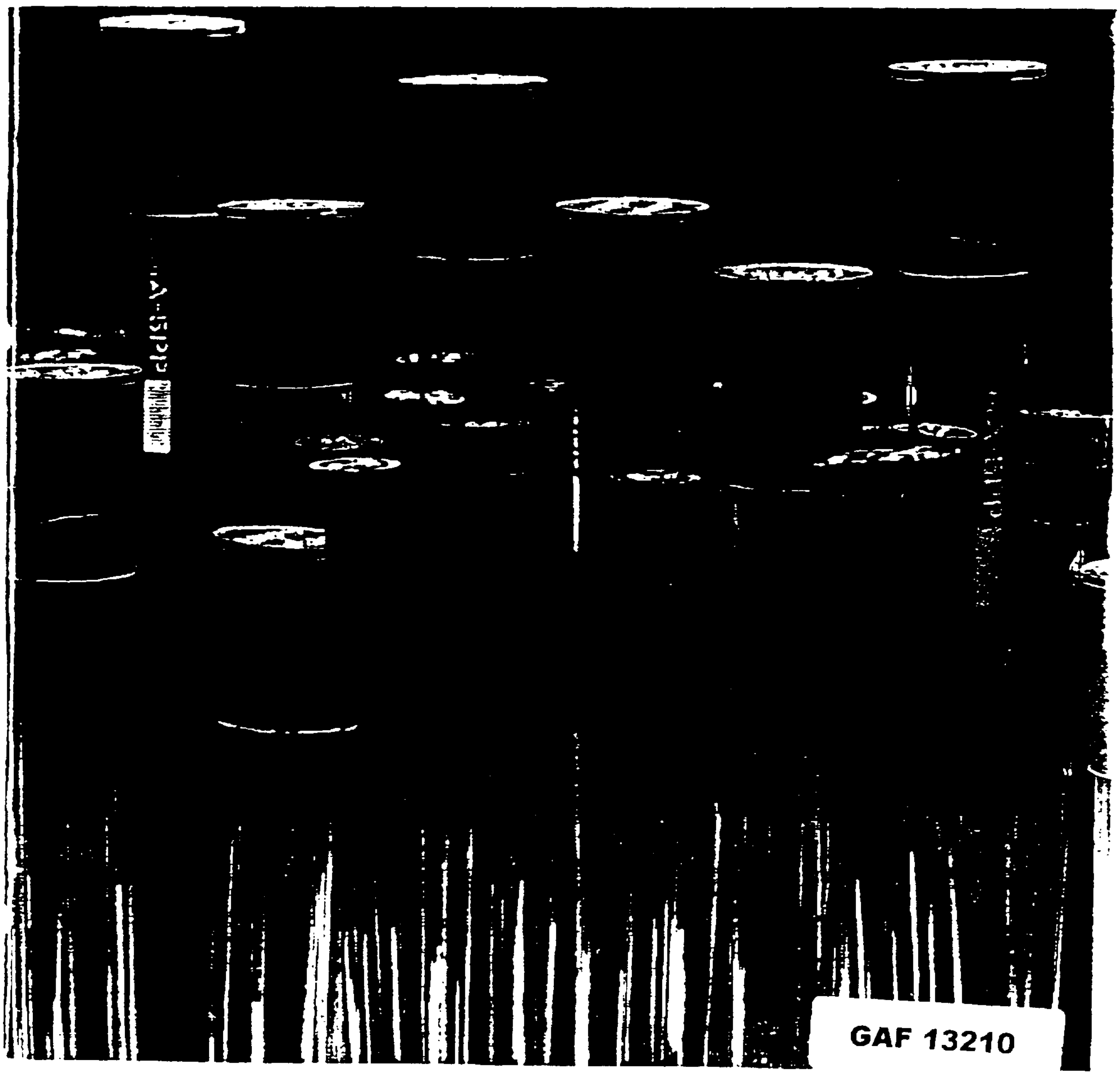
PLAINTIFF'S EXHIBIT GF-1986

GAF CORPORATION

Annual Report 1982



GAF 13210

Financial Highlights

Thousands of Dollars Except Per Share Amounts	1982	[illegible]	[illegible]
Net Sales	$ 623,236	[illegible]	[illegible]
Income (Loss) from Continuing Operations	$ 12,182	[illegible]	[illegible]
Income (Loss) from Discontinued Segments	5,303	[illegible]	[illegible]
Extraordinary Credits	38,744	—	—
Net Income (Loss)	$ 56,229	[illegible]	[illegible]
Earnings per Common Share			
Primary			
Continuing	$ .64	[illegible]	[illegible]
Discontinued	.37	[illegible]	[illegible]
Extraordinary	2.70	—	—
Net Income (Loss)	$ 3.71	[illegible]	[illegible]
Fully Diluted			
Continuing	$ .70	[illegible]	
Discontinued	.30	[illegible]	
Extraordinary	2.17	—	[illegible]
Net Income	$ 3.17	$ 1.50	
Cash Dividends per Share			
Preferred	$ 1.20	$ 1.20	[illegible]
Common	$ .50	$ .60	[illegible]

*Figure omitted—not dilutive

Shareholders Information

The 1983 Annual Meeting of Shareholders will be held at 10:00 a.m., Thursday April 28, at the Radisson Plaza Charlotte Hotel, Two NCNB Plaza, Charlotte, North Carolina

Stock Transfer Agent and Registrar
Citibank, N.A.
111 Wall Street
Sort 3195
New York, NY 10043
(212) 558-7867

GAF offers holders of its common and preferred stock the opportunity to buy additional shares through an automatic dividend reinvestment service administered by Citibank, N.A. For further details contact:
Citibank, N.A.
111 Wall Street
Sort 3197
New York, NY 10043
(212) 558-7619

A copy of the company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained free of charge by writing to:
GAF Corporation
140 West 51 Street
New York, NY 10020
Investor Relations

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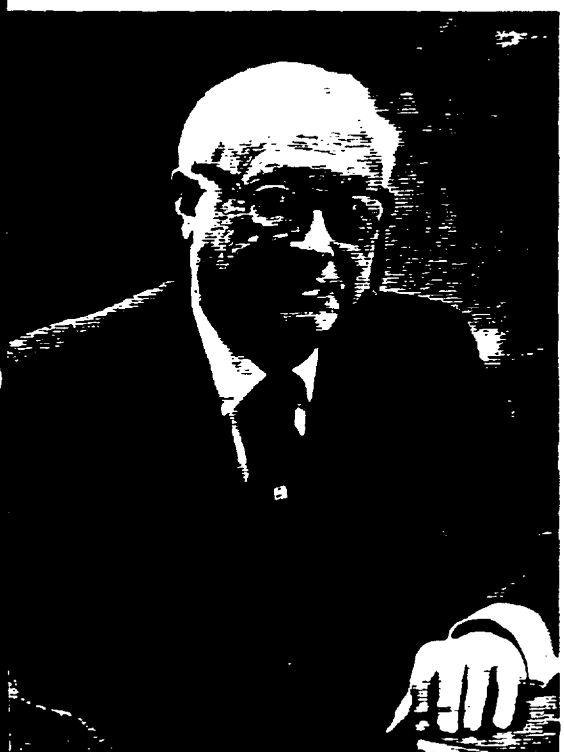
GAF 13211

Chairman's Message



Dr. Jesse Werner

[illegible]

[illegible]

[illegible] represent[illegible] Employees Retire[illegible] nated December 31 [illegible] retirement benefits [illegible] ment of GAF's antitrust lawsuit [illegible] Kodak Company [illegible] million from the sale of tax [illegible] the Economic Recovery Tax Act [illegible]

Settlement of our lawsuit against Eastman Kodak in April had a benefit of $[illegible] including a $9.5 million cash payment and [illegible] missal of an Eastman Kodak patent suit [illegible] the company, permitting the reversal of a reserve of approximately $[illegible] million.

Excess funds from the terminated retirement plan were the result of profitable investment over the years by the funds managers and [illegible] successful conclusion in January 1982 of GAF['s] restructuring program which reduced [illegible] employment about 60 percent. Most of the money in the former plan was used [illegible] an annuity contract that guarantees [illegible] and beneficiaries their accumulated benefits. This is discussed in other sections [illegible]

Losses in building materials were [illegible] than in 1981. Sales [illegible] industry endured [illegible] but the effect on profits was [illegible] lower costs for asphalt [illegible] reduced inventories and [illegible] for residential roofing. [illegible] gage rates [illegible] downward trend [illegible] and we were [illegible] number of [illegible] down for [illegible] recovery became [illegible] along with the entire building [illegible]

GAF 13212

[illegible]

The [illegible] building materials [illegible] chemicals [illegible] 1982 [illegible] somewhat [illegible] inventory reductions [illegible] specialty chemicals [illegible] remained strong [illegible] dollar contributed to reduced [illegible]. Although 1982 sales were off throughout the industry, GAF increased its worldwide share of market for a number of specialty chemicals. GAF ranks very high among U.S. chemical companies in operating return on chemicals assets, and we expect to maintain that strength in coming years. New product development, though costly and often risky, means continued high return on investment long into the future. GAF, a pioneer in acetylene chemicals production in America, remains a world leader today in this highly specialized field of chemistry.

Capital expenditures were $17.7 million in 1982 with projects carefully selected and targeted at increasing capacity for chemicals, modernizing our network of building materials plants, and necessary pollution control programs.

On March 22 the company announced it had received inquiries and would consider the possible sale of our building materials business, the merger of the entire corporation, or a possible leveraged buyout. We have had a great many discussions with interested corporations, private groups and investment bankers. Some have dropped out but others are continuing discussions. Some potential purchasers for the entire company have been deterred by the prospect of continued asbestos litigation, especially in view of the Manville petition for bankruptcy. We believe that their concern is exaggerated since we have a great deal of insurance and GAF's legal costs and settlements in asbestos cases are paid by our insurance carriers. Nevertheless, the concern does exist.

The board of directors and management have as their main goal the maximizing of shareholder values, whether by improving sales and earnings or otherwise. That is why the redeployment programs of 1978 and 1981 were undertaken and successfully carried out, and why the company is willing to consider sale of part or all of the business if it is in the best interests of shareholders to do so.

[illegible] of cash [illegible] Preferred stock [illegible]

GAF is grateful for the [illegible] holders and customers [illegible] and consistent high [illegible] employees. Together we have [illegible] most challenging period in GAF's [illegible] have emerged a stronger [illegible] company determined to resume [illegible] of growth and achieve greater [illegible] years ahead.

By Order of the Board of Directors

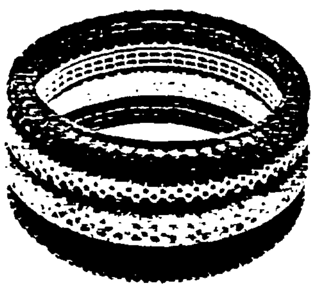
Jesse Werner

Jesse Werner
Chairman of the Board

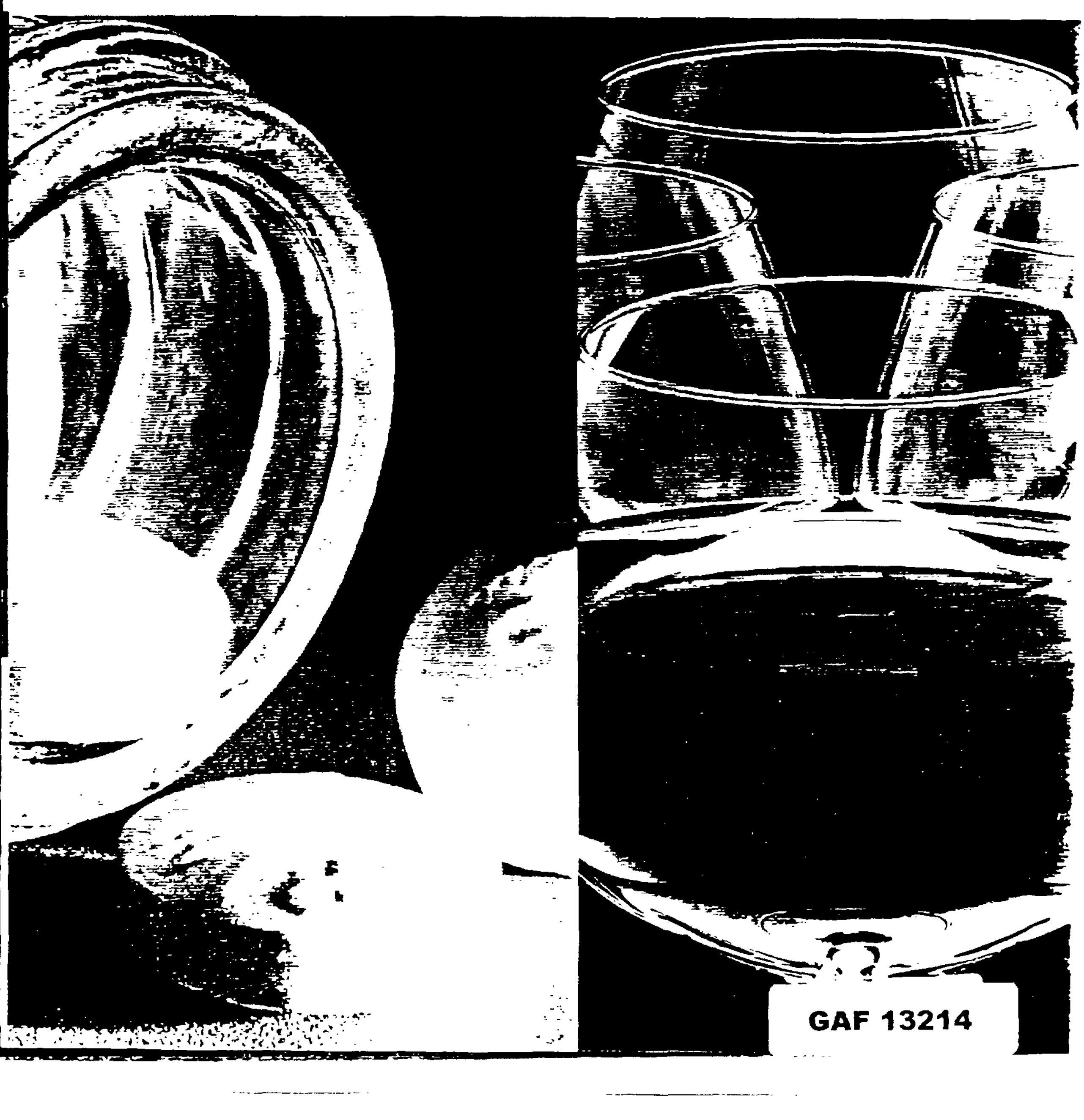
February 16, 1983

GAF 13213

Chemicals



Since the successful completion of GAF Corporation's major restructuring program in January 1982. the company has consolidated its chemicals and international operations into a single worldwide chemical organization that combines a streamlined U.S. network with marketing and service facilities in Europe. Australia, Brazil, Canada, Japan, Mexico. the Middle East and Singapore.



