PLAINTIFF'S EXHIBIT

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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MAR 28 1986

1985 FORM 10-K

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

For the fiscal year ended December 31, 1985

Commission file number 1-5026

RECEIVED
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Bechtel Information Services
Gaithersburg, Maryland

G A F Corporation

Delaware
State of Incorporation

13-0762027
(IRS Employer Identification No.)

1361 Alps Road, Wayne, New Jersey 07470

Telephone Number:
(201) 628-3000

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00 per share	New York Stock Exchange
11⅛% Senior Subordinated Notes due 1995	New York Stock Exchange

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

NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ..X.. No .....

As of February 27, 1986, 17,666,301 shares of common stock were outstanding. The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 27, 1986 was $955,494,540. The aggregate market value was computed by reference to the closing price on the New York Stock Exchange of the registrant's Common Stock on such date ($68¼). For purposes of this computation, voting stock held by officers and directors of the registrant has been excluded. Such exclusion is not intended, and shall not be deemed, to be an admission that such officers and directors are affiliates of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

1. The Company's Proxy Statement for the 1986 Annual Meeting of Shareholders is incorporated by reference in Part III, Items 10, 11, 12 and 13.
2. The Company's Annual Report to Shareholders for the year ended December 31, 1985 is incorporated by reference in Part I, Item 1, and in Part II, Items 5, 6, 7 and 8.

TOTAL OF SEQUENTIALLY NUMBERED PAGES: 152
EXHIBIT INDEX ON SEQUENTIALLY NUMBERED PAGE: 30

PART I

Item 1. Business.

The Company was incorporated under the laws of the State of Delaware in 1929 and has its principal executive offices at 1361 Alps Road, Wayne, New Jersey 07470. The "Company" refers to GAF Corporation and its subsidiaries. The Company's operations are grouped into two divisions: (i) the Chemicals Division which operates five domestic specialty chemicals plants, one jointly-owned chemicals plant located outside the United States and four mineral granules plants and (ii) the Building Materials Division which operates ten roofing plants, two glass fiber plants and one glass mat plant. The Company also operates a classical music FM radio station in the New York City market. Financial information concerning the Company's industry segments required by Item 1 is included in the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1985 (the "Annual Report") in Note 9 of the Notes to Consolidated Financial Statements.

The Company also owns approximately 10% of the outstanding Common Stock of Union Carbide Corporation, a major international manufacturer of industrial gases, chemicals and other products. See "Investments and Acquisitions".

CHEMICALS DIVISION

Principal Products

The Chemicals Division manufactures and sells three major groups of specialty chemicals—acetylene derivatives, surfactants and engineering plastics and a line of mineral roofing granules.

Acetylene Derivatives

The Chemicals Division manufactures more than 75 different chemical products derived from acetylene. Manufacturing operations include a wide variety of pressure, temperature, catalytic and other processing steps. These specialty chemicals are sold worldwide primarily to the pharmaceutical, cosmetics, plastics, automotive, agricultural, textiles, oil and gas, paper and print coatings industries. These products are marketed in four groups: intermediates, solvents, polymers and vinyl ethers.

Intermediates—These products are butanediol, butynediol, butenediol, propargyl alcohol and Butoxyne® 497. Butanediol is used by the Company as raw material in manufacturing solvents, polymers, vinyl ethers and engineering plastics products. Butanediol is also sold to customers, primarily for use in engineering plastics, urethane elastomers and thermoplastic urethanes. Propargyl alcohol is sold primarily in the oil field and agricultural markets. Butynediol and Butoxyne 497 are sold primarily to the metal plating industry. Butenediol is used as an intermediate in biocides and pharmaceuticals.

Solvents—These products are sold to customers as high performance solvents for use in a variety of industries and include BLO® (butyrolactone), THF (tetrahydrofuran), M-Pyrol® or NMP® (N-methyl-2-pyrrolidone) and 2-Pyrol® (2-pyrrolidone). They are used by the Company in manufacturing polymers and other downstream products. They are sold to customers for use in agricultural, foundry binder resin and lithographic applications (BLO); agricultural, wire and other coatings, plastics, electronic microchips and integrated circuits, lubrication oil extraction and gas purification applications (M-Pyrol); vinyl top coatings, magnetic tape and PVC cements applications (THF); and pharmaceutical, veterinary and coatings applications (2-Pyrol). In 1985, M-Pyrol was granted "exempt from tolerance" status by the U. S. Environmental Protection Agency for preharvest use as an inert ingredient in agricultural chemical products.

Polymers—The major applications of the polymer product line are in the cosmetics, pharmaceutical, energy, chemical manufacturing, beverage, adhesives and radiation curing industries. V-Pyrol™ (N-vinyl-2 pyrrolidone), the monomer from which PVP polymers and other downstream products are derived, is itself used as a reactive diluent for the radiation curing industry, a comonomer for the manufacture of viscosity index improvers for premium motor oils as well as enhanced oil recovery chemicals and as a pigment dispersant. The vinylpyrrolidone based polymers include the polyvinylpyrrolidone (PVP), Plasdone®, Polyplasdone® and Polyclar® products. The major applications for PVP and Plasdone polymers are in the cosmetic and pharmaceutical industries respectively. PVP is used as a binder, stabilizer, protective colloid, film-former, adhesive detoxicant, adjuvant and viscosity modifier. Plasdone polymers are used as pharmaceutical excipients, drug and vitamin tablet binders, coating agents and processing aids in fluid bed granulation. New transdermal devices utilize these polymers to provide time-controlled medication designed to remain active over long periods of time. Polyplasdone XL and XL10 products are used as drug and vitamin tablet disintegrants. Polyclar AT and Polyclar 10 are used as clarifiers and chill-hazing agents for beer, wine, fruit juices and other beverages. PVP-Iodine is a water soluble, non-staining, microbiocidal product used in human and veterinary applications. Gafquat® products are film-forming polymers used in hair care products like the popular mousse products, as well as conditioners, gels and glazes. Ganex® polymers are alkylated pyrrolidones showing varying degrees of solubility in water or in mineral oil and solvents which are used in cosmetic applications such as water-resistant eyeliner and lipstick, and industrial applications such as a film former in shoe polishes and a dispersant in agricultural chemical formulations. Copolymers of vinyl pyrrolidone and vinyl acetate, the PVP/VA copolymers, are used extensively for adhesives and for various hair care products.

Vinyl Ethers—This product line consists of monomers and copolymers marketed under the Gantrez® trademark and is primarily used in the cosmetics and pharmaceutical fields. Reactive monomers are employed as building blocks for various agricultural and pharmaceutical chemicals. Applications of the copolymers in cosmetics include hair sprays, hair styling and other hair care products, while in the pharmaceutical field, denture adhesives is the major use. The Gantrez® copolymers are also used as film formers in coatings, stabilizers in adhesives and other industrial uses and as thickeners and crystal growth inhibitors in detergent formulations.

Surfactants

The Chemicals Division manufactures and sells surfactants (surface active agents). Surfactants are organic chemical compounds that possess detergent, emulsifying, dispersing, foaming, penetrating and wetting properties. A major part of surfactant output is used in the production of packaged soaps and detergents for household, industrial and institutional uses. The balance is used in pulp and paper making, the manufacture of agricultural chemicals, cosmetics, polymer emulsions, metal lubricants, paints and pharmaceuticals, textile and leather processing, oil drilling operations and many other products.

The Chemicals Division's broadest surfactant product line is the Igepal® series of alkylphenol ethoxylated surfactants sold primarily to customers for use in (1) household, industrial and institutional detergents, (2) emulsion polymerization and (3) textiles. Igepal surfactants have a wide variety of uses, including detergent compounding (laundry, dry cleaning, dairy, metal and household applications), washing and scouring of natural and man-made textile fibers, paper deinking, corrosion inhibiting, water repellant finishes, rewetting agents for paper towels and tissues, wetting and spreading agents in water based paints and for emulsion polymerization of vinyl acetate and polyvinyl acetate and other synthetic latex emulsions.

The Chemicals Division's Alipal® products are a line of anionic high foaming and frothing, emulsifier agents and detergents, often produced for a small number of customers for use in specific applications. Major users are the emulsion polymerization, pharmaceutical and agricultural industries.

The largest applications of Antara® and Gafac® phosphate esters are deresination of hardwood pulps and corrosion inhibitors in coatings. Antara phosphate esters are sold to the metal working industry and Gafac phosphate esters are sold to a variety of industries, from paper to agriculture.

The major markets for Igepon® alkyl esters surfactants are synthetic soap bars, dentifrices, shampoos and other cosmetic preparations, textile processing and agricultural dispersants.

Antarox® nonionic surfactants are low foaming additives for commercial and industrial detergents and are primarily sold for use in spray metal cleaners, machine dishwashing detergents, rinse aids and textile processing.

Engineering Thermoplastics

The Chemicals Division manufactures and sells engineering thermoplastic polyester products based on polybutylene terephthalate ("PBT"). PBT thermoplastics are a developing product line competing in the engineering plastics market with long-established major volume materials such as nylons, polycarbonates, polyacetals and other products. PBT is manufactured by reacting butanediol, an intermediate manufactured by the Company, and dimethylterephthalate to produce hard plastic pellets. These pellets are used by the Company as raw materials to make a variety of resins, compounds and alloys which are sold to customers, primarily for use in manufacturing plastic products under the Gafite® and Gaftuf® trademarks. They are also sold directly to customers for use as base resins.

The compounds and alloys may contain pigment or glass fiber reinforcement and other additives such as fire retardants, impact modifiers and mineral fillers. These products include polyester molding compounds which are used to replace metals and traditional plastics in automotive, electrical/electronic components, appliance and other applications requiring high strength, good electrical properties and resistance to high temperature, chemicals and warping.

Gaflex® polyester elastomers, a new family of products, are flexible, tough, resilient, chemical resistant plastics which can be blow molded, extruded or injection molded. It is formulated for use in seals, flexible telephone cords, hydraulic hose, insulation for communications wire and cable and bellows-type seals for the automotive industry.

Mineral Granules

The Chemicals Division mines and crushes a nonporous basalt rock, mostly from its own quarries, producing various types of natural and semi-ceramic coated mineral granules which it sells to the roofing industry for use as a mineral surface on asphalt roofing. The use of granules in roofing contributes substantially to its weathering capability and imparts the decorative coloration to shingles.

The granules are sold to asphalt roofing manufacturers throughout most of the United States and in Canada. The Company's Building Materials Division is the Chemicals Division's largest purchaser of granules. Mineral filler for the asphalt coating of shingles and tennis court material is also produced and sold.

The Chemicals Division's granules business benefits from the current trend among roofing manufacturers to convert production to glass fiber substrate as the glass product requires more granules per unit of asphalt roofing. In addition, the increased popularity of heavyweight three-dimensional shingles which simulate wood has increased granules demand in that they require 30 percent more granules than lower-cost, commodity shingles.

Other Products

The Chemicals Division manufactures iron carbonyl and iron powders for the aerospace, electronics and powder metallurgy industries.

