All directors other than Samuel J. Heyman and Irwin Engelman have served the Company as directors since May 1989. Mr. Heyman has served as director since September 1987 and Mr. Engelman was elected a director on March 12, 1990. Mr. Heyman and Ronnie F. Heyman are husband and wife.

Name, Business Address and Positions Held	Age	Present Principal Occupation or Employment and Five-Year Employment History
Carl R. Eckardt Director and Executive Vice President—Corporate Development	59	Mr. Eckardt has been Executive Vice President, Corporate Development of the Company since April 1989 prior to which he held the same position with the Predecessor Company from January 1987 to April 1989. Mr. Eckardt was a Senior Vice President of the Predecessor Company from 1981 to 1987, and was President of the Predecessor Company's chemicals subsidiary and division from 1985 to 1987. Mr. Eckardt joined the Predecessor Company in 1974.
Irwin Engelman Director	55	Mr. Engelman has been President and Chief Operating Officer of Citytrust Bancorp Inc., an independent Connecticut bank holding company, since July 1988. From January 1987 to July 1988 he was Executive Vice President of the Blackstone Group, an investment banking firm. From 1981 to January 1987 he was Executive Vice President and Chief Financial Officer at General Foods Corporation. Mr. Engelman is a director of Citytrust Bancorp, Alcide Corporation and the LMH Fund Ltd.
Ronnie F. Heyman Director	41	Mrs. Heyman is a partner in the law firm of Heyman & Heyman, which specializes in real estate law.
Samuel J. Heyman Chairman of the Board and Chief Executive Officer	51	Mr. Heyman has been Chairman of the Board and Chief Executive Officer of the Company since April 1989 prior to which he held the same position with the Predecessor Company from December 1983 to April 1989. 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 held largely in connection with arbitrage activities.
Irving Kagan Director and Senior Vice President, General Counsel and Secretary	54	Mr. Kagan has been Senior Vice President, General Counsel and Secretary of the Company since April 1989 prior to which he held the same position with the Predecessor Company from 1986 to April 1989. Before such time, he served as Senior Vice President, General Counsel and in various other management and legal positions from 1968 to October 1986 with The Hertz Corporation.
John M. Sergey Director and Executive Vice President and President, GAF Building Materials Corporation	47	Mr. Sergey has been an Executive Vice President of the Company and President, GAF Building Materials since April 1989. From 1978 to 1989 he served in various management positions with Avery International Corporation, a company engaged in the manufacture and conversion of pressure sensitive adhesive products, including Group Vice President of the Materials Group from 1987 to 1989 and Group Vice President of the Soabar Group from 1984 to 1987.

Name, Business Address and Positions Held	Age	Present Principal Occupation or Employment and Five-Year Employment History
James T. Sherwin Vice Chairman of the Board and Chief Administrative Officer	56	Mr. Sherwin has been Vice Chairman and Chief Administrative Officer of the Company since April 1989 and held the same position with the Predecessor Company from May 1984 to April 1989. Mr. Sherwin was Executive Vice President, Finance and a director of the Predecessor Company from May 1974 to May 1983. Mr. Sherwin joined the Predecessor Company in 1960. From June 1983 to May 1984, he served as Executive Vice President and Chief Financial Officer of Triangle Industries, Inc., at that time a manufacturer of vending machines, juke boxes and copper insulating materials.
Heinn F. Tomfohrde, III Director and Executive Vice President and President, GAF Chemicals Corporation	56	Mr. Tomfohrde has been an Executive Vice President of the Company and President, GAF Chemicals since April 1989 prior to which he held the same position with the Predecessor Company from 1987 to April 1989. Before that time, he served as President, Specialties & Services from 1986 to 1987, President and Chief Operating Officer, Consumer and Industrial Products and Services Group from 1985 to 1986, Executive Vice President, Engineering and Technology Services from 1983 to 1985, and a director from 1985 to 1987 of Union Carbide Corporation.

For information concerning litigation involving directors, including a criminal conviction involving the Company and Mr. Sherwin, see "Item 3. Legal Proceedings."

EXECUTIVE OFFICERS

The following table sets forth certain information with regard to the executive officers of the Company. Information relating to Messrs. Samuel J. Heyman, Carl R. Eckardt, Irving Kagan, John M. Sergey, James T. Sherwin and Heinn F. Tomfohrde is set forth above, see "Board of Directors." All executive officers are citizens of the United States. The name, age, principal occupation or employment at the present time and during the last five years and the name, principal business and address of any corporation or organization in which such occupation is or was conducted, of each executive officer are set forth below. The business address of each person listed below is 1361 Alps Road, Wayne, New Jersey 07470.

Name and Positions Held	Age	Present Principal Occupation or Employment and Five-Year Employment History
Salvatore C. Bellini Senior Vice President and Controller	42	Mr. Bellini has been a Senior Vice President of the Company since April 1989 prior to which he held the same position with the Predecessor Company from September 1988 to April 1989. He served as Controller of the Predecessor Company from 1983 to 1984 and again from 1987 to September 1988. In addition, he served as a Vice President of the Predecessor Company from 1987 to 1988; Vice President Finance of the Predecessor Company's building materials subsidiary and division from 1984 to 1987; and Director of Taxes of the Predecessor Company from 1980 to 1983. Mr. Bellini joined the Predecessor Company in 1973.

EXECUTIVE COMPENSATION

Compensation of Executive Officers

The following table sets forth the cash compensation paid by the Company with respect to (i) each of the Company's six most highly compensated executive officers whose aggregate cash compensation from the Company for services rendered during fiscal year 1989 exceeded $60,000 and (ii) all executive officers as a group.

Name of Individual or Number of Persons in Group	Capacities in Which Served	Cash Compensation	
		Salary	Other(1)
Samuel J. Heyman	Chairman of the Board and Chief Executive Officer	$ 400,000	$10,482
James T. Sherwin	Vice Chairman of the Board and Chief Administrative Officer	261,400	4,726
Heinn F. Tomfohrde, III	Executive Vice President and President, GAF Chemicals Corporation	262,500	9,480
Carl R. Eckardt	Executive Vice President—Corporate Development	197,083	7,140
John M. Sergey(2)	Executive Vice President and President, GAF Building Materials Corporation	150,000	27,601(3)
Irving Kagan	Senior Vice President, General Counsel and Secretary	212,625	5,535
All Executive Officers as a Group (8 individuals)(4)		$1,663,516	$73,413

(1) Includes the cost to the Company of special life insurance provided to the Company's elected officers.

(2) Mr. Sergey joined the Company in April 1989.

(3) Includes a $25,000 relocation payment made to Mr. Sergey.

(4) Includes cash compensation paid to one officer whose employment with the Company terminated in March 1989.

Compensation Pursuant to Plans

Executive Incentive Compensation Program

The Company has an Executive Incentive Compensation Program (the "Incentive Program") which covers approximately 516 officers, managers and other professional employees of the Company and its subsidiaries.

The Incentive Program enables the Board of Directors, in its discretion, to make compensation awards to key employees from an incentive compensation fund which is determined annually by the Board based upon the Company's adjusted income. The Chief Executive Officer of the Company furnishes the

Compensation Committee of the Board of Directors, and the Committee then furnishes the entire Board, with recommendations as to particular awards. An award under the Incentive Plan is payable in cash.

The criteria used to determine awards under the Incentive Program include the level of success achieved during the year by the employee, the subsidiary or department in which the employee works and the Company's income. The total incentive compensation fund for fiscal 1989 is $3,750,000; however, awards for fiscal 1989 have not yet been made.

Restricted Stock Purchase Plan

The Company had a Restricted Stock Purchase Plan which authorized the sale of its common stock to employees at a price of at least 50% of the closing price of such stock on the New York Stock Exchange on the date prior to the sale and imposed restrictions on the sale or transfer of the stock by employees who purchased. The Restricted Stock Purchase Plan was terminated immediately prior to the Acquisition. No offers to purchase stock were made to executive officers under the Restricted Stock Purchase Plan in 1989. Two executive officers, however, owned shares purchased in prior years on which restrictions lapsed in 1989. The difference between the original purchase price and the market value on the date of lapse for the restricted shares was as follows: Mr. Eckardt—$26,914 and all executive officers as a group—$32,335.

Stock Option Plans

The Company had two employee stock option plans, the 1975 Stock Option Plan (the "1975 Plan") and the 1984 Stock Option Plan (the "1984 Plan"). The 1975 Plan was terminated in 1985 and all options outstanding at the time of the Acquisition were vested immediately prior thereto enabling option holders to receive the Acquisition Consideration. The 1984 Plan was terminated immediately prior to the Acquisition and all outstanding options were vested enabling option holders to receive the Acquisition Consideration. On the date of the Acquisition all outstanding options with exercise prices less than the amount of the Acquisition Consideration were converted into the right to receive the amount of Acquisition Consideration to which they would have been entitled had their options been exercised for shares and their shares exchanged for Acquisition Consideration. See "Item 1. Business of the Company—Corporate Developments."

No options were granted in 1989 under the 1984 Plan. The following table includes, for each executive named in the Executive Compensation Table and for all executive officers as a group, data on the following: (1) the net value realized in shares or cash of options awarded in prior years under both the 1975 and 1984 Stock Option Plans; and (2) the net value realized in cash or Merger Debentures in respect of the payment of Acquisition Consideration to option holders:

Name of Individual	Net Value of Options Exercised in 1989	Net Value of Acquisition Consideration: Cash	Net Value of Acquisition Consideration: Merger Debentures
Samuel J. Heyman	0	$ 5,803,125	$1,029,000
James T. Sherwin	0	2,021,875	379,750
Heinn F. Tomfohrde, III	96,756	56,250	110,250
Carl R. Eckardt	135,938	2,268,750	398,125
John M. Sergey(1)	0	0	0
Irving Kagan	0	63,750	30,625
All Executive Officers as a Group (8 individuals)(2)	733,194	$11,886,251	$2,246,647

(1) John M. Sergey joined the Company in April 1989 and was not employed by the Predecessor Company.

(2) Includes an officer whose employment with the Company terminated in March 1989.

Non-Qualified Retirement Plan

The Company has a non-qualified retirement plan for the benefit of key employees (the "Retirement Plan"). The benefit payable under the Retirement Plan, which accrues in accordance with a ten-year schedule, consists of an annual payment commencing at age 65 equal to 25% of a covered employee's last full year's salary. The benefit will continue for the longer of 15 years or the joint lifetimes of the employee and his or her spouse. If a covered employee dies while employed by the Company, a death benefit of 36% of the employee's annual income at the date of death is payable for a term of 15 years to the employee's beneficiary. Employees who participate in the Retirement Plan are not entitled to have employer contributions made to their accounts, if any, under the GAF Capital Accumulation Plan, a retirement plan which complies with Section 401(k) of the Code.

No new participants are being admitted to the plan as of January 1989. The amount of annual vested benefits to which each executive officer was entitled at the end of 1989 was as follows: Mr. Heyman—$31,000; Mr. Sherwin—$20,754; Mr. Tomfohrde—$38,646; Mr. Eckardt—$15,500; Mr. Kagan—$13,781; and all executive officers as a group (7 individuals)—$122,651.

Severance Policy

The Company's basic severance policy for salaried employees provides for payments to employees based upon the age and length of service of the employee at the time of termination. Pursuant to the terms of this policy, the only executive officers who would be currently entitled to severance payments in excess of $60,000 are James T. Sherwin and Carl R. Eckardt. Messrs. Sherwin and Eckardt would be entitled to severance payments of $156,217 and $91,667, respectively. This policy does not apply to employees who are dismissed for cause.

Life Insurance

In 1989, salaried employees of the Company were eligible to enroll on a contributory basis in a benefits package providing generally for term life insurance equal to up to two times current annual base salary, an accidental death and dismemberment payment up to two times current annual base salary and monthly long-term disability benefits of up to 60% of current annual salary. In addition, salaried employees received life insurance coverage equal to one times their current annual base salary plus $3,000 on a non-contributory basis. All elected officers received the aforementioned accidental death and dismemberment and long-term disability coverages on a non-contributory basis; they are also entitled to receive group term life insurance coverage equal to up to four times current annual base salary plus $3,000 on a non-contributory basis. The cost to the Company of such insurance coverage for all executive officers is included in the Executive Compensation Table.

Personal Benefits

The Company paid $44,677 pursuant to its relocation policy for the relocation of Mr. Sergey.

The Company also provides certain personal benefits to its executive officers which are difficult to quantify in terms of business or personal use. The Company has concluded, however, after reasonable inquiry, that the aggregate amounts attributable to such personal benefits do not exceed the lesser of $25,000 or 10% of total cash compensation for each person named in the Cash Compensation Table above, or, as to all executive officers of the Company as a group, the lesser of $25,000 times the number of persons in the group or 10% of the total cash compensation for the group.

Director Compensation

Since the Acquisition, no directors have received compensation for their services as directors. A Special Committee of the board of directors of the Predecessor Company, consisting of all of the non-employee directors, received an aggregate of $420,000 in 1989 for their service on the Special Committee.

Item 12. Security Ownership of Certain Beneficial Owners and Management

As of March 16, 1990, the following persons had beneficial ownership in the amounts shown of more than five percent of any class of voting stock of the Company. All classes of the Company's voting stock vote together, and not as classes, on all issues submitted to shareholders.

Name and Address of Beneficial Owner(1)	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class
Samuel J. Heyman	Common	1,701,100(2)	85.2%
	Series A Preferred	255,165	100.0%
Carl R. Eckardt	Series B Preferred	3,750	8.4%
Irving Kagan	Series B Preferred	2,250	5.0%
John M. Sergey	Series B Preferred	3,000	6.7%
James T. Sherwin	Series B Preferred	6,000	13.4%
Heinn F. Tomfohrde, III	Series B Preferred	6,000	13.4%

(1) The address for each beneficial holder is 1361 Alps Road, Wayne, New Jersey, 07470.

(2) Includes 690,100 shares owned by a partnership of which Mr. Heyman is Manager. Mr. Heyman has the sole power to vote and to direct the vote, and the sole power to dispose and to direct the disposition, of all shares of which he is the beneficial owner.

As of March 16, 1990 each director and executive officer of the Company, and all directors and executive officers of the Company as a group, beneficially owned the following equity securities of the Company:

Name	Title of Class	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Directors			
Carl R. Eckardt(2)	Common	25,000	1.3%
	Series B Preferred	3,750	8.4%
Irwin Engelman	None		
Ronnie F. Heyman	None		
Samuel J. Heyman(2)	Common	1,701,100(3)	85.2%
	Series A Preferred	255,165(4)	100.0%
Irving Kagan(2)	Common	15,000	0.8%
	Series B Preferred	2,250	5.0%
John M. Sergey(2)	Common	20,000	1.0%
	Series B Preferred	3,000	6.7%
James T. Sherwin(2)	Common	40,000	2.0%
	Series B Preferred	6,000	13.4%
Heinn F. Tomfohrde, III(2)	Common	40,000	2.0%
	Series B Preferred	6,000	13.4%
Executive Officer			
Salvatore C. Bellini	Common	3,000	0.2%
	Series B Preferred	450	1.0%
All Directors and Executive Officers as a Group (9 individuals)	Common	1,844,100	92.3%
	Series A Preferred	255,165	100.0%
	Series B Preferred	21,450	47.8%

(1) Sole voting and investment power unless indicated otherwise.

(2) Also an executive officer of the Company.

(3) See footnote (1) to preceding table.

(4) Includes 103.515 shares owned by a partnership of which Mr. Heyman is manager. Mr. Heyman has the sole power to dispose and to direct the disposition of all shares of which he is the beneficial owner.

Item 13. Certain Relationships and Related Transactions

Mr. Engelman will become an Executive Vice President and Chief Financial Officer of the Company as of April 2, 1990. At that time, Mr. Engelman will be entitled to purchase ½% of the total outstanding shares of the Company's common stock at a price per share equal to its then current book value. On each of the first and second anniversaries of his employment, Mr. Engelman will be entitled to purchase an additional ¼% at a price equal to the book value at which he made his original purchase, plus certain additional costs each year.