GAF 13214

Airless polyurethane bicycle tires using GAF's 1,4 butanediol chain extender are tougher, more colorful than rubber

Polyplasdone® cross-linked polymers are used as binders, coatings and disintegrants by the pharmaceuticals industry

Polyclar® AT stabilizers and clarifiers help the beverage industry produce sparkling clear beers and wines

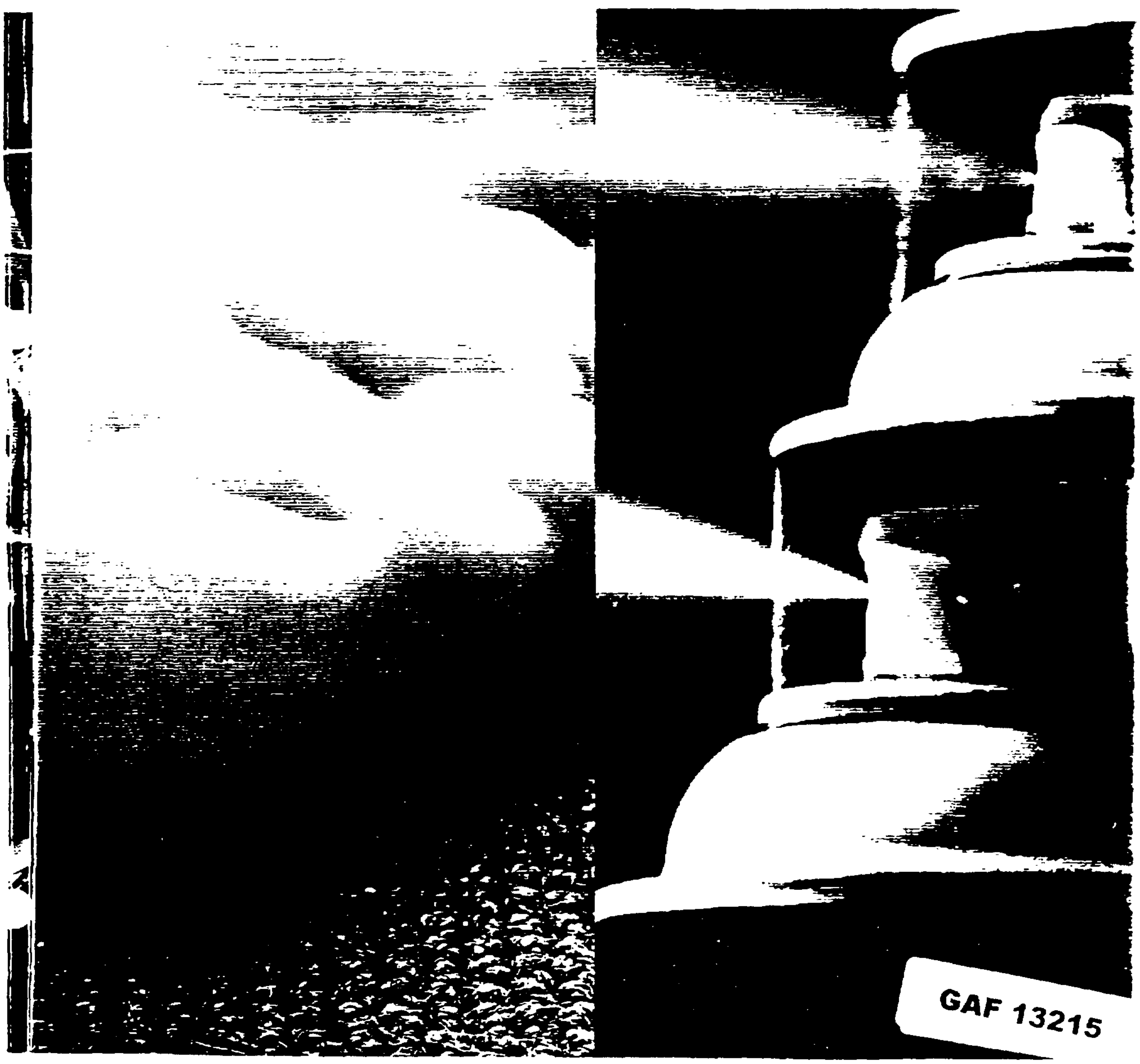
Household products provide effective cleaning and wetting action with GAF surfactants

GAF is the cosmetic industry's leading supplier of such polymers as Gantrez® resins, used as film-formers in hair sprays and other hair grooming aids

Results

Dollars in Millions	1982	[illegible]
Net Sales	**$294.4**	[illegible]
Direct Operating Profit (Loss)*	50.1	[illegible]

*Excludes Net Corporate Expenses



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Chemicals

Sales of specialty chemicals worldwide totaled $294.4 million in 1982, down slightly from 1981 sales of $300.8 million. Direct operating profits of $50.1 million were 11.5 percent less than 1981 profits of $56.6 million.

Domestic sales and earnings were affected mainly by a drop in sales volume during the fourth quarter as some of GAF's major customers reduced year-end inventories. Income also was affected by higher costs for energy, labor and raw materials during 1982 while prices remained at 1981 levels most of the year. Across-the-board price increases of from five to seven percent for GAF's acetylene chemicals were implemented on January 1, 1983.

Export sales of $77.6 million were slightly higher than in 1981, but profits declined $2.4 million because of the continued strength of the U.S. dollar abroad. Chemicals account for nearly all foreign sales now that the company's redeployment program is complete and unrelated businesses in Europe, Australia and Canada have been sold. Accordingly, organizational streamlining was begun in 1981 and the chemicals operations, domestic and international, were consolidated in 1982.

Specialty chemicals manufactured at GAF plants in the United States are sold throughout the world through GAF subsidiaries and distributors. Butanediol and tetrahydrofuran (THF) are also manufactured in Marl, West Germany, and sold in Europe by GAF-Hüls Chemie, a joint venture between GAF and Chemische Werke Hüls, and by the GAF international sales force. In Belgium GAF manufactures a complete line of filter products for worldwide sale outside the United States. GAF's Canadian and Brazilian companies now also manufacture filters.

GAF is a leading producer of butanediol, an important intermediate chemical from which most of its family of acetylene derivatives evolves. THF, a solvent derived from butanediol, is used in vinyl and polyurethane products, for coating magnetic tapes and cellophanes and for making such products as shrink packaging and PVC cement.

Gafite® PBT (polybutylene terephthalate) engineering thermoplastics, also based on butanediol, met increased demand as new formulations were developed for such diverse uses as electrical connectors, automobile fender extensions and ice cream dispensers. The newest of GAF's engineering resins, Gaflex™ thermoplastic polyester elastomer (TPE), superior to rubber in many applications, was introduced in June. Gaflex resins combine heat resistance, load-bearing strength, plus solvent and fatigue resistance not found in non-polyester elastomers. GAF's Calvert City, Kentucky, plant manufactures PBT, and facilities there are being expanded for increased Gaflex TPE production.

The annual market [illegible] more than $25 [illegible] yearly rates [illegible]

[illegible] XL® cross-linked polyvinylpolypyrrolidone (PVPP) used in pharmaceuticals [illegible] XL cross-linked polymer [illegible] significant factor as a [illegible] multivitamin industry. A [illegible] Plasdone XL 10 with enhanced [illegible] tance was introduced for use in [illegible]

Capacity was nearly doubled at [illegible] Jersey, for Igepon® AC-78 surfactant [illegible] detergents, soaps and cosmetics. Sales have increased markedly since Igepon AC-78 surfactant was introduced in 1979. In Europe [illegible] GAF of surfactants and other specialty chemicals increased significantly.

New hairsprays based on Gantrez® polymers were introduced by the cosmetics industry in 1982. GAF, the recognized leading supplier [illegible] this market, developed two new Gantrez resins during the year for this most active segment of the cosmetics marketplace. Another new product, Gantrez MS-955 resin, was introduced as a polymeric ingredient for denture adhesives.

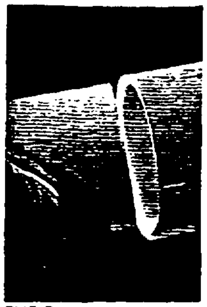
The company also brought out new members of the Gafgard™ family of radiation curable coatings first marketed in 1981. The new entries include Gafgard 280 coating specifically designed to increase flexibility in curtain coating, and Gafgard 238 oligomer for use in coating such flexible substrates as plastics, textiles [illegible] leather. Gafgard ultraviolet-cured coatings [illegible] especially welcomed by the burgeoning [illegible] computer industry to protect cathode-ray [illegible] display screens from being scratched. Gafgard 233 coating also is used on selector panels for television sets and to shield plastic lenses without degrading optical clarity.

Mineral Granules

Sales of roofing granules to outside customers improved over 1981, and GAF is in an excellent position to serve the housing industry as construction continues to increase in the [illegible]. The company mines a tough, non-porous [illegible] rock from its own quarries and produces [illegible] types of natural and colored ceramic-coated granules at four plants in the U.S. They are [illegible] to virtually all other roofing manufacturers [illegible] used by GAF's building materials [illegible]

GAF 13216


Emulsifiers


PVC Cements


Wetting Agents


Thermoplastics


Detergents

GAF® Chemical Products

High-pressure Acetylene Derivatives

Monomers
2-Pyrol® monomer for nylon-like linear polymer, solvent and intermediate, solubilizer for drug-actives. V-Pyrol® comonomer and modifier for adhesives, coatings, fibers, etc. Intermediate. Alkyl vinyl ethers monomers for copolymers, intermediates.

Vinylpyrrolidone Polymers
Polyvinylpyrrolidone (PVP) for cosmetics, adhesives, detergents, coatings, paper, textile, specialty uses. Plasdone® pharmaceutical tablet binder and coating agent. Plasdone® C excipient for injectables, blood plasma expander. Polyclar® AT stabilizer for beer, wine, vinegar, juice. Polyplasdone XL® tablet disintegrant for pharmaceuticals. Ganex® polymers for pigment dispersion, as protective colloids, cosmetic additives. PVP/VA copolymers film formers for adhesives, cosmetics, etc. Polectron® emulsion copolymer, a binder, stabilizer, opacifier for various uses. Galquat copolymers for skin and hair-care products.

Vinyl Ether Polymers
Gantrez® AN copolymers for adhesive, detergent, photographic, textile applications. Thickener L and [illegible] for paints and other latex systems. Gantrez® S resins for rapid cold-water solubility, used in [illegible]. Gantrez® ES resins for cosmetics, coatings, pharmaceuticals. Gantrez® M resins for [illegible] [illegible] heat sensitizer and [illegible]

Intermediates and Solvents
BLO® solvent for agricultural and lithographic applications. Butanediol intermediate for thermoplastics, chain extender for urethanes. Butenediol, intermediate for pharmaceutical and agricultural chemical synthesis. Butynediol agricultural intermediate, corrosion inhibitor; M-Pyrol® solvent for aromatic extraction of lube oils, high temperature plastics synthesis. Methylamines reactive chemicals for pesticides, pharmaceuticals, detergents. N-Substituted pyrrolidones for formulating, purifying, or processing of coatings, drugs, dyes, plastics, etc. Propargyl alcohol intermediate for agricultural and pharmaceutical chemical synthesis, corrosion inhibitor. Tetrahydrofuran for magnetic tape coatings, reaction synthesis, PVC pipe cements, vinyl coatings.

Industrial Organic and Inorganic Chemicals

Surfactant Intermediates
Nonylphenol. Dodecylphenol. Sodium Isethionate. Sarcosine. N-Methyltaurine.

Carbonyl Iron Powders
Microscopic-size spheres containing as high as 99.5% metallic iron used in VHF and UHF circuitry, transmitters, receivers, radar absorbing components, and in powder metallurgy.

Iron Pentacarbonyl
A technical grade better than 99.5% pure for use as starting material for chemicals, pure iron, antiknock agent for gasoline and diesel fuel, catalyst in hydrocarbon synthesis, etc.