The Chemicals Division also markets outside the United States liquid process filtration systems (consisting of filter bags manufactured by the Company and hardware produced by two foreign manufacturers to the Company's specifications) which are used in the production of pharmaceuticals, cosmetics, paint, food and beverages.

Raw Materials

The raw materials used in the production of chemical products are purchased from a large number of outside sources, in many cases pursuant to supply contracts. Certain of the raw materials, including acetylene, are obtained from limited sources pursuant to long-term supply contracts. With respect to acetylene, the Chemicals Division is supplied domestically at three locations by two suppliers. In addition, the Chemicals Division manufactures acetylene intermediates in Marl, West Germany, at a plant jointly owned and operated with Chemische Werke Hüls A. G. ("Hüls"). Hüls supplies acetylene to the plant from an adjacent manufacturing facility. Some of the intermediates manufactured by the joint venture plant are shipped to the Chemicals Division's plants in the United States for use in manufacturing many of the Chemicals Division's other acetylene derivative products. The Company believes that, in the event of interruption of supply from these sources, it could manufacture these intermediates at its facilities or obtain supplies from alternate sources.

Raw materials derived from petroleum or natural gas are used in many of the Chemicals Division's manufacturing processes, and consequently the price and availability of petroleum and natural gas are material to the costs of operations. The Chemicals Division has obtained, and expects to continue to obtain, adequate supplies of these products at reasonable costs.

In connection with its mineral granules operations, the Chemicals Division owns three quarries, with proven reserves of a minimum of 20 years each, located in Annapolis, Missouri, Blue Ridge Summit, Pennsylvania, and Pembine, Wisconsin. In 1985, the Company purchased land adjacent to two of these quarries for additional granules reserves. The rock used in the production of the Bound Brook, New Jersey plant is purchased from a quarry located nearby. In addition, production capacity was increased at the Blue Ridge Summit, Pennsylvania and Annapolis, Missouri plants.

International Operations

The Chemicals Division's international operations, which are consolidated in the results of the Chemicals Division, consist principally of the marketing of chemical products manufactured by the Chemicals Division in the United States. Subsidiaries are located in various countries of Western Europe and in Australia, Brazil, Canada, Japan, Mexico, Singapore and other countries. In certain locations, sales are made through distributors rather than through local subsidiaries. The Company's foreign subsidiaries also market the liquid process filtration systems which are produced in Europe, Brazil and Canada for markets outside the United States.

The doubling of capacity for butanediol at the joint venture plant in West Germany, approved as part of the Company's capital expansion program announced in 1984, is scheduled for start-up in mid-1986. The acetylene intermediates manufactured by such plant are marketed through the Chemicals Division's international sales force and GAF-Hüls Chemie GmbH, the joint venture between the Company and Hüls. The joint venture enables the Chemicals Division to compete effectively in markets outside the United States.

In 1985, the Chemicals Division's international operations, including export sales from domestic operations, accounted for approximately 27% of the Chemicals Division's net sales. The Company does not believe there are any unusual risks attendant on its foreign operations. See Note 10 of the Notes to Consolidated Financial Statements in the Annual Report, page 32, for financial information by geographic areas.

Patents, Trademarks, etc.

The Company owns approximately 503 domestic and 360 foreign patents and approximately 147 domestic and 715 foreign trademarks related to the business of its Chemicals Division. The Company believes its rights under its existing patents and patent applications to be material in order to maintain its present position in the industry. The duration of the existing patents and patent licenses is deemed generally satisfactory.

Seasonal Variations, Working Capital, Customers

Seasonal variations are generally not material to the business of the Chemicals Division.

Inventory balances are generally sufficient to meet customer demand and do not materially deviate from standards for the industry. The Chemicals Division does not generally provide for extended payment terms to customers.

The Chemicals Division sells to a wide variety of industrial customers with particular emphasis on the pharmaceutical and cosmetics industries. No single customer or group of customers under common control is responsible for sales in excess of 10% of the consolidated revenues of the Company. In certain instances a single customer may purchase all, or a significant part, of the output of a particular product. The Company does not believe that the loss of any one such customer would have a material adverse effect on the business of its Chemicals Division.

Backlog, Marketing and Sales, Competitive Conditions

Backlog is not material to the business of the Chemicals Division or any of its principal products.

Sales to the federal government are not material to the business of the Chemicals Division.

The Chemicals Division sells its products primarily through its own sales force in the United States.

The Chemicals Division is the sole United States producer of a complete line of high-pressure acetylene-based chemicals. The Chemicals Division competes in its acetylene derivatives line with a major foreign competitor and with another large company which manufactures substantial quantities of butanediol and THF for its own use and for sale to others.

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

Research and Development

Research and Development expenses for both the Chemicals Division and the Building Materials Division in 1985, 1984 and 1983 are presented in Note 1 of the Notes to Consolidated Financial Statements appearing in the Annual Report, page 27, and such figures are incorporated herein by reference. Most of the amounts shown were expended by the Chemicals Division.

As of January 31, 1986, 104 exempt and 84 non-exempt employees were engaged in Company-sponsored research and development. The Chemicals Division substantially increased its commitment to its research and development effort during the past year. Important steps in this direction included the hiring of a number of additional research scientists and the acquisition of state-of-the-art equipment for chemical analysis, pilot studies and materials application development. In 1985, the Chemicals Division introduced a number of new or improved products in each of its product lines.

The Company expended $568,451, $1,473,086 and $1,047,343 on customer-sponsored research and development services for the years 1985, 1984 and 1983, respectively.

BUILDING MATERIALS DIVISION

Principal Products

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

Residential Roofing

The Building Materials Division manufactures and sells a complete line of residential roofing shingles. Shingles are made from an asphalt impregnated fiber glass mat, heavily coated on both sides with layers of waterproofing asphalt, and surfaced with ceramic coated mineral granules.

The Division's principal products are its Sentinel®, Timberline® and Royal Sovereign® brand shingles. Sentinel shingles are the Company's standard product line. Timberline premium roofing shingles are a three-dimensional, heavyweight, laminated product offering a Class A fire rating, long-term durability and superior aesthetics. The product has gained acceptance as a replacement for wood shake shingles, particularly in arid parts of the country such as Texas and California where fire codes impose strict requirements, to improve the appearance of homes and enhance the value of property. Royal Sovereign, a new product introduced nationwide in early 1985, is designed to capitalize on the emerging "middle market" for quality roofing shingles at a just slightly higher price than standard Sentinel shingles. All of these types of shingles are sold throughout the United States.

The Division also manufactures and sells roll roofing, a less expensive type of prepared roofing than shingles, which is used primarily on relatively small residential and commercial structures such as cabins, sheds and utility buildings with pitched or gently sloping roof lines where the durability and aesthetics of shingles are not required. Roll roofing is also made from an asphalt impregnated glass mat and may be surfaced with granules.

Commercial Roofing

The Building Materials Division markets a complete line of built-up roofing products and accessories, referred to as the "GAF Supersystem", for use in the application of built-up roofing. Built-up roofing is a form of roofing which, unlike shingles and roll roofing products, is assembled on the roof by application, using heated asphalt, successive layers of vapor retardant (treated paper, vinyl or bitumens) thermal insulation, a weathertight roofing membrane and, in some applications, granules.

The Division manufactures the vapor retardant layer, called a "base sheet", and a quality commodity glass membrane under the trademark Gafglas®, both of which are made from asphalt impregnated glass fiber mat. In 1985, the Division completed its total conversion to glass fiber built-up roofing and, with its captive supply of glass fiber, is in a position to take advantage of the expanding glass segment of built-up roofing as the industry phases out organic felts. The Division also sells packaged asphalt and accessories such as flashings, vent stacks, fasteners, cements, coatings and roof insulation supplied by other manufacturers.

In the Fall of 1985, the Division started to sell modified bitumen products under the trademark Ruberoid MB® in the Eastern United States. Domestic production and nationwide sales started during the first quarter of 1986. Ruberoid MB is a single ply roofing system consisting of a strong, resilient, spunbonded polyester mat coated with a polymer modified asphalt. Modified bitumen systems provide high performance characteristics, such as weather and water resistance, and labor cost savings due to ease of application. The Division's Mount Vernon, Indiana plant was expanded to install the new manufacturing line for Ruberoid MB.

The Division also resells built-up roofing asphalt and products supplied by other building insulation manufacturers.

Raw Materials

The major raw materials required for the manufacture of the Division's roofing products are asphalt, glass fiber, glass fiber mat, filler (generally crushed or pulverized limestone, granite or sand) and granules. Asphalt and filler are available from a large number of suppliers. GAF currently has contracts with several of these suppliers, with others available as substitutes. Five of the Division's roofing plants have easy access to deep water ports allowing delivery of asphalt by ship, which is the most economical means of transport.

Roofing granules are purchased from the Chemicals Division and from other suppliers. Over the last several years, the industry has switched from organic felt to glass fiber mat as the "substrate" or base layer for roofing products. Shingles made with glass mat require substantially less asphalt than do shingles made from an organic felt mat, reducing costs for asphalt and increasing use of granules. The Company has a plant which makes glass fiber mat for internal consumption but, until recently, it purchased all of the glass fiber used in manufacturing its mat from other companies. On May 10, 1985, the Company acquired the glass fiber manufacturing facilities of Reichhold Chemicals, Inc., with plants located in Nashville, Tennessee and Irwindale, California in order to manufacture chopped glass fiber for mat substrate, thus achieving a more complete integration of its roofing manufacturing process.

Patents, Trademarks, etc.

The Company owns approximately 38 domestic and 53 foreign patents and approximately 67 domestic and 194 foreign trademarks related to the business of its Building Materials Division. The Company believes the patent protection covering certain of its products to be material to those products, but patents are not of material significance to the business of the Building Materials Division nor to the industry generally. The duration of the existing patents and patent licenses is deemed generally satisfactory.

Seasonal Variations, Working Capital, Customers

Sales of roofing products generally decline during the winter months due to adverse weather conditions. To maintain a more constant level of manufacturing and sales, the Building Materials Division followed in 1985, as well as in previous years, the practice of "winter dating", principally in northern regions of the United States, pursuant to which advantageous extended credit terms are offered to creditworthy customers who order and accept delivery of roofing and insulation during the winter months. A "winter dating" program is also being offered to customers in 1986.

No single customer or group of customers under common control is responsible for sales in excess of 10% of the consolidated revenues of the Company.

Backlog, Government Sales, Competitive Conditions

Backlog is not material to the business of the Building Materials Division or any of its principal products.

Sales to the federal government are not material to the business of the Building Materials Division.

The [illegible] products industry is highly competitive and includes at least six major competitors, including the Division and numerous other regional competitors. Competition is based largely upon price, distribution capability, complementary products, credit terms and raw materials supply. The Division is well positioned in the marketplace, especially for sales to distributors, as a result of favorable raw material costs and the fact that it offers the most complete line of residential roofing products in the industry.