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:

3.1	—Certificate of Incorporation of the Company and Certificates of Designation relating to the Series A Cumulative Redeemable Preferred Stock, par value $.01 per share, and the Series B Cumulative Redeemable Preferred Stock, par value $.01 per share (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 33-26684)).
3.2	—Certificate of Amendment of Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware on March 21, 1989.
3.3	—Certificate of Amendment of Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware on April 11, 1989.
3.4	—Certificate of Amendment of Certificate of Incorporation as filed on December 29, 1989.
3.5	—Bylaws of the Company.
4.1	—Indenture regarding G-I Holdings Inc. Subordinated Merger Debentures due 2005, dated March 29, 1989 (incorporated by reference to Exhibit (a)(4)(iii) to the Company's Form 10-Q for the Quarter ended April 2, 1989).
10.1	—Non-Qualified Retirement Plan Letter Agreement.
10.2	—Credit Agreement among G Industries Corp., GAF Chemicals Corporation, GAF Building Materials Corporation, GAF Insurance Ltd. and Chase Manhattan Bank, as agent for a syndicate of banks party thereto, dated March 29, 1989 (the "Credit Agreement") (without Exhibits) (incorporated by reference to Exhibit (a)(4)(v) to the Company's Form 10-Q for the Quarter ended April 2, 1989).
10.3	—Amendment No. 1 to the Credit Agreement dated as of July 1, 1989 and Amendment No. 2 to the Credit Agreement dated as of February 12, 1990 (without Exhibits).
10.4	—Cost Sharing Agreement among the Company, GAF Chemicals, GAF Building Materials, GAF Export Corporation, GAF Insurance Ltd., WNCN Listeners Club Inc., GAF Broadcasting Company, Inc., G-I Holdings Inc., G Industries Corp., Merick Inc. and Perth Inc. dated March 29, 1989 (incorporated by reference to Exhibit (a)(4)(i) to the Company's Form 10-Q for the Quarter ended April 2, 1989).
10.5	—Tax Sharing Agreement for the Company and its Subsidiaries among the Company and each subsidiary signatory thereto, dated March 29, 1989 (incorporated by reference to Exhibit (a)(4)(ii) to the Company's Form 10-Q for the Quarter ended April 2, 1989).
10.6	—Asset Sale Agreement, dated February 12, 1990, by and among Chemicals, Alkaril and Michael W. Kempner in his capacities as trustee (the "Chemicals I Trustee") under that certain Trust Agreement dated February 12, 1990 between Michael W. Kempner and Chemicals pertaining to Chemicals Trust I (the "Trust I Agreement") and as trustee (the "Chemicals II Trustee") under that certain Trust Agreement dated February 12, 1990 between Michael W. Kempner and Alkaril pertaining to Chemicals Trust II (the "Trust II Agreement") (incorporated by reference to Exhibit (c)(1) to the Company's Form 8-K reporting an event on February 12, 1990).

10.7 —Trust I Agreement (incorporated by reference to Exhibit (c)(2) to the Company's Form 8-K reporting an event on February 12, 1990).

10.8 —Trust II Agreement (incorporated by reference to Exhibit (c)(3) to the Company's Form 8-K reporting an event on February 12, 1990).

10.9 —Trust Agreement dated February 12, 1990 among Wilmington Trust Company, as trustee (the "Chemicals III Trustee"), the Chemicals I Trustee, the Chemicals II Trustee and ESSL-RP, Inc. ("ESSL") (incorporated by reference to Exhibit (c)(4) to the Company's Form 8-K reporting an event on February 12, 1990).

10.10 —Contribution Agreement dated as of February 12, 1990 among the Chemicals I Trustee, the Chemicals II Trustee and the Partnership (incorporated by reference to Exhibit (c)(5) to the Company's Form 8-K reporting an event on February 12, 1990).

10.11 —Assignment Agreement dated as of February 12, 1990 by and among the Partnership, Chemicals and Alkaril (incorporated by reference to Exhibit (c)(6) to the Company's Form 8-K reporting an event on February 12, 1990).

10.12 —Assumption Agreement dated as of February 12, 1990 by and among Chemicals, Alkaril, the Chemicals I Trustee and the Chemicals II Trustee (incorporated by reference to Exhibit (c)(7) to the Company's Form 8-K reporting an event on February 12, 1990).

10.13 —Assumption Agreement dated as of February 12, 1990 by and among the Chemicals I Trustee, the Chemicals II Trustee and the Partnership (incorporated by reference to Exhibit (c)(8) to the Company's Form 8-K reporting an event on February 12, 1990).

10.14 —Assignment of Partnership Interests and Amendment to the Amended and Restated Agreement of Limited Partnership of Rhone-Poulenc Specialty Chemicals, L.P. dated February 12, 1990 by and among the Chemicals I Trustee, the Chemicals II Trustee, ESSL, the Chemicals III Trustee, RPI and Holdings (incorporated by reference to Exhibit (c)(9) to the Company's Form 8-K reporting an event on February 12, 1990).

11. —Computation of Earnings per Common Share for the Three Years ended December 31, 1989.

22. —Subsidiaries of the Company.

(b) Reports on Form 8-K

Two reports on Form 8-K were filed with the Securities and Exchange Commission during 1989.

The first, dated January 24, 1989, was filed by the Predecessor Company reporting the commencement of tender offers for the Predecessor Company's outstanding debt securities, in connection with the Acquisition. See "Item 1. Business of the Company—Corporate Developments."

The second, dated December 19, 1989, was filed by the Company reporting a criminal conviction of the Company and its Vice Chairman and Chief Administrative Officer. See "Item 3. Legal Proceedings."

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.

GAF CORPORATION
(Registrant)

Date: March 30, 1990

By SAMUEL J. HEYMAN
(Samuel J. Heyman)
Chief Executive Officer

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

Signature	Title	Date
SAMUEL J. HEYMAN (Samuel J. Heyman)	Chairman of the Board and Chief Executive Officer	March 30, 1990
JAMES T. SHERWIN (James T. Sherwin)	Vice Chairman of the Board and Chief Administrative Officer	March 30, 1990
SALVATORE C. BELLINI (Salvatore C. Bellini)	Senior Vice President and Controller (Principal Financial Officer)	March 30, 1990
CARL R. ECKARDT (Carl R. Eckardt)	Director and Executive Vice President	March 30, 1990
JOHN M. SERGEY (John M. Sergey)	Director and Executive Vice President	March 30, 1990
HEINN F. TOMFOHRDE, III (Heinn F. Tomfohrde, III)	Director and Executive Vice President	March 30, 1990
IRVING KAGAN (Irving Kagan)	Director and Senior Vice President	March 30, 1990
RONNIE F. HEYMAN (Ronnie F. Heyman)	Director	March 30, 1990
(Irwin Engelman)	Director	

GAF CORPORATION

FORM 10-K

INDEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS, CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

ARTHUR ANDERSEN & CO.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To GAF Corporation:

We have audited the accompanying consolidated balance sheet of GAF Corporation (a Delaware corporation) and subsidiaries as of December 31, 1989, and the related consolidated statements of operations and accumulated deficit and cash flows for the nine-month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GAF Corporation and subsidiaries as of December 31, 1989, and the results of their operations and their cash flows for the nine-month period then ended, in conformity with generally accepted accounting principles.

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

ARTHUR ANDERSEN & CO.

Roseland, New Jersey
March 30, 1990

GAF CORPORATION

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

Financial Condition

GAF Corporation (the "Predecessor Company") was acquired on March 29, 1989 in a leveraged buyout transaction ("the Acquisition") by a management group of GAF executives led by Chairman and Chief Executive Officer Samuel J. Heyman (the "Management Group"). Newco Holdings, Inc. (which subsequently changed its name to GAF Corporation) ("the Company"), together with its wholly owned subsidiary, G-I Holdings Inc., and its wholly owned subsidiary, G Industries Corp., were established to effect the Acquisition. As used under this heading, the term "Company" includes the results of the Company and its subsidiaries (but not the Predecessor Company and its subsidiaries) unless the context otherwise requires.

In the Acquisition, the outstanding shares of common stock of the Predecessor Company were converted into the right to receive (i) $46.00 in cash and (ii) $7.00 principal amount ($188.2 million in total) of G-I Holdings Inc. Subordinated Debentures due 2005 ("Merger Debentures") with a floating interest rate of 16.62% on issuance and 15.47% as of December 31, 1989. Certain shares beneficially owned by the Management Group and cash were exchanged for $50 million of equity of the Company, $2 million of preferred stock of G Industries Corp. and $48 million of Increasing Rate Notes (as defined below). The $50 million of equity of the Company was, in turn, exchanged for all of the common stock of G-I Holdings Inc., and then G Industries Corp.

The Acquisition was financed by: (i) a secured credit facility of up to $885 million, consisting of a $720 million term loan, $125 million revolver, and $40 million letter of credit facility pursuant to a credit agreement with a syndicate of banks led by The Chase Manhattan Bank, N.A. (the "Bank Debt"), bearing interest at a floating rate and maturing on October 11, 1990, which maturity may be extended for up to six additional months at the option of the Company; (ii) and the issuance of $283 million principal amount (including the $48 million discussed above) of floating rate Senior Subordinated Increasing Rate Notes of G Industries Corp. due 1994 (the "Increasing Rate Notes") with an interest rate of 14.125% on issuance and 15.5% as of December 31, 1989.

In connection with the Acquisition, the Predecessor Company conducted tender offers and consent solicitations to amend the indentures for its 11 3/8% Senior Subordinated Notes due 1995 (the "11 3/8% Notes"), 10 3/8% Senior Subordinated Notes due 1994 (the "10 3/8% Notes") and 10 7/8% Senior Subordinated Debentures due 2001. The requisite consents were obtained for those issues and the indentures amended. The tender offers expired on March 28, 1989, and the Predecessor Company accepted for payment all validly tendered securities constituting 95%, 91% and 100%, respectively, of each issue. Amounts remaining outstanding are $13.7 million of the 10 3/8% Notes and $6.7 million of the 11 3/8% Notes.

Following the Acquisition, and as of December 31, 1989, the Company had consolidated debt of approximately $1.4 billion, resulting in a significant increase in interest expense (at a higher average rate than the Predecessor Company's prior indebtedness) and substantial principal repayment obligations. For a maturity schedule of the Company's debt, see Note 10 of the Notes to the Consolidated Financial Statements of the Company. However, in February 1990, the Company entered into a limited partnership agreement, as discussed below, which the Company believes will significantly improve its future cash flows by reducing interest expense and principal repayment obligations. The Company expects to refinance its bank credit facility with long-term debt. The Company has commenced discussions with prospective lenders regarding such financing.

On February 12, 1990, pursuant to an Asset Sale Agreement, GAF Chemicals Corporation ("GAF Chemicals") and Alkaril Chemicals Inc. ("Alkaril U.S."), each indirect subsidiaries of the Company, sold the assets (the "Surfactants Assets") of their surfactants business (the "GAF Surfactants Business") to two newly formed grantor trusts (the "Purchaser Trusts"), of which GAF Chemicals and Alkaril U.S. are the sole beneficiaries. The Purchaser Trusts then contributed the Surfactants Assets to Rhone-Poulenc Specialty Chemicals, L.P. (the "Partnership"), in exchange for limited partnership interests and, in turn, contributed such interests to a third trust which became a successor limited partner of the Partnership (the "Limited Partner Trust"). The Partnership is affiliated with Rhone-Poulenc Inc. ("RPI"), a wholly owned subsidiary of Rhone-Poulenc S.A., a French corporation. RPI also contributed businesses to the Partnership. The total consideration for the transferred Surfactants Assets was valued at approximately $490 million, including the assumption of certain liabilities relating to the GAF Surfactants Business. As a result of the transaction, GAF Chemicals and Alkaril U.S. received $450 million in cash and, through their beneficial interests in the Purchaser Trusts, retain a continuing interest in the Limited Partner Trust, and consequently, in the Partnership. The Limited Partner Trust borrowed the funds to pay the cash portion of the purchase price under the Asset Sale Agreement. The borrowing carries a fixed interest rate to the Limited Partner Trust of 9.14% and matures in 1995. Under the Partnership Agreement, the Limited Partner Trust will receive periodic priority distributions representing a return on the Partnership investment, which it is anticipated will exceed the interest payments on this debt. Although non-recourse to the Company, repayment of the debt is secured by a pledge of the Limited Partner Trust's limited partnership interest in the Partnership.

The cash portion of the consideration from this transaction is subject to a post-closing adjustment. The cash proceeds (after transaction-related fees and expenses) were used to pay down $235 million of Increasing Rate Notes and $200 million of Bank Debt, which combined had an annual interest cost of approximately $61 million.

Beginning with the period ended March 31, 1990, the consolidated financial statements of the Company will reflect the limited partnership investment in the Partnership, as well as the debt incurred by the Limited Partner Trust. As of December 31, 1989, for presentation in the Consolidated Balance Sheet, the assets and liabilities of the GAF Surfactants Business were reclassified to remove them from their historic classifications and to separately identify them at the cash consideration value received less appropriate fees, expenses and related reserves. Deferred taxes of $119 million related to this transaction were established.

On April 10, 1989, GAF Chemicals Acquisition Corporation purchased certain assets and assumed certain liabilities of Sutton Laboratories, Inc. for $32 million. GAF Chemicals Acquisition Corporation then changed its name to Sutton Laboratories, Inc., which is a direct subsidiary of GAF Chemicals. The acquisition was financed with a term loan and revolving credit facility totaling $22 million. Borrowings under these arrangements mature from July 1990 to April 1996.

The Company, in the nine months ended December 31, 1989, had cash flow from operations of $29.3 million. Included therein are non-cash charges of $82 million from depreciation, goodwill amortization, non-cash interest charges and an extraordinary charge related to retirement of debt in connection with the transfer of the GAF Surfactants Business, and $11.1 million of cash flow from other operating activities (principally increases in Other Liabilities) which more than offset the net loss of $38.5 million and cash needed for working capital of $25.3 million. The working capital cash was primarily comprised of a $17.7 million reduction in payables and accrued liabilities and an $11.4 million increase in inventories, partially offset by a $7.1 million decrease in receivables.

In addition to the cash flow from operations, the Company also had a net cash flow of $54.1 million from investing and financing activities during the nine-month period, including $147.8 million from the Acquisition (financing proceeds of $1.045 billion less the Acquisition cost of the Predecessor Company, net of cash acquired). The Company had cash and short-term investments at year-end 1989 of $83.4 million. Investing and financing cash flow for the nine-month period also reflects: the acquisition of Sutton Laboratories, Inc. for $32 million less $22 million from financing proceeds; capital expenditures of $35.9 million, primarily related to new and replacement facilities for GAF Chemicals; a net decrease in debt of $14.5 million subsequent to the Acquisition; payment of $42.2 million of accrued fees and expenses related to the Acquisition; and $16.2 million remaining cash for Predecessor Company shares which had not been tendered and paid for at the end of 1989.

The Company's working capital ratio at December 31, 1989 was 1.84:1. Total working capital decreased $42.9 million during the nine months to $169.1 million, primarily due to the reclassification of the assets and liabilities of the GAF Surfactants Business to remove them from their historic classifications and separately classify them on the Consolidated Balance Sheet.

For the full year 1989, the Company invested approximately $42.8 million in capital projects. The Company expects to finance its ongoing capital expenditure program from internally generated cash.

Results of Operations - Pro Forma Twelve Months Ended December 31, 1989 Versus Pro Forma Twelve Months Ended December 31, 1988

The pro forma results set forth below reflect the Acquisition as if it had occurred as of January 1, 1989 and January 1, 1988, respectively, and include the historical sales and related costs and expenses adjusted for costs and expenses which were attributable to the Acquisition, such as goodwill amortization, additional depreciation resulting from the revaluation of assets, and additional interest expense.

The Company in 1989 recorded its fifth consecutive year of record income from its operations. Total segment income increased $23.9 million (15%) to $181.9 million from comparable income in 1988 of $158 million. GAF Chemicals recorded its seventh consecutive year of record income while income from GAF Building Materials' operations was $27.8 million in 1989 as compared with $28.5 million in 1988.

The Company recorded a pro forma net loss before extraordinary items of $52.7 million in 1989 versus a comparable loss in 1988 of $131.8 million. The net losses for 1989 and 1988 reflected $212.9 million and $209.9 million, respectively, of interest expense, which was principally related to the Acquisition. Such losses for 1989 and 1988, respectively, also include non-cash charges of $101.7 million and $97.6 million, consisting primarily of depreciation, amortization of goodwill and non-cash interest charges.

Consolidated net sales in 1989 of $1.011 billion were $49.5 million (5%) higher than 1988. The higher sales were attributable to GAF Chemicals' increased unit sales volumes, partially offset by $6.2 million (1.5%) lower GAF Building Materials sales, which reflected lower selling prices offset in part by higher unit sales volumes in residential roofing products. Approximately one-quarter of the Company's net sales and approximately one-half of the Company's operating income in 1989 were from foreign operations. For further information regarding the international operations of the Company, see "Part I - Item 1. Business of the Company - GAF Chemicals Corporation - International Operations."