Specialty Chemicals

Antioxidant
Uvi-Nox® primary antioxidant for polyolefins, monomer inhibitor.

Antistats for Plastics
Gafac® phosphate esters for PVC, polyolefins, polystyrene.

Biocides
Biopal® iodophors for detergent-sanitizers.

Corrosion Inhibitors
Butoxyne® 497 for acid pickling, electroplating, specialty applications. Katapone® VV-328 corrosion inhibitor for steel, copper, aluminum. Also for petroleum processing, drilling, acidizing.

Lubricants
Antara® extreme-pressure additives for metalworking fluids.

Sequestrants
Cheelox® sequestrants chelate trace metal impurities in textile processing, leather dyeing, paper processing, clarify liquid soaps and shampoos, stabilize rubber latices and agricultural chemical emulsions, sequester calcium, iron, copper, magnesium, tin, etc., in hard water and wet processing.

Textile Auxiliaries
Diazopon® SS 837 dispersant. Galtex® PT print paste thickener. Katapol VP 532 retarder for cationic dyes. Peregal® dyeing, leveling, stripping assistants. Solidogen® dye fixing agent for direct and developed dyes. Sotromine AT softener, lubricant, and antistat for textiles, leather, paper.

Other Specialty Chemicals
Blancol® dispersant and peptizing agent for pigments, clays, and other solids in paper, agricultural chemicals, latices. Gafamide® CDD-518 foam stabilizer for liquid dishwashing products, dry-cleaning, heavy-duty detergents. Gafgard® radiation-curable coatings. Gaftronic® electron-beam resist and processing chemicals for the manufacture of integrated circuits.

Surfactants

Nonionics
Antarox® surfactants low-foaming household and industrial detergents. Emulphogene® emulsifiers foaming light- or heavy-duty detergents, latex stabilizers. Emulphor® dispersants, emulsifiers, antistats, textile lubricants. Igepal® surfactants for chemical and thermal stability in textile and paper processing, hydrocarbon and agricultural chemical emulsification, detergent compounding, emulsion polymerization, etc.

Anionics
Alipal® high-foaming detergents for household products, static control, primary emulsification. Antara® lubricants and corrosion inhibitors in oil- or water-based systems. Gafac® detergents and emulsifiers with antistatic, lubricating, antidusting and corrosion properties. [illegible] AT [illegible] surfactant [illegible] wetting [illegible] detergent, wetting agents, dispersants, [illegible] low foaming and compatible with soaps, used in textile and hard surface detergency and [illegible] cosmetics and agricultural chemicals. Nekal® wetting agents for paper, textile, paint, ink applications.

Cationics
Katapol® water-soluble emulsifiers for mineral oils and agricultural chemicals, antiprecipitants and textile leveling agents, antistat and lubricant for wool and synthetic fiber processing.

GAF® Engineering Plastics

Thermoplastic Polyesters
Gafite®, Gafite® LW and Gaftuf® polybutylene terephthalate (PBT) molding compounds for automotive, mechanical, electrical, electronic, appliance and business machine components.

Thermoplastic Elastomer
Gaflex® thermoplastic polyester elastomer in blow molding, extrusion and injection-molding grades for bellows, hosing, tubing, sheeting, footwear, sporting goods, and automotive [illegible] electrical uses.

GAF® Filter Systems

A complete line of [illegible] [illegible] including [illegible] bags to meet the [illegible] filtration needs of [illegible] industries. Cartridges for liquid filtration.

GAF® Mineral Products

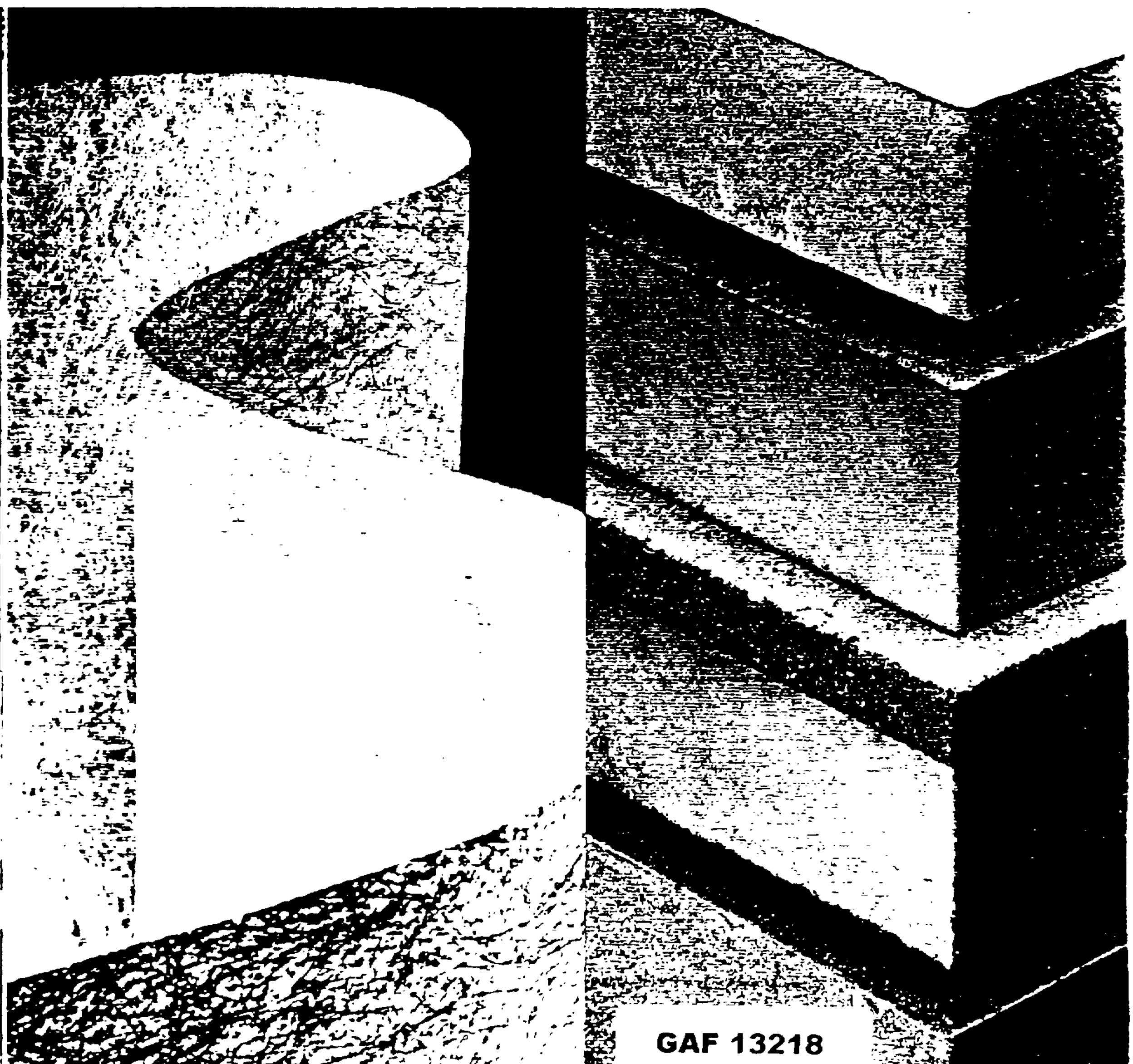
[illegible]

Services

[illegible]

Building Materials

The release of pent-up demand in the roofing and re-roofing markets is expected to continue as interest rates decline. Housing starts are forecast by many economists at between 1.4 and 1.5 million in 1983, an improvement of 30 to 40 percent over 1982.



GAF 13218

Cements and coatings help round out GAF Super Systems, a complete program of commercial roofing products for the building construction industry

GAF glass fiber mat is used as a base for GAF's asphalt roofing shingles and built-up roofing products

Gaftemp* urethane insulation boards provide extremely high resistance to heat flow for commercial roofing

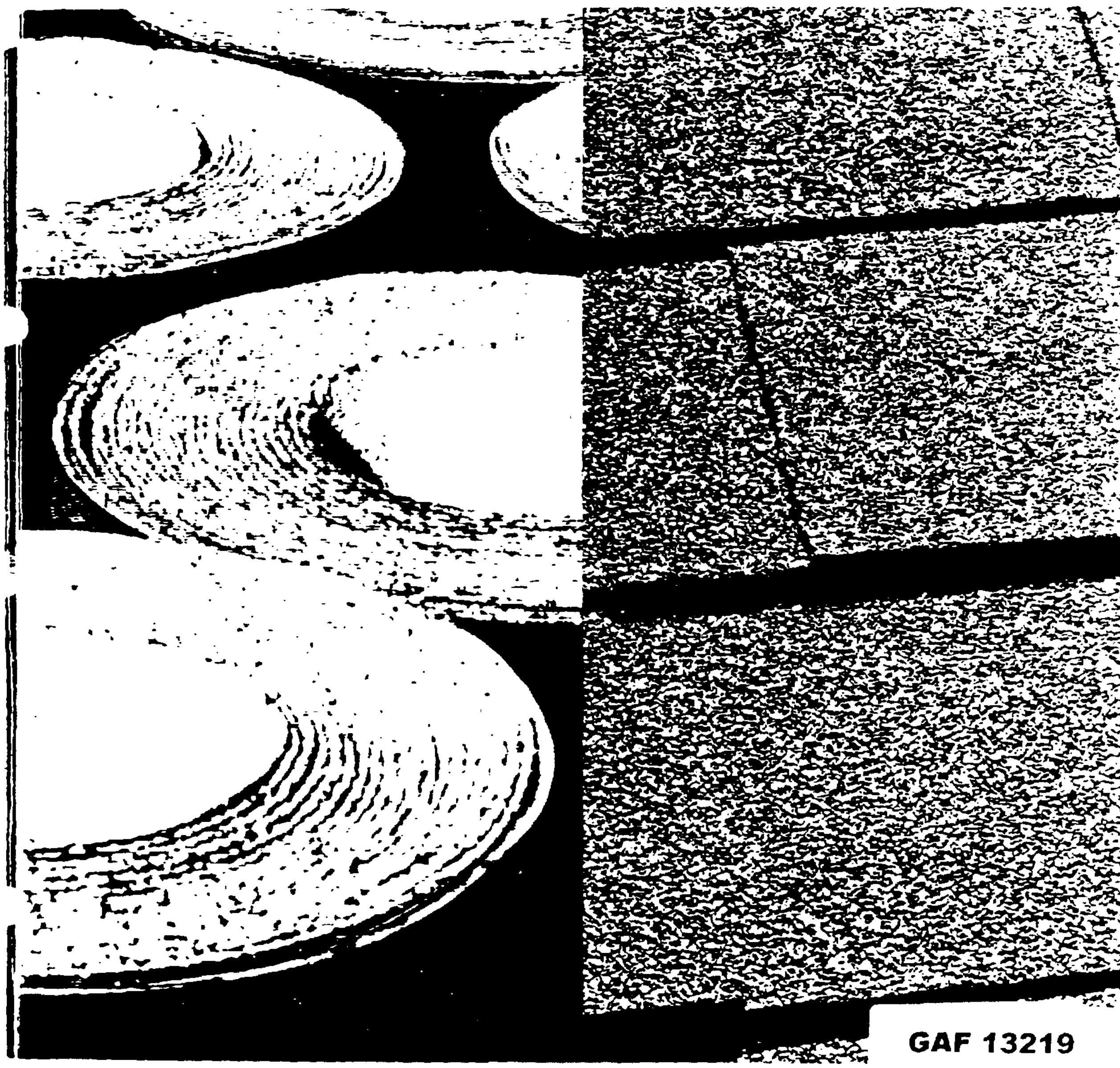
Roll roofing is a part of GAF's line of products for the residential and commercial construction industries

GAF produces asphalt roofing shingles from organic and glass substrates at plants from coast to coast.

Results

Dollars in Millions	1982	[illegible]
Net Sales	$328.8	[illegible]
Direct Operating Profit (Loss)	$(26.3)	[illegible]

[illegible]



GAF 13219

Building Materials

[illegible] sales of $322.6 million in 1982 were [illegible] percent from 1981 sales [illegible] [illegible] the industry's worst recession in 36 years.

A [illegible] operating loss of $26.3 million in 1982 compares with a 1981 loss of $38.6 million that included a $15 [illegible] for three [illegible] and accelerated depreciation on three others. Contributing to the 1982 loss were prices held below 1981 levels by a constricted and highly competitive marketplace until midyear when price increases became effective.

The company moved to reduce inventories early in 1982 by suspending production temporarily at 12 of GAF's 15 active building materials plants. (Two plants — Denver, Colorado, and Kansas City, Missouri — remain on indefinite furlough since September 1981.) Service to customers nationwide continued from inventories and from production at plants in Dallas, Texas, South Bound Brook, New Jersey and Tampa, Florida. By June all 12 plants were back in operation at reduced levels of production to begin serving renewed demand as interest rates began to come down.

The company is offering a winter dating program with discounts or payment deferrals on asphalt roofing products purchased during the usually slow January-to-March period. This action is expected to help control inventories and permit uninterrupted production at plants in colder sections of the country. Winter sales should also improve as customers seek deliveries ahead of April price increases.

Although total sales volume was down in 1982, sales of GAF Timberline and Sentinel glass mat shingles increased. Marketing efforts were intensified for these glass-based asphalt shingles produced from substrate made at the Chester, South Carolina plant. The company maintains a balance of glass-based and organic felt-based roofing products to meet various customer requirements. Glass-based roofing with its Underwriters Laboratories Class A fire rating has become a popular replacement for less flame-resistant materials, especially in the South and Southwest.