The Building Materials Division markets its roofing products through its own sales force which is based in district sales offices across the United States. A major portion of its sales are to wholesale distributors who resell to roofing contractors and dealers. The remainder of the sales either are to retailers who sell to the consumer market or direct sales to the construction industry. In late 1984, the Division instituted the GAF Easy Finance Program nationwide—a new plan enabling roofing customers purchasing the Division's products to obtain from Finance America home improvement loans on competitive terms.

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

In 1986, the Division, formerly The Ruberoid Company, acquired by GAF Corporation in 1967, will celebrate its 100th anniversary.

Research and Development

The Building Materials Division is constantly engaged in new products development and process improvements leading to cost savings and increased manufacturing efficiencies. In 1985, the Research and Development group of the Division, among other things, successfully introduced the modified bitumen products and various other new products.

WNCN (FM)

Acquired by the Company in June 1976, WNCN, 104.3 FM, is a commercial radio station broadcasting to the New York City metropolitan area which presents classical music and cultural programs. It is on the air 24 hours a day, 7 days a week. GAF Broadcasting Company, Inc., a wholly owned subsidiary of the Company, manages the station and also publishes a monthly magazine, *Keynote*, which is devoted to classical music and the arts and includes a complete program guide for the radio station.

See "Item 3. Legal Proceedings" below for a description of a pending lawsuit seeking to compel the Company to sell WNCN on certain terms.

INVESTMENTS AND ACQUISITIONS

The Company invests in a variety of programs in order to maximize the return on its short-term investments. Among them are preferred and common stock investments, risk arbitrage, dividend capture and stock/futures arbitrage programs. The average amount invested in these programs during 1985 was approximately $50 million. While the investment program became inactive during the last quarter of 1985 because of the Company's investment in Union Carbide Corporation ("Union Carbide"), the programs have been resumed in 1986. In view of the proceeds realized from the sale of a portion of the securities of Union Carbide described below, the average amount invested in these programs in 1986 may substantially exceed last year's level. These investments are reviewed on a regular basis by the Audit Committee of the Board of Directors and by the full Board.

From June through August 1985 the Company purchased 6,961,000 shares (or 9.9%) of the outstanding Common Stock of Union Carbide ("Shares") for an aggregate cost of approximately $356 million. After considering various alternatives for enhancing this investment, the Company commenced a tender offer on December 9, 1985, supplemented on December 13, to purchase 48 million Shares (approximately 70% of the total Shares outstanding) for a cash price of $68 per Share together with a plan to acquire the remaining Shares not already owned by the Company for the same price in a subsequent merger. Union Carbide then began an exchange offer to purchase 35% of its Shares for a package of cash and notes with a face value of $85 per Share. On December 26, 1985 the Company amended its offer by increasing its offer to $74.00 per Share in cash if Union Carbide withdrew its exchange offer, or, in the alternative, if Union Carbide did not withdraw its offer, by offering to purchase at $74.00 per right, the package of cash, notes and stock which shareholders who tendered their Shares to Union Carbide by its proration deadline would have the right to receive. On December 30 and 31, 1985 the Company sold 233,000 Shares. The Company then tendered 6,728,000 Shares to Union Carbide. On January 2, the Company again increased its offer to $78 per Share in cash, conditioned upon Union Carbide's acceptance of a friendly merger. In light of Union Carbide's announcement to expand its exchange offer to 55% of its Shares and to pursue a divestiture program similar to that contemplated by the Company and the fact that the market price of the Shares was reflecting these actions, the Company announced on January 8, 1986 its intention to withdraw its offer. The Company withdrew 1,833,000 Shares from its tender to Union Carbide in order to maintain its approximately 10% shareholding in Union Carbide. Of the Shares tendered by the Company, 3,499,813 were purchased and paid for by Union Carbide in cash and in securities and 1,395,187 Shares were returned to the Company. Descriptions of the purchase price paid by Union Carbide and of the subsequent sale of a portion of the securities received from Union Carbide in its exchange offer are contained in the Company's Current Report on Form 8-K filed on February 27, 1986 and incorporated herein by reference. In connection with the tender offer, the Company retained the investment banking firm of Drexel Burnham Lambert Incorporated which has obtained commitments for $3.5 billion of financing. In addition to cash compensation already paid, the Company agreed to pay to such firm a percentage of any profit realized in the event that the Company disposed of substantially all of its Shares. Reference is made to the Letter Agreement dated December 9, 1985 between the Company and Drexel Burnham Lambert Incorporated incorporated herein by reference.

The Company continues to own 3,228,187 shares (or approximately 10.6%) of the Common Stock of Union Carbide outstanding after its exchange offer. Union Carbide has announced its intention to sell its Consumer Products Division and declared a dividend payable to shareholders of record on February

15, 1986 equal to the difference between the net sale proceeds and the estimated $1.1 billion net book value of the Consumer Products Division. As such Division had not been sold by March 1, 1986, Union Carbide issued and distributed to its shareholders rights to receive the dividend upon consummation of such sale.

The Company has announced that it will continue to monitor the activities of Union Carbide. Depending upon developments and such factors as the Company considers relevant, including, without limitation, Union Carbide's progress with respect to its program announced in its press release dated January 2, 1986 and the market price of the Shares, the Company may determine to do one or more of the following: (a) purchase additional shares from time to time through open market purchases, privately negotiated transactions, another tender offer or otherwise, (b) hold the shares it presently owns, (c) seek control of Union Carbide, (d) propose a merger or similar business combination transaction between the Company and Union Carbide, (e) seek to influence the management and policies of Union Carbide or (f) sell or otherwise dispose of some, or all, of the Shares it beneficially owns in open market sales or in privately negotiated transactions.

Other Corporate Developments

In 1985, the Company redeemed, in two separate redemptions, all the shares of its $1.20 Convertible Preferred Stock. Shareholders converted 2,324,553 shares of preferred stock into 2,905,144 shares of common stock and the Company redeemed 111,033 shares of preferred stock at a price of $27.50 plus accrued dividends. As a result of the redemptions, the Company retired all of its $1.20 Convertible Preferred Stock series.

In June 1985, the Company issued $150 million principal amount of 11 3/8% Senior Subordinated Notes due June 15, 1995, redeemable after June 15, 1992 at their principal amount plus accrued interest. Interest on the notes is payable semiannually.

Due to severely reduced availability and increased costs in the market for liability insurance, particularly for chemical manufacturers, the Company commenced, on November 1, 1985, essentially to self-insure its general liability risks. The Company intends to resume purchase of liability insurance at such time as market availability and costs indicate that this is desirable.

In February 1986, the Company's Revolving Credit Agreement was amended to reflect changes in the bank group and an increase in the number of banks.

On February 24, 1986, the Company declared a two-for-one stock split, subject to approval by shareholders at the Company's Annual Meeting of Shareholders on April 28, 1986 of an amendment to its Certificate of Incorporation increasing the number of authorized shares of Common Stock from 25,000,000 to 100,000,000. A description of other amendments to the Company's Certificate of Incorporation to be submitted for shareholders' approval may be found in the Proxy Statement dated March 27, 1986 for its 1986 Annual Meeting of Shareholders (the "Proxy Statement") under "Proposal No. 2-Classification of the Board of Directors and Other Amendments to the Certificate".

Protection of the Environment

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

During the last 15 years, a wide variety of federal, state and local environmental laws and regulations have been adopted and continue to be adopted and changed. By reason of the nature of the Company's past and present operations and certain of the substances which are, or have been, used, produced or discharged by the Company's plants, capital expenditures and increased operating expenses, the amount of which cannot be estimated at this time, may be occasioned by the Company's continuing efforts to deal responsibly with environmental matters.

Activity continues in matters pertaining to compliance with the Toxic Substances Control Act. Systems have been set up for assessing risk to health or environment at early development stages for new products. Pre-Manufacturing Notices for new chemicals to be commercially introduced are filed as required.

The Company believes that compliance with environmental control requirements will not adversely affect its competitive position in the industries in which it is engaged. These requirements resulted in capital expenditures of approximately $4.9 million from 1983 through 1985. The Company currently has plans to invest an additional amount of approximately $3.4 million in pollution abatement facilities in 1986, $4.5 million in 1987 and $5.3 million in 1988. Included in these amounts are the costs associated with the improvement and installation of waste water treatment facilities at the Company's Linden, New Jersey plant in order to meet the higher compliance standards of the New Jersey Department of Environmental Protection.

Executive Officers

The names and ages of the executive officers of the Company as of March 1, 1986, the time from which they have served as executive officers and their present positions with the Company, are as follows:

Samuel J. Heyman (1) (2) (3)	47	12/83	Chairman of the Board and Chief Executive Officer
James T. Sherwin (1) (3)	52	5/84	Vice Chairman and Chief Administrative Officer
		6/74 to 5/83	Executive Vice President for Finance and Administration
Edward E. Shea (1) (3)	53	6/84	Senior Vice President, General Counsel and Secretary
John A. Brennan	54	1/77	Senior Vice President and President, Building Materials Division
Carl R. Eckardt	55	8/79	Senior Vice President and President, Chemicals Division
Raymond J. Lacroix	50	11/81	Senior Vice President and Chief Financial Officer

(1) Member, Board of Directors
(2) Member, Executive Committee
(3) Member, Retirement Committee

The foregoing executive officers were elected to their positions by the Board of Directors on April 29, 1985 to serve until the next annual organization meeting or until their successors are elected and have qualified.

All executive officers have been in the employ of the Company for more than five years except as follows:

From 1968 to the present date, Mr. Heyman was, and still is, a principal of a number of closely-held companies and partnerships whose investments include commercial real estate and a portfolio of publicly traded securities held largely in connection with arbitrage activities.

Mr. Sherwin had been employed by the Company as Executive Vice President Finance until May 1983, at which time he resigned to join Triangle Industries, Inc. as Executive Vice President and Chief Financial Officer. In May 1984, Mr. Sherwin rejoined the Company as Vice Chairman and Chief Administrative Officer.

From 1982 to 1984, Mr. Shea, was counsel to and then a member of the New York law firm Windels, Marx, Davies and Ives. Prior to that time, he was Chairman of the Board and General Counsel of Reichhold Chemicals, Inc., a manufacturer of synthetic resins, basic chemicals and related products.

No arrangements or understandings exist between any executive officer and any other person pursuant to which the officer was selected as such except that the employment agreement between the Company and Mr. Sherwin provides that he be nominated to serve as a director. There is no family relationship between any of the executive officers.

Reference is made to the Proxy Statement for additional information about the executive officers of the Company.

Employees

At January 31, 1986, the Company employed approximately 4,300 people worldwide. At such date, approximately 1650 employees in the United States and Canada were subject to 24 union contracts, which are effective in most cases for two or three year periods. Of these contracts, 9 have expired or will expire in 1986. During 1985, there were no strikes or work stoppages.

The Company engaged in a "spin-off termination", effective September 1, 1984, of the Retirement Plan for Hourly Paid Employees of GAF Corporation. The Pension Benefit Guaranty Corporation issued a Notice of Sufficiency for said plan in September, 1985. Participants then received their fully guaranteed benefits in the form of annuities purchased from an insurance company. The actuarial excess assets have reverted to the Corporation.