GAF Chemicals reported another year of record income from its operations of $170.8 million in 1989 (before deduction of $18 million for amortization of Acquisition goodwill but after deduction of $5 million of increased depreciation in connection with the Acquisition), a 17% increase over comparable 1988 income of $146.3 million. GAF Chemicals' net sales increased to a record $600.1 million, 10% higher than 1988's net sales of $545 million. The increased sales were the result of higher sales volumes coupled with a favorable product mix (together accounting for approximately 8% of the increase), and higher pricing (approximately 4% of the increase), reflecting the successful pass-through of increased costs, partially offset by the negative impact of foreign exchange rates on 1989 sales of approximately 2%. The higher income from GAF Chemicals' operations resulted primarily from higher unit sales, coupled with a favorable product mix and strong international performance, and to a lesser extent, the inclusion of the results of Sutton Laboratories, Inc. which the Company acquired in April 1989. Partially offsetting these gains was the unfavorable impact of foreign exchange rate variances.

GAF Chemicals' return on sales increased to 28.5% from 26.8% in 1988 reflecting the above mentioned sales gains and the delayed pass-through of higher 1988 raw material costs. GAF Chemicals' identifiable assets were $1.544 billion compared to $454.6 million in 1988 reflecting the revaluation of assets resulting from the Acquisition, of which $516.4 million is goodwill. Spending in 1989 for new and replacement facilities was $28.5 million.

GAF Building Materials recorded income from operations of $27.8 million in 1989 which was down $.7 million or 2% from 1988. Net sales in 1989 declined 1.5% to $405.2 million from $411.4 million in 1988, reflecting lower selling prices which were offset in part by higher unit sales volumes in residential roofing products. Income from operations declined principally due to the lower selling prices, offset in part by lower costs driven by improved operating efficiencies and the higher residential unit volume.

Other Income (Expense) - net was $5.8 million in 1989 compared with net expenses of $17 million in 1988. This favorable swing was primarily attributable to higher pro forma income from the Company's investments. Other Expense - net in 1988 reflected expenses in connection with products no longer manufactured or sold by the Company and a $4 million charge for the settlement of a lawsuit, commenced in 1981, related to the Company-owned classical music radio station.

Had both the Acquisition and the transfer of the GAF Surfactants Business taken place on January 1, 1989, the 1989 pro forma net loss before extraordinary item would have been $13.1 million, while pro forma sales for 1989 would have been $851.4 million. These pro forma results reflect the elimination of the sales and expenses of the GAF Surfactants Business, and also adjust for reduction of costs and expenses such as goodwill amortization, interest expense and amortization of deferred financing costs, and reflect Partnership income arising from the transfer of the GAF Surfactants Business. (See Note 4 of Notes to Consolidated Financial Statements of the Company.)

Results of Operations - 1988 Versus 1987 - Predecessor Company

The Predecessor Company in 1988 recorded its fourth consecutive year of record income from operations. Total segment income increased 14% to $180.1 million compared to $157.6 million in 1987, with GAF Chemicals recording its sixth consecutive year of record income. Income from GAF Building Materials' operations improved in 1988 by nearly 10% over 1987 income.

Income before extraordinary credits in 1988 was $90.8 million ($3.18 per share) compared with $100.1 million ($2.93 per share) in 1987. The higher per share results reflect the Predecessor Company's 1987 stock repurchase programs in which approximately eight million shares were repurchased. As a result, the weighted average shares outstanding in 1988 were 28.6 million compared with 34.1 million in 1987. The lower earnings in 1988 were principally attributable to $29.8 million in expenses related to the Acquisition of the Predecessor Company.

Net income for 1988 of $100.3 million ($3.51 per share) included $9.6 million in extraordinary credits, principally after-tax gains relating to the Predecessor Company's investment in Union Carbide Corporation. Net income for 1987 was $237.6 million ($6.96 per share), and included $137.5 million in extraordinary credits, primarily representing $97.1 million in after-tax gains from the second quarter 1987 tender of the Predecessor Company's Borg-Warner shares and $39.5 million in after-tax gains relating to the investment in Union Carbide.

Consolidated net sales in 1988 of $961.4 million were nearly 15% higher than 1987 net sales of $836.9 million. The higher sales resulted primarily from GAF Chemicals' increased unit sales volumes that were attributable in significant part to the fourth quarter 1987 acquisition of Alkaril Chemicals Limited, a Canadian company, ("Alkaril") and Alkaril U.S., its U.S.-based affiliate. Approximately one-quarter of the net sales and approximately one-half of the operating income in 1988 were from foreign operations.

GAF Chemicals reported another year of record income from its operations of $150 million in 1988, a 15% increase over 1987 income of $130 million. GAF Chemicals' net sales increased to a record $545 million, up 26% from 1987's $431.4 million. Approximately 80% of the sales increase was due to higher unit sales volumes. Approximately 6% of the sales increase was due to the favorable impact of the lower U.S. dollar, with the balance of the increase due to pricing, reflecting the successful pass-through of higher raw material costs. The higher income from GAF Chemicals' operations resulted primarily from the results of Alkaril and Alkaril U.S. and the favorable impact of the lower U.S. dollar, and to a lesser extent higher unit sales volumes in specialty chemicals product lines coupled with a favorable product mix. Partially offsetting these gains was a decline in roofing granules income due to a decline in sales volumes. GAF Chemicals' record results for 1988 were achieved despite a $7.1 million pretax LIFO charge.

GAF Chemicals' return on sales was 27.5% in 1988 compared with 30% in 1987, reflecting the above-mentioned LIFO charge and the time lag in passing along higher raw material costs. The operating return on assets improved to 33% from 31% the previous year. GAF Chemicals' identifiable assets increased 8% to $454.6 million compared to $419.5 million in 1987, primarily reflecting an aggressive capital expansion program. Spending for new and replacement facilities grew to $45.1 million from $34 million in 1987.

GAF Building Materials recorded income from its operations of $28.5 million in 1988 which was $2.5 million (10%) above that recorded in 1987. Net sales in 1988 increased $10.9 million (3%) to $411.4 million, reflecting increased sales of commercial roofing products (impacting total net sales by 4%) and increased sales of new products (1%), which more than offset the decline in residential roofing product sales (having a negative impact on total net sales of almost 1%). The improvement in Building Materials' income from operations was due to lower product costs from manufacturing efficiencies, increased sales volume of commercial roofing products, an improved product mix and increased sales of new products, offset in part by lower residential sales volume. As a result of the higher income from operations in 1988, GAF Building Materials' returns on sales and identifiable assets both improved slightly, from 6.5% to 6.9% and from 11.3% to 12.1%, respectively.

Other Expense—net in 1988 of $47.1 million included $29.8 million of expenses relating to the Acquisition of the Predecessor Company, and also reflected equity income of $7.4 million. Other Expense—net in 1987 of $7.2 million reflected lower expenses related to discontinued products and higher equity income of $10.7 million.

GAF CORPORATION

SELECTED FINANCIAL DATA
(Dollars in Millions, Except Per Share Amounts)

	Pro Forma Year Ended December 31, 1989	Pro Forma Year Ended December 31, 1988	Nine Months Ended December 31, 1989	Nine Months Ended December 31, Pro Forma 1988	Predecessor Company: First Quarter Ended April 2, 1989	Predecessor Company: Year Ended December 31, 1988	1987	1986	1985
Sales									
Chemicals	$ 600.1	$ 545.0	$ 447.8	$ 416.5	$ 152.3	$ 545.0	$ 431.4	$ 377.5	$ 364.4
Building Materials	405.2	411.4	318.3	324.7	85.9	411.4	400.5	372.1	363.9
Broadcasting	5.6	5.0	4.5	3.7	1.1	5.0	5.0	4.2	3.7
Net Sales	$1,010.9	$ 961.4	$ 771.6	$ 744.9	$ 239.3	$ 961.4	$ 836.9	$ 753.8	$ 732.0
Segment Income									
Chemicals	$ 170.8	$ 146.3	$ 127.6	$ 112.4	$ 44.1	$ 150.0	$ 130.0	$ 107.8	$ 92.6
Building Materials	27.8	28.5	24.0	26.3	3.8	28.5	26.0	30.0	20.1
Broadcasting	1.7	1.6	1.6	1.2	0.2	1.6	1.6	1.3	1.1
Goodwill Amortization	(18.4)	(18.4)	(13.8)	(13.8)	–	–	–	–	–
Total	$ 181.9	$ 158.0	$ 139.4	$ 126.1	$ 48.1	$ 180.1	$ 157.6	$ 139.1	$ 113.8
Income (Loss) Before Extraordinary Items	$ (52.7)	$ (131.8)	$ (33.6)	$ (69.7)	$ 32.0	$ 90.8	$ 100.1	$ 80.7	$ 54.3
Per Common Share –									
Primary			(18.82)		1.15	3.18	2.93	2.22	1.57
Fully Diluted			(18.82)		1.15	3.18	2.93	2.22	1.50
Dividends Per Common Share			–		.025	.10	.10	.10	.10

	As of December 31, 1989	As of April 2, 1989	Predecessor Company: As of December 31, 1988	1987	1986	1985
Current Assets	$ 371.3	$ 450.4	$ 926.9	$ 580.4	$ 659.1	$ 428.7
Current Liabilities	202.2	238.4	221.3	224.8	166.9	251.6
Working Capital	169.1	212.0	705.6	355.6	492.2	177.1
Property, Plant and Equipment – net	470.2	483.7	327.7	276.8	208.4	194.1
Total Assets	1,828.2	1,754.8	1,421.1	1,287.8	1,347.1	679.2
Total Long-term Debt	1,416.2	1,387.4	491.7	483.5	490.4	258.0
Shareholders' Equity (Deficit)	(59.0)	(22.6)	623.5	508.3	601.5	298.2

GAF CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT
NINE MONTHS ENDED DECEMBER 31, 1989
(In Thousands, Except Per Share Amounts)

Net Sales	$ 771,647
Costs and Expenses:	
Cost of Products Sold	493,453
Selling, General and Administrative	142,445
Goodwill Amortization	13,794
Total Costs and Expenses	649,692
OPERATING INCOME	121,955
Interest Expense	(158,294)
Other Expense - net	(2,070)
Loss Before Income Taxes and Extraordinary Item	(38,409)
Income Tax Benefit	4,836
Loss Before Extraordinary Item	(33,573)
Extraordinary Item, net of Income Tax Benefit of $2,554	(4,958)
NET LOSS	(38,531)
Accumulated Deficit, Beginning of Period	-
Cash and Accrued Dividends on Preferred Stock	(4,069)
Accumulated Deficit, End of Period	$ (42,600)
Loss Per Common Share:	
Before Extraordinary Item	$ (18.82)
Extraordinary Item	(2.48)
Net Loss	$ (21.30)

See Notes To Consolidated Financial Statements

GAF CORPORATION

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 1989
(Dollars in Thousands)

ASSETS

Current Assets	
Cash and short-term investments	$ 83,409
Accounts receivable, less reserve: $3,319	139,965
Inventories	116,560
Other current assets	31,346
Total Current Assets	371,280
Investment in Surfactants Assets	399,152
Property, Plant and Equipment - net	470,233
Excess of Cost Over Net Assets of Businesses Acquired - net	533,248
Other Assets	55,312
Total Assets	$1,829,225

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current Liabilities	
Short-term debt	$ 8,309
Current maturities of long-term debt	4,200
Accounts payable	80,815
Accrued liabilities	100,512
Income taxes	8,314
Total Current Liabilities	202,150
Long-term Debt Less Current Maturities	1,412,028
Deferred Taxes	109,932
Other Liabilities	164,126
Shareholders' Equity (Deficit)	
Capital stock and additional paid-in capital	50,000
Excess of purchase price over the adjusted historical cost of the Predecessor Company shares owned by the Company's shareholders	(72,605)
Accumulated Deficit	(42,600)
Accumulated translation adjustment	6,194
Shareholders' Equity (Deficit)	(59,011)
Total Liabilities and Shareholders' Equity (Deficit)	$1,829,225

See Notes to Consolidated Financial Statements.

GAF CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS
NINE MONTHS ENDED DECEMBER 31, 1989
(Dollars in Thousands)

Cash and cash equivalents, beginning of period	$ -
Cash Flows from Operating Activities:	
Net Loss	(38,531)
Adjustment to reconcile net loss to net cash provided by operating activities:	
Depreciation	21,042
Goodwill amortization	13,794
Non-cash interest charges	41,188
Other working capital items	(25,297)
(Increase) Decrease in Other Assets	4,730
Increase (Decrease) in Other Liabilities	12,421
Net cash provided by operating activities	29,347
Cash Flows from Investing Activities:	
Capital expenditures	(35,943)
Acquisition of Predecessor Company, net of cash acquired	(896,745)
Acquisition of Sutton Laboratories, Inc., net of cash acquired	(31,975)
Net cash used in investing activities	(964,663)
Cash Flows from Financing Activities:	
Decrease in short-term debt	(266)
Proceeds from debt incurred to acquire Predecessor Company	1,044,571
Proceeds from debt incurred to acquire Sutton Laboratories, Inc	22,000
Proceeds from issuance of long-term debt	25,598
Principal repayments of long-term debt	(39,851)
Change in Accumulated Translation Adjustment	6,194
Cash and accrued dividends on preferred stock	(4,069)
Net activity due to Acquisition-related financing fees and expenses	(26,007)
Other - net	(9,445)
Net cash provided by financing activities	1,018,725
Net change in cash and cash equivalents	83,409
Cash and cash equivalents, end of period	$ 83,409

See Notes to Consolidated Financial Statements

GAF CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS - (Continued)
NINE MONTHS ENDED DECEMBER 31, 1989
(Dollars in Thousands)

Supplemental Cash Flow Information

Changes in other working capital items, net of effect of reclassification of Surfactants Assets (see Note 4):

Accounts Receivable	$ 7,085
Inventories	(11,376)
Other current assets	(3,282)
Accounts payable	(6,229)
Accrued liabilities	(11,402)
Income taxes	(93)
Net use of funds	$ (25,297)

Cash paid during the period for:

Interest	$ 109,828
Income taxes	$ 7,660

Acquisition of Predecessor Company:

Fair market value of assets acquired	$ 1,923,308
Purchase price of Acquisition	(1,422,845)
Liabilities assumed	$ 500,463

Acquisition of Sutton Laboratories, Inc.:

Fair market value of assets acquired	$ 32,932
Purchase price of acquisition	(32,000)
Liabilities assumed	$ 932

See Notes to Consolidated Financial Statements

GAF CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Acquisition of Predecessor Company

The Predecessor Company was acquired on March 29, 1989 in the Acquisition by the Management Group. In the Acquisition, the outstanding shares of common stock of the Predecessor Company were converted into the right to receive (i) $46.00 in cash and (ii) $7.00 principal amount ($188.2 million in total) of G-I Holdings Inc. Merger Debentures due 2005 with a floating interest rate of 16.62% on issuance and 15.47% as of December 31, 1989. Certain shares beneficially owned by the Management Group and cash were exchanged for $50 million of equity of the Company, $2 million of preferred stock of G Industries Corp. and $48 million of Increasing Rate Notes. The $50 million of equity of the Company was, in turn, exchanged for all of the common stock of G-I Holdings Inc., and then G Industries Corp.

The Acquisition was financed by: (i) a secured credit facility of up to $885 million, consisting of a $720 million term loan, $125 million revolver, and $40 million letter of credit facility pursuant to a credit agreement with a syndicate of banks led by The Chase Manhattan Bank, N.A., with the bank debt bearing interest at a floating rate and maturing on October 11, 1990, which maturity may be extended for up to six additional months at the option of the Company; (ii) and the issuance of $283 million principal amount (including the $48 million discussed above) of floating rate Increasing Rate Notes of G Industries Corp. due 1994 with an interest rate of 14.125% on issuance and 15.5% as of December 31, 1989.

Since certain members of the Management Group beneficially owned shares of the Predecessor Company's common stock before the Acquisition and own shares of the Company after the Acquisition, purchase accounting does not apply to their shares of the Predecessor Company. Accordingly, for accounting purposes, Shareholders' Equity reflects the total shares owned by the Management Group reflected at their adjusted historical cost reduced by the consideration paid for the shares in the Acquisition, including payments to cancel their outstanding stock options of the Predecessor Company, resulting in a reduction in Shareholders' Equity of $72.6 million.

The total purchase price of the Acquisition was $1.423 billion. A preliminary allocation of the purchase price using the purchase method of accounting resulted in an excess of cost over net assets of businesses acquired of $743.4 million. The assets and liabilities of the Predecessor Company were adjusted to their fair value at March 29, 1989.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The accounts of all significant subsidiaries of the Company are included in the consolidated financial statements. All significant intercompany transactions and balances have been eliminated. The 50% ownership of a foreign chemical manufacturing company is accounted for by the equity method.

Consolidated Statement of Cash Flows

For purposes of the statement, the Company considers its short-term investments and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Short-term Investments

Short-term investments are stated at the lower of cost or market. The determination of cost in computing realized gains and losses on investments is based on the specific identification method.