GAF [illegible] been [illegible] because [illegible] and [illegible] percent over 1982.

GAF Super Systems

[illegible] levels during 1982 [illegible] GAF [illegible] share of built-up roofing [illegible] panded line of glass-fiber-based [illegible] nationwide as GAF Super Systems. GAF Super Systems are a combination of [illegible] roofing materials for both the re-roofing and new construction markets. In May [illegible] duced Galglas [illegible] sheet for use on a [illegible] roofs with immediate good results and repeat sales. Galglas flashing and new expansion [illegible] covers received strong initial sales as these roofing accessories were put into national distribution late in 1982. Another new Super Systems entry, Galglas Mineral-Shield membrane, was introduced later in the year. Response to date indicates that this new product will also gain national acceptance in 1983.

Despite an industry-wide decline in sales of roofing insulation for commercial construction, GAF Gaftemp urethane roof deck insulation improved its share of market. A concerted effort to increase manufacturing efficiency and modify product formulation to reduce raw material costs helped make this element of GAF Super Systems more competitive. With the introduction of two major products in 1982 — Gaftemp [illegible] ply and Gaftemp Isotherm [illegible] the company now offers the most complete line of polyurethane roofing insulation in the industry. This [illegible] service and contractor [illegible] expected to position GAF [illegible] construction industry [illegible] in the eighties.

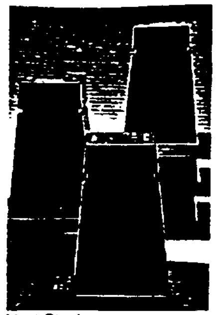
Supply Centers

[illegible] to 13. The new centers [illegible] and Greensboro, North [illegible] Virginia [illegible] centers serve [illegible] products [illegible] GAF [illegible]

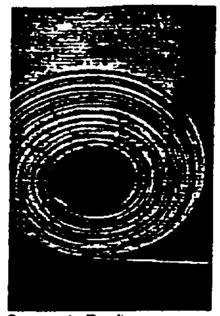
GAF 13220

Prepared Roofing

Self-sealing Shingles



Vent Stacks



Single-ply Roofing

Glass Fiber Laminate

GAF® Building Products

Prepared Roofing
Asphalt Roofing Shingles
Timberline® premium asphalt shingles, random butt design, earth-tone colors. Timberline® Class A glass fiber shingles, for extra safety and long life. Sentinel® Class A glass fiber shingles, fire and wind resistant. Standard self-sealing shingles rugged with classic square-tab design. Fire Guard® Class A heavyweight, twin-tab shingles. Sovereign® shingles, heavyweight twin-tab design. Tite-On® locking shingles distinctive basket-weave pattern. Nor'easter® strip shingles, no cut-outs, total double coverage. Suburban® Twin-Tabs® shingles in classic square-butt style, sweeping appearance

Roll Roofing
Smooth-surfaced roll roofing, mineral-surfaced roll roofing, combines utility and economy with fire-resisting qualities and attractive colors. Dubl-Coverage® mineralized roll roofing provides double-thick protection

Built-up Roofing Systems
Roofing Membranes
Air-Vent® asphalt-saturated felts. Galglas® flashing. Universal base sheet, organic, coated both sides for use on asphalt roofs and over poured gypsum wood fiber decks, roof insulation, a vapor retarder for above-deck insulation

Glass Mat-based Products
Galglas® type 3 & 4 lightweight ply sheets. Galglas® asphalt-coated base and ply sheet. Galglas® mineral-surfaced cap sheet. Galglas® Stratavent® perforated vent ply vented glass-base felt. Galglas Stratavent® vent ply for nailable decks, venting glass-base felt

Cements and Coatings
Jetblak® Flashtite® cement, an asphalt plastic cement for built-up roofing flashing. Aluminum coating reflective for smooth-surface roofs metal and masonry surfaces. Mica Weatherguard® coating and Weather Coat® asphalt emulsion for smooth-surface roofs

Mineral-Shield® Built-up Roofing
A time-proven, cold-applied built-up roofing system combining modern application techniques and specially formulated roofing products. Products include Mineral-Shield® roofing membrane, mastic, granules, and aluminum mastic

Accessories
Galflex® expansion joint covers. Vent stacks to release moisture trapped in built-up roofs

Single-ply Roofing
Galply EP® single-ply roofing systems including Galply EP EPDM membrane, neoprene flashing, bonding adhesives, seaming cements, and sealants for adhered, ballasted and mechanically fastened roofing applications

Insulation Products
Roof Insulation
Galtemp® roof insulation boards. Isotherm, an isocyanurate foam board used where Factory Mutual Class I approval is required; urethane-perlite used where high insulation efficiency and fire-resistance rating is needed; urethane for use where high thermal value is paramount. Isotherm-perlite, for specified GAF roofing applications. Monoply, a foil-faced isocyanurate foam used under single-ply roofing membrane, perlite for thermal insulation value and economy. Galtite roof insulation fasteners for maximum wind uplift resistance

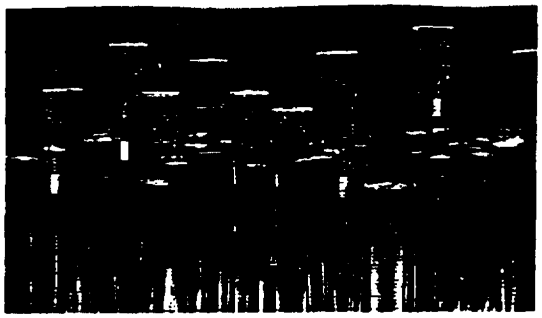
Building Insulation
G[illegible] tial construction

Services

Building supply centers for distribution of GAF building materials and allied products

GAF 13221

Corporate and Other Business



Research and Development

Research and development during 1982 resulted in new products and improved manufacturing processes for both the chemicals and building materials segments of the company

Automation is being increased at GAF's roofing plants in an ongoing effort to maintain the company's reputation as the most advanced manufacturer in the industry GAF's glass-based roofing passed the Underwriters Laboratories Class A fire rating test. This is a growing factor in consumer preference, particularly in the south and west Research also continues in an effort to reduce the amount of asphalt needed during manufacture, a program undertaken with matching U S Department of Energy funds to help lessen the country's dependence on foreign petroleum

To augment GAF's broad lines of roofing products the company introduced Gafply EP™ single-ply roofing system based on a synthetic rubber EPDM Single-ply roofing is becoming an increasingly significant segment of the commercial roofing market New materials are in development to broaden this product line

New specialty chemicals were introduced for the fast-growing electronics industry in 1982 including Gaftronic™ EB-46 electron beam resist that permits circuits 150 times thinner than a human hair to be etched on microelectronic chips With resolution this fine microchips can be etched to carry half-micron circuitry more than double the capacity of present day microchips This polymer-based chemical is coated on a metal-plated glass mask and exposed to electron beams etching ultra-fine lines wherever the beam touches The newly patented product is already in use by major manufacturers throughout the industry During the year GAF doubled sales of M-Pyrol® non-halogenated solvent for cleaning and stripping electronic parts and introduced several new Gafgard™ coatings for computer components

For the petroleum industry GAF research developed a unique foaming agent to help solve a costly problem in air-drilling operations Gafoam™ AD wetting agent permits more economical recovery of oil and natural gas from high-brine locations High salinity destroys the effectiveness of commonly used foaming agents. Gafoam AD wetting agent retains its superior foaming properties in brine water even under extreme down-hole conditions The foam entraps pulverized materials at the drill bit and moves them away from the cutting surface This new biodegradable, non-toxic surfactant presents new opportunities for the air-drilling industry and another major chemical specialty market for GAF

Among other chemicals developed by GAF research and development in 1982 are an alkoxylated surfactant for dishwashing detergents far superior in rinsibility to competitive products Two new Biopal® formulations Biopal NR-I and Biopal NR-II iodophors have been registered with the Environmental Protection Agency as sanitizers for the food service industry Both one-step disinfectants in specified strengths are effective against Hong Kong flu and Herpes Simplex viruses and can be used against bacteria pathological fungi and as tuberculocides

The company also introduced a patented line of engineering resins called Gaflex® thermoplastic polyester elastomers (TPE) which can be extruded injected and blow-molded into rubber-like components for the automotive and electronics industries These and other examples of GAF's diverse lines of chemical products are discussed in other sections of this report

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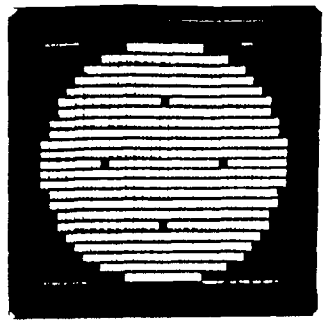

With GAF's newly developed Gaftronic™ EB 46 electron beam resist microcircuit chips can be made with more than double the capacity of present-day microchips. A coating of less than 1/50,000th of an inch of the polymer-based chemical on a metal-plated glass mask allows electrons to etch ultra-fine circuitry with more accurate detail than possible until now.

Environmental

The company continues to develop and upgrade modern environmental control systems at all of its locations around the country. Major pollution control projects were completed in 1982 at the Blue Ridge Summit, Pennsylvania, granules plant, the Calvert City, Kentucky, chemicals plant and the Millis, Massachusetts, Minneapolis, Minnesota and South Bound Brook, New Jersey, roofing plants. A program of reviews ensures that GAF facilities meet the highest standards for employee health and safety and comply with local, state and federal regulations concerning air and water pollution control and solid and liquid waste disposal.

Personnel

At year-end 1982 GAF employed approximately 4,500 people. During the year the company negotiated eight labor contracts, five of them for multi-year terms. Contract terms compare favorably with those reported by the U.S. Department of Labor. There were no strikes at any GAF locations, and good relations were maintained with union locals representing GAF plants.

GAF's former Salaried Employees Retirement Plan was replaced on January 1, 1983, by an improved retirement benefits program which eliminates 10-year vesting in favor of immediate vesting in company and individual contributions. A suit has been filed by a former employee in Federal District Court in New Jersey challenging the company's right to residual assets from the Salaried Employees Retirement Plan. The company believes the suit is without merit.

The new GAF Capital Accumulation Plan (GAFCAP) takes advantage of recent changes in federal tax laws to provide more up-to-date retirement benefits for employees. GAF contributes three percent of compensation to the plan for all participants up to age 65, and employees can make voluntary tax-deferred contributions up to 14 percent of their salaries through payroll deduction. The company also matches two-thirds of each eligible employee's contribution up to four percent of compensation.

Upon cancellation of the former plan [illegible] employees were vested immediately in [illegible] accrued as of December 31, 1982. Employees could elect to have an annuity which [illegible] the same benefits as the old plan at retirement [illegible] choose to have these benefits [illegible] their new GAFCAP accounts or accept [illegible] sums which could be re-invested without tax penalty into Individual Retirement Accounts.

For retired and vested employees GAF contracted with a major insurance company to guarantee their retirement income.

WNCN

GAF Broadcasting Company's classical music radio station WNCN-FM increased sales and continued its profitability during the year. The station enhanced its signal by increasing the power of its transmitter atop the Empire State Building.

Management

In April Juliette M. Moran, vice chairman of the board of directors, retired after nearly 40 years as an employee of GAF. She joined the company as a chemist in 1943, was elected a vice president in 1967, senior vice president in [illegible] and an executive vice president and board member in 1974. Miss Moran was [illegible] member of the board in 1980.

In December the company combined its chemicals and international operations as part of [illegible] streamlining begun the previous year. [illegible] chemicals accounting for nearly [illegible] GAF [illegible] sales since the completion of [illegible] restructuring, consolidation provides an effective new organization for expanding chemical sales throughout the world. Carl R. Eckardt, formerly senior vice president for international operations, was named to head GAF's [illegible] wide chemicals operation.

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Board of Directors

Jesse Werner
Chairman

T. Roland Berner
Chairman of the Board
Curtiss-Wright Corporation

Peter Bosshard
Executive Vice President
Credit Suisse

Augustine R. Marusi
Formerly Chairman of the Board
Borden, Inc.

Juliette M. Moran
Formerly Vice Chairman
GAF Corporation

James T. Sherwin
Executive Vice President
GAF Corporation

Richard F. Smith
Executive Vice President
GAF Corporation

Herman Sokol
[illegible]
[illegible]

Nolan B. Sommer
[illegible]
[illegible]

Robert Spitzer
Chairman of the Board
Treadwell Corporation

[illegible]

Officers

Jesse Werner
Chairman of the Board

James T. Sherwin
Executive Vice President

Richard F. Smith
Executive Vice President

Robert H. Beber
Senior Vice President
General Counsel and
Secretary

John A. Brennan
Senior Vice President

Carl R. Eckardt
Senior Vice President

Bernard L. Kapell
Vice President and
Treasurer

Raymond J. Lacroix
Vice President and
Controller

Donald W. LaPalme
Vice President

Abraham Lindenauer
Vice President

Robert F. McCarthy
Vice President

Raymond W. Smith
Vice President

Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

The company's financial condition improved considerably in the years 1981 and 1982 due in large part to the successful completion of the restructuring program announced at the end of 1980. The sales of six discontinued businesses starting with pictorial products in July 1981 provided total cash proceeds of $189.5 million giving the company the cash flows necessary to offset the adverse impact of the severe building industry recession and allowing the company to significantly reduce its outstanding debt. Additional cash inflows of $14.5 million will accrue to the company in future years as interest-bearing notes received from certain buyers are collected.