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

Item 2. **Properties**

The corporate headquarters of the Company and of its Chemicals Division and Building Materials Division are located at 1361 Alps Road, Wayne, New Jersey 07470. The Company leases, from a corporation it organized, the buildings and approximately 100 acres of land at such location. The Company's headquarters, principal research and development operations, its general administrative and financial operations and its principal electronic data processing facility are located at the Wayne site. The Wayne lease is capitalized in accordance with current accounting practice. See Note 11 of the Notes to Consolidated Financial Statements in the Annual Report, page 32.

The WNCN (FM) studio and GAF Broadcasting Company, Inc. are located in leased offices at 1180 Avenue of the Americas, New York, New York.

The Company's domestic real properties are as follows:

Location	Facility	Division
Alabama		
Birmingham	Warehouse*	Building Materials
Huntsville	Plant*	Chemicals
Mobile	Plant	Building Materials
California		
Fontana	Plant	Building Materials
Irvine	Sales Office*	Chemicals
Irwindale	Plant	Building Materials
Florida		
Tampa	Plant	Building Materials
Georgia		
Savannah	Plant	Building Materials
Illinois		
Elgin	Credit Office*	Building Materials
Hodgkins	Sales Office*	Building Materials
Lombard	Sales Office*	Chemicals
Indiana		
Mount Vernon	Plant	Building Materials
Kansas		
Leawood	Sales Office*	Building Materials
Kentucky		
Calvert City	Plant	Chemicals
Maryland		
Baltimore	Plant	Building Materials
Hagerstown	Research	Chemicals
Massachusetts		
Millis	Plant	Building Materials
Minnesota		
Minneapolis	Plant, Warehouse*	Building Materials
Missouri		
Annapolis	Plant, Quarry	Chemicals (granules)
Kansas City	Warehouse*	Building Materials
New Jersey		
Bound Brook	Plant, Sales Office	Chemicals (granules)
Linden	Plant, Sales Office	Chemicals
South Bound Brook	Sales Office*, Warehouse*	Building Materials
Wayne	Corporate and Divisions Headquarters*, Administrative Offices*, Research Laboratories*	Corporate, Building Materials and Chemicals
New York		
New York	Office and Studios*	WNCN (FM)
Cheektowaga	Sales Office*	Building Materials
North Carolina		
Charlotte	Sales Office*	Chemicals
Ohio		
Cincinnati	Sales Office*	Chemicals
Pennsylvania		
Blue Ridge Summit	Plant, Quarry	Chemicals (granules)
Erie	Plant	Building Materials
King of Prussia	Sales Office*	Chemicals

* Leased Property

Location	Facility	Division
South Carolina		
Chester	Plant	Building Materials
Tennessee		
Nashville	Plant	Building Materials
Texas		
Arlington	Sales Office*	Chemicals
Dallas	Plant	Building Materials
Seadrift	Plant	Chemicals
Texas City	Plant	Chemicals
Wisconsin		
Pembine	Plant, Quarry	Chemicals (granules)

The Company's foreign real properties are as follows:

Australia		
Melbourne	Sales Office*	Chemicals
Sydney	Sales Office*, Distribution Center*	Chemicals
Austria		
Vienna	Sales Office*, Distribution Center*	Chemicals
Belgium		
Sint-Niklaas	Sales Office, Distribution Center	Chemicals
Brazil		
Sao Paulo	Sales Office* Distribution Center*	Chemicals
Canada		
Mississauga, Ontario	Sales Office*, Distribution Center*	Chemicals
Ville St.-Laurent, Quebec	Sales Office*	Chemicals
France		
Paris	Sales Office*, Distribution Center*	Chemicals
Great Britain		
Esher	Sales Office*, Administrative Office*	Chemicals
Manchester	Sales Office*, Distribution Center*	Chemicals
Italy		
Milan	Sales Office*, Distribution Center*	Chemicals
Japan		
Tokyo	Sales Office*	Chemicals
Mexico		
Mexico City	Sales Office*, Distribution Center*	Chemicals

* Leased Property

Location	Facility	Division
The Netherlands		
Schiedam	Sales Office*, Distribution Center*	Chemicals
New Zealand		
Auckland	Sales Office*, Distribution Center*	Chemicals
Puerto Rico		
Carolina	Sales Office*	Chemicals
Singapore		
Singapore	Sales Office*, Distribution Center*	Chemicals
South Africa		
Sandton	Sales Office*, Distribution Center*	Chemicals
Spain		
Barcelona	Sales Office*, Distribution Center*	Chemicals
Sweden		
Johanneshov	Sales Office*, Distribution Center*	Chemicals
Switzerland		
Zug	Sales Office*, Distribution Center*	Chemicals
West Germany		
Frechen	Sales Office*, Distribution Center*	Chemicals

* Leased Property

Affiliate:		
GAF-Hüls Chemie GmbH		
Marl, West Germany	Plant	Chemicals

The Company, in addition, holds for sale certain closed facilities and parcels of land located in Irwindale, California; Saint Louis, Missouri; Windsor, New York; Gloucester, South Bound Brook and Wayne, New Jersey.

The Company's properties are either owned by the Company or leased to the Company as described in the list above. Information about leases of the Company's properties is contained in Note 11 to the Consolidated Financial Statements of the Annual Report. The plant at Texas City, Texas which produces chloramben, an agricultural chemical sold to Union Carbide Corporation, is owned by that company and leased to the Company. In 1985, this plant was shut down after the contract for sale of chloramben expired.

The Company believes that, in general, these plants and facilities, which are of widely varying ages and of different types of construction, have been adequately maintained, are in good condition and are suitable and adequate for the Company's operations. The Company's major facilities are, in general, satisfactorily utilized and in certain product lines, such as surfactants, operated in 1985 at near or full capacity. Each plant has adequate transportation facilities for both raw materials and finished products. As part of the Company's capital expansion and improvements program launched in late 1984, renovation of some of the plants and installation of new equipment have been completed in 1985 and more are planned. Capital expenditures were approximately $47 million in 1985 and a moderate increase is expected in 1986.

Item 3. Legal Proceedings.

As of February 28, 1986, the Company was a co-defendant in approximately 23,000 pending lawsuits involving alleged health claims relating to the inhalation of asbestos fiber. The great majority of these cases have been filed in the last five years. The Company has resolved approximately 13,000 other lawsuits involving similar claims. As of February 28, 1986, the Company's insurers have paid approximately $50 million in settlements and judgments with respect to these health claims and approximately $61 million for defense costs. It is anticipated that additional suits will be filed by persons exposed to asbestos dust at sites where asbestos-containing materials manufactured by the Company and others were used. It is impossible to predict the number of such additional lawsuits. However, in 1971 the Company discontinued the sale of its principal asbestos insulation products and in 1975 withdrew from sale of all asbestos products except products in which the asbestos fiber was fully bonded or encapsulated, which products the Company discontinued in 1981. In the opinion of management, based in part on the opinion of its General Counsel with respect to the health claim lawsuits and the lawsuit relating to the availability of insurance coverage described below, the ultimate disposition of these lawsuits will not have a material adverse effect on the Company's financial condition.

In May 1979, the Company commenced an action in California Superior Court against its insurance carriers to obtain a judicial determination that the defendants are obligated to defend and indemnify the Company in all present and future asbestos bodily injury cases. In addition, the Company seeks compensatory and punitive damages for breach of insurance contracts, violations of the California Insurance Code, bad faith and certain other claims. Trial commenced on March 4, 1985 and is currently in its third phase in the Superior Court and is expected to continue through 1986 or longer due to the numerous and complex insurance coverage issues and the number of litigants.

Between 1979 and March 1984, Insurance Company of North America ("INA") and Home Insurance Company ("Home") paid all costs of indemnity and defense of the Company in asbestos bodily injury lawsuits. INA discontinued payment effective March 1, 1984 claiming its policy limits were exhausted. On April 24, 1984, the Company entered into an Interim Agreement with five excess insurers under which such insurers agreed, subject to mutual reservations of rights, to pay the full amount of the Company's defense and indemnity costs in asbestos bodily injury cases from the proceeds of first level excess policies in effect from 1952 to 1960 and 1963 to 1976, certain of which have aggregate limits totalling $62.4 million and four of which covering a period of four years have no express aggregate limits. Two of the policies with aggregate limits covering a period of six years have separate obligations to pay defense costs not chargeable to aggregate limits. In June 1984, the Company implemented a Settlement Agreement, dated January 31, 1983, with Transamerica Insurance Company ("Transamerica") which requires Transamerica to pay the full cost of the defense of the Company in asbestos bodily injury cases alleging exposure during the terms of Transamerica policies in effect during the years 1951 through 1953. Under these arrangements, all of the Company's costs for indemnity and defense of asbestos bodily injury are being fully paid by the insurers.

The Company is a defendant in 76 actions commenced by school districts, municipalities and similar governmental entities and homeowners which allege property damage or other injuries in schools or public and private buildings caused, in whole or in part, by what is claimed to be the present or future need to remove asbestos material from those premises. The plaintiffs seek to recover the cost of inspections, removal and/or the replacement of asbestos materials plus health screening examinations, counsel's fees and expenses incurred in connection with the litigation and compensatory and punitive damages. These actions are still in early stages. The Company did not sell asbestos spray or acoustical ceiling products, which are the primary products being removed from buildings. In the opinion of management, based in part on the opinion of its General Counsel with respect to the foregoing lawsuits and the lawsuits relating to availability of insurance coverage described below, the ultimate disposition of these actions will not have a material adverse effect on the Company's financial condition.

In October 1983, the Company filed a lawsuit in Los Angeles, California Superior Court against its past insurance carriers to obtain a judicial determination that defendants are obligated to defend and indemnify the Company in numerous asbestos related cases referred to in the preceding paragraph. The Company is seeking declaratory relief as well as compensatory damages. This action is presently in the pre-trial pleading stage. INA is currently paying, under reservations of rights, all costs of defense of the pending property damage cases.

On February 2, 1981, an action was commenced against the Company and GAF Broadcasting Company, Inc., a wholly-owned subsidiary of the Company, by Concert Radio, Inc. in the Supreme Court, County of New York, seeking specific performance, or, in the alternative, damages arising out of the alleged breach of an option agreement for the purchase of radio station WNCN. In 1984, the trial court ruled in favor of the plaintiff and ordered specific performance of the option agreement. The Company appealed such judgment to the New York Supreme Court, Appellate Division. In May 1985, the Appellate Division affirmed the trial court ruling that the Company had breached the option agreement to sell radio station WNCN to Concert Radio, Inc., but reversed the portion of the judgment ordering specific performance, thus limiting plaintiff to monetary damages for which a new trial was ordered and is expected to take place in 1986.

The Company is a defendant (generally one of several) in a number of cases involving allegedly defective commercial roofing products containing felt substrates which the Company has phased out as a component of roofing products. The number of such cases has declined steadily during the last four years. The amounts claimed in a number of these cases are substantial, typically $100,000 to $500,000. However, most cases are settled for a fraction of the sum demanded and recovery, if any, from the defendants is frequently apportioned among them, which reduces the burden of such judgments or settlements on the Company.