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 based principally on average cost.

Property, Plant and Equipment and Related Depreciation

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges are capitalized as part of the cost of property, plant and equipment additions.

Debt Issuance Costs

Debt issuance costs (initially $35 million) in connection with the Acquisition are being amortized over the life of the related debt issue under the effective interest method. During the nine months ended December 31, 1989, approximately $17.3 million was charged to operations as non-cash Interest Expense. An additional $7.5 million was written off as an extraordinary charge ($5 million after tax) principally related to retirement of debt in connection with the transfer of the GAF Surfactants Business (see Note 4).

Excess of Cost Over Net Assets of Businesses Acquired

Excess of cost over net assets of businesses acquired is being amortized on the straight-line method over a period of approximately forty years.

Research and Development

Research and development expenses are charged to operations as incurred and amounted to $12.1 million in the nine months ended December 31, 1989.

Loss Per Common Share

The net loss per common share is based on 2,000,000 common shares outstanding on December 31, 1989, and gives due effect to the preferred stock dividend requirements.

Note 3: Pro Forma Financial Information

Presented below are Unaudited Pro Forma Condensed Consolidated Statements of Operations prepared as if the Acquisition had occurred at the beginning of the twelve month periods ended December 31, 1989 and December 31, 1988. The pro forma financial information below is based on a preliminary allocation of the purchase price and does not purport to project results of operations of the Company for any future period. The Unaudited Pro Forma Condensed Statements of Operations include the historical sales and costs adjusted for costs and expenses which were attributable to the Acquisition, such as interest expense arising from the Acquisition financing, the amortization of goodwill, depreciation related to the increase in property, plant and equipment to estimated fair value, and a reduction in income on investments reflecting the utilization of the Predecessor Company's cash in connection with the Acquisition. The Pro Forma Statements of Operations also reflect elimination of fees and expenses related to the Acquisition which were expensed by the Predecessor Company and the elimination of historical Federal and state income taxes.

UNAUDITED PRO FORMA CONDENSED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	1989	1988
	(Dollars in Millions)	
Net Sales	$1,010.9	$ 961.4
Costs and Expenses	838.5	828.1
Goodwill Amortization	18.4	18.4
Operating Income	154.0	114.9
Interest Expense	(212.9)	(209.9)
Other Income (Expense) - net	5.8	(17.0)
Loss Before Income Taxes and Extraordinary Items	(53.1)	(112.0)
Income Tax (Provision) Benefit	0.4	(19.8)
Net Loss Before Extraordinary Items*	$ (52.7)	$ (131.8)

*Included in the pro forma loss for 1989 and 1988, respectively, are non-cash charges of $101.7 million and $97.6 million, consisting primarily of depreciation, amortization of goodwill and non-cash interest charges.

Note 4. Investment in Surfactants Assets

On February 12, 1990, pursuant to an Asset Sale Agreement, GAF Chemicals and Alkaril U.S., each indirect subsidiaries of the Company, sold the Surfactants Assets of the GAF Surfactants Business to two newly formed Purchaser Trusts, of which GAF Chemicals and Alkaril U.S. are the sole beneficiaries. The Purchaser Trusts then contributed the Surfactants Assets to the Partnership in exchange for limited partnership interests and, in turn, contributed such interests to the Limited Partner Trust which became a successor limited partner of the Partnership. The Partnership is affiliated with RPI, a wholly owned subsidiary of Rhone-Poulenc S.A., a French corporation. RPI also contributed businesses to the Partnership. The total consideration for the transferred Surfactants Assets was valued at approximately $490 million, including the assumption of certain liabilities relating to the GAF Surfactants Business. As a result of the transaction, GAF Chemicals and Alkaril U.S. received $450 million in cash and, through their beneficial interests in the Purchaser Trusts, retain a continuing interest in the Limited Partner Trust, and consequently, in the Partnership. The Limited Partner Trust borrowed the funds to pay the cash portion of the purchase price under the Asset Sale Agreement. The borrowing carries a fixed interest rate to the Limited Partner Trust of 9.14% and matures in 1995. Under the Partnership Agreement, the Limited Partner Trust will receive periodic priority distributions representing a return on the Partnership investment, which it is anticipated will exceed the interest payments on this debt. Although non-recourse to the Company, repayment of the debt is secured by a pledge of the Limited Partner Trust's limited partnership interest in the Partnership.

The cash portion of the consideration from this transaction is subject to a post-closing adjustment. The cash proceeds (after transaction-related fees and expenses) were used to pay down $235 million of Increasing Rate Notes and $200 million of Bank Debt.

Beginning with the period ended March 31, 1990, the consolidated financial statements of the Company will reflect the limited partnership investment in the Partnership, as well as the debt incurred by the Limited Partner Trust. As of December 31, 1989, for presentation in the Consolidated Balance Sheet, the assets and liabilities of the GAF Surfactants Business were reclassified to remove them from their historic classifications and to separately identify them at the cash consideration value received less appropriate fees, expenses and related reserves. Deferred taxes of $119 million related to this transaction were established.

Presented below is an Unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 1989, prepared as if both the Acquisition and the transfer of the GAF Surfactants Business had occurred at the beginning of the period. To prepare this statement, the Pro Forma Condensed Statement of Operations for the year ended December 31, 1989, as presented in Note 3 was adjusted to eliminate the sales and expenses of the GAF Surfactants Business, and also was adjusted for reduction of costs and expenses such as goodwill amortization, interest expense (reflecting adjustment for the debt transactions discussed above), and amortization of deferred financing costs, and for partnership income arising from the transfer of the GAF Surfactants Business.

Note 4. Investment in Surfactants Assets - (continued)

UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1989
(Dollars in Millions)

Net Sales	$ 851.4
Costs and Expenses	700.3
Goodwill Amortization	13.0
Operating Income	138.1
Interest Expense	(182.8)
Other Income - net	48.8
Income Before Income Taxes and Extraordinary Item	4.1
Income Taxes	(17.2)
Net Loss Before Extraordinary Item	$ (13.1)

Note 5. Acquisition of Sutton Laboratories, Inc.

On April 10, 1989, GAF Chemicals Acquisition Corporation purchased certain assets and assumed certain liabilities of Sutton Laboratories, Inc. for $32 million. GAF Chemicals Acquisition Corporation then changed its name to Sutton Laboratories, Inc. ("Sutton"), which is an indirect subsidiary of GAF Chemicals Corporation. Sutton is a New Jersey-based company specializing in the manufacture of preservatives for the cosmetic and toiletry industry.

The acquisition was financed with a term loan and revolving credit agreement totaling $22 million. Borrowings under these agreements mature from July 1990 to April 1996. The acquisition has been accounted for as a purchase. Accordingly, the purchase price has been allocated to the estimated fair market values of the identifiable net assets acquired with the remaining amount assigned to excess of purchase price over net assets acquired. The results of Sutton are included in the Consolidated Statement of Operations from the date of acquisition. The effect of the acquisition was not material to consolidated operations.

Note 6. Income Taxes

Income Tax (Provision) Benefit for the nine months ended December 31, 1989 consists of the following (dollars in thousands):

Federal	$17,628
Foreign	(13,031)
State and local	239
	$ 4,836

The differences between the income tax (provisions) benefits computed by applying the statutory federal income tax rate to pretax income (loss) for the nine months ended December 31, 1989, and the actual tax (provisions) benefits are as follows (dollars in thousands):

Statutory benefit	$13,059
Impact of foreign operations	(2,673)
Goodwill amortization	(4,937)
Additional depreciation expense resulting from the Acquisition	(1,279)
Percentage depletion	1,692
Other - net	(1,026)
	$ 4,836

Note 6. Income Taxes - (continued)

As of December 31, 1989, provision had not been made for United States income taxes on approximately $22.4 million of unremitted earnings of consolidated foreign subsidiaries and the Company's 50% owned joint venture, because any United States taxes payable on foreign earnings which may be remitted in the future are expected to be substantially reduced by foreign tax credits.

Effective March 29, 1989, the Company and its subsidiaries entered into a Tax Sharing Agreement. In general, the Agreement provides that the Company's subsidiaries will be required to pay the Company its current tax liability computed on a separate return basis, and will be entitled to reimbursement from the Company for tax losses or tax credits which reduce the Company's consolidated tax liability.

In the fourth quarter of 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes". The Company is required to adopt the new accounting and disclosure rules by 1992. The Company currently does not intend to adopt the provisions of Statement No. 96 until 1992. Implementation of the new Statement may require restatement of certain purchase accounting adjustments recorded to reflect the Acquisition (primarily to reflect a deferred tax liability for the adjustment of fixed assets to fair values, which was recorded net of tax).

Note 7. Short-term Investments

The Company invests in a variety of short-term investments including common and preferred stock, risk arbitrage, fixed income securities, commercial paper and repurchase agreements selected to maximize income return. At December 31, 1989, the aggregate market value of the Company's short-term investments was $51.1 million, which amount is reflected in Cash and Short-term Investments on the Consolidated Balance Sheet as of December 31, 1989.

Included in Other Expense-net on the Consolidated Statement of Operations is income on investments for the nine months ended December 31, 1989, consisting of the following (dollars in millions):

Net realized and unrealized losses on short-term investments, net of realized gains	$ (2.8)
Dividends, interest income and other	13.2
	$ 10.4

Note 8. Inventories

At December 31, 1989, a substantial portion of domestic inventories were valued using the LIFO method. There is no significant difference between inventories valued at LIFO and FIFO as of December 31, 1989.

Inventories at December 31, 1989 consist of the following (dollars in thousands):

Finished goods	$ 65,046
Work in process	16,560
Raw materials and supplies	34,954
Total	$116,560

Note 9. Property, Plant and Equipment

Property, Plant and Equipment at December 31, 1989 consist of the following (dollars in thousands):

Land and land improvements	$ 53,653
Buildings and building equipment	72,335
Machinery and equipment	328,922
Construction in progress	33,449
Total	488,359
Less Accumulated Depreciation	18,126
Property, Plant and Equipment—net	$470,233

Note 10. Short-term and Long-term Debt

Information regarding short-term debt is as follows (dollars in thousands):

	Nine Months Ended December 31, 1989
As of End of Period:	
Balance outstanding	$ 8,309
Weighted average interest rate	10.0%
For the Period:	
Average month-end short-term debt outstanding	$ 26,420
Maximum month-end short-term debt outstanding	$ 30,434
Weighted average month-end interest rate	8.4%

At December 31, 1989, the Company had unused short-term lines of credit aggregating approximately $18.7 million (in addition to the revolving credit facility discussed below). The short-term lines of credit are maintained with banks on terms which expire on various dates, but are generally renewable. Borrowings under short-term lines of credit generally bear interest at or near the prime commercial lending rate.

Long-term debt at December 31, 1989 was as follows (dollars in thousands):

Chemical Term Loan	$ 699,571
Revolving Credit Facility (including commercial paper borrowings)	104,698
Senior Subordinated Increasing Rate Notes	283,000
Industrial revenue bonds with various interest rates and maturity dates to 2012	32,076
Obligations on mortgaged properties	43,757
Sutton Term Loan	20,000
Merger Debentures due 2005	212,237
10 3/8% Senior Subordinated Notes due 1994	13,684
11 3/8% Senior Subordinated Notes due 1995	6,745
Other	460
Total	1,416,228
Less current maturities	(4,200)
Long-term Debt Less Current Maturities	$1,412,028

Note 10. Short-term and Long-term Debt - (Continued)

The Chemical Term Loan and Revolving Credit Agreement are part of a bank credit facility of up to $885 million ($720 million term loan, $125 million revolver, and $40 million letter of credit facility) with a syndicate of banks led by The Chase Manhattan Bank, N.A. At the Acquisition date of March 29, 1989, $809,571,000 was borrowed under a Phase I facility to finance the Acquisition of the Predecessor Company. On April 11, 1989, the Predecessor Company liquidated into certain of the wholly owned subsidiaries of the Company. At that time, the Phase I borrowings were repaid and an equal amount was borrowed under the $885 million credit facility described above. In connection with the transfer of the GAF Surfactants Business, the term loan was reduced to $500 million.

The bank debt bears interest at a floating rate, which was 13.5% on issuance and 12.5% as of year-end 1989, and matures on October 11, 1990. Interest is based on the bank's base rate (as defined) plus 2%, or a LIBOR rate (as defined) plus 3%, as the Company elects. The Company has the option to extend the maturity from month to month for up to six additional months. In the event of such extension, the banks would receive additional, non-cash consideration. The credit agreement (the "Bank Credit Agreement") contains various financial tests and, among other things, contains limitations on other indebtedness, investments, guarantees, mergers and acquisitions, asset sales, capital expenditures and the payment of dividends. The Chemical Term Loan is a general obligation of GAF Chemicals. The Revolving Credit Facility is a general obligation of GAF Chemicals and GAF Building Materials. The letter of credit facility is a general obligation of GAF Chemicals, GAF Building Materials and GAF Insurance Ltd. Substantially all of the assets of the Company are pledged as collateral for the bank debt.

The Senior Subordinated Increasing Rate Notes (the "Notes") due 1994 bear interest at a floating rate, reset quarterly, which was 14.125% on issuance and 15.5% as of year-end 1989. The floating rate is the greater of 14% or a monthly LIBOR rate (as defined) plus 3 3/4%, and in both cases increases by 1/2% on each of the first six quarterly interest payment dates and by 1/4% for each quarterly interest payment date thereafter. The Notes are redeemable at the option of the issuer, in whole or in part, on or after June 15, 1989, at a redemption price of 100% of principal amount, plus accrued interest to the date of redemption. In March 1990, the Notes were redeemed at par from the proceeds of the transfer of the GAF Surfactants Business, and $48 million of replacement notes with substantially identical terms were issued. Under the terms of the note purchase agreement governing the replacement notes (the "Note Purchase Agreement"), which is substantially identical to the note indenture governing the Notes, the replacement notes are subordinated in right of payment to all senior indebtedness of the Company. The Note Purchase Agreement contains, among other things, restrictions on the incurrence of additional indebtedness by the Company and its subsidiaries, restrictions on payment of dividends or purchases of capital stock, restrictions on the ability of subsidiaries of the Company to limit their ability to upstream funds to the Company, restrictions on certain mergers and other business combinations, and restrictions on sales of all or substantially all assets. The replacement notes are general obligations of G Industries Corp., subordinated in right of payment to all senior indebtedness of G Industries Corp., and are guaranteed by G-I Holdings Inc. on a senior basis and on a senior subordinated basis by certain subsidiaries of the Company other than GAF Chemicals and its subsidiaries.

Note 10. Short-term and Long-term Debt - (Continued)

The Merger Debentures bear a floating interest rate, reset semi-annually, which was 16.62% on issuance and 15.47% as of December 31, 1989. Interest is based upon specified treasury rates plus 7 1/4%. In 1999, the issuer will be required to commence redeeming an aggregate of 60% of the outstanding principal amount of Merger Debentures in six equal annual installments.

Under the terms of the Merger Debentures, for the first five years following their initial issuance, interest may be paid either in cash or, at the option of the issuer, in additional Merger Debentures valued at their face amount. The issuer currently is required under the terms of certain indebtedness to issue additional Merger Debentures in lieu of cash interest payments. After five years, interest is payable in cash. The Merger Debentures are unsecured general obligations of G-I Holdings Inc. and are subordinated in right of payment to the prior payment of all senior indebtedness of the issuer.

In connection with the Acquisition, the Predecessor Company conducted tender offers and consent solicitations to amend the indentures for its 11 3/8% Senior Subordinated Notes due 1995 (the "11 3/8% Notes"), 10 3/8% Senior Subordinated Notes due 1994 (the "10 3/8% Notes") and 10 7/8% Senior Subordinated Debentures due 2001. The requisite consents were obtained for those issues and the indentures amended. The tender offers expired on March 28, 1989, and the Predecessor Company accepted for payment all validly tendered securities constituting approximately 95%, 91% and 100%, respectively, of each issue. Amounts remaining outstanding are $13.7 million of the 10 3/8% Notes and $6.7 million of the 11 3/8% Notes.

The aggregate maturities of long-term debt for the next five years as of December 31, 1989 are as follows (dollars in thousands):

1990	$ 4,200
1991	606,469
1992	9,052
1993	4,320
1994	66,614

In the above table, 1991 maturities exclude the $200 million of Bank Debt which was repaid in March 1990 from proceeds from the transfer of the GAF Surfactants Business. Maturities in 1994 exclude $235 million of Notes, which, as discussed above, were redeemed in March 1990. See Note 4 with respect to additional debt (non-recourse to the Company) incurred in connection with the transfer of the GAF Surfactants Business.