The relative impact of the restructuring program on the company's financial condition can be seen in the following chart.

Millions of Dollars	July 1 1981	December 31 1981	December 31 1982
Total Long-term Debt	$327.5	$215.6	$157.1
Notes Payable	36.4	17.4	7.8
Cash, Short-term Investments	(26.4)	(13.3)	(12.4)
Net Debt	$337.5	$219.7	$152.5
Ratio of Debt to Debt Plus Equity	74.6%	63.4%	47.5%

As fully explained in Note 7 of Notes to Consolidated Financial Statements, the asset mix of the pension funds was restructured in 1981 and a dedicated bond portfolio established to provide income sufficient to meet actuarially calculated payments to all retirees and vested former employees, including those of the discontinued businesses. Accordingly, the company reversed pension liability reserves established for employees of discontinued businesses in the aggregate amount of $43.8 million, less related taxes of $7.7 million. During September 1982 the Board of Directors of the company authorized the termination of the Salaried Employees Retirement Plan (Plan), effective December 31, 1982, and the creation of a new GAF Capital Accumulation Plan. After the required government approvals are obtained, the residual assets of the Plan, which approximate $35 million at December 31, 1982, will revert to the company. The $35 million was recognized as an extraordinary credit in the fourth quarter of 1982.

The company's working capital ratio decreased in 1982 from 1.88:1 to 1.72:1 as cash proceeds generated from lower net current asset balances were used to reduce bank borrowings. Inventories decreased 33% for the year as compared with 1981; of the total decrease, $47.[illegible] million related to the building materials segment, a decrease of 52%. As a result of the high inventory levels in this segment at the end of 1981, a majority of the company's roofing plants were temporarily closed for part or all of the first quarter of 1982. These plants were reopened in the second quarter as a result of increased seasonal demand. The decrease for the year in Accounts Receivable-Other mainly represents the cash proceeds from the sale of the reprographics business, which was sold effective as of December 31, 1981.

During 1982 the company entered into a $100 million revolving credit facility, replacing an agreement signed in 1981 in connection with the restructuring program. Interest on the new agreement is at the prime rate or a rate based on the London Interbank Offer Rate. The agreement was tailored to meet the needs of GAF's continuing businesses, specialty chemicals and building materials. It includes restrictions on the payment of dividends on GAF common stock, capital expenditures, funded debt and sales of accounts and notes receivable and requires the maintenance of minimum working capital and net worth. At December 31, 1982, $33.5 million of these funds were being utilized. The company also has additional short-term lines of credit.

Capital expenditures in 1982 were $17.7 million and are expected to be about $20 million in 1983. During 1982 expenditures were aimed at increasing capacity for chemicals, modernizing building materials plants, and necessary pollution control programs. At the end of the year the company had commitments of $7.3 [illegible] approved capital expenditures. [illegible] under various capital and operating lease obligations are detailed in Note 15 of Notes to Consolidated Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

GAF's sales and profit picture was severely hampered in the three-year period of 1980-1982 by the depressed state of the building industry which suffered its worst recession in 36 years. Consolidated sales decreased by nearly 9% during this period and direct operating profits remained sharply lower than 1980 and prior despite a $5.8 million (32%) increase in 1982 as compared with 1981. Although raw materials costs eased somewhat in 1982, inflationary materials costs during this three-year period together with the lower sales eroded the consolidated gross margins from 22.5% in 1980 to 17.9% and 16.8% in 1981 and 1982, respectively.

Building materials sales fell by 11.5% in 1982 after decreases of 5% and 6% in the previous two years, primarily reflecting lower demand. An overall decline in volume in 1982 was partially offset by a sales price increase in the latter half of the year and generally lower raw materials costs. This business had been further hampered in 1981 by increased costs of petroleum-related products and other materials and an inability to pass along cost increases. Direct operating results, which reflected a 54% decrease in profits in 1980, showed losses of $38.6 million and $26.3 million in 1981 and 1982, respectively.

The results for the building materials business reflect the adverse economic conditions impacting the building industry. The period 1980-1982 has been a period of high interest rates which had an increasingly negative effect on the reroofing market, normally the major part of the company's business. In addition, new housing starts fell from 1980's already depressed level of 1.3 million units to 1.1 million units in both 1981 and 1982. As interest and mortgage rates decline, and with 1983 projected housing starts of 1.4 to 1.5 million, the prospects for improvement in this business in 1983 are positive.

Chemicals sales and profits decreased by 2.1% and 11.5% respectively in 1982 after showing increases of 5.8% and 8.8% respectively in 1981 as compared with 1980. Profits were off in 1982 mainly because of lower domestic unit volume of specialty chemicals as some of the company's major customers reduced inventory levels in the fourth quarter. While international sales increased slightly in 1982 after a 8.3% decrease in 1981, profits were adversely affected in both years because of the strength of the U.S. dollar.

While profits for the company's chemical business were off slightly in 1982, the company continued to rank high among U.S. chemical companies in operating return on chemical assets. This segment has shown a return on assets of 25.5%, 28.2% and 27.3% respectively in the years 1982, 1981 and 1980. Operating profits have averaged over 18% of sales during the same period. It is expected that this segment will remain strong and continue its growth and high return on investment in the years ahead.

Other operating expenses, which increased $13.6 million (12%) in 1980 over 1979, decreased in 1981 by $2.6 million (2%) and decreased another $2.2 million (2%) in 1982. During 1982 the company continued its programs to reduce overhead costs through staff reductions and consolidation of functions. A salary freeze was also in effect during the year.

Net income in 1982 was favorably affected by proceeds from sales of tax benefits, by the settlement of two lawsuits with Eastman Kodak and by reversal of reserves related to the terminated Salaried Employees Retirement Plan.

For a review of the effects of inflation on the company's financial statements, see Supplementary Data-Financial Reporting and Changing Prices on page 30.

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Review of Consolidated Financial Information

Summary of Selected Financial Data
Income information is presented for continuing operations
Millions of Dollars Except Per Share Amounts

Year Ended December 31	1982	1981	1980	1979	1978
Net Customer Sales					
Chemical	$294.4	$300.8	$284.4	$264.3	[illegible]
Building Materials	328.8	371.7	392.8	419.4	[illegible]
Consolidated Sales	623.2	672.5	677.2	683.7	[illegible]
Direct Operating Profit (Loss)					
Chemical	50.1	56.6	52.0	62.4	[illegible]
Building Materials	(26.3)	(38.6)	13.7	29.7	[illegible]
Total	23.8	18.0	65.7	92.1	[illegible]
Income (Loss) from Continuing Operations	12.2	(28.2)	10.3	[illegible]	[illegible]
Primary Earnings (Loss) per Common Share—Continuing Operations	.64	(2.24)	.50	[illegible]	[illegible]
Dividends per Common Share	.50	.80	.77	[illegible]	[illegible]

The following Balance Sheet amounts pertaining to years before 1980 have not been restated to separately identify amounts applicable to discontinued segments. See Note 2 of Notes to Consolidated Financial Statements.

December 31	1982	1981	1980	1979	1978
Current Assets	$212.4	$337.3	$482.7	$492.1	[illegible]
Current Liabilities	123.4	179.6	330.6	201.5	[illegible]
Working Capital	89.0	157.7	152.1	290.6	[illegible]
Property, Plant and Equipment—Net	192.4	196.4	200.0	308.4	[illegible]
Total Assets	468.3	559.8	698.3	835.6	[illegible]
Notes Payable	7.8	17.4	58.0	17.6	[illegible]
Total Long-term Debt	157.1	215.6	193.5	206.4	[illegible]
Shareholders' Equity	181.9	134.7	[illegible]	369.0	[illegible]

Market For Common Stock
As of February 2, 1983, there were 44,091 holders on record of GAF's outstanding common stock. The following information pertains to the company's common stock, which is traded on the New York Stock Exchange.

Cash Dividends per Common Share

	1982	1981
First Quarter	$ .20	$ .20
Second Quarter	.20	.20
Third Quarter	.05	.20
Fourth Quarter	.05	.20

Price Range of Common Stock

	1982		1981	
	High	Low	High	Low
First Quarter	$15¼	$8⅝	[illegible]	[illegible]
Second Quarter	14⅝	9¾	[illegible]	[illegible]
Third Quarter	11⅞	9	[illegible]	[illegible]
Fourth Quarter	14¾	9¼	[illegible]	[illegible]

See Note 14 of Notes to Consolidated Financial Statements for a discussion on [illegible]

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Consolidated Statements of Income and Retained Earnings

Thousands of Dollars Except Per Share Amounts Year Ended December 31	1982	[illegible]	[illegible]
Net Sales	$623,236	[illegible]	[illegible]
Costs and Expenses			
Cost of products sold	518,766	[illegible]	[illegible]
Distribution selling and advertising	69,764	[illegible]	[illegible]
Research and development	6,612	[illegible]	[illegible]
General and administrative	43,492	[illegible]	[illegible]
Interest (Note 3)	20,031	[illegible]	[illegible]
Total Costs and Expenses	658,665	[illegible]	[illegible]
Other Income (Charges)			
Provision for plant shutdown costs (Note 4)	—	(15,060)	—
Other—Net (Note 6)	39,441	2,644	[illegible]
Total Other Income (Charges)	39,441	(12,436)	[illegible]
Income (Loss) from Continuing Operations Before Income Tax Benefits	4,012	(33,039)	[illegible]
Income Tax Benefits (Note 10)	8,170	4,803	[illegible]
Income (Loss) from Continuing Operations	12,182	(28,236)	[illegible]
Discontinued Segments (Note 2)			
Operating Income, net of income tax benefits of $466	—	—	[illegible]
Estimated Income (Loss) from Dispositions, net of income taxes (benefits) of $2,703 in 1982 $15,707 in 1981 and ($10,460) in 1980	5,303	54,296	[illegible]
Income (Loss) from Discontinued Segments	5,303	54,296	[illegible]
Extraordinary Credits (Notes 7 & 10)	38,744	—	[illegible]
Net Income (Loss)	56,229	26,060	[illegible]
Retained Earnings, January 1	65,244	[illegible]	[illegible]
Less cash dividends:			
Preferred stock ($1.20 per share)	2,980	[illegible]	[illegible]
Common stock (per share 1982–$.50 1981–$.80 1980–$.77)	7,152	[illegible]	[illegible]
Retained Earnings, December 31	$111,341	[illegible]	[illegible]
Earnings per Common Share (Note 1)			
Primary			
Continuing	$ .64	[illegible]	[illegible]
Discontinued	.37	[illegible]	[illegible]
Extraordinary	2.70	[illegible]	[illegible]
Net Income (Loss)	$ 3.71	[illegible]	[illegible]
Fully Diluted			
Continuing	$ .70	[illegible]	[illegible]
Discontinued	.30	[illegible]	[illegible]
Extraordinary	2.17	[illegible]	[illegible]
Net Income	$ 3.17	[illegible]	[illegible]
Weighted Average Number of Common and Common Equivalent Shares Outstanding	14,338	[illegible]	[illegible]

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Consolidated Statements of Changes in Financial Position

Year Ended December 31 (Thousands of Dollars)	1982	1981	1980
Cash and Short-term Investments, beginning of year	**$ 13,348**	$ 21,935	$ 19,07[illegible]
Source (Use) of Funds			
Income (Loss) from Continuing Operations	**12,182**	(28,236)	[illegible]
Charges (credits) not affecting funds			
Depreciation	**20,717**	20,728	[illegible]
Deferred income taxes	**(2,703)**	(10,637)	[illegible]
Plant shutdown costs	**—**	15,060	—
Other	**(8,040)**	6,437	-
Total from continuing operations	**22,156**	3,352	[illegible]
Income (Loss) from Discontinued Segments	**5,303**	54,296	(243,79[illegible]
Charges (credits) not affecting funds	**(5,303)**	(54,296)	262,45[illegible]
Total from discontinued segments	**—**	—	18,65[illegible]
Extraordinary credits	**38,744**	—	—
(Credits) not affecting funds	**(38,744)**	—	—
Total from extraordinary credits	**—**	—	—
Total funds from operations	**22,156**	3,352	46,54[illegible]
Cash proceeds from sales of discontinued businesses	**81,976**	107,498	11,920
Additions to property, plant and equipment	**(17,713)**	(27,579)	(46,154)
Other working capital items*	**(23,170)**	(54,619)	(145,986)
Other	**12,487**	(4,902)	124,448**
Total source (use) before financing and investment activity	**75,736**	23,750	(11,224)
Financing and investment activity:			
Increase (decrease) in notes payable	**(9,648)**	(40,541)	40,339
Increases in long-term debt	**801**	74,282	8,441
Decreases in long-term debt	**(58,794)**	(52,250)	(21,294)
Cash dividends	**(10,132)**	(14,425)	(14,007)
Other	**1,066**	597	602
Total source (use) from financing and investment activity	**(76,707)**	(32,337)	14,08[illegible]
Increase (decrease) in cash and short-term investments	**(971)**	(8,567)	2,55[illegible]
Cash and Short-term Investments, end of year	**$ 12,377**	$ 13,348	$ 21,93[illegible]