The Company is a party to a variety of administrative proceedings and lawsuits involving environmental matters, including being named as a defendant, together with numerous other companies, in several lawsuits and proceedings under the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as "CERCLA" or the "Superfund Law") and similar state laws which seek to recover from generators of hazardous waste the cost of cleaning up so-called "orphan" waste disposal sites. Most of the lawsuits involving orphan dumpsites are in the early stages. The Company plans to seek dismissal of some of the lawsuits and proceedings on grounds that there appears to be no substantial evidence that hazardous waste for which the Company is responsible is present at the dumpsite. In the great majority of the lawsuits, it is expected that liability, if any, will eventually be apportioned among the companies, including the Company, found responsible for the presence of hazardous waste at the dumpsite. Based on evidence presently available, it is impossible to predict the eventual liability of the Company in these orphan dumpsite lawsuits. In the opinion of management, based in part on the opinion of its General Counsel, these lawsuits should be resolved gradually over a period of years for amounts which are not material to the financial condition of the Company.

The administrative proceedings and lawsuits against the Company (other than orphan dumpsite lawsuits) involve allegations of environmental permit violations which are typically resolved by consent orders and fines.

During the tender offer by the Company for common stock of Union Carbide, the Company filed a lawsuit in the U. S. District Court, Southern District, New York, seeking an order enjoining certain antitakeover devices adopted by Union Carbide. The District Court denied the order and the Company has filed a notice of appeal. Union Carbide filed a lawsuit in the U. S. District Court in Connecticut seeking an order enjoining certain alleged securities and antitrust law violations by the Company. The District Court denied a preliminary injunction on grounds that the issue became moot or was not yet ripe for decision when the Company announced its intention to withdraw its tender offer.

A description of certain legal proceedings involving the Company and its former and present directors and officers may be found in the Proxy Statement under "Proposal No. 1 - Election of Directors, Certain Litigation Involving Directors".

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

No matters were submitted to a vote of security holders during the fourth quarter of 1985.

PART II

The information required by Items 5, 6, 7 and 8 is incorporated by reference to the Company's Annual Report as follows:

Item 9. Disagreements on Accounting and Financial Disclosure.

In April 1984, the Company engaged Arthur Andersen & Co. as its independent accountant to replace Deloitte Haskins & Sells. The selection of new auditors, which was reported on Form 8-K filed on April 27, 1984, did not involve any disagreement with the Company's prior auditors on any matter.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information required by Item 10 is incorporated by reference to the Proxy Statement under the caption "Proposal No. 1 — Election of Directors — Nominees". For the information required as to Executive Officers, see Part I, Item 1. "Executive Officers".

Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference to the Proxy Statement under the caption "Proposal No. 1 — Election of Directors — Executive Compensation and Certain Transactions".

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by Item 12 is incorporated by reference to the Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management".

Item 13. Certain Relationships and Related Transactions.

The information required by Item 13 is incorporated by reference to the Proxy Statement under the caption Proposal No. 1—Election of Directors—Executive Compensation and Certain Transactions-Certain Transactions with Related Parties".

PART IV

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

The following documents are filed as part of this report:

(a)(1) **Financial Statements:**

Financial statements of GAF Corporation and subsidiaries are incorporated by reference to the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1985. See list on page 17 herein.

Separate financial statements of GAF Corporation are omitted because its total assets, exclusive of investments in, and advances to, consolidated subsidiaries, constitute 75 percent or more of the total assets shown by the latest consolidated balance sheet filed and total gross revenues for the latest period for which profit and loss statements are filed, exclusive of interest and dividends from, or equity in income of, the consolidated subsidiaries, constitute 75 percent or more of the total gross revenues shown by the consolidated profit and loss statements filed.

(a)(2) **Financial Statement Schedules:**

The following supplementary financial information is filed in this Form 10-K and should be read in conjunction with the financial statements in the Annual Report.

Schedules, other than those listed above, are omitted because of the absence of the conditions under which they are required or because the required information, where material, is shown in the financial statements or the notes thereto.

(a)(3) Exhibits:

3. 1	— Restated Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware on July 3, 1985.
3. 2	— Bylaws of the Company (See Exhibit 3.2 to the Company's Form 10-K for the year ended December 31, 1984).
4.	— Instruments defining the rights of security holders, including indentures. The Company hereby undertakes to furnish copies of any long-term debt instruments to the SEC upon request.
10. 1	— Interim Agreement dated April 24, 1984 among the Company, certain Underwriters at Lloyd's, London and certain Insurance Companies (See Exhibit 10 to the Company's Form 8-K for the quarter ended July 1, 1984).
10. 2	— Executive Incentive Compensation Plan, as amended through October 18, 1979 (See Exhibit A(1) to the Company's Form 10-K for the year ended December 31, 1979), amendment thereto (See Exhibit 10.6 to the Company's Form 10-K for the year ended December 31, 1982).
10. 3	— Plan for the Sale of Restricted and Unrestricted Common Stock to Employees Who Perform Executive, Administrative or Supervisory Functions (the "Stock Purchase Plan"), as amended through September 23, 1982 (See Exhibit 10.7 to the Company's Form 10-K for the year ended December 31, 1983), and a further amendment thereto (See Exhibit 10.8 to the Company's Form 10-K for the year ended December 31, 1983).
10. 4	— 1975 Stock Option Plan (See Exhibit 10.9 to the Company's Form 10-K for the year ended December 31, 1982), amendment thereto (See Exhibit 10.9 to the Company's Form 10-K for the year ended December 31, 1982).
10. 5	— Unanimous written consent of the Stock Option Committee, dated July 22, 1982, amending the Company's stock option agreements to include Limited Rights (See Exhibit 10.11 to the Company's Form 10-K for the year ended December 31, 1982).
10. 6	— 1984 Employee Stock Option Plan (See Exhibit 10.2 to the Company's Form 10-Q for the quarter ended April 1, 1984) and an amendment thereto (See Exhibit 10.3 to the Company's Form 10-Q for the quarter ended April 1, 1984).
10. 7	— Deferred Compensation Letter Agreement, dated December 11, 1985.
11.	— Computation of Earnings per Common Share for the Three Years ended December 31, 1985.
13.	— Annual Report to Shareholders for the fiscal year ended December 31, 1985.
21. 1	— Proxy Statement for the Company's 1986 Annual Meeting of Shareholders.
21. 2	— Form 8-K Report filed by the Company on February 27, 1986.
22. 3	— Letter Agreement dated December 9, 1985 between the Company and Drexel Burnham Lambert Incorporated. (See Exhibit (b)(2) to Schedule 14D-1 dated December 10, 1985)
22.	— Subsidiaries of the Company.
24. 1	— Consent of Arthur Andersen & Co., Independent Public Accountants, included at page 22 of this Report.
24. 2	— Consent of Deloitte Haskins & Sells, Independent Public Accountants, included at page 23 of this Report.

(b) Reports on Form 8-K.

No report on Form 8-K was filed with the Securities and Exchange Commission during the last quarter of 1985. A report on Form 8-K, concerning the sale of securities received from Union Carbide in its exchange offer, was filed on February 27, 1986.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GAF CORPORATION
(Registrant)

Date: March 24, 1986

By ______________________
(Samuel J. Heyman)
Chairman of the Board and Chief Executive Officer

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

Signature	Title	Date
(Samuel J. Heyman)	Chairman of the Board and Chief Executive Officer	March 24, 1986
(Daniel T. Carroll)	Director	March 24, 1986
(Jacob F. Goldman)	Director	March 24, 1986
(Bradford R. Kaplan)	Director	March 24, 1986
(Raymond J. Lacroix)	Senior Vice President and Chief Financial Officer	March 24 1986
(William F. Lyons)	Director	March 24, 1986
(Scott A. Rogers, Jr.)	Director	March 24, 1986
(Edward E. Shea)	Director and Senior Vice President	March 24, 1986
(James T. Sherwin)	Director and Vice Chairman	March 24, 1986
(Harold C. Simmons)	Director	March 24, 1986
(William Eyles)	Director	March 24, 1986
(Joseph D. Tydings)	Director	March 24 1986

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULES

GAF CORPORATION:

In connection with our examinations of the consolidated financial statements as of December 31, 1985 and 1984, and for the years then ended, included in GAF Corporation's annual report to shareholders and incorporated by reference in this Form 10-K, we have also examined the schedules for the years ended December 31, 1985 and 1984, as listed in the index on page 18 of this Form 10-K. Our examinations of the 1985 and 1984 consolidated financial statements were made for the purpose of forming an opinion on those statements taken as a whole. The schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. The schedules for the years ended December 31, 1985 and 1984 have been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Roseland, New Jersey
February 10, 1986

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports incorporated by reference, or included, in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 No. 2-53686, No. 2-41036, No. 2-92203 and No. 2-92202.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

Roseland, New Jersey
March 27, 1986

OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

GAF CORPORATION:

We have examined the consolidated statements of income, shareholders' equity and changes in financial position of GAF Corporation and its consolidated subsidiaries for the year ended December 31, 1983; such financial statements are included in your 1985 Annual Report to Shareholders and are incorporated herein by reference. Our examination was made in accordance with generally accepted auditing standards and, accordingly, include 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 results of operations and changes in financial position of the companies for the year ended December 31, 1983, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also comprehended the supplemental schedules of GAF Corporation and its consolidated subsidiaries for the year ended December 31, 1983, listed in Item 14(a)(2) herein. In our opinion, such supplemental schedules, when considered in relation to the basic consolidated financial statements, present fairly in all material respects the information shown therein.

Deloitte Haskins & Sells

DELOITTE HASKINS & SELLS
New York, New York
February 17, 1984

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

GAF CORPORATION:

We hereby consent to the incorporation by reference in the Prospectus included in (a) Post-Effective Amendment No. 11 to Registration No. 2-41036, (b) Post-Effective Amendment No. 7 to Registration No. 2-53686, (c) Registration No. 2-92202 and (d) Post-Effective Amendment No. 1 to Registration No. 2-92203 all on Forms S-8, of our opinion dated February 17, 1984 appearing in the 1985 Annual Report on Form 10-K of GAF Corporation.

Deloitte Haskins & Sells

DELOITTE HASKINS & SELLS
New York, New York
March 27, 1986

GAF CORPORATION AND SUBSIDIARIES

SCHEDULE I — MARKETABLE SECURITIES

As of December 31, 1985

(Dollars in Thousands)

Title of Issue	Principal Amount or Number of Shares	Cost	Market Value at December 31, 1985	Balance Sheet Carrying Amount
Eurodollar Deposits	$ 3,030	$ 3,030	$ 3,070	$ 3,030
Foreign Government Securities	$ 3,066	3,066	3,066	3,066
Common Stock-Union Carbide Corporation	6,728,000	405,431	476,847	405,431(a)
				$411,527

NOTE: (a) Included in this total is $202,229 which is classified as Marketable Securities, a non-current asset, on the Consolidated Balance Sheet at December 31, 1985.