Note 11. Capital Stock

In the Acquisition, members of the Management Group acquired $50 million of capital stock of the Company in exchange for shares of Predecessor Company common stock and cash. The Predecessor Company shares and cash were then exchanged for all of the common stock of G-I Holdings Inc. and then for all of the G Industries Corp. common stock.

As of December 31, 1989, the Company's capital stock consists of: 2,000,000 issued and outstanding common shares (par value, $.001 per share; 3,000,000 shares authorized); 255,165 issued and outstanding shares of Series A Cumulative Exchangeable Redeemable Convertible Preferred Stock ("the Series A Preferred Stock") (par value, $.01 per share; 350,000 shares authorized), and 44,835 issued and outstanding shares of Series B Cumulative Exchangeable Redeemable Convertible Preferred Stock ("the Series B Preferred Stock") (par value, $.01 per share; 400,000 shares authorized). In addition, the Company has 50,000 authorized but unissued shares of Preferred Stock undesignated as to any series.

The liquidation preference of the Preferred Stock is $100 per share. The Preferred Stock bears cumulative dividends, payable quarterly, when, as and if declared out of funds legally available therefor, subject to contractual restrictions, accruing from the date of issuance at the rate per annum of (i) 16.5% of the sum of liquidation preference plus accumulated and unpaid dividends in the case of the Series A Preferred Stock and (ii) 16.5% of liquidation preference in the case of the Series B Preferred Stock. The terms of certain indebtedness restrict payment of dividends on the Series A Preferred Stock and limit the payment of dividends on Series B Preferred Stock to $1 million per year.

Certain shares of Predecessor Company common stock beneficially owned by Mr. Heyman were exchanged in the Acquisition for 20,000 shares of G Industries Corp. preferred stock with a par value of $.01 per share and having an aggregate liquidation preference of $2 million (the 20,000 shares issued and outstanding represent the total authorized shares). This preferred stock will bear cumulative dividends, payable quarterly, at a rate of 16.5% per annum (provided that under the Note Purchase Agreement, which is substantially identical to the Note indenture, dividends cannot exceed the interest rate then in effect on the replacement notes) and may be redeemed at its liquidation preference plus accrued and unpaid dividends, at any time. However, pursuant to the Note Purchase Agreement, the G Industries Corp. preferred stock may not be redeemed until after the replacement notes have been paid in full; provided that, if the replacement notes are redeemed in part, the preferred stock may be redeemed pro rata.

Note 12. Benefit Plans

The GAF Capital Accumulation Plan is a defined contribution plan for eligible salaried employees. Company contributions consist of a basic contribution of three percent of the compensation of participants for the plan year together with matching contributions, up to an additional four percent as specified in the plan, for those participants who have elected to make voluntary contributions to the plan. Each participant is fully vested at all times in the balance of each of his or her accounts in the plan. The aggregate contributions made by the Company to the plan and charged to operations for the nine months ended December 31, 1989 was $3,812,000.

The retirement plans for hourly employees and Texas City facility employees are noncontributory defined benefit plans. Benefits under these plans are based on stated amounts for each year of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA, plus any additional amounts which the Company may determine to be appropriate. Pension expense charged to operations for the nine months ended December 31, 1989 was $981,000.

Net periodic pension cost for the nine months ended December 31, 1989 included the following components (dollars in thousands):

Service cost	$ 561
Interest cost	585
Actual return on plan assets	(256)
Net amortization and deferral	91
Net periodic pension cost	$ 981

The following table sets forth the funded status of the retirement plans for hourly employees and Texas City facility employees at December 31, 1989 (dollars in thousands):

Accumulated benefit obligation:	
Vested	$ 9,834
Nonvested	968
Total accumulated benefit obligation	$10,802
Projected benefit obligation	$10,802
Fair value of plan assets, primarily listed stocks and U.S. Government securities	(6,309)
Projected benefit obligation in excess of plan assets	4,493
Unrecognized net transition obligation being recognized over 15 years	(660)
Unrecognized prior service cost	(1,345)
Unrecognized net gain	97
Unfunded accrued pension cost	$ 2,585

Note 12. Benefit Plans - (Continued)

In determining the projected benefit obligation, the weighted average assumed discount rate was 8.5%, while the expected long-term rate of return on assets, used in determining net periodic pension cost, was 8%.

The Company has a non-qualified retirement plan for the benefit of key employees. The benefit payable under the plan, which accrues in accordance with a ten-year schedule, consists of an annual payment commencing at age 65 equal to 25% of a covered employee's last full year's salary. If a covered employee dies while employed by the Company, a death benefit of 36% of the employee's annual income at the date of death is payable to the employee's beneficiary for a term of 15 years. Employees who participate in this plan are not entitled to have employer contributions made to their accounts under the GAF Capital Accumulation Plan. The expense charged to operations in the nine months ended December 31, 1989 for such future obligations was $373,000.

The Company's Equity Appreciation Plan, adopted in June 1989, is an incentive compensation plan which provides for the granting of "Appreciation Units" to certain employees of the Company. Under the terms of the plan, Appreciation Units have no cash value when granted, but will increase in value based on changes in the "book value" (as defined in the plan) of the Company's common stock. Appreciation Units may not be exercised during the first year after the date of grant; thereafter, 20% of the Appreciation Units vest on each of the first through the fifth anniversaries of the date of grant. Upon exercise of a vested Appreciation Unit, a grantee will be entitled, subject to the terms of the plan, to receive, in cash, an amount equal to the cumulative increase in value described above. The Company issued grants for 184,590 Appreciation Units in 1989. Annual increases in the value of Appreciation Units held by employees of the Company are charged to expense.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees, including employees in foreign countries, may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits ($2.6 million for the nine months ended December 31, 1989) is recognized as expense as claims are incurred.

Note 13. Investment in Joint Venture

Financial data presented below pertains to GAF-Huls Chemie GmbH, a joint venture between GAF Corporation and Huls A.G., which operates a chemical manufacturing plant in West Germany. The results of this joint venture are accounted for by the equity method.

	Nine Months Ended December 31, 1989
	(Dollars in Thousands)
Income Statement Data	
Revenues	$ 93,086
Costs and Expenses	60,518
Operating Income	$ 32,568
Income for the Period	$ 17,596
GAF Equity Therein	8,698

Balance Sheet Data	As of December 31, 1989
Current Assets	$ 60,612
Noncurrent Assets	56,997
Total Assets	$117,609
Current Liabilities	$ 40,649
Noncurrent Liabilities	15,280
Total Liabilities	$ 55,929
Net Assets	$ 61,680
GAF Equity Therein	30,690

Note 14. Business Segments Information (Dollars in Millions)

	Nine Months Ended December 31, 1989
Sales	
Chemicals*	$ 470.2
Less: Intersegment Sales*	(22.4)
Net Chemicals Sales	447.8
Building Materials	319.3
Broadcasting	4.5
Net Sales	$ 771.6
Segment Income	
Chemicals**:	
Before Goodwill Amortization	$ 127.6
Goodwill Amortization	(13.5)
Total Chemicals Income	114.1
Building Materials	24.0
Broadcasting:	
Before Goodwill Amortization	1.6
Goodwill Amortization	(0.3)
Total Broadcasting Income	1.3
Total Segment Income	139.4
Corporate Operating Expenses	(12.0)
Interest Expense	(158.3)
Other Expense—net	(7.5)
Loss Before Income Taxes and Extraordinary Item	$ (38.4)
Identifiable Assets	
Chemicals**	$1,543.8
Building Materials	261.7
Corporate and other	23.7
Total Assets	$1,829.2
Additions to Property, Plant and Equipment	
Chemicals	$ 24.6
Building Materials	10.8
Corporate and other	0.5
Total	$ 35.9
Depreciation	
Chemicals	$ 12.8
Building Materials	8.1
Corporate and other	0.1
Total	$ 21.0

*Intersegment sales are recorded at the same prices charged to unaffiliated customers. Chemicals sales exclude sales of GAF-Huls Chemie GmbH.

**Chemicals income and identifiable assets include the Company's 50% equity in the income and assets of GAF-Huls Chemie GmbH.

Note 15. Guarantor Subsidiary Financial Data (for GAF Building Materials Corporation, GAF Broadcasting Company, Inc. and GAF Insurance Ltd.)

Presented below is combined condensed financial information for GAF Building Materials, GAF Broadcasting, and GAF Insurance, subsidiaries of the Company which, after the Acquisition, are guarantors of certain indebtedness of the Company. The financial information is presented on a legal entity basis whereby the results reflect interest expense, including interest on intercompany notes payable to the parent, and parent company management fees.

COMBINED CONDENSED STATEMENT OF OPERATIONS
NINE MONTHS ENDED DECEMBER 31, 1989

(Dollars in Millions)

Net Sales:	
Building Materials	$ 319.3
Broadcasting	4.5
Insurance	3.5
Net Sales	327.3
Cost and Expenses:	
Building Materials	295.3
Broadcasting	3.2
Insurance	3.5
Total Costs and Expenses	302.0
Income from Operations:	
Building Materials	24.0
Broadcasting	1.3
Insurance	-
Income from Operations	25.3
Interest Expense	(7.7)
Parent Company Management Fee	(9.5)
Other - net	(0.2)
Combined Income Before Taxes	7.9
Provision for Income Taxes*	2.7
Combined Net Income	$ 5.2

*The results of operations of GAF Building Materials, GAF Broadcasting and GAF Insurance are included in the Federal income tax returns of the Company. The provision for Federal and state income taxes has been computed utilizing the applicable statutory rates.

Note 15. Guarantor Subsidiary Financial Data (for GAF Building Materials Corporation, GAF Broadcasting Company, Inc. and GAF Insurance Ltd.) - (Continued)

COMBINED CONDENSED BALANCE SHEET

As of December 31, 1989
(Dollars in Millions)

ASSETS

Current Assets:	
Cash and Short-term Investments	$ 18.9
Accounts Receivable, net	64.3
Inventories	34.4
Other Current Assets	3.7
Total Current Assets	121.3
Property, Plant and Equipment, net	160.7
Excess of Cost Over Net Assets of Businesses Acquired	16.8
Other Assets	5.3
TOTAL ASSETS	$ 304.1

LIABILITIES AND AFFILIATES' INVESTMENT AND ADVANCES

Current Liabilities:	
Accounts Payable	$ 31.8
Accrued Liabilities	44.7
Total Current Liabilities	76.5
Long-term Debt	58.9
Other Liabilities	68.8
Affiliates' Investment and Advances	99.9
	$ 304.1

COMBINED CONDENSED STATEMENT OF CASH FLOWS

Nine Months Ended December 31, 1989
(Dollars in Millions)

Cash and Cash Equivalents, Beginning of Period	$ 42.0
Combined Net Income	5.2
Depreciation	8.2
Other Working Capital Items	11.5
Other, net	(4.7)
Net Cash Provided by Operating Activities	20.2
Additions to Property, Plant and Equipment	(10.8)
Decrease in Long-term Debt	(39.2)
Net Change in Affiliates' Investments and Advances	6.7
Decrease in Cash and Cash Equivalents	(23.1)
Cash and Cash Equivalents, End of Period	$ 18.9

The above Combined Condensed Statement of Cash Flows excludes the financing arranged to effect the Acquisition of the subsidiaries. See Note 1 for a discussion of such financing.

Note 16. Geographic Information (Dollars in Millions)

	Nine Months Ended December 31, 1989
Domestic Operations:	
Net Sales*	$ 564.0
Operating Income	$ 69.9
Other Expense - net	(159.2)
Loss Before Income Taxes and Extraordinary Item	$ (89.3)
Identifiable Assets	$1,648.0
Foreign Operations:	
Net Sales**	$ 207.6
Operating Income***	$ 52.0
Other Expense - net	(1.1)
Income Before Income Taxes and Extraordinary Item	$ 50.9
Identifiable Assets***	$ 181.2

* Domestic sales are net of transfers between geographic areas of $70.5 million.

** Foreign sales are net of transfers between geographic areas of $12.9 million.

*** Foreign Operations income and identifiable assets include the Company's 50% equity in the income and assets of GAF-Huls Chemie GmbH.

Note 17. Supplementary Income Statement Information (Dollars in Thousands):

	Nine Months Ended December 31, 1989
Maintenance and repairs	$ 40,109
Rentals - operating leases	6,688

Note 18. Commitments and Contingencies

The Company has operating leases for transportation, production and data processing equipment and for various buildings. Future minimum lease payments for properties which were held under long-term noncancelable leases as of December 31, 1989 were as follows (dollars in thousands):

1990	$ 7,795
1991	4,333
1992	2,578
1993	1,171
1994	420
Later Years	500
	$ 16,797

The discussion as to legal matters involving the Company, and appearing in response to "Item 3. Legal Proceedings" is incorporated herein by reference.

GAF CORPORATION

SUPPLEMENTARY DATA (UNAUDITED)

Quarterly Financial Data (Unaudited)

	Nine Months Ended December 31, 1989 By Quarter		
	Second	Third	Fourth
	(Dollars in Millions Except Per Share Amounts)		
Net Sales	$ 256.7	$ 265.9	$ 249.1
Cost of Products Sold	164.4	168.0	161.1
Gross Profit	$ 92.3	$ 97.9	$ 88.0
Income (Loss) Before Income Taxes and Extraordinary Item	$ (6.9)	$ 0.2	$ (31.6)
Income Tax (Provision) Benefit	(1.7)	(2.5)	9.0
Loss Before Extraordinary Item	(8.6)	(2.3)	(22.6)
Extraordinary Item	-	-	(5.0)
Net Loss	$ (8.6)	$ (2.3)	$ (27.6)
Loss Per Common Share			
Before Extraordinary Item	$ (4.94)	$ (1.83)	$(12.05)
Extraordinary Item	-	-	(2.48)
Net Loss	$ (4.94)	$ (1.83)	$(14.53)

ARTHUR ANDERSEN & CO.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To GAF Corporation:

We have audited the accompanying consolidated balance sheet of GAF Corporation (a Delaware corporation) and subsidiaries as of December 31, 1988, and the related consolidated statements of income, cash flows and shareholders' equity for the three-month period ended April 2, 1989 and each of the two years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 present fairly, in all material respects, the financial position of GAF Corporation and subsidiaries as of December 31, 1988, and the results of their operations and their cash flows for the three-month period ended April 2, 1989 and each of the two years in the period ended December 31, 1988, 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 schedules as listed in the index on page F-1 of this Form 10-K are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

Roseland, New Jersey
March 30, 1990

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GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)

CONSOLIDATED STATEMENTS OF INCOME

	First Quarter Ended April 2, 1989	Year Ended December 31, 1988	Year Ended December 31, 1987
	(Dollars in Thousands Except Per Share Amounts)		
Net Sales	$239,289	$961,412	$836,928
Costs and Expenses:			
Cost of Products Sold	158,696	643,088	549,501
Selling, General and Administrative	42,975	181,298	168,572
Total Costs and Expenses	201,671	824,386	718,073
Operating Income	37,618	137,026	118,855
Income on Investments	56,822	98,733	97,012
Interest Expense	(13,622)	(52,721)	(54,116)
Other Expense - net	(30,761)	(47,143)	(7,245)
Income Before Income Taxes and Extraordinary Items	50,057	135,895	154,506
Income Taxes	18,074	45,124	54,454
Income Before Extraordinary Items	31,983	90,771	100,052
Extraordinary Items	(6,553)	9,578	137,505
Net Income	$ 25,430	$100,349	$237,557
Earnings Per Common Share:			
Before Extraordinary Items	$ 1.15	$ 3.18	$ 2.93
Extraordinary Items	(.24)	.33	4.03
Net Income	$ .91	$ 3.51	$ 6.96

See Notes to Consolidated Financial Statements.

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 1988
(Dollars in Thousands)

ASSETS	
Current Assets	
Cash	$ 42,110
Short-term investments	574,105
Accounts receivable, less reserve: $3,988	184,737
Inventories	119,465
Other current assets	6,488
Total Current Assets	926,905
Marketable Securities	49,877
Property, Plant and Equipment - net	327,730
Excess of Cost Over Net Assets of Businesses Acquired	57,460
Other Assets	59,153
Total Assets	$1,421,125
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities	
Short-term debt	$ 7,161
Current maturities of long-term debt	4,976
Accounts payable	80,827
Accrued liabilities	118,988
Income taxes	9,353
Total Current Liabilities	221,305
Long-term Debt Less Current Maturities	486,727
Other Liabilities	89,616
Shareholders' Equity	
Preferred stock, $1 par value per share: authorized 6,000,000 shares	-
Common stock, $1 par value per share: authorized 100,000,000 shares; issued shares: 36,008,177	36,008
Additional paid-in capital	45,554
Retained earnings	851,010
Accumulated translation adjustment	12,067
Treasury stock, at cost	(321,162)
Shareholders' Equity	623,477
Total Liabilities and Shareholders' Equity	$1,421,125

See Notes to Consolidated Financial Statements.