*Other working capital items	1982	1981	1980
Accounts receivable—trade	$ 1 743	$ 2 532	$ 107 948
Accounts receivable—other	(7 126)	(63 333)	3 326
Inventories	47 413	(44 096	160 589
Prepaid expenses	217	(663)	5 863
Assets of discontinued segments	(3.242)	128 325	(403 620)
Accounts payable	(24 477)	(18 802)	(15 818)
Accrued liabilities	(37 531)	(54 814)	(4 834)
Income taxes payable	(167)	(3 748)	561
Net use	$(23 170)	$(54 619)	$(145 986)

**Consists primarily of net property, plant and equipment transferred to assets of discontinued segments

See Notes to Consolidated Financial Statements

01-0207487

Consolidated Balance Sheets

December 31 (Thousands of Dollars)	1982	1981
Assets		
Current Assets		
Cash	$ 9,113	$ 10,355
Short-term investments	3,264	2,963
Accounts receivable—trade less allowance for doubtful accounts—1982, $3,034; 1981, $2,828	74,744	76,106
Accounts receivable—other (Note 2)	13,206	70,014
Inventories—net		
Finished goods	48,346	87,169
Work in process	15,819	24,121
Raw materials and supplies	34,680	36,428
Total Inventories	98,845	147,718
Prepaid expenses	4,589	4,806
Assets of discontinued segments, at estimated net realizable value (Note 2)	8,652	23,272
Total Current Assets	212,413	337,264
Property, Plant and Equipment, at cost (Note 15)		
Land and land improvements	16,330	15,941
Buildings and building equipment	60,452	60,780
Machinery and equipment	227,742	225,333
Construction in progress	9,217	11,091
Total Property, Plant and Equipment	313,741	313,145
Less accumulated depreciation	121,321	116,735
Property, Plant and Equipment—Net	192,420	196,410
Other Assets (Notes 1, 2 & 7)	63,499	26,066
Total Assets	$468,332	$559,760

See Notes to Consolidated Financial Statements

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December 31 (Thousands of Dollars)	1982	1981
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable (Note 14)	$ 7,800	[illegible]
Current portion of long-term debt (Note 14)	34,587	[illegible]
Accounts payable	50,753	[illegible]
Accrued liabilities (Note 2)	28,834	[illegible]
Income taxes payable	1,392	[illegible]
Total Current Liabilities	123,366	[illegible]
Long-term Debt Less Current Portion (Note 14)	122,489	[illegible]
Other Liabilities (Note 2)	40,558	[illegible]
Total Liabilities	286,413	[illegible]
Commitments and Contingent Liabilities (Note 15)		
Shareholders' Equity (Notes 12, 13 & 14)		
Preferred stock, $1 par value, authorized 6,000,000 shares, $1.20 convertible series issued—1982, 2,554,757 shares; 1981, 2,611,784 shares, at assigned value of $1.25 per share (liquidation value 1982, $68,155)	3,194	3,266
Common stock, $1 par value, authorized 25,000,000 shares: issued—1982, 14,459,004 shares; 1981, 14,387,721 shares	14,459	14,388
Additional paid-in capital	55,008	54,360
Retained earnings	111,341	65,244
Total	184,002	[illegible]
Less stock held in treasury, at cost		
Preferred—76,400 shares in 1982 and 1981	932	932
Common—1982, 144,747 shares; 1981, 211,467 shares	1,151	1,638
Total Shareholders' Equity	181,919	[illegible]
Total Liabilities and Shareholders' Equity	$468,332	[illegible]

See Notes to Consolidated Financial Statements

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Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation
The accounts of all subsidiaries of the company are included in the consolidated financial statements. All significant intercompany transactions and balances have been eliminated. A wholly owned captive insurance subsidiary and the 50% ownership of a foreign chemical manufacturing company are accounted for by the equity method.

Short-term Investments
Short-term investments are valued at cost, which approximates market.

Inventories
Inventories are valued at the lower of cost (principally average) or market.

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. See Note 3.

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.

Investment Tax Credits
The company accounts for investment tax credits arising since January 1, 1971, as a reduction of the provision for United States income tax (the flow-through method). Investment tax credits which arose prior to that date were deferred and amortized over the estimated service lives of the related assets.

Sale of Tax Benefits
The company accounts for the proceeds from the sale of tax benefits (i.e., investment tax credits and depreciation deductions) pursuant to the leasing provisions of the Economic Recovery Tax Act of 1981 as pre-tax income. See Note 6.

Retirement Plans
The company and its subsidiaries have retirement plans covering substantially all employees. The company's policy is to accrue as expense an amount computed by the actuary and to fund at least the minimum amount required by ERISA. See Note 7.

Earnings per Common Share
Primary earnings per common share are computed by dividing income (loss) adjusted for preferred stock dividend requirements by the weighted average number of shares of common stock outstanding during the year. The computation assumes the exercise of outstanding stock options to the extent they are dilutive.

Fully diluted earnings per common share are computed on the assumption (where the effect thereof would be dilutive) that convertible securities outstanding had been converted into shares of common stock. Appropriate adjustments for dividends on preferred stock and interest on convertible notes (net of applicable income tax effect) are made to earnings applicable to common stock for assumed conversions. The computation also assumes the exercise of all dilutive stock options.

Cost in Excess of Net Assets Acquired
Cost in excess of net assets acquired in the amount of $5,744,000 is included in Other Assets in the accompanying Consolidated Balance Sheets.

2. Discontinued Segments
In 1980 the company discontinued a number of businesses including its reprographics, photographic graphic arts products, pictorial products, resilient flooring and certain other businesses. The pictorial products, graphic arts, resilient flooring, vinyl siding and paper and millboard businesses were sold in 1981. The reprographics business was sold on January 8, 1982 effective as of December 31, 1981, which substantially completed the discontinuance program. A receivable of $63.9 million relating to this sale is included in Accounts Receivable—Other at December 31, 1981. Long-term notes receivable of $12.6 million and $14.5 million relating to the sales of discontinued businesses are included in Other Assets at December 31, 1982 and 1981, respectively.

As of December 31, 1980, a provision of $254.[illegible] million ($244.2 million after tax benefits of $10.[illegible] million) was recorded and consisted of a reserve for the loss on disposition of assets and a liability for anticipated phase-out costs. This reserve and liability were reevaluated in 1981 in connection with the sales of these businesses and determined to be more than needed to cover anticipated costs. The excess of $43.6 million (after taxes of $6.5 million) was restored to Estimated Income (Loss) from Dispositions of discontinued segments. Estimated Income (Loss) from Dispositions for 1981 also includes $10.7 million income (after taxes of $9.2 million) consisting primarily of pension reserves relating to 1977 discontinuances no longer required. Estimated Income (Loss) from Dispositions in 1982, net of taxes, includes the reversal of a $[illegible] million reserve (less a related tax benefit of $[illegible] million) for royalties established in 1977 which is no longer required as a result of the dismissal of an Eastman Kodak patent suit against the company.

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Activity in the discontinued reserve and liability is summarized below

Millions of Dollars	Reserve for Loss On Disposition of Assets	Liability for Phase-Out Costs	Total
Provision recorded in 1980	$127.0	$127.7	$254.7
Activity during 1980	(1.0)	(6.0)	(7.0)
Balance December 31 1980	126.0	121.7	247.7
Activity during 1981	(114.3)	(30.3)	(144.6)
Adjustment of balance	6.6	(56.7)	(50.1)
Balance, December 31 1981	18.3	34.7	53.0
Activity during 1982	(5.6)	(14.1)	(19.7)
Balance December 31 1982	$ 12.7	$ 20.6	$ 33.3

At December 31, 1982, the current portion of the liability for phase-out costs is $2.3 million and is included in Accrued Liabilities the noncurrent portion of $18.3 million is included in Other Liabilities. Comparable current and long-term amounts at December 31, 1981 were $15.1 million and $19.6 million, respectively

Operating Income of the discontinued segments for 1980 shows the results prior to the effective dates of the discontinuances Operating results subsequent to the effective dates of the discontinuances have been charged to the liability for phase-out costs. Sales in 1980 applicable to discontinued businesses were $553.4 million prior to the dates at which they were reported as discontinued

Assets of discontinued segments are summarized below:

December 31 (Millions of Dollars)	1982	1981
Accounts Receivable—Net	$ 3.9	$13.8
Inventories	0.3	7.2
Property Plant & Equipment—Net	16.1	18.0
Other	1.1	2.6
Total Assets	21.4	41.6
Less reserve for loss on disposition of assets	12.7	18.3
Total Assets at Estimated Net Realizable Value	$ 8.7	$23.3

3. Interest Expense

Interest expense for continuing operations for the years ended December 31 1982 1981 and 1980 was as follows

Thousands of Dollars For the Year	1982	1981	1980
Total interest	[illegible]	[illegible]	$24,703
Less interest capitalized	[illegible]	[illegible]	[illegible]
Interest expense	[illegible]	[illegible]	[illegible]

4. Plant Shutdown Costs

The company in December 1981 provided $15.1 million for certain felt mill shutdowns, primarily for the write-off of related buildings and equipment in the building materials segment.

5. Foreign Exchange

Pre-tax foreign exchange [illegible] continuing operations are [illegible] Other Income (Charges) as follows

Thousands of Dollars For the Year	[illegible]	[illegible]	[illegible]
Pre-tax			
Translation	[illegible]	[illegible]	[illegible]
Forward exchange contracts	[illegible]	[illegible]	[illegible]
Payable receivable	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]
After-tax			
Translation	[illegible]	[illegible]	[illegible]
Forward exchange contracts	[illegible]	[illegible]	[illegible]
Payable receivable	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]

The company, as required will adopt the Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation" effective as of January 1, 1983 If the company had adopted this Statement in 1982, earnings for the year would not have been affected significantly.

6. Other Income (Charges)

A summary of Other Income (Charges)—Other for the years ended December 31, 1982 1981 and 1980 follows

Thousands of Dollars For the Year	1982	1981	1980
Cash settlement of antitrust lawsuit with Eastman Kodak	[illegible]	$ —	$ —
Sales of tax benefits	[illegible]	[illegible]	—
Reversal of pension reserves (see Note 7)	[illegible]	—	
Income (loss) from equity method investments	[illegible]	[illegible]	[illegible]
Interest income	[illegible]	[illegible]	[illegible]
Adjustment of self insurance reserves	[illegible]	[illegible]	
Foreign exchange gains (see Note 5)	[illegible]	[illegible]	
Other—net	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]

7. Retirement Plans

In June 1981 the company [illegible] in the asset mix of the employees' [illegible] as a result of the restructuring [illegible] cated bond portfolio with an [illegible] rate of return of 12 [illegible] yield to maturity on the [illegible] lished to provide [illegible] actuarially calculated [illegible] and vested former [illegible] of the discont[illegible] time, the company [illegible] assumed rate of return [illegible] any increases [illegible] active plan [illegible] [illegible]

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Notes to Consolidated Financial Statements

Phase-out costs accrued in connection with the 1977 and 1980 discontinuance programs included amounts for future pension costs for which the remaining aggregate liability was $43,842,000 at December 31, 1980. The company is no longer obligated to fund any benefits relating thereto and, accordingly, the $43,842,000 balance, less related taxes of $7,747,000, was restored to Discontinued Segments—Estimated Income (Loss) from Dispositions during 1981, or $2.56 Primary—Discontinued Earnings per Common Share.

During September 1982 the Board of Directors of the company authorized the termination of its Salaried Employees Retirement Plan (Plan), a defined benefit plan, effective December 31, 1982, and the creation of a new GAF Capital Accumulation Plan, a defined contribution plan, for eligible salaried employees effective January 1, 1983. Approvals of the termination were requested from the Internal Revenue Service (IRS) and from the Pension Benefit Guaranty Corporation (PBGC) during November 1982. An annuity contract approximating $100 million, representing the present value of the accumulated benefits of all Plan participants and their beneficiaries, was purchased from a major insurance company by the Plan's Trust Fund in November 1982.

After receipt of the required approvals from the PBGC and the IRS, distributions will be made to all Plan participants and their beneficiaries on the basis of their individual payment options selected, and the residual assets, which approximate $35 million at December 31, 1982, will revert to the company. The $35 million of residual assets has been recognized as an extraordinary credit, as to which no tax effect is required because of the availability of loss carryforwards for income tax purposes in the Consolidated Statement of Income for the year 1982 or $2.44 Primary—Extraordinary Earnings per Common Share, and is included in Other Assets in the Consolidated Balance Sheet at December 31, 1982.

The retirement plans for hourly employees and for Texas City facility employees continue in force for eligible employees.

Pension cost for continuing operations was $873,000 in 1982, $2,347,000 in 1981 and $9,806,000 in 1980.

Results of operations for 1982 include a $7,000,000 credit in Other Income (Charges) representing the reversal of reserves related to the Salaried Employees Retirement Plan which are no longer required as a consequence of the company's September 1982 decision to terminate such retirement plan (see Note 6).

A comparison of the accumulated plan benefits and plan net assets for the company's domestic defined benefit plans is presented below

Thousands of Dollars	1982	1981*	1980*
Actuarial present value of accumulated plan benefits			
Vested	$179,582	$167,245	$221,151
Non-Vested	7,057	6,784	10,303
Total	$186,639	$174,029	$231,454
Plan assets available for benefits	$206,584	$217,395	$173,051
Assumed rate of return	7%	7%	6%
Plan valuation date	1/1/82	1/1/81	1/1/80

*Certain amounts for 1981 and 1980 have been restated to exclude from accumulated plan benefits and plan assets available for benefits those allocated annuity contracts held by insurance companies, in accordance with the provisions of the Statement of Financial Accounting Standards No. 35 "Accounting and Reporting by Defined Benefit Pension Plans."