GAF CORPORATION AND SUBSIDIARIES

SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1985
(Dollars in Thousands)

Classification	Balance January 1, 1985	Additions at Cost	Retirements	Other(b)	Balance December 31, 1985
Land	$ 5,807	$ —	$ 426	$1,416	$ 6,797
Land improvements	9,242	817	96	—	9,963
Buildings and building equipment	52,558	2,920	3,723	1,876	53,631
Machinery and equipment	200,658	42,235	22,464	5,958	226,387
Construction in progress	10,182	1,189(a)	9	—	11,362
	$278,447	$47,161	$26,718	$9,250	$308,140

Year Ended December 31, 1984
(Dollars in Thousands)

Classification	Balance January 1, 1984	Additions at Cost	Retirements	Transfers Between Accounts	Balance December 31, 1984
Land	$ 6,174	$ —	$ 367	$ —	$ 5,807
Land improvements	8,895	571	224	—	9,242
Buildings and building equipment	54,385	751	2,558	(20)	52,558
Machinery and equipment	211,049	12,151	22,521	(21)	200,658
Construction in progress	5,714	4,427(a)	—	41	10,182
	$286,217	$17,900	$25,670	$ —	$278,447

Year Ended December 31, 1983
(Dollars in Thousands)

Classification	Balance January 1, 1983	Additions at Cost	Retirements	Other Changes Add (Deduct) Transfers: Between Accounts	Other Changes Add (Deduct) Transfers: From Discontinued Segments	Balance December 31, 1983
Land	$ 6,879	$ —	$ 705	$ —	$ —	$ 6,174
Land improvements	9,451	411	967	—	—	8,895
Buildings and building equipment	60,452	1,955	8,481	(127)	586	54,385
Machinery and equipment	227,742	13,512	31,743	130	1,408	211,049
Construction in progress	9,217	(1,974)(a)	1,682	(3)	156	5,714
	$313,741	$13,904	$43,578	$ —	$2,150	$286,217

NOTES: (a) Denotes net change during year.
(b) Represents acquisition of glass fiber facilities from Reichhold Chemicals, Inc.

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

Land improvements	4-16⅔%
Buildings and building equipment	2½-12½%
Machinery and equipment	5-33%

GAF CORPORATION AND SUBSIDIARIES

SCHEDULE VI—ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended December 31, 1985

(Dollars in Thousands)

Classification	Balance January 1, 1985	Additions Charged to Costs and Expenses	Retirements	Balance December 31, 1985
Land improvements	$ 3,236	$ 500	$ 110	$ 3,626
Buildings and building equipment	25,945	2,143	3,671	24,417
Machinery and equipment	90,151	14,723	18,863	86,011
	$119,332	$17,366	$22,644	$114,054

Year Ended December 31, 1984

(Dollars in Thousands)

Classification	Balance January 1, 1984	Additions Charged to Costs and Expenses	Retirements	Transfers Between Accounts	Balance December 31, 1984
Land improvements	$ 2,895	$ 538	$ 197	$ —	$ 3,236
Buildings and building equipment	25,762	2,350	2,171	4	25,945
Machinery and equipment	93,092	16,509	19,446	(4)	90,151
	$121,749	$19,397	$21,814	$ —	$119,332

Year Ended December 31, 1983

(Dollars in Thousands)

Classification	Balance January 1, 1983	Additions Charged to Costs and Expenses(a)	Retirements	Transfers From Discontinued Segments	Balance December 31, 1983
Land improvements	$ 2,663	$ 748	$ 516	$ —	$ 2,895
Buildings and building equipment	26,383	4,670	5,654	363	25,762
Machinery and equipment	92,275	27,367	27,350	800	93,092
	$121,321	$32,785	$33,520	$1,163	$121,749

NOTES: (a) Includes $11,316 related to the write-off of assets in connection with provisions for certain plant shutdowns and office relocation and a $21,469 provision for depreciation charged to continuing operations.

GAF CORPORATION AND SUBSIDIARIES

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS

Year Ended December 31, 1985
(Dollars in Thousands)

Description	Balance January 1, 1985	Charged to Costs and Expenses	Deductions	Balance December 31, 1985
Valuation and Qualifying Accounts Deducted from Assets To Which They Apply:				
Allowance for doubtful accounts	$5,426	$ 703	$ 987(a)	$5,142
Allowance for discounts	1,489	7,189	6,804	1,874
Reserve for inventory valuation	4,538	1,356	2,267	3,627

Year Ended December 31, 1984
(Dollars in Thousands)

Description	Balance January 1, 1984	Charged to Costs and Expenses	Deductions	Balance December 31, 1984
Valuation and Qualifying Accounts Deducted from Assets To Which They Apply:				
Allowance for doubtful accounts	$4,709	$1,313	$ 596(a)	$5,426
Allowance for discounts	914	6,772	6,197	1,489
Reserve for inventory valuation	7,781	2,967	6,210	4,538

Year Ended December 31, 1983
(Dollars in Thousands)

Description	Balance January 1, 1983	Charged to Costs and Expenses	Deductions	Balance December 31, 1983
Valuation and Qualifying Accounts Deducted from Assets To Which They Apply:				
Allowance for doubtful accounts	$3,034	$4,483	$2,808(a)	$4,709
Allowance for discounts	1,105	6,735	6,926	914
Reserve for inventory valuation	2,987	7,416	2,622	7,781

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

BECHTEL

Information Services

15740 Shady Grove Road

Gaithersburg, Maryland 20877-1454

EXHIBITS FOLLOW

EPD-33805 10/85

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

RECD S.E.C.
MAR 28 19[illegible]

EXHIBITS

filed with

Form 10-K

REGISTRATION STATEMENT

under

THE SECURITIES ACT OF 1934

G A F Corporation

EXHIBIT INDEX

Exhibit 3.1

Exhibit 3.1

RESTATED CERTIFICATE OF INCORPORATION

OF

GAF CORPORATION

GAF Corporation, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is GAF Corporation (the "Corporation"). The name under which the corporation was originally organized was American I. G. Chemical Corporation. The date of filing of its original Certificate of Incorporation with the Secretary of State was April 26, 1929.

2. This Restated Certificate of Incorporation only restates and integrates and does not further amend the provisions of the Certificate of Incorporation of this corporation as heretofore amended or supplemented and there is no discrepancy between those provisions and the provisions of this Restated Certificate of Incorporation.

3. This Restated Certificate of Incorporation has been duly adopted by the Board of Directors of GAF Corporation, pursuant to Section 245 (b) of the General Corporation Law of the State of Delaware.

4. The text of the Certificate of Incorporation as amended or supplemented heretofore is hereby restated without further amendments or changes to read as herein set forth in full:

FIRST: The name of the Corporation is GAF Corporation.

SECOND: The registered office or place of business of the Corporation in the State of Delaware is located at 229 South State Street, in the City of Dover, County of Kent. The name and address of its registered agent is The Prentice-Hall Corporation System, Inc., 229 South State Street, Dover, Delaware 19901.

THIRD: The nature of the business of the Corporation and the objects and purposes to be transacted, promoted or carried on by it are as follows:

(a) To engage in the business of purchasing, manufacturing, compounding, refining, distributing, selling, importing, exporting, exploiting and using, and to purchase, manufacture, compound, refine, distill, treat, prepare, analyze, synthetize, produce and in every way deal in and with, chemicals of every kind, chemical materials, substances and products, including acids, alkalis and salts, their compounds and derivatives, and also derivatives, materials, products, substances and combinations produced or manufactured therefrom, including solids, liquids and gases of all kinds; to engage in the separation or reduction and treatment of solids, liquids and gases into their constituents; to produce and utilize and deal in and with chemical combinations of all kinds.

(b) To engage in the business of purchasing, manufacturing, distributing, selling, importing, exporting, using and generally dealing in and to purchase, manufacture, distribute, sell, import, export, use and generally deal in cameras of all kinds and for all uses and all parts thereof, raw cinematographic films, photographic, photostatic, contact printing and sensitized papers, films and plates, mounting cards and frames, developing materials, tools, appliances and chemicals, and all other tools, appliances, devices, equipment, chemicals and supplies necessary, appropriate or incidental to the taking, developing and printing of photographs, pictures, photostats, prints and other graphic reproductions and to take, develop, print and generally deal in photographs, pictures, photostats, prints and other graphic reproductions.

(c) To engage in the business of purchasing, manufacturing, distributing, selling, importing, exporting, using and generally dealing in and to purchase, manufacture, distribute, sell, import, export, use and generally deal in building materials, floor coverings and industrial products of all kinds and for all uses and by-products derived therefrom.

(d) To engage in the business of mining, quarrying, extracting, boring for, pumping or otherwise acquiring, and to crush, stamp, smelt, amalgamate, refine and in all ways treat, prepare for market and utilize and sell, ores, metals, minerals, natural oils and other substances derived from the earth, air or water.

(e) To construct, erect, acquire, lease, hire, sell, dispose of, operate and use plants, machinery, equipment, apparatus and appliances of any and every kind capable of being used in or in connection with the business of the corporation and to acquire, own, use, develop, exploit, dispose of and deal in processes, inventions, apparatus and machinery of any and every kind necessary or useful in connection with its business.

(f) To manufacture, produce, buy, acquire, sell, dispose of, import, export, trade in and generally deal in and with goods, wares, merchandise, commodities, articles and property of any and every class and description, insofar as may be permitted by the laws of the State of Delaware or of any other state, territory or country in which the Corporation may do business; to engage in any business, whether manufacturing or otherwise, which the Corporation may deem advantageous or useful in connection with any or all of the foregoing.

(g) To foster and finance the development of chemical and allied industries in the United States of America and elsewhere.

(h) To subscribe for, or cause to be subscribed for, purchase or otherwise acquire, own, hold, sell, negotiate, assign, deal in, exchange, transfer, mortgage, pledge or otherwise dispose of shares of stock, scrip, bonds, coupons, mortgages, debentures, debenture stock, securities, notes, trade acceptances, drafts and evidences of indebtedness issued or created by any corporation, joint stock company or association, whether public, quasi-public, private or municipal, or by any domestic or foreign state, government or governmental authority or any political or administrative subdivision or department thereof and any and all trust, participation or other certificates of, or receipts evidencing interest in, any such shares, instruments or securities, and, while the owner thereof, to possess and to exercise with respect thereto all the rights, powers and privileges of ownership, including the right to vote thereon; to guarantee payment of dividends on any shares of stock of any corporation, joint stock company or association in which the Corporation has or may at any time have an interest, and to become surety with respect to, endorse or otherwise guarantee the payment of the principal of or the interest on any scrip, bonds, coupons, mortgages, debentures, debenture stock, securities, notes, drafts, bills of exchange or evidence of indebtedness issued or created by any such corporation, joint stock company or association.