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	First Quarter Ended April 2, 1989	Year Ended December 31, 1988	Year Ended December 31, 1987
	(Dollars in Thousands)		
Cash and Cash Equivalents, January 1	$ 618,215	$ 316,078	$ 452,463
Cash Flows from Operating Activities:			
Net Income	25,430	100,349	237,557
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	5,551	20,661	17,708
Goodwill Amortization	333	1,285	–
Other working capital items*	28,723	(51,830)	(1,230)
(Increase) Decrease in Other Assets	(37,083)	26,275	(23,985)
Increase (Decrease) in Other Liabilities	8,477	16,958	(25,848)
Net cash provided by operating activities	31,431	113,728	204,199
Cash flows from investing activities:			
Capital expenditures	(6,903)	(70,940)	(65,911)
Acquisition of Alkaril Chemicals Limited, net of cash acquired**	–	–	(67,449)
Net cash used in investing activities	(6,903)	(70,940)	(133,360)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	2,265	(1,424)	4,865
Proceeds from issuance of long-term debt	–	–	6,126
Principal repayments of long-term debt	(389,763)	(1,798)	(575)
Investment in marketable securities – net	49,877	271,139	91,349
Change in Accumulated Translation Adjustment	(2,928)	(6,067)	14,206
Stock repurchase programs	–	–	(322,997)
Cash dividends	(697)	(2,777)	(3,328)
Other – net	6,710	(1,724)	3,128
Net cash provided (used) by financing activities	(334,516)	257,349	(207,224)
Net change in cash and cash equivalents	(309,988)	300,137	(136,385)
Cash and cash equivalents, End of Period	$ 308,227	$ 618,215	$ 316,078

	First Quarter Ended April 2, 1989	1988	1987
*Other working capital items:			
Accounts receivable	$ 22,985	$ (47,172)	$ (18,207)
Inventories	2,217	(3,161)	(24,780)
Other current assets	(11,709)	4,021	(2,526)
Accounts payable	10,276	(6,080)	5,222
Accrued liabilities	5,727	22,660	15,727
Income taxes	(783)	(22,118)	21,334
Net source (use) of funds	$ 28,723	$ (51,830)	$ (1,230)

**Acquisition of Alkaril Chemicals Limited:

Fair value of assets acquired			$ 87,098
Cash paid for capital stock			(70,000)
Liabilities assumed			$ 17,098

	First Quarter Ended April 2, 1989	1988	1987
Supplemental Cash Flow Information:			
Cash paid during the year for:			
Interest	$ 17,199	$ 50,520	$ 52,957
Income Taxes	$ 922	$ 40,510	$ 66,977

See Notes to Consolidated Financial Statements.

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	First Quarter Ended April 2, 1989	Year Ended December 31, 1988	1987
	(Dollars in Thousands)		
Common Stock, $1 Par Value Per Share:			
Balance, January 1 and End of Period	$ 38,008	$ 38,008	$ 38,008
Additional Paid-in Capital:			
Balance, January 1	45,554	46,565	44,736
Proceeds in excess of (less than) cost of treasury shares issued under stock plans	(2,464)	(1,005)	1,582
Other activity	-	(6)	267
Balance, End of Period	43,090	45,554	46,565
Retained Earnings:			
Balance, January 1	851,010	753,438	519,207
Net Income	25,430	100,349	237,557
Common stock cash dividends (per share: $.025 in 1989; $.10 in 1988 and 1987)	(697)	(2,777)	(3,326)
Balance, End of Period	875,743	851,010	753,438
Accumulated Translation Adjustment:			
Balance, January 1	12,067	18,134	3,928
Translation adjustment for the period	(2,928)	(6,067)	14,206
Balance, End of Period	9,139	12,067	18,134
Net Unrealized Loss on Marketable Equity Securities:			
Balance, January 1	-	(22,038)	-
Net change in valuation adjustment for the period	-	22,038	(22,038)
Balance, End of Period	-	-	(22,038)
Treasury Stock, at cost:			
Common Stock:			
Balance, January 1	(321,162)	(323,790)	(2,381)
Shares repurchased - 7,978,869 shares	-	-	(322,997)
Issued under various stock option and stock purchase plans: First Quarter 1989 - 107,070 shares; 1988 - 115,612 shares; 1987 - 165,319 shares	4,335	2,628	1,588
Balance, April 2, 1989 - 8,071,892 shares; December 31: 1988 - 8,178,962 shares; 1987 - 8,294,574 shares	(316,827)	(321,162)	(323,790)
Shareholders' Equity	$ 647,153	$ 623,477	$ 508,317

See Notes to Consolidated Financial Statements.

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Acquisition by GAF Corporation

GAF Corporation (the "Predecessor Company") was acquired on March 29, 1989 in a leveraged buyout transaction ("the Acquisition") by Newco Holdings, Inc. (which subsequently changed its name to GAF Corporation) ("the Company"). The accompanying financial statements represent the historical operating results of the Predecessor Company and do not include any adjustments resulting from the Acquisition.

Principles of Consolidation

The accounts of all significant subsidiaries of the Predecessor Company are included in the consolidated financial statements. All significant intercompany transactions and balances have been eliminated. The 50% ownership of a foreign chemical manufacturing company is accounted for by the equity method. The results of a wholly-owned captive insurance subsidiary, previously accounted for by the equity method, have been consolidated effective for the year ended December 31, 1988 in accordance with the adoption of Statement of Financial Accounting Standards No. 94, "Consolidation of all Majority-owned Subsidiaries." Prior year financial statements were not restated for the adoption of Statement No. 94 since the effect would not be material.

Consolidated Statement of Cash Flows

The Predecessor Company adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" for all periods presented. For purposes of the statement, the Predecessor Company considered its short-term investments and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Short-term Investments and Marketable Securities

Short-term investments and marketable securities are stated at the lower of cost or market. The determination of cost in computing realized gains and losses on investments is based on the specific identification method.

Inventories

Inventories are stated at the lower of cost or market. In the fourth quarter of 1987, the Predecessor Company adopted the LIFO (last-in, first-out) method of determining cost for a substantial portion of its domestic inventories. All other inventories are based principally on average cost.

Property, Plant and Equipment and Related Depreciation

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. Certain interest charges are capitalized as part of the cost of property, plant and equipment additions.

Deferred Income Taxes

Deferred income taxes arise from reporting certain income and expense items in the financial statements in periods different from those in which such amounts are reported for income tax purposes.

Excess of Cost Over Net Assets of Businesses Acquired

Excess of cost over net assets of businesses acquired in connection with acquisitions prior to November 1, 1970, is not being amortized because there has been no diminution in value; such cost relating to the November 1987 acquisition of Alkaril Chemicals Limited (see Note 5) is being amortized on the straight-line method over a period of forty years.

Note 1. Summary of Significant Accounting Policies - (Continued)

Research and Development

Research and development expenses are charged to operations as incurred and amounted to $4 million in the first quarter of 1989, $15.1 million in 1988 and $12.2 million in 1987.

Earnings Per Common Share

Primary and fully diluted earnings per common share are based on the weighted average number of common and common equivalent shares outstanding during each year. Weighted average shares for computing primary and fully diluted earnings per share were (in thousands) 27,872 for first quarter 1989, 28,561 for 1988, and 34,144 for 1987.

Note 2. Short-term Investments and Marketable Securities

The Predecessor Company held a variety of short-term investments in domestic and foreign instruments, including common and preferred stock, fixed income securities, risk arbitrage and dividend capture positions, commercial paper and repurchase agreements selected to maximize income return. The average amount invested in these programs during 1988 and 1987 was approximately $444 million and $647 million, respectively. At December 31, 1988, the aggregate cost of the short-term investments was $574.1 million while the aggregate market value was $579.1 million.

At December 31, 1988, the Predecessor Company owned more than 5% of the capital stock of Cabot Corporation. The cost basis of this investment, classified as Marketable Securities, was $49.9 million, while the market value was $60.3 million. As of December 31, 1988, the Predecessor Company continued to hold positions in the stock of other publicly-owned companies, which constituted less than 5% of such companies' outstanding shares.

Extraordinary credits in 1988 and 1987 include $9.5 million and $136.6 million, respectively, after taxes and expenses, relating to the Predecessor Company's investments in Borg-Warner Corporation and Union Carbide Corporation.

Income on Investments consists of the following:

	First Quarter Ended 4/2/89	Year Ended December 31, 1988	1987
	(Dollars in Millions)		
Net realized gains, net of unrealized losses on short-term investments	$42.5	$45.2	$31.6
Dividends, interest income and other	14.3	53.5	65.4
	$56.8	$98.7	$97.0

Note 3. Inventories

At December 31, 1988, $47.8 million of inventories were valued using the LIFO method. These amounts were less than the corresponding replacement values by $10.6 million. During 1988, certain LIFO inventory quantities were reduced, resulting in a liquidation of items carried at lower costs that prevailed in prior years. The effect on net earnings of these liquidations was not significant.

Inventories at December 31, 1988 consist of the following (Dollars in Thousands):

Finished goods	$ 76,826
Work in process	22,415
Raw materials and supplies	30,823
Total	130,064
Less LIFO Reserve	(10,599)
Inventories	$119,465

Note 4. Property, Plant and Equipment

Property, Plant and Equipment at December 31, 1988 consist of the following (Dollars in Thousands):

Land and land improvements	$ 22,798
Buildings and building equipment	77,346
Machinery and equipment	318,510
Construction in progress	50,002
Total	468,656
Less Accumulated Depreciation	(140,926)
Property, Plant and Equipment—net	$327,730

Note 5. Acquisition of Alkaril Chemicals Limited

In November 1987, the Predecessor Company acquired Alkaril, a privately held Canadian-based manufacturer of surfactants and other specialty chemicals and its U.S.-based affiliate, Alkaril U.S., with production facilities in Mississauga, Ontario, Canada and Winder, Georgia. The cost of the acquisition was $70 million ($67.4 million, net of cash acquired). The acquisition was accounted for by the purchase method of accounting, and accordingly, the acquired assets and liabilities were recorded at their estimated fair values at the date of acquisition. The excess of cost over net assets acquired of $50.2 million is being amortized on a straight-line basis over a period of 40 years. The results of Alkaril and Alkaril U.S. are included in the Consolidated Statements of Income from the date of acquisition. The effect of the acquisition was not material to consolidated operations for 1987.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 6. Income Taxes

Income Taxes consist of the following:

	First Quarter Ended 4/2/89	Year Ended December 31, 1988	1987
	(Dollars in Thousands)		
Federal	$13,194	$21,626	$32,236
Foreign	4,408	19,849	19,420
State and local	472	3,649	2,798
	$18,074	$45,124	$54,454

The differences between the income tax provisions computed by applying the statutory federal income tax rate to pretax income and the actual tax provisions are as follows:

	First Quarter Ended 4/2/89	Year Ended December 31, 1988	1987
	(Dollars in Thousands)		
Statutory Provisions	$17,019	$46,204	$61,802
Adjustments			
Dividend received deductions	(141)	(3,365)	(7,085)
Capital gains differential	-	-	(1,338)
Impact of foreign operations	744	393	609
State and local taxes	311	2,409	1,679
Other	141	(517)	(1,213)
	$18,074	$45,124	$54,454

As of April 2, 1989, provision had not been made for United States income taxes on approximately $15.6 million of unremitted earnings of consolidated foreign subsidiaries and the Company's 50% owned joint venture, because any United States taxes payable on foreign earnings which may be remitted in the future are expected to be substantially reduced by foreign tax credits.

Extraordinary credits for 1988 and 1987 include $74,000 and $966,000, respectively, representing the income tax benefit from the utilization of foreign operating loss carryforwards. The first quarter 1989, 1988 and 1987 extraordinary credits also include income tax benefits of $56,000, $9,504,000 and $22,400,000 related to the Predecessor Company's partial disposition of its investment in Union Carbide Corporation (see Note 2).

In the fourth quarter of 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes". The Company is required to adopt the new accounting and disclosure rules no later than 1992 although earlier implementation is permitted. The Company currently does not intend to adopt the provisions of Statement No. 96 until 1992. Implementation of the new Statement is not expected to have a material impact on the Company's consolidated financial position.

Note 7. Benefit Plans

The GAF Capital Accumulation Plan is a defined contribution plan for eligible salaried employees. Company contributions consist of a basic contribution of three percent of the compensation of participants for the plan year together with matching contributions, up to an additional four percent as specified in the plan, for those participants who have elected to make voluntary contributions to the plan. Each participant is fully vested at all times in the balance of each of his or her accounts in the plan. The aggregate contributions made by the Predecessor Company to the plan and charged to operations in 1988, 1987 and the first quarter of 1989 were $4,342,000, $3,755,000 and $971,000, respectively.

The retirement plans for hourly employees and Texas City facility employees are noncontributory defined benefit plans. Benefits for these plans are based on stated amounts for years of service. The Company's funding policy is consistent with the minimum funding requirements of ERISA, plus any additional amounts which the Company may determine to be appropriate. Pension expense charged to operations was $327,000 in the first quarter of 1989, $1,185,000 in 1988 and $1,087,000 in 1987.

Net periodic pension cost for 1988, 1987 and the first quarter of 1989 included the following components (dollars in thousands):

	First Quarter 1989	1988	1987
Service cost	$ 187	$ 675	$ 770
Interest cost	195	630	407
Actual return on plan assets	(85)	(333)	10
Net amortization and deferral	30	213	(100)
Net periodic pension cost	$ 327	$1,185	$1,087

The following table sets forth the funded status of the retirement plans for hourly employees and Texas City facility employees at April 2, 1989, December 31, 1988 and December 31, 1987 (dollars in thousands):

	April 2, 1989	1988	1987
Accumulated benefit obligation:			
Vested	$7,020	$5,881	$5,377
Nonvested	1,578	2,377	742
Total accumulated benefit obligation	$8,598	$8,258	$6,119
Projected benefit obligation	$8,598	$8,258	$6,119
Fair value of plan assets, primarily listed stocks and U.S. Government securities	(4,111)	(3,858)	(2,403)
Projected benefit obligation in excess of plan assets	4,487	4,400	3,716
Unrecognized net transition obligation being recognized over 15 years	(701)	(715)	(770)
Unrecognized prior service cost	(859)	(869)	(356)
Unrecognized net gain	203	3	252
Unfunded accrued pension cost	$3,130	$2,819	$2,842

Note 7. Benefit Plans - (Continued)

The above tables reflect the provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions", which the Predecessor Company adopted effective January 1, 1987. In determining the projected benefit obligation, the weighted average assumed discount rate was 9%, while the expected long-term rate of return on assets, used in determining net periodic pension cost, was 8%.

The Company has a non-qualified retirement plan for the benefit of key employees. The benefit payable under the plan, which accrues in accordance with a ten-year schedule, consists of an annual payment commencing at age 65 equal to 25% of a covered employee's last full year's salary. If a covered employee dies while employed by the Company, a death benefit of 36% of the employee's annual income at the date of death is payable to the employee's beneficiary for a term of 15 years. Employees who participate in this plan are not entitled to have employer contributions made to their accounts under the GAF Capital Accumulation Plan. The expense charged to operations in 1988, 1987 and the first quarter of 1989 for such future obligations amounted to $648,000, $673,000 and $87,000, respectively.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees, including employees in foreign countries, may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits ($1.0 million in the first quarter of 1989, $3.3 million in 1988 and $3.0 million in 1987) is recognized as expense as claims are incurred.

As part of the 1977 and 1980 discontinuance programs, the Predecessor Company provided health and life insurance coverage for certain retired employees of discontinued businesses. The balance of the liability for such future obligations at April 2, 1989 was approximately $9.8 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 8. Short-term and Long-term Debt

Information regarding short-term debt is as follows:

	First Quarter 1989	1988	1987
	(Dollars in Thousands)		
As of End of Period:			
Balance outstanding	$ 9,446	$ 7,161	$ 8,585
Weighted average interest rate	8.6%	8.7%	9.4%
For the Period:			
Average month-end short-term debt outstanding	$ 8,374	$ 23,956	$ 33,115
Maximum month-end short-term debt outstanding	$ 9,446	$ 41,029	$171,426
Weighted average month-end interest rate	9.1%	5.4%	6%

At December 31, 1988, the Predecessor Company had unused short-term lines of credit aggregating approximately $77 million. The short-term lines of credit were maintained with banks on terms which expired on various dates, but were generally renewable. Borrowings under short-term lines of credit generally bore interest at or near the prime commercial lending rate.