8. Schedule of Business Segments*

Millions of Dollars Year Ended December 31	1982	1981	1980
Sales			
Chemical	$310.5	$325.4	$308.2
Less intersegment sales**	16.1	24.6	23.5
Net Chemical	294.4	300.8	284.4
Building Materials	328.8	371.7	392.9
Consolidated Sales	$623.2	$672.5	$677.3
Direct Operating Profit (Loss)			
Chemical	$ 50.1	$ 56.6	$ 52.0
Building Materials	(26.3)	(38.6)	13.7
Total	23.8	18.0	65.7
Corporate			
Operating Expenses	(30.2)	(32.2)	(37.9)
Interest	(20.0)	(19.2)	(21.6)
Other Income—Net	30.4	0.4	2.9
Net Corporate Expenses	(19.8)	(51.0)	(56.6)
Income (Loss) from Continuing Operations Before Income Tax Benefits	$ 4.0	$ (33.0)	$ 9[illegible]
Identifiable Assets			
Chemical	$196.4	$200.6	$190.4
Building Materials	176.8	222.4	200.5
Corporate	86.4	113.5	41.7
Assets of Discontinued Segments	8.7	23.3	265.7
Total Assets	$468.3	$559.8	$695.3
Additions to Property, Plant and Equipment			
Chemical	$ 7.7	$ 12.2	$ 21.9
Building Materials	9.1	14.0	23.9
Corporate	0.9	1.4	2.4
Total	$ 17.7	$ 27.6	$ 46.[illegible]
Depreciation			
Chemical	$ 10.6	$ 9.6	$ 8.[illegible]
Building Materials	8.2	9.4	7.[illegible]
Corporate	1.9	1.5	[illegible]
Total	$ 20.7	$ 20.7	$ [illegible]

*Statement of income information is presented for continuing operations.

**Intersegment sales are recorded at the same prices charged to unaffiliated customers. Intersegment [illegible] by the building materials segment were negligible.

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9. Geographic Information*

Information with respect to operations by geographic area is as follows

Millions of Dollars For the Year	United States	Western Europe	Other	Eliminations and Other	Consolidated
1982					
Sales	$583 8	$ 57 4	$ 17 5	[illegible]	[illegible]
Less intergeographic sales**	26 4	9 1	—	[illegible]	—
Sales to Unaffiliated Customers	557 4	48 3	17 5	—	[illegible]
Direct Operating Profit	13 4	6 9	3 5	—	[illegible]
Net Corporate Expenses					[illegible]
Income from Continuing Operations Before Income Tax Benefits					[illegible]
Identifiable Assets	426 7	22 4	10 5	5 7	[illegible]
1981					
Sales	$635 3	$ 48 0	$ 16 4	$(27 2)	[illegible]
Less intergeographic sales**	26 4	0 8	—	(27 2)	—
Sales to Unaffiliated Customers	608 9	47 2	16 4	—	[illegible]
Direct Operating Profit	6 1	8 8	3 1	—	[illegible]
Net Corporate Expenses					[illegible]
Income (Loss) from Continuing Operations Before Income Tax Benefits					[illegible]
Identifiable Assets	502 5	24 2	9 8	23 3***	559 8
1980					
Sales	$636 7	$ 67 5	$ 15 0	$(42 0)	$677 2
Less intergeographic sales**	29 6	12 4	—	(42 0)	—
Sales to Unaffiliated Customers	607 1	55 1	15 0	—	677 2
Direct Operating Profit	51 0	12 5	2 2	—	65 7
Net Corporate Expenses					(56 6)
Income from Continuing Operations Before Income Tax Benefits					9 1
Identifiable Assets	396 0	28 8	7 8	265 7***	698 3

*Geographic Information is presented for continuing operations for information pertaining to the Statements of Income

**Intergeographic sales are recorded at prices above cost, as negotiated between the operating units

***Assets of discontinued segments at estimated net realizable value

10. Income Taxes

Income (Loss) from Continuing Operations Before Income Tax Benefits consists of domestic and foreign income (loss) as follows

Thousands of Dollars For the Year	1982	1981	1980
Domestic	$(4 985)	$(44 053)	$(5 572)
Foreign	8 997	11 014	14 649
Income (Loss) from Continuing Operations Before Income Tax Benefits	$ 4 012	$(33 039)	$ 9 077

The income tax benefit (provision) on continuing operations consists of the following

Thousands of Dollars For the Year	1982	1981	1980
United States—current	$10 700	$ —	$7 245
United States—deferred	2 703	10 657	(4 590)
United States investment tax credits	—	—	$ 111
Foreign—current	(1 489)	(5 554)	(6 395)
Foreign—charge in lieu of taxes	(3 744)	—	—
State	—	(300)	(125)
Income Tax Benefits	$ 8 170	$ 4 803	$1 246

Income tax benefits (provision) on continuing operations for the years 1982, 1981 and 1980 were different from the amounts computed by applying the United States Federal statutory income tax rate to income (loss) before taxes. The reasons for these differences are as follows

Thousands of Dollars For the Year	1982	1981	1980
Tax benefit (provision) at statutory rate	$(1 846)	$15 196	[illegible]
Adjustments			
Operating loss carryback carryforward	8 458	(10 660)	—
United States investment tax credits	—	—	[illegible]
Domestic International Sales Corporation and depletion allowances	1 058	[illegible]	[illegible]
Foreign operations	[illegible]	[illegible]	[illegible]
Other—net	[illegible]	[illegible]	[illegible]
Income Tax Benefits	$ 8 170	$ 4 803	[illegible]

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The benefit (provision) for United States deferred income taxes applicable to continuing operations is summarized as follows

Thousands of Dollars For the Year	1980	1981	1982
Reversal of tax effect of certain 1977 reserves	$ 2 703	$ 9 147	$ —
Tax depreciation over amount reported in Consolidated Statements of Income	—	—	(2 905)
Interest expense capitalized	—	—	(1 223)
Foreign exchange translation	—	—	(129)
Other—net	—	1 510	(330)
Total	$ 2 703	$10 657	$(4 590)

For income tax reporting purposes, operating loss carryforwards of approximately $100 million are available at December 31, 1982, of which $90 million is available for offset against future United States taxable income through 1996. The remainder is applicable to consolidated subsidiaries located principally in Western Europe and will expire at various dates through 1992. In addition, United States investment tax credit carryforwards of approximately $9 million are available as of December 31, 1982 for offset against future United States tax liabilities through 1995.

Provision has not been made for United States income taxes on unremitted earnings of $16,236,000 of consolidated foreign subsidiaries as of December 31, 1982, since it is management's intention to reinvest such earnings indefinitely. Any United States taxes payable on foreign earnings which may be remitted in the future are expected to be substantially reduced by the combined effects of a net operating loss carryforward and foreign tax credits. United States income taxes have not been provided on the unremitted earnings of $14,220,000 of the Domestic International Sales Corporation subsidiary through December 31, 1982 since the company intends to postpone indefinitely the remittance of such earnings.

Extraordinary credits for 1982 include $3,744,000 representing the income tax benefit from the utilization of foreign operating loss carryforwards. Future utilization of the operating loss carryforwards for United States income tax purposes may require the restoration of applicable deferred income tax reserves.

11 Supplementary Financial Information

The following expenses of continuing operations are included in the Consolidated Statements of Income

Thousands of Dollars For the Year	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

12 Capital Stock

The $1.20 convertible [illegible] on which are cumulative, is convertible [illegible] time into common stock at the rate [illegible] of common stock for each [illegible] The company may redeem [illegible] at $27.50 per share

Transactions in common stock held in treasury were as follows

Thousands of Dollars	[illegible]	[illegible]	[illegible]
Balance January 1	[illegible]	[illegible]	[illegible]
Repurchase of 65,569 shares in 1982, 105,100 shares in 1981 and 10,600 shares in 1980 pursuant to the restricted stock purchase plan	[illegible]	[illegible]	[illegible]
Issuance from treasury of 132,279 shares in 1982, 130,520 shares in 1981 and 97,500 shares in 1980 in connection with sales under the stock option plan and the restricted stock purchase plan	[illegible]	[illegible]	[illegible]
Balance December 31	[illegible]	[illegible]	[illegible]

As a result of the above issuance of treasury shares, additional paid-in capital increased $580,000 and $276,000 in 1982 and 1981 respectively, and decreased $123,000 in 1980.

The shares of common stock reserved for issuance at December 31, 1982 and 1981 were as follows

Reserved for	1982	1981
Conversion of $1.20 convertible preferred stock	[illegible]	[illegible]
Conversion of convertible subordinated notes	[illegible]	[illegible]
Exercise under stock option and purchase plans	[illegible]	[illegible]
Total	[illegible]	[illegible]

During 1982, 57,027 shares of preferred stock (assigned value of $71,284) were converted into 71,283 shares of common stock; during [illegible] 456,417 shares of preferred stock (assigned value of $570,521) were converted into [illegible] shares of common stock; and during [illegible] 37,476 shares of preferred stock (assigned value of $46,845) were converted into [illegible] shares of common stock.

13 Stock Option and Stock Purchase Plans

The company's stock option [illegible] the granting of options [illegible] purchase common stock [illegible] than 100% of the fair market [illegible] grant. Under the terms of the [illegible] plan, options for [illegible] stock may be granted [illegible] ending February [illegible] date are exercisable one year [illegible] expire after 10 years. The [illegible] stock appreciation rights [illegible] holder may request surrender of the option [illegible]

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exchange for payment in cash or stock by the company of the difference between the option and market prices on the date of surrender. The requested surrender of an option may be granted or denied at the discretion of the Stock Option Committee of the Board of Directors. The plan also provides for limited stock appreciation rights permitting the option holder to surrender exercisable options in the event of a tender or exchange offer for the corporation's common stock made by someone other than the corporation.

Authority to grant options under the 1965 qualified plan expired on March 31, 1975. Options granted under this plan expired five years from the date of grant.

Transactions affecting options under these plans are as follows:

	Number of Shares	Average Option Price
Outstanding January 1, 1980	618 670	$10 48
Granted	132 000	11 50
Exercised	(22 500)	10 28
Terminated	(115 500)	9 67
Outstanding December 31, 1980	612 670	10 82
Granted	99 000	14 68
Exercised	(76 020)	10 64
Terminated	(61 500)	12 27
Outstanding December 31, 1981	574 150	11 39
Granted	—	—
Exercised	(133 000)	10 96
Terminated	(36 500)	12 38
Outstanding December 31, 1982	404 650	11 44

Of the total options outstanding at December 31, 1982, 1981 and 1980, 404,650, 488,650 and 480,670, respectively, were exercisable. Options for 118,500, 82,000 and 119,500 shares were available for grant at December 31, 1982, 1981 and 1980, respectively.

Under the provisions of the company's 1969 restricted and unrestricted stock purchase plan 650,000 shares of common stock were authorized for sale to key employees. The plan currently provides that restricted and unrestricted shares may be sold at prices which are not less than 50% and 80%, respectively, of the closing market price preceding the date of grant. Under certain conditions, the company has the right to repurchase restricted shares of common stock at the original selling price.

The excess of quoted market value at the date of grant over the aggregate sales price for restricted shares sold is amortized by charges to income over the restricted period. As a result of these charges, additional paid-in capital has been increased by $66,000, $108,000 and $193,000 in 1982, 1981 and 1980, respectively. The balance to be amortized through 1989 amounted to $435,000, $902,000 and $1,183,000 at December 31, 1982, 1981 and 1980, respectively.

14. Debt and Dividend Restrictions

Information regarding short-term debt for the years 1980-1982 is as follows:

Thousands of Dollars	1982	[illegible]	[illegible]
At December 31			
Bank loans [illegible]	[illegible]	[illegible]	[illegible]
Average interest rate	[illegible]	[illegible]	[illegible]
For the year			
Average short-term debt outstanding	$13,368	[illegible]	[illegible]
Maximum short-term debt outstanding at any month end	$17,934	[illegible]	[illegible]
Average interest rate	[illegible]	[illegible]	[illegible]

The average amount outstanding for the year was computed by dividing the total of the month-end outstanding principal balances by 12. The average interest rate for the year was computed using the weighted average interest rate on outstanding balances at each month-end.

At December 31, 1982, GAF had unused short-term lines of credit aggregating approximately $21.4 million (in addition to the revolving credit facility discussed below). These lines of credit are maintained with banks on terms generally renewable, expiring on various dates. Borrowings generally bear interest at or near the prime commercial lending rate or a rate based on the London Interbank Offer Rate.

Long-term debt at December 31, 1982 and 1981 was as follows:

Thousands of Dollars	1982	1981
9 [illegible]% senior notes due March 31, 1987 with annual scheduled principal repayments	$ 47 [illegible]	$ [illegible]
Revolving credit agreement (see below)	[illegible]	[illegible]
8 [illegible]% senior notes due January 15, 1992 with annual scheduled principal repayments	[illegible]	[illegible]
Tax-exempt industrial revenue bonds which bear interest at rates of 4 [illegible] to 7 [illegible] and mature at various dates to 2004. Certain assets are pledged as collateral hereto	[illegible]	[illegible]
Obligations under capital leases (see Note 15)	[illegible]	[illegible]
5[illegible] convertible subordinated notes due April 1, 1994 with optional annual repayments beginning April 1, 1990	[illegible]	[illegible]
Other notes which bear various interest rates and mature at dates to 1990	[illegible]	[illegible]
5 [illegible] sinking fund debentures due December [illegible] [illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]
Less current portion	24 [illegible]	[illegible]
[illegible]	$ [illegible]	[illegible]

[illegible]

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Notes to Consolidated Financial Statements

The 5% convertible subordinated notes are convertible into shares of common stock at any time at a conversion price of $22.50 per share (subject to antidilution adjustments in specified circumstances).