(i) To make and enter into any and all arrangements with any domestic or foreign governmental or municipal authority which may be deemed to be for the benefit of the Corporation; to obtain from any such authority or otherwise to acquire, by purchase, lease, assignment or in any manner, any powers, rights, privileges, immunities, franchises and concessions which the Corporation may deem desirable; to exercise and exploit the same; and to undertake and prosecute any business dependent thereon.

(j) To obtain, purchase, or otherwise acquire and to hold, apply for, prosecute, own, use, sell, assign or otherwise dispose of, to grant licenses in respect of and otherwise exploit and turn to account any and all inventions and improvements and any letters patent or applications therefor, including design patents of the United States or other countries and to obtain and hold licenses or other patent rights; to devise, adopt, use, own, purchase or otherwise acquire and to sell, assign or otherwise dispose of any and all trademarks, trade names and trademark rights and registrations or applications for registrations therefor in the United States or any other countries, to apply for and secure registrations for trademarks in the United States and in other countries, and when purchasing, acquiring or otherwise obtaining any such trademarks, trade names or trademark rights to take over and acquire the good will, assets and business in connection with which said trademarks, trade names or trademark rights are or have been used; also any and all copyright processes, formulae, trade secrets and devices of all kinds, and to use, exercise and develop the same.

(k) To purchase or otherwise acquire the whole or any part of the property, assets, business, good will and rights, and to undertake and assume the whole or any part of the liabilities and obligations, of any person, firm, association or corporation, and to pay for the same in cash, in the stock or shares of stock of any class of the Corporation, or the bonds, notes or other obligations thereof, or otherwise; to hold or in any manner to dispose of the whole or any part of the property or assets so acquired; to conduct the whole or any part of any business so acquired; and to exercise all the powers necessary or convenient in and about the conduct, management and carrying on of such business.

(l) To borrow money for any of the purposes of the Corporation, and to issue bonds, debentures, debenture stock, notes and other obligations therefor, and to secure the same by pledge or morgage of the whole or any part of the property of the Corporation, either real or personal, or to issue bonds, debentures, debenture stock, notes or other obligations without any such security.

(m) To enter into, make, perform and carry out contracts of every kind for any lawful purpose, without limit as to amount, with any person, firm, association, corporation or public, quasi-public or municipal body politic, and with the government of any state, territory or country, or any political subdivision or department thereof.

(n) To draw, make accept, endorse, discount, execute and issue promissory notes, drafts, warrants, and any and all kinds of obligations and certificates and negotiable or transferable instruments, necessary or incidental to the conduct of the business and affairs of the Corporation.

(o) To buy, sell, manufacture or cause to be manufactured, produce and generally to traffic and deal in and contract for the sale, purchase, supply and letting on hire or otherwise of any and all fixtures, furniture, implements, instruments, tools, machinery, suppliers, signs, labels, boxes, advertising matter of every kind, nature and description, and other personal property and things, and to purchase, lease or otherwise acquire, erect, exchange, sell, let or otherwise dispose of, own, maintain, develop, equip, improve and repair any and all improved or unimproved real estate or property, plants, depots, warehouses, supply stations, stores, buildings and other places.

(p) To issue shares of stock (of any class) bonds, debentures, debenture stock, notes and other obligations of the Corporation for cash, labor done or property, real or personal, or leases thereof, or for any combination of any of the foregoing, or in exchange for the stock, debentures, debenture stock, bonds securities or obligations of any person, firm, association, corporation or other organization.

(q) To acquire by purchase, lease, or otherwise, and to own, hold, sell, mortgage and encumber both improved and unimproved real estate wherever situate; to survey, subdivide, plat, colonize and improve the same for purposes of sale or otherwise, and to construct and erect thereon warehouses, factories, works, plants, stores, mills, hotels, houses and other buildings.

(r) In general, to carry on any business not contrary to the laws of Delaware and to have and exercise all the powers conferred by the laws of Delaware upon corporations formed thereunder and to do any and all of the acts and things herein provided for to the same extent as natural persons could do, and in any part of the world, as principal factor, agent, contractor or otherwise, either alone or in conjunction with one or more persons, entities, partnerships, associations, and/or corporations; to establish and maintain offices and agencies within and anywhere outside of the State of Delaware; and to exercise all or any of its corporate powers or rights in the State of Delaware and in any and all other States, Territories, Districts, Colonies, Possessions of Dependencies of the United States of America and in any foreign country.

(s) To do everything necessary, proper, advisable or convenient for the accomplishment of any of the purposes or the attainment of any of the objects or the furtherance of any of the powers herein provided for and to do every other act and thing incidental thereto in connection therewith, provided the same be not forbidden by the laws of Delaware.

The foregoing clauses shall be construed as powers as well as objects and purposes, and the matters expressed in each clause shall, except if otherwise expressly provided, be in no ways limited by reference to or inference from the terms of any other clause, but shall be regarded as independent objects, purposes and powers; and the enumeration of specific objects, purposes and powers shall not be construed to limit or restrict in any manner the general powers of the Corporation or the meaning of general terms; nor shall the expression of one thing be deemed to exclude another not expressed, although it be of like nature.

The Corporation shall be authorized to exercise and enjoy all other powers, rights and privileges granted by an Act of the General Assembly of the State of Delaware entitled "An Act providing a General Corporation Law", approved March 10, 1899, to corporations of this character and all the powers conferred upon such corporations by any other laws of the State of Delaware, in force from time to time, so far as not in conflict herewith, or which may be conferred by all acts heretofore or hereafter amendatory of or supplemental to said Act or said laws and the enumeration of certain powers as herein specified is not intended as exclusive of, or as a waiver of, any of the powers, rights or privileges granted or conferred by said Act or said laws now or hereafter in force; provided, however, that the Corporation shall not in any State, Territory, District, Possession or Country carry on any business or exercise any powers not permitted to it under the laws thereof.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have the authority to issue is 31,000,000, consisting of:

(1) 25,000,000 shares of Common Stock of the par value of $1 per share, and

(2) 6,000,000 shares of Preferred Stock of the par value of $1 per share.

The amount of Capital with which the Corporation shall commence business is One Thousand Dollars ($1,000).

FIFTH: A description of the different classes of stock of the Corporation and a statement of the designations, powers, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, fixed by the Certificate of Incorporation, and the express grant of authority to the Board of Directors to fix by resolution or resolutions certain thereof not so fixed, are as follows:

Preferred Stock

Except with respect to the series designated $1.20 Convertible Preferred Stock hereinafter established, the Board of Directors is hereby expressly authorized, by resolution or resolutions from time to time adopted, to provide for the issuance of the Preferred Stock in series and to fix and state, to the extent not fixed by the provisions hereinafter set forth and subject to limitations prescribed by law, the voting powers, designations, preferences and relative, participating, optional and other special rights of the share of each such series and the qualifications, limitations and restrictions thereof, including, but not limited to, determination of any of the following:

(a) the distinctive serial designation and the number of shares constituting the series;

(b) the dividend rate, whether dividends shall be cumulative and, if so, from which date, the payment date or dates for dividends, and the participating or other special rights, if any, with respect to dividends;

(c) the voting powers, full or limited in addition to the voting powers provided by law;

(d) whether the shares shall be redeemable, and, if so, the price or prices at which, and the terms and conditions on which, the shares may be redeemed;

(e) the amount or amounts payable upon the shares in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation;

(f) whether the shares shall be entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of shares of the series, and, if so entitled, the amount of such fund and the manner of its application, including the price or prices at which the shares may be redeemed or purchased through the application of such fund; and

(g) whether the shares shall be convertible into, or exchangeable for, shares of any other class or classes or of any other series of the same or any other class or classes of stock of the Corporation and, if so convertible or exchangeable, the conversion price or prices, or the rates of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made, and any other terms and conditions of such conversion or exchange.

Each share of each series of Preferred Stock shall have the same relative rights as and be identical in all respects with all the other shares of the same series.

Before the Corporation shall issue any shares of Preferred Stock of any series (except shares of the series of $1.20 Convertible Preferred Stock) authorized as hereinbefore provided, a certificate setting forth a copy of the resolution or resolutions with respect to such series adopted by the Board of Directors of the Corporation pursuant to the foregoing authority vested in said Board shall be made, filed and recorded in accordance with the then applicable requirements, if any, of the laws of the State of Delaware, or, if no certificate is then so required, such certificate shall be signed and acknowledged on behalf of the Corporation by its President or a Vice President and its corporate seal shall be affixed thereto and attested by its Secretary or an Assistant Secretary and such certificate shall be filed and kept on file at the principal office of the Corporation in the State of Delaware and in such other place or places as the Board of Directors shall designate.

Unless otherwise provided in any such resolution or resolutions, the number of shares of stock of any such series (including shares of the series of $1.20 Convertible Preferred Stock) may be increased or decreased (but not below the number of shares thereof then outstanding) by resolution or resolutions of the Board of Directors set forth in a certificate complying with and filed in accordance with the fofegoing requirements. In case the number of shares of any such series of Preferred Stock shal' be decreased, the shares representing such decrease shall resume the status of authorized but unissued Preferred Stock.

$1.20 Convertible Preferred Stock

There is hereby established an initial series of Preferrad Stock, to have the designations, powers, preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions thereof, hereinebove set forth and to have the following thereof not there set forth:

(a) Designation. The shares of such series shall be designated "$1.20 Convertible Preferred Stock", and the number of shares constituting such series shall initially be 3,188,520.

(b) Dividends. The holders of the shares of such series shall be entitled to receive, out of the assets of the Corporation legally available therefor and as and when declared by the Board of Directors, cash dividens at, but not exceeding, the rate of One Dollar and Twenty Cents ($1.20) per share per annum, payable quarterly on the 20th day of the months of February, May, August and November in each year. For the purposes of this paragraph (b), the quarter-yearly dividend period shall begin on the 20th day of the third calendar month prior to the month in which the payment date occurs. Dividends upon the shares of such series shall be cumulative, so that if in any dividend period or periods full dividends upon the outstanding shares of such series at the rate fixed therefor shall not have been paid, the deficiency shall be declared and paid or set apart for payment before any dividend shall be declared and paid or set apart for payment of the Common Stock, and before any assets which are by law available for the payment of dividends shall be paid or set apart for the purchase or redemption of any shares of Preferred Stock or for the purchase of any shares of Common Stock.

(c) Voting Rights. Each holder of shares of such series shall be entitled to one vote for each share held and, except as otherwise herein or by law provided, the shares of such series and the shares of Common Stock of the Corporation (and any other capital stock of the Corporation at the time entitled thereto) shall vote together as one class, except that while holders of shares of such series, voting as a class, are entitled to elect two directors as hereinafter provided, they shall not be entitled to participate with the Common Stock (or any other capital stock as aforesaid) in the election of any other directors.