Long-term debt at December 31, 1988 was as follows (Dollars in Thousands):

Industrial revenue bonds with various interest rates and maturity dates to 2012. Certain assets are pledged as collateral thereto	$ 36,316
Obligations on mortgaged properties	46,840
11 3/8% Senior Subordinated Notes due June 15, 1995	150,000
10 3/8% Senior Subordinated Notes due November 1, 1994	155,000
10 7/8% Senior Subordinated Debentures due November 1, 2001	105,000
Other	3,492
Less unamortized discount	(4,945)
Total	491,703
Less current maturities	(4,976)
Long-term Debt Less Current Maturities	$486,727

Note 8. Short-term and Long-term Debt - (Continued)

In October 1986, the Predecessor Company placed a $38.1 million mortgage on the Company's headquarters property, with interest at a rate based on the London Interbank Offer Rate. Such rate approximated 10.2% at December 31, 1988.

The Predecessor Company in June 1985 issued $150 million of 11 3/8% Senior Subordinated Notes due June 15, 1995.

In November 1986, the Predecessor Company issued $155 million of 10 3/8% Senior Subordinated Notes due 1994 and $105 million of 10 7/8% Senior Subordinated Debentures due 2001. The securities are subordinated to all existing and future senior indebtedness of the Company.

In connection with the Acquisition, the Predecessor Company conducted tender offers and consent solicitations to amend the indentures for its 11 3/8% Senior Subordinated Notes due 1995, 10 3/8% Senior Subordinated Notes due 1994 and 10 7/8% Senior Subordinated Debentures due 2001. The requisite consents were obtained for those issues and the indentures amended. The tender offers expired on March 28, 1989, and the Predecessor Company accepted for payment all validly tendered securities constituting approximately 95%, 91% and 100%, respectively, of each issue. As a result, the Predecessor Company incurred a first quarter 1989 extraordinary charge from extinguishment of debt in the amount of $6.6 million, net of income tax benefit of $4.4 million. Amounts remaining outstanding are $6.7 million of the 11 3/8% Notes and $13.7 million of the 10 3/8% Notes.

The aggregate maturities of long-term debt for the next five years as of December 31, 1988 are as follows (dollars in thousands):

1989	$ 4,976
1990	799
1991	758
1992	6,254
1993	900

Note 9. Capital Stock

During 1987, pursuant to authorizations from its Board of Directors, the Predecessor Company repurchased 7,978,669 shares of the Predecessor Company's common stock at a total cost of $323 million.

At December 31, 1988, there were 3,315,367 shares of common stock reserved for issuance under the Predecessor Company's stock option and stock purchase plans.

Note 10. Stock Option and Stock Purchase Plans

The Predecessor Company's 1984 Stock Option Plan provided for the granting of incentive and nonqualified stock options to key employees of the Predecessor Company and its subsidiaries to purchase common stock of the Predecessor Company at not less than 100% of the fair market value at the date of grant. Under the terms of the plan, options for 1,600,000 shares of common stock could be granted from time to time until April 30, 1989. The term of each option was five years and sixty days. Options could not be exercised during the first year after the date of grant, but thereafter, options became exercisable as to 20% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant.

The Predecessor Company's 1975 nonqualified stock option plan provided for the granting of 1,600,000 options to key employees to purchase common stock of the Predecessor Company at not less than 100% of the fair market value at the date of grant. Options granted through April 30, 1984 were exercisable one year after grant and expired after 10 years. Options granted after April 30, 1984 were subject to the same terms and conditions as options issued under the 1984 Stock Option Plan. The 1975 plan terminated in 1985, and no additional options were granted after that date.

In connection with the Acquisition, all holders of stock options with an exercise price of less than $53 per share received consideration consisting of cash and/or Merger Debentures equal to the difference between $53 per share and the applicable option exercise price. The total consideration paid to option holders was approximately $27.4 million. Such amount was recorded as a charge to earnings in the first quarter of 1989.

The following is a summary of certain information pertaining to the 1975 and 1984 stock option plans:

	First Quarter 1989	1988	1987
	(Number of Shares)		
Outstanding January 1	1,334,955	1,515,857	1,424,762
Granted	-	-	275,350
Exercised	(107,070)	(115,612)	(135,253)
Terminated	(22,170)	(65,290)	(49,002)
Vesting and Cashout in connection with Acquisition	(1,205,715)	-	-
Outstanding End of Period	- 0 -	1,334,955	1,515,857
At End of Period:			
Exercisable	-	559,653	650,345
Available for grant	-	433,462	369,772
	(Option Price Range Per Share)		
Outstanding	-	$ 4.81-	$ 4.81-
	-	$53.63	$53.63
Exercised	$ 5.94-	$ 5.75-	$ 4.81-
	$42.88	$38.63	$35.81

Note 10. Stock Option and Stock Purchase Plans - (Continued)

The Predecessor Company's 1984 Employee Stock Purchase Plan provided for grants of options to purchase 1,200,000 shares of common stock on a nondiscriminatory basis to all eligible employees of the Predecessor Company and its subsidiaries. No options to purchase shares of common stock under the plan could be granted after April 30, 1989. The price at which shares could be purchased was the lesser of (i) 85% of the fair market value on the date of grant or (ii) 85% of the fair market value on the date of purchase. As of December 31, 1987 and 1988, 223,888 shares of common stock had been issued under the plan.

Under the provisions of the Predecessor Company's 1969 Restricted and Unrestricted Stock Purchase Plan, 1,300,000 shares of common stock were authorized for sale to key employees. The plan provided that restricted and unrestricted shares could be sold at prices which were not less than 50% and 80%, respectively, of the closing market price preceding the date of grant. Only restricted shares were offered for sale. Under certain conditions, the Predecessor Company had the right to repurchase restricted shares of common stock at the original selling price. At December 31, 1988, there were 570,838 shares available for sale under this stock purchase plan. Immediately prior to the Acquisition, all remaining restrictions on shares purchased pursuant to this Plan were removed to enable holders to receive the consideration paid to shareholders, generally, in the Acquisition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 11. Investment in Joint Venture

Financial data presented below pertains to GAF-Huls Chemie GmbH, a joint venture between GAF Corporation and Huls A.G., which operates a chemical manufacturing plant in West Germany. The results of this joint venture are accounted for by the equity method.

Income Statement Data	First Quarter Ended 4/2/89	Year Ended December 31, 1988	Year Ended December 31, 1987
	(Dollars in Thousands)		
Revenues	$ 30,127	$108,287	$ 80,944
Costs and Expenses	18,586	76,946	58,973
Operating Income	$ 11,541	$ 31,341	$ 21,971
Income for the Period	$ 6,232	$ 14,183	$ 13,216
GAF Equity Therein	3,116	7,436	6,733
GAF Royalty Income from GAF-Huls	-	4,285	2,709

Balance Sheet Data	As of 4/2/89	As of December 31, 1988	As of December 31, 1987
Current Assets	$ 27,734	$ 36,346	$ 17,014
Noncurrent Assets	54,599	57,727	68,461
Total Assets	$ 82,333	$ 94,073	$ 85,475
Current Liabilities	$ 9,771	$ 23,604	$ 13,364
Noncurrent Liabilities	13,755	14,161	14,750
Total Liabilities	$ 23,526	$ 37,765	$ 28,114
Net Assets	$ 58,807	$ 56,308	$ 57,361
GAF Equity Therein	29,352	27,865	28,091

GAF CORPORATION AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 12. Business Segments Information

	First Quarter Ended 4/2/89	Year Ended December 31, 1988	Year Ended December 31, 1987
	(Dollars in Millions)		
Sales			
Chemicals*	$ 158.9	$ 573.5	$ 462.9
Less: Intersegment Sales*	(6.6)	(28.5)	(31.5)
Net Chemicals Sales	152.3	545.0	431.4
Building Materials	85.9	411.4	400.5
Broadcasting	1.1	5.0	5.0
Net Sales	$ 239.3	$ 961.4	$ 836.9
Segment Income			
Chemicals**	$ 44.1	$ 150.0	$ 130.0
Building Materials	3.8	28.5	26.0
Broadcasting	0.2	1.6	1.6
Total	48.1	180.1	157.6
Corporate:			
Operating Expenses	(4.6)	(18.7)	(17.8)
Interest Expense	(13.6)	(52.7)	(54.1)
Other Income--net	20.2	27.2	68.8
Net Corporate Income (Expenses)	2.0	(44.2)	(3.1)
Income Before Income Taxes and Extraordinary Item	$ 50.1	$ 135.9	$ 154.5
Identifiable Assets			
Chemicals**	$ 458.5	$ 454.6	$ 419.5
Building Materials	261.2	235.6	229.1
Corporate and other	365.9	730.9	649.2
Total Assets	$1,085.6	$1,421.1	$1,297.8
Additions to Property, Plant and Equipment			
Chemicals	$ 3.9	$ 45.1	$ 34.0
Building Materials	2.8	24.5	30.5
Corporate and other	0.2	1.3	1.4
Total	$ 6.9	$ 70.9	$ 65.9
Depreciation			
Chemicals	$ 2.7	$ 10.5	$ 8.1
Building Materials	2.6	9.2	8.7
Corporate and other	0.3	1.0	0.9
Total	$ 5.6	$ 20.7	$ 17.7

*Intersegment sales are recorded at the same prices charged to unaffiliated customers. Chemicals sales exclude sales of GAF-Huls Chemie GmbH.

**Chemicals income and identifiable assets include the Predecessor Company's 50% equity in the income and assets of GAF-Huls Chemie GmbH.

GAF CORPORATION AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 13. Guarantor Subsidiary Financial Data (for GAF Building Materials Corporation, GAF Broadcasting Company, Inc. and GAF Insurance Ltd.)

COMBINED CONDENSED STATEMENTS OF OPERATIONS

	First Quarter Ended 4/2/89	Year Ended December 31, 1988	1987
	(Dollars in Millions)		
Net Sales:			
Building Materials	$ 85.9	$ 411.4	$ 400.5
Broadcasting	1.1	5.0	5.0
Insurance	1.2	6.8	7.2
Net Sales	88.2	423.2	412.7
Cost and Expenses:			
Building Materials	82.1	382.9	374.5
Broadcasting	0.9	3.4	3.4
Insurance	0.6	4.8	3.7
Total Costs and Expenses	83.6	391.1	381.6
Income from Operations:			
Building Materials	3.8	28.5	26.0
Broadcasting	0.2	1.6	1.6
Insurance	0.6	2.0	3.5
Eliminations	-	(1.2)	(0.7)
Income from Operations	4.6	30.9	30.4
Interest Expense Related to Industrial Revenue Bonds for Building Materials Property	(0.6)	(2.2)	(2.1)
Other Expense, net	(0.4)	(9.7)	(5.4)
Combined Income Before Taxes	3.6	19.0	22.9
Provision for Income Taxes*	(1.4)	(7.0)	(9.9)
Combined Net Income	$ 2.2	$ 12.0	$ 13.0

*The results of operations of GAF Building Materials, GAF Broadcasting and GAF Insurance are included in the Federal income tax returns of GAF. The provision for Federal and state income taxes has been computed utilizing the applicable statutory rates after giving effect to investment tax credits. The effects of permanent differences are not significant.

Note 13. Guarantor Subsidiary Financial Data (for GAF Building Materials Corporation, GAF Broadcasting Company, Inc. and GAF Insurance Ltd.) - (Continued)

COMBINED CONDENSED BALANCE SHEET

As of December 31, 1988
(Dollars in Millions)

ASSETS	
Current Assets:	
Cash and Short-term Investments	$ 21.2
Accounts Receivable, net	56.5
Inventories	38.6
Other Current Assets	2.3
Total Current Assets	118.6
Property, Plant and Equipment, net	140.3
Other Assets	7.7
TOTAL ASSETS	$ 266.6
LIABILITIES AND AFFILIATES' INVESTMENT AND ADVANCES	
Current Liabilities:	
Accounts Payable	$ 20.3
Accrued Liabilities	25.5
Total Current Liabilities	45.8
Other Liabilities	7.5
Affiliates' Investment and Advances	213.3
	$ 266.6

COMBINED CONDENSED STATEMENTS OF CASH FLOWS

	First Quarter Ended 4/2/89	Year Ended December 31, 1988	Year Ended December 31, 1987
	(Dollars in Millions)		
Cash and Cash Equivalents, January 1	$ 21.2	$ 19.8	$ 14.8
Combined Net Income	2.2	12.0	13.0
Depreciation	2.6	9.2	8.7
Other Working Capital Items	(0.9)	0.8	(10.7)
Other, net	(0.3)	2.7	2.9
Net Cash Provided by Operating Activities	3.6	24.7	13.9
Additions to Property, Plant and Equipment	(2.8)	(24.6)	(30.5)
Net Change in Affiliates' Investments and Advances	9.0	1.3	21.6
Increase in Cash and Cash Equivalents	9.8	1.4	5.0
Cash and Cash Equivalents, End of Period	$ 31.0	$ 21.2	$ 19.8

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 14. Geographic Information

	First Quarter Ended 4/2/89	Year Ended December 31, 1988	Year Ended December 31, 1977
	(Dollars in Millions)		
Domestic Operations:			
Net Sales*	$ 170.6	$ 719.4	$ 682.0
Operating Income	$ 19.9	$ 74.8	$ 83.3
Other Income (Expense)	9.4	(14.0)	21.8
Income Before Income Taxes and Extraordinary Items	$ 29.3	$ 60.8	$ 105.1
Identifiable Assets	$ 891.0	$1,222.3	$1,094.7
Foreign Operations:			
Net Sales**	$ 68.7	$ 242.0	$ 154.9
Operating Income	$ 17.7	$ 62.2	$ 35.6
Other Income***	3.1	12.9	13.8
Income Before Income Taxes and Extraordinary Items	$ 20.8	$ 75.1	$ 49.4
Identifiable Assets***	$ 194.6	$ 198.8	$ 203.1

* Domestic sales are net of transfers between geographic areas of $24.1 million in the first quarter of 1989, $77.3 million in 1988 and $68.3 million in 1987.

** Foreign sales are net of transfers between geographic areas of $5.3 million in the first quarter of 1989, $15.6 million in 1988 and $11.8 million in 1987.

***Foreign Operations income and identifiable assets include the Predecessor Company's 50% equity in the income and assets of GAF-Huls Chemie GmbH.

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 15. Commitments and Contingencies

The Predecessor Company had operating leases for transportation, production and data processing equipment and for various buildings. Future minimum lease payments for properties which were held under long-term noncancelable leases as of April 2, 1989 were as follows (dollars in thousands):

Twelve Months Ended April 2:

1990	$ 7,144
1991	4,488
1992	3,156
1993	2,004
1994	767
Later Years	1,464
	$ 19,023

The discussion as to legal matters involving the Company, and appearing in response to "Item 3. Legal Proceedings" is incorporated herein by reference.

Note 16. Supplementary Income Statement Information

	First Quarter Ended 4/2/89	Year Ended December 31, 1988	1987
	(Dollars in Thousands)		
Maintenance and repairs	$ 11,349	$ 53,247	$ 49,610
Rentals - operating leases	2,096	8,296	7,451

GAF CORPORATION AND SUBSIDIARIES
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SUPPLEMENTARY DATA (UNAUDITED)

Quarterly Financial Data (Unaudited)

	1989	1988 By Quarter				1987 By Quarter			
	First	First	Second	Third	Fourth	First	Second	Third	Fourth
	(Dollars in Millions Except Per Share Amounts)								
Net Sales	$239.3	$216.5	$266.8	$253.1	$225.0	$191.1	$214.2	$222.5	$209.1
Cost of Products Sold*	158.7	145.4	178.8	165.8	153.1	124.6	138.2	145.9	140.8
Gross Profit*	$ 80.6	$ 71.1	$ 88.0	$ 87.3	$ 71.9	$ 66.5	$ 76.0	$ 76.6	$ 68.3
Income Before Income Taxes and Extraordinary Items	$ 50.1	$ 34.6	$ 55.9	$ 15.5	$ 29.9	$ 32.8	$ 46.7	$ 46.8	$ 28.2
Income Taxes	18.1	12.8	20.5	3.7	8.1	12.2	17.0	16.5	8.7
Income Before Extraordinary Items	32.0	21.8	35.4	11.8	21.8	20.6	29.7	30.3	19.5
Extraordinary Items**	(6.6)	0.9	6.1	2.4	0.2	21.1	102.7	11.8	1.9
Net Income	$ 25.4	$ 22.7	$ 41.5	$ 14.2	$ 22.0	$ 41.7	$132.4	$ 42.1	$ 21.4
Earnings Per Common Share***									
Before Extraordinary Items	$ 1.15	$ .76	$ 1.24	$ .41	$ .76	$ .56	$ .83	$ .88	$ .65
Extraordinary Items	(.24)	.03	.21	.09	.01	.58	2.89	.34	.06
Net Income	$ .91	$ .79	$ 1.45	$ .50	$ .77	$ 1.14	$ 3.72	$ 1.22	$ .71

*Effective at December 31, 1988, the Predecessor Company adopted Financial Accounting Standards Board Statement No. 94, "Consolidation of all Majority-owned Subsidiaries". Accordingly, the results of a wholly-owned captive insurance subsidiary, previously accounted for by the equity method, were consolidated for the year ended December 31, 1988. Previously issued quarterly results for 1988 were restated to reflect this change; there was no effect on net income for these periods.