The company during 1982 entered into a $100 million revolving credit facility with a consortium of ten banks, effective as of June 30, 1982 and terminating January 31, 1984. Interest on the funds is at the prime rate or a rate based on the London Interbank Offer Rate. The new agreement replaces one signed in February 1981 in connection with the restructuring program which was substantially completed in 1982. Under the agreement, a commitment fee of [illegible] of 1% per annum is charged on the daily average unused portion of the commitments, and a facility fee of ½ of 1% per annum is charged on the commitments, whether used or unused.

The new agreement includes restrictions on the payment of cash dividends on GAF common stock (dividend covenants in other loan agreements are less restrictive), generally based upon fifty percent (50%) of the net income (excluding certain special items) subsequent to the second quarter 1982 less all cash dividends paid since June 30, 1982. At December 31, 1982, available income, as defined, was in a deficit position restricting the payment of cash dividends on common stock. Consent to payment of the February 20, 1983 dividend was obtained from the requisite number of lenders. Until available income, as defined, becomes sufficient, cash dividends on GAF common stock cannot be paid without further consent. Dividends on GAF preferred stock and stock dividends on common stock are not restricted. The agreement and other loan agreements contain provisions which, among other things, require the maintenance of minimum working capital and net worth and limit the amount of debt.

Cash requirements to meet maturing long-term debt obligations over the next five years are presented below. Debt of $33.5 million incurred under the revolving credit agreement has been included in the 1984 amount based upon its term.

1983	$34,567,000
1984	$45,034,000
1985	$10,302,000
1986	$10,028,000
1987	$12,757,000

15. Commitments and Contingent Liabilities

The company has a lease for its administrative headquarters in Wayne, N.J., which is accounted for as a capital lease. This lease is included in Property, Plant and Equipment—Net at December 31, 1982 and 1981 in the amounts of $8,427,000 and $8,867,000, respectively. The present value of future net minimum lease payments is reflected as long-term debt (See Note 14). The amortization expense associated with this capital lease is included in depreciation expense. The company also has operating leases for transportation and data processing equipment and for other buildings.

Future minimum lease payments for properties used in continuing operations which are held under long-term noncancelable leases as of December 31, 1982 are as follows:

Thousands of Dollars Minimum Payments	Capital Leases	[illegible]
1983	$1,731	$[illegible]
1984	1,669	[illegible]
1985	1,606	[illegible]
1986	1,544	[illegible]
1987	1,481	[illegible]
Later Years	11,378	[illegible]
Total minimum payments	19,407	$[illegible]
Less interest included above	7,501	
Present value of net minimum lease payments	$11,906	

The company had commitments of approximately $7,292,000 at December 31, 1982 for the acquisition of property, plant and equipment for its continuing operations.

At December 31, 1982, there were various pending lawsuits and claims against the company relating to matters arising from its business including approximately 12,000 cases involving claims relating to the exposure to asbestos or asbestos-containing product sold by the company. For the asbestos cases, the company is being defended and indemnified by its insurance carriers, subject to a reservation of rights. In the opinion of management, the ultimate disposition of such matters will not have a material adverse effect on the company's consolidated financial position.

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Auditors' Opinion

Deloitte Haskins+Sells

One World Trade Center
New York NY 10048

To The Shareholders and Board of Directors of GAF Corporation.

We have examined the consolidated balance sheets of GAF Corporation and its consolidated subsidiaries as of December 31, 1982 and 1981 and the related consolidated statements of income and retained earnings and of changes in financial position for each of the three years in the period ended December 31 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances

In our opinion, such consolidated financial statements present fairly the financial position of the companies at December 31 1982 and 1981 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles consistently applied

Deloitte Haskins & Sells

February 15, 1983

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Supplementary Data (Unaudited)

Financial Reporting and Changing Prices

In accordance with the Statement of Financial Accounting Standards No. 33 "Financial Reporting and Changing Prices" the following supplementary information is presented to reflect the estimated impact of inflation on the company's income from continuing operations. The company's historical cost financial data have been adjusted for the effects of general inflation on inventories and property, plant and equipment (constant dollar basis) and for the effects of changes in specific prices on those assets (current cost basis). As a result, the impact on net income only reflects adjustments to depreciation expense and cost of products sold. Sales and other costs and expenses, including income taxes, have not been adjusted.

The management of GAF cautions the reader in interpreting this supplementary data due to the required use of numerous assumptions and estimates in preparing the information. This data is therefore only an indicator of the effects of inflation and does not provide a precise measurement.

Constant Dollar Information

Constant dollar accounting is a method of reporting financial data in dollars having an equal (i.e. constant) general purchasing power. As required, this information has been compiled by adjusting the historical costs of inventories and property, plant and equipment for changes in the Consumer Price Index for All Urban Consumers.

Current Cost Information

The current cost method adjusts historical costs of the company's inventories and property, plant and equipment to reflect changes in specific prices (current cost) of producing those same inventories or replacing the assets at the balance sheet date. Plant and equipment current costs were estimated by adjusting historical costs by externally generated industrial price indexes. Inventory costs were developed using current manufacturing costs. Inventory costs included in the Cost of Products Sold were determined on average current costs during the year. Under both methods depreciation expense was adjusted based on the restated asset values using the same estimated useful lives and depreciation rates used in the primary financial statements.

Other Information

Reflecting the adverse impact [illegible] adjusted earnings under [illegible] lar and current cost methods [illegible] results from continuing [illegible] should be noted that [illegible] by Statement No. 33 [illegible] the decline in purchasing power [illegible] liabilities held during the year [illegible] not be aggregated with the adjusted [illegible]. This gain arises because during 1982 the company had more liabilities which [illegible] in dollars to be repaid than [illegible] assets [illegible] fixed in dollars to be received. [illegible] alized gain does not represent dollars which will be received in the future, it does represent an important hedge against inflation as this net monetary liability position will be paid in dollars which have a lower purchasing power than the dollars originally received in return for the obligations.

Consolidated Statement of Income from Continuing Operations Adjusted for Changing Prices

(Unaudited)

Thousands of Dollars For the Year Ended December 31, 1982	As Reported in the Primary Statements (Historical Cost)	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Cost)
Net Sales	$623 236	$623 236	$623 236
Cost of Products Sold[*]	501 511	507 095	[illegible]
Depreciation	20 717	32 432	[illegible]
Other Expenses	76 965	76 965	76 965
Interest	20 031	20 031	[illegible]
Income Tax Benefits	(8 170)	[illegible]	[illegible]
	611 054	[illegible]	[illegible]
Income (Loss) from Continuing Operations	$ 12 182	$ [illegible]	$ [illegible]
Purchasing power gain on net monetary liabilities held during the year		$ [illegible]	$ [illegible]
Increase in specific prices (current cost) of inventories and property, plant and equipment held during the year[**]			$ [illegible]
Effect of increase in the general price level			[illegible]
Increase in specific prices over (under) effect of increase in the general price level			[illegible]

[illegible]

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Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices
(In Average 1982 Dollars)

Thousands of Dollars, Except Per Share Amounts	1982	1981	1980	[illegible]	[illegible]
Net Sales	$623 236	$713 739	$793 [illegible]	[illegible]	[illegible]
Historical cost information adjusted for general inflation					
Income (Loss) from continuing operations	(5 117)	(54 624)	[illegible]	[illegible]	
Income (Loss) per common share	(.56)	(4 12)	[illegible]	[illegible]	
Net assets at year-end	273 151	245 252	257 833	[illegible]	
Current cost information					
Income (Loss) from continuing operations	(10 977)	(51 733)	[illegible]	[illegible]	
Income (Loss) per common share	(.97)	(3 92)	(1 26)	[illegible]	
Increase in specific prices of inventory and property over (under) effect of increase in the general price level	3 905	(25 988)	1 128	[illegible]	
Net assets at year-end	269 794	246 074	265,443	[illegible]	
Other data, adjusted for general inflation					
Purchasing power gain on net monetary liabilities held during the year	6 141	23 066	32 264	[illegible]	
Dividends per common share	50	85	90	90	[illegible]
Year-end market price per common share	13 84	14 76	14 96	12 74	[illegible]
Average Consumer Price Index	289 1	272 4	246 8	[illegible]	[illegible]

Quarterly Financial Data

	1982 by Quarter				1981 by Quarter			
Millions of Dollars	First	Second	Third	Fourth	First	Second	Third	Fourth
Net Sales	$139 5	$163.4	$179 2	$141 1	$176 7	$174 [illegible]	[illegible]	[illegible]
Cost of Products Sold	119 6	136 6	139 8	122 8	139 5	135 0	[illegible]	[illegible]
Gross Profit	$ 19 9	$ 26 8	$ 39 4	$ 18 3	$ 37 2	$ 39 [illegible]	[illegible]	[illegible]
Income (Loss) from Continuing Operations Before Income (Taxes) Benefits	$ (4 8)	$ 4 2	$ 12 9	$ (8 3)	$ 4 4	[illegible]	[illegible]	[illegible]
Income (Taxes) Benefits	1 1	4 7	2 9	(0 5)	(1 3)	[illegible]	[illegible]	[illegible]
Income (Loss) from Continuing Operations	(3 7)	8 9	15 8	(8 8)	3 1	4 3	[illegible]	[illegible]
Income from Discontinued Segments, Net of Taxes	5 3	—	—	—	0 8	[illegible]	[illegible]	[illegible]
Extraordinary Credits	1 0	1 2	0 9	35 6	—	—	—	[illegible]
Net Income	$ 2 6	$ 10 1	$ 16 7	$ 26 8	$ 3 9	[illegible]	[illegible]	[illegible]
Earnings per Common Share* (Dollars)								
Primary								
Continuing	$ (.32)	$ .57	$ 1 06	$ (.66)	$ .16	[illegible]	[illegible]	[illegible]
Discontinued	.37	—	—	—	.06	[illegible]	[illegible]	[illegible]
Extraordinary	.08	.08	.06	2 47	—	—	—	—
Net Income	$ .13	$ .65	$ 1 12	$ 1.81	$ .22	[illegible]	[illegible]	[illegible]
Fully Diluted								
Continuing	**	$ .50	$ .90	$ (.49)	**	[illegible]	[illegible]	[illegible]
Discontinued	—	—	—	—	**	[illegible]	[illegible]	[illegible]
Extraordinary	—	.07	.05	1 99	—	—	[illegible]	[illegible]
Net Income	**	$ .57	$ .95	$ 1.50	**	[illegible]	[illegible]	[illegible]

*In accordance with the provisions of APB Opinion No. 15, earnings per share are calculated sepa[illegible] the annual period. Accordingly, annual earnings per share will not necessarily equal the total of the [illegible]
**Figure omitted — not dilutive

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GAF Locations

Corporate Offices
140 West 51 Street
New York NY 10020
(212) 621-5000

Domestic

GAF Corporation's plants research laboratories, sales offices, and distribution centers are located throughout the U S A

Chemicals

Alabama
Huntsville
California
Irvine
Illinois
Lombard
Kentucky
Calvert City
Maryland
Hagerstown
Missouri
Annapolis
New Jersey
Bound Brook
Linden
North Carolina
Charlotte
Ohio
Cincinnati
Pennsylvania
Blue Ridge Summit
King of Prussia
Texas
Arlington
Seadrift
Texas City
Wisconsin
Pembine

Building Materials

Alabama
Mobile
California
Fontana
Colorado
Denver*
Delaware
Wilmington
Florida
Tampa
Georgia
Savannah
Illinois
Joliet
Indiana
Mount Vernon
Kansas
Leawood
Maryland
Baltimore
Beltsville
Massachusetts
Millis
Minnesota
Minneapolis
Missouri
Kansas City
St Louis
New Jersey
Gloucester City
South Bound Brook
New York
Buffalo
Syracuse
North Carolina
Charlotte
Greensboro
Pennsylvania
Erie
King of Prussia
Wilkes Barre
South Carolina
Chester
Tennessee
Memphis
Texas
Dallas
Virginia
Norfolk
Richmond
Springfield

*Sold February 25 1983

Corporate

New Jersey
Wayne
New York
New York

Domestic Subsidiaries
GAF Broadcasting Company Inc
New York, NY

GAF Export Corporation
New York NY
Carolina, Puerto Rico

GAF Hawaii Inc
Honolulu Hawaii

GAF International Corporation
New York NY

International

GAF Corporation's major marketing and service facilities are located throughout the world

Australia
Melbourne
Sydney
Austria
Vienna
Belgium
Sint-Niklaas
Brazil
São Paulo
Canada
Mississauga
Denmark
Virum
Finland
Helsinki
France
Paris
Great Britain
Esher
Manchester
Greece
Athens
Israel
Tel Aviv
Italy
Milan
Japan
Tokyo
Mexico
Mexico City
The Netherlands
Schiedam
New Zealand
Auckland
Norway
Oslo
Singapore
Singapore
South Africa
Sandton
Spain
Barcelona
Sweden
Stockholm
Switzerland
Zug
West Germany
Frechen
Affiliate.
GAF/Huls Chemie GmbH
Marl West Germany

GAF®
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New York, NY 10020

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