**Extraordinary Items:

Tax loss carryforwards	$ –	$ 0.1	$ –	$ –	$ –	$ 0.2	$ –	$ 0.5	$ 0.3
Union Carbide Investment	0.1	0.8	6.1	2.4	0.2	20.9	5.6	11.3	1.6
Borg-Warner Investment	–	–	–	–	–	–	97.1	–	–
Loss on Extinguishment of Debt	(6.6)	–	–	–	–	–	–	–	–
Total	$ (6.5)	$ 0.9	$ 6.1	$ 2.4	$ 0.2	$ 21.1	$102.7	$ 11.8	$ 1.9

***In accordance with the provisions of APB Opinion No. 15, 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 interim periods.

GAF CORPORATION

PROPERTY, PLANT AND EQUIPMENT

Nine Months Ended December 31, 1989
(Dollars in Thousands)

Classification	Balance April 2, 1989	Acquisition of Predecessor Company	Additions at Cost	Retirements	Transfers To Other Accounts (b)	Other (c)	Balance December 31, 1989
Land....................................	$ -	$ 59,154	$ -	$ -	$(14,865)	$ 849	$ 45,448
Land improvements........................	-	7,386	850	77	26	20	8,205
Buildings and building equipment...........	-	75,047	5,805	77	(8,768)	1,318	72,335
Machinery and equipment....................	-	295,545	42,025	2,169	(8,084)	1,585	328,922
Construction in progress...................	-	46,581	(12,737)(a)	-	(385)	-	33,449
	$ -	$483,713	$ 35,943	$ 2,323	$(32,647)	$ 3,673	$488,359

Notes:

(a) Denotes net change during the period.

(b) Includes $29.3 million reclassification of assets in connection with the transfer of the GAF Surfactants Business (see Note 4 of Notes to Consolidated Financial Statements of the Company).

(c) Includes $2.9 million related to the acquisition of Sutton Laboratories, Inc. (see Note 5 of Notes to Consolidated Financial Statements of the Company).

The ranges of annual depreciation rates generally were as follows (applied principally on the straight-line basis):

Land improvements.......................2 1/2 - 6 2/3%
Buildings and building equipment.......2 1/2 - 33 1/3%
Machinery and equipment................5 - 33 1/3%

GAF CORPORATION

ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Nine Months Ended December 31, 1989
(Dollars in Thousands)

Classification	Balance April 2, 1989	Additions Charged to Costs and Expenses	Retirements	Transfer To Other Accounts(a)	Other	Balance December 31, 1989
Land improvements	$ -	$ 501	$ 27	$ 13	$ 2	$ 489
Buildings and building equipment	-	2,841	64	(310)	30	2,497
Machinery and equipment	-	17,700	1,977	(609)	26	15,140
	$ -	$ 21,042	$ 2,068	$ (906)	$ 58	$ 18,126

Note:

(a) Includes $898 of accumulated depreciation reclassified in connection with the transfer of the GAF Surfactants Business (see Note 4 of Notes to Consolidated Financial Statements of the Company).

SCHEDULE VIII

GAF CORPORATION

VALUATION AND QUALIFYING ACCOUNTS

Nine Months Ended December 31, 1988
(Dollars in Thousands)

Description	Balance April 2, 1988	Acquisition of Predecessor Company	Charged to Costs and Expenses	Deductions	Other (b)	Balance December 31, 1988
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:						
Allowance for doubtful accounts..................$	-	$ 3,701	$ 1,698 (a)	$ 1,566 (a)	(514)	$ 3,319
Allowance for discounts..........................	-	6,269	11,111	5,648	-	11,732
Reserve for inventory market valuation...........	-	8,053	3,976	6,631	(575)	4,823

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

(b) Represents reclassification of assets of the GAF Surfactants Business (see Note 4 of Notes to Consolidated Financial Statements).

SCHEDULE I

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)

MARKETABLE SECURITIES - OTHER INVESTMENTS

AS OF DECEMBER 31, 1988

(Dollars in Thousands)

Title of Issue	Principal Amount or Number of Shares	Cost	Market Value At December 31, 1988	Balance Sheet Carrying Amount
Short-Term Investments				
A) DEPOSITS				
Money Market Funds....................................	$ 795	$ 795	$ 795	
Time Deposits..	302,745	302,745	302,745	
Total Deposits..................................	$ 303,540	$303,540	$303,540	$303,540
B) SECURITIES				
1) Government Securities				
U.S...	$ 4,342	$ 4,342	$ 4,342	
Foreign...	1,100	1,100	1,100	
Total..	$ 5,442	5,442	5,442	
2) Repurchase Agreements..............................	$ 110,000	110,000	110,000	
3) Commercial Paper...................................	$ 22,984	22,984	22,984	
4) Common Stock*				
Allied Signal.....................................	1,260,200	40,905	40,957	
RJR Nabisco.......................................	403,000	34,804	36,723	
Restaurant and Consumer Foods (1).................		24,877	27,977	
Other (14)..		19,855	20,803	
Total..		120,441	125,860	
5) Preferred Stocks(1)*...............................		1,673	1,569	
6) Bonds and Notes*				
Domestic (9)......................................		6,756	6,569	
Foreign (4).......................................		3,290	3,364	
Total..		10,046	9,933	
Total Securities...............................		$270,585	$275,588	$270,585
Marketable Securities				
COMMON STOCK				
Cabot Corporation.................................	1,587,900	$ 49,877	$ 60,340	
Total Marketable Securities......................		$ 49,877	$ 60,340	$ 49,877

* Figures in parentheses indicate number of companies in group.

SCHEDULE V

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)

PROPERTY, PLANT AND EQUIPMENT

First Quarter Ended April 2, 1989
(Dollars in Thousands)

Classification	Balance January 1, 1989	Additions at Cost	Retirements	Transfers Between Accounts	Balance April 2, 1989
Land	$ 8,928	$ 5	$ –	$ (38)	$ 8,895
Land improvements	13,870	221	–	(37)	14,054
Buildings and building equipment	77,346	1,236	473	(8)	78,101
Machinery and equipment	318,510	7,904	572	71	325,913
Construction in progress	50,002	(2,463)(a)	–	12	47,551
	$468,656	$ 6,903	$ 1,045	$ 0	$474,514

Year Ended December 31, 1988
(Dollars in Thousands)

Classification	Balance January 1, 1988	Additions at Cost	Retirements	Transfer From Other Accounts	Balance December 31, 1988
Land	$ 7,948	$ –	$ –	$ 980	$ 8,928
Land improvements	11,276	1,915	250	929	13,870
Buildings and building equipment	66,617	8,980	2,093	3,842	77,346
Machinery and equipment	271,954	57,023	10,467	–	318,510
Construction in progress	47,158	3,022 (a)	178	–	50,002
	$404,953	$ 70,940	$ 12,988	$ 5,751	$468,656

Year Ended December 31, 1987
(Dollars in Thousands)

Classification	Balance January 1, 1987	Additions at Cost	Retirements	Transfers Between Accounts	Other (b)	Balance December 31, 1987
Land	$ 5,952	$ 14	$ 38	$ 99	$ 1,921	$ 7,948
Land improvements	10,451	752	50	123	–	11,276
Buildings and building equipment	56,814	2,704	1,538	1,012	7,625	66,617
Machinery and equipment	240,174	31,266	8,834	(1,234)	10,582	271,954
Construction in progress	16,197	31,175 (a)	214	–	–	47,158
	$329,588	$ 65,911	$ 10,674	$ –	$ 20,128	$404,953

Notes:

(a) Denotes net change during year.
(b) Represents acquisition of Alkaril Chemicals Limited.

The ranges of annual depreciation rates generally were as follows (applied principally on the straight-line basis):

Land improvements	2 1/2 - 8 2/3%
Buildings and building equipment	2 1/2 - 33 1/3%
Machinery and equipment	5 - 33 1/3%

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)

ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

First Quarter Ended April 2, 1989
(Dollars in Thousands)

Classification	Balance January 1, 1989	Additions Charged to Costs and Expenses	Retirements	Balance April 2, 1989
Land improvements	$ 5,088	$ 132	$ 15	$ 5,205
Buildings and building equipment	29,978	783	203	30,538
Machinery and equipment	105,860	4,656	440	110,076
	$140,926	$ 5,551	$ 658	$145,819

Year Ended December 31, 1988
(Dollars in Thousands)

Classification	Balance January 1, 1988	Additions Charged to Costs and Expenses	Retirements	Transfer From Other Accounts	Balance December 31, 1988
Land improvements	$ 4,376	$ 501	$ 90	$ 301	$ 5,088
Buildings and building equipment	26,532	2,801	1,857	2,702	29,978
Machinery and equipment	97,425	17,579	9,144	–	105,860
	$128,333	$ 20,881	$ 11,091	$ 3,003	$140,926

Year Ended December 31, 1987
(Dollars in Thousands)

Classification	Balance January 1, 1987	Additions Charged to Costs and Expenses	Retirements	Transfers Between Accounts	Balance December 31, 1987
Land improvements	$ 4,010	$ 397	$ 33	$ 2	$ 4,376
Buildings and building equipment	25,534	2,371	1,384	11	26,532
Machinery and equipment	91,848	14,938	9,148	(13)	97,425
	$121,192	$ 17,706	$ 10,565	$ –	$128,333

GAF CORPORATION AND SUBSIDIARIES
(PREDECESSOR COMPANY)

VALUATION AND QUALIFYING ACCOUNTS

First Quarter Ended April 2, 1989
(Dollars in Thousands)

Description	Balance January 1, 1989	Charged to Costs and Expenses	Deductions	Balance April 2, 1989
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts.........$	3,988	$ 70	$ 357 (a)	$ 3,701
Allowance for discounts.................	6,967	840	1,838	5,969
Reserve for inventory market valuation..	6,164	1,655	986	7,853

Year Ended December 31, 1988
(Dollars in Thousands)

Description	Balance January 1, 1988	Charged to Costs and Expenses	Deductions	Balance December 31, 1988
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:				
Allowance for doubtful accounts.........$	4,110	$ 1,260	$ 1,382 (a)	$ 3,988
Allowance for discounts.................	4,880	9,957	7,870	6,967
Reserve for inventory market valuation..	5,273	4,235	3,344	6,164

Year Ended December 31, 1987
(Dollars in Thousands)

Description	Balance January 1, 1987	Charged to Costs and Expenses	Deductions	Other (b)	Balance December 31, 1987
Valuation and Qualifying Accounts Deducted from Assets to Which They Apply:					
Allowance for doubtful accounts.........$	4,382	$ 875	$ 1,289 (a)	$ 142	$ 4,110
Allowance for discounts.................	3,826	9,098	8,044	-	4,880
Reserve for inventory market valuation..	5,144	2,092	2,013	50	5,273

NOTES: (a) Represents write-offs of uncollectible accounts net of recoveries.
(b) Represents reserve assumed in acquisition of Alkaril Chemicals Limited.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

1989 FORM 10-K

G A F CORPORATION

E X H I B I T S

EXHIBIT INDEX

Exhibit No.	Description	Sequentially Numbered Page
3.1	—Certificate of Incorporation of the Company and Certificates of Designation relating to the Series A Cumulative Redeemable Preferred Stock, par value $.01 per share, and the Series B Cumulative Redeemable Preferred Stock, par value $.01 per share (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 33-26684)).	
3.2	—Certificate of Amendment of Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware on March 21, 1989.	
3.3	—Certificate of Amendment of Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware on April 11, 1989.	
3.4	—Certificate of Amendment of Certificate of Incorporation as filed on December 29, 1989.	
3.5	—Bylaws of the Company.	
4.1	—Indenture regarding G-I Holdings Inc. Subordinated Merger Debentures due 2005, dated March 29, 1989 (incorporated by reference to Exhibit (a)(4)(iii) to the Company's Form 10-Q for the Quarter ended April 2, 1989).	
10.1	—Non-Qualified Retirement Plan Letter Agreement.	
10.2	—Credit Agreement among G Industries Corp., GAF Chemicals Corporation, GAF Building Materials Corporation, GAF Insurance Ltd. and Chase Manhattan Bank, as agent for a syndicate of banks party thereto, dated March 29, 1989 (the "Credit Agreement") (without Exhibits) (incorporated by reference to Exhibit (a)(4)(v) to the Company's Form 10-Q for the Quarter ended April 2, 1989).	
10.3	—Amendment No. 1 to the Credit Agreement dated as of July 1, 1989 and Amendment No. 2 to the Credit Agreement dated as of February 12, 1990 (without Exhibits).	
10.4	—Cost Sharing Agreement among the Company, GAF Chemicals, GAF Building Materials, GAF Export Corporation, GAF Insurance Ltd., WNCN Listeners Club Inc., GAF Broadcasting Company, Inc., G-I Holdings Inc., G Industries Corp., Merick Inc. and Perth Inc. dated March 29, 1989 (incorporated by reference to Exhibit (a)(4)(i) to the Company's Form 10-Q for the Quarter ended April 2, 1989).	
10.5	—Tax Sharing Agreement for the Company and its Subsidiaries among the Company and each subsidiary signatory thereto, dated March 29, 1989 (incorporated by reference to Exhibit (a)(4)(ii) to the Company's Form 10-Q for the Quarter ended April 2, 1989).	
10.6	—Asset Sale Agreement, dated February 12, 1990, by and among Chemicals, Alkaril and Michael W. Kempner in his capacities as trustee (the "Chemicals I Trustee") under that certain Trust Agreement dated February 12, 1990 between Michael W. Kempner and Chemicals pertaining to Chemicals Trust I (the "Trust I Agreement") and as trustee (the "Chemicals II Trustee") under that certain Trust Agreement dated February 12, 1990 between Michael W. Kempner and Alkaril pertaining to Chemicals Trust II (the "Trust II Agreement") (incorporated by reference to Exhibit (c)(1) to the Company's Form 8-K reporting an event on February 12, 1990).	

EXHIBIT INDEX

Exhibit No.	Description	Sequentially Numbered Page
10.7	—Trust I Agreement (incorporated by reference to Exhibit (c)(2) to the Company's Form 8-K reporting an event on February 12, 1990).	
10.8	—Trust II Agreement (incorporated by reference to Exhibit (c)(3) to the Company's Form 8-K reporting an event on February 12, 1990).	
10.9	—Trust Agreement dated February 12, 1990 among Wilmington Trust Company, as trustee (the "Chemicals III Trustee"), the Chemicals I Trustee, the Chemicals II Trustee and ESSL-RP, Inc. ("ESSL") (incorporated by reference to Exhibit (c)(4) to the Company's Form 8-K reporting an event on February 12, 1990).	
10.10	—Contribution Agreement dated as of February 12, 1990 among the Chemicals I Trustee, the Chemicals II Trustee and the Partnership (incorporated by reference to Exhibit (c)(5) to the Company's Form 8-K reporting an event on February 12, 1990).	
10.11	—Assignment Agreement dated as of February 12, 1990 by and among the Partnership, Chemicals and Alkaril (incorporated by reference to Exhibit (c)(6) to the Company's Form 8-K reporting an event on February 12, 1990).	
10.12	—Assumption Agreement dated as of February 12, 1990 by and among Chemicals, Alkaril, the Chemicals I Trustee and the Chemicals II Trustee (incorporated by reference to Exhibit (c)(7) to the Company's Form 8-K reporting an event on February 12, 1990).	
10.13	—Assumption Agreement dated as of February 12, 1990 by and among the Chemicals I Trustee, the Chemicals II Trustee and the Partnership (incorporated by reference to Exhibit (c)(8) to the Company's Form 8-K reporting an event on February 12, 1990).	
10.14	—Assignment of Partnership Interests and Amendment to the Amended and Restated Agreement of Limited Partnership of Rhone-Poulenc Specialty Chemicals, L.P. dated February 12, 1990 by and among the Chemicals I Trustee, the Chemicals II Trustee, ESSL, the Chemicals III Trustee, RPI and Holdings (incorporated by reference to Exhibit (c)(9) to the Company's Form 8-K reporting an event on February 12, 1990).	
11.	—Computation of Earnings per Common Share for the Three Years ended December 31, 1989.	
22.	—Subsidiaries of the Company.	