If and whenever dividends on the shares of such series shall be in arrears and such arrears shall aggregate an amount at least equal to six quarterly dividends upon such stock, then and in such event, the holders of the shares of such series, voting separately as a class, shall be entitled, at the next annual meeting of the stockholders or at a special meeting held in place thereof, or at a special meeting of the holders of the shares of such series called as hereinafter provided, to elect two directors. Whenever all arrears in dividends on the shares of such series then outstanding shall have been paid and dividends thereon for the current quarterly period shall have been paid or declared and a sum sufficient for the payment thereof set aside, then the right of the holders of the shares of such series to elect such number of directors shall cease, but subject always to the same provisions for the vesting of such voting rights in the case of any similar future arrearages in dividends.

At any time after such voting power shall have so vested in the shares of such series, the Secretary of the Corporation may, and upon the written request of the holders of record of 10% or more in amount of the shares of such series then outstanding, addressed to him at the principal office of the Corporation in the State of New York shall, call a special meeting of the holders of the shares of such series for the election of the directors to be elected by them as hereinafter provided, to be held within 30 days after such call and at the place and upon the notice provided by law and in the By-Laws for the holding of meetings of stockholders; provided, however, that the Secretary shall not be required to call such special meeting in the case of any such request received less than 90 days before the date fixed for any annual meeting of stockholders. If any such special meeting required to be called as above provided shall not be called by the Secretary within 30 days after receipt of any such request, then the holders of record of 10% or more in amount of the shares of such series then outstanding may designate in writing one of their number to call such meeting, and the person so designated may call such meeting to be held at the place and upon the notice above provided, and for that purpose shall have access to the stock ledger of the Corporation. The Corporation shall pay the reasonable expenses of calling and holding any such special meeting. No such special meeting and no adjournment thereof shall be held on a date later than 30 days before the annual meeting of the stockholders or a special meeting held in place thereof next succeeding the time when the holders of the shares of such series become entitled to elect directors as above provided.

If any such special meeting shall be called as above provided and if the holders of at least a majority of the shares of such series then outstanding shall be present or represented by proxy at such meeting or any adjournment thereof, then, by vote of the holders of at least a majority of the shares of such series present or so represented at such meeting, the then authorized number of directors of the Corporation shall be increased by two, and at such meeting, the holders of the shares of such series shall be entitled to elect the additional directors so provided for, but any director so elected shall not hold office beyond the annual meeting of the stockholders or special meeting held in place thereof next succeeding the time when the holders of the shares of such series become entitled to elect directors as above provided. Whenever the holders of the shares of such series shall be divested of special voting power as above provided, the terms of office of all persons elected as directors by the holders of the shares of such series as a class shall forthwith terminate, and the authorized number of directors of the Corporation shall be reduced accordingly.

So long as any shares of such series are outstanding and unless the vote or consent of a greater number of shares of such series shall then be required by law, with respect to the actions referred to in clauses (i) and (ii) below the consent of the holders of at least two-thirds, and with respect to the actions referred to in clauses (iii) and (iv) below the consent of the holders of at least a majority, of the shares of such series at the time outstanding, given in person or by proxy, either in writing or at a meeting at which the holders of the shares of such series shall vote separately as a class, shall be necessary for effecting or validating each of the following:

(i) The authorization, or any increase in the authorized amount, of any class of stock of the Corporation ranking prior to the shares of such series as to dividends or assets;

(ii) the amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation of the Corporation, or any certificate amendatory thereof or supplemental thereto, so as to affect materially any of the powers, preferences and rights of the shares of such series;

(iii) any increase in the authorized amount of Preferred Stock; or

(iv) the authorization, or any increase in the authorized amount, of any class of stock of the Corporation ranking on a parity with the Preferred Stock.

(d) Redemption. The Corporation at its option, at any time, or from time to time, on or after June 1, 1972 (except as otherwise provided in paragraph (b) above), may redeem all or any of the shares of such series at the following applicable redemption prices:

Redemption Date	Redemption Price
From June 1, 1972 to and including May 31, 1973	$30.00 per share
From June 1, 1973 to and including May 31, 1974	$29.50 per share
From June 1, 1974 to and including May 31, 1975	$29.00 per share
From June 1, 1975 to and including May 31, 1976	$28.50 per share
From June 1, 1976 to and including May 31, 1977	$28.00 per share
From and after June 1, 1977	$27.50 per share

together in each case with an amount equal to any dividends accrued or unpaid thereon to the date of redemption.

In the event the Corporation shall determine to redeem less than all the shares of such series then outstanding, the Board of Directors shall determine the shares of such series so to be redeemed by lot; and the certificate of the Secretary of the Corporation, filed with the Transfer Agent or Agents for the shares of such series to be redeemed, of such determination by the Board of Directors shall be conclusive. Notice of any proposed redemption of shares of such series shall be given by the Corporation by mailing a copy of such notice at least 30 days prior to the date fixed for such redemption to the holders of record of the shares of such series to be redeemed, at their respective addresses appearing on the books of the Corporation. From and after the date fixed in such notice as the date of redemption (unless default be made by the Corporation in providing moneys for the payment of the redemption price) all dividends upon the shares of such series thereby called for redemption shall cease to accrue, and all rights of the holders thereof as stockholders of the Corporation (except the right to receive payment of said redemption price) shall cease and determine; or, if the Corporation shall so elect, from and after the date (which date shall be the date of redemption or prior thereto) on which the Corporation shall deposit with a bank or trust company doing business in the Borough of Manhattan, The City of New York, State of New York as Paying Agent, moneys sufficient in amount to pay at the office of such Paying Agent, on the redemption date, the said redemption price (provided the notice of redemption shall state the name and address of such Paying Agent and the intention of the Corporation to deposit said moneys on or before the date of redemption with such Paying Agent), all dividends on the shares of such series so called for redemption shall cease to accrue, and all rights of the holders thereof as stockholders of the Corporation (except the right to receive from said Paying Agent said redemption price, and the right if any, to convert or exchange shares thereof for shares of the Common Stock) shall thereupon cease and determine, and by the deposit of said moneys with said Paying Agent the shares of such series so called for redemption shall be redeemed. Any moneys so deposited with said Paying Agent which shall remain unclaimed by the holders of shares of such series so called for redemption at the end of five full calendar years after the redemption date shall be paid by said Paying Agent to the Corporation, and thereafter the holders of the shares of such series called for redemption shall look only to the Corporation for the payment thereof.

The redemption of shares of such series may also be effected by the purchase, from time to time, either at public or private sale, of all or any of the shares of such series, but after May 31, 1972 at a price not greater than the then current redemption price.

Shares of such series which have been issued and reacquired in any manner (excluding, until the Corporation elects to retire them shares which are held as treasury shares but including shares redeemed, shares purchased and retired and shares which have been converted into shares of Common Stock) shall (upon compliance with any applicable provisions of the laws of the State of Delaware) have the status of authorized and unissued shares of the class of Preferred Stock undesignated as to series and may be redesignated and reissued.

(e) Liquidation. The shares of such series shall be preferred with respect to both earnings and assets of the Corporation. In the event of the voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of the shares of such series shall be entitled to receive for each share thereof \$27.50, together with an amount equal to accrued and unpaid dividends thereon, before any distribution of assets shall be made to the holders of the Common Stock. The holders of the shares of such series shall be entitled to no further participation in any such distribution, and the holders of the Common Stock shall be entitled to share ratably in all assets of the Corporation remaining after payment to the holders of the shares of such series of the preferential amounts aforesaid. If, upon any such dissolution, liquidation or winding up of the Corporation, the assets distributable among the holders of the shares of such series shall be insufficent to permit the payment in full to such holders of the preferential amounts aforesaid, then the entire assets of the Corporation shall be distributed among the holders of the shares of such series then outstanding ratably in proportion to the full preferential amounts to which they shall be entitled respectively. Nothing herein contained, however, shall be deemed to prevent the redemption or purchase of shares of such series in any manner permitted by paragraph (d) above. Neither the merger nor consolidation of the Corporation into or with any other corporation, nor the merger or consolidation of any other corporation into or with the Corporation, nor a sale, transfer or lease of all or any part of the assets of the Corporation, shall be deemed to be liquidation, dissolution or winding up of the Corporation within the meaning of this paragraph (e).

(f) No Sinking or Retirement Fund. There shall be no sinking or retirement fund to be applied to the purchase or redemption of shares of such series.

(g) Conversion. Any share or shares of such series (hereinafter this paragraph (g) called the "Shares") may be converted, at the option of the holder thereof, in the manner hereinafter provided, into the number of fully paid and nonassessable shares of Common Stock of the Corporation as are issuable pursuant to the formula set forth in subparagraph 2 and 3 of this paragraph (g); provided, however, that as to any Share which shall have been called for redemption (unless default be made by the Corporation in providing moneys for the payment of the redemption price thereof), the right of conversion shall terminate at the close of business on the date fixed for redemption. No adjustment shall be made for dividends accrued on any Shares that shall be converted or for dividends on any Common Stock that shall be issuable upon the conversion of such Shares.

1. The surrender of any Shares for conversion shall be made by the holder thereof to the Corporation at its office or agency in the Borough of Manhattan in The City of New York maintained by the Corporation for that purpose, and such holder shall give written notice to the Corporation at said office or agency that he elects to convert such Shares in accordance with the provisions thereof and of the pargaraph (g). Such notice shall also state the name or names (with addresses) in which the certificate or certificates for Common Stock which shall be issuable on such conversion shall be issued.

As soon as practicable after the receipt of such notice and Shares, the Corporation shall issue and shall deliver at said office or agency to the person for whose account such Shares were so surrendered, or on his written order, a certificate or certificates for the number of full shares of Common Stock issuable upon the conversion of such Shares and a check or cash in respect of any fraction of a share based upon market value, as defined in subparagraph 3 (ii) (D) of this paragraph (g), of the Common Stock on the date the conversion is effected. Such conversion shall be deemed to have been effected on the date on which the Corporation shall have received such notice and such Shares, and the person or persons in whose name or names any certificate or certificates for Common Stock shall be issuable upon such conversion shall be deemed to have become on said date the holder or holders of record of the shares represented thereby; provided, however, that any such surrender on any date when the stock transfer books of the Corporation shall be closed shall not be deemed to constitute the person or persons in whose name or names the certificates for such Common Stock are to be issued as the record holder or holders thereof for any purpose until the close of business on the next succeeding day on which such stock transfer books shall be open.

2. The basic Conversion Rate shall be one and twenty-five one-hundredths (1.25) shares of Common Stock of the par value of $1 per share for each Share surrendered for conversion, but shall be increased or decreased as provided in subparagraph 3 (iii) of this paragraph (g).

3. The Conversion Rate shall be subject to adjustment from time to time as follows:

(i) If and whenever the Corporation shall issue any Additional Stock, otherwise than by way of subdivision or combination of shares (which is covered by subparagraph 3 (iii) of this paragraph (g)), then successively upon each such issuance the Conversion Rate shall be immediately (except as provided below) adjusted in accordance with the following formula:

> $27.50 shall be multiplied by the number of shares of Common Stock outstanding after any such issuance, and the resulting product shall be divided by the aggregate consideration, determined in accordance with this paragraph (g), received by the Corporation for its shares of Common Stock then outstanding. The resulting quotient, adjusted to the nearest .001, shall thereafter be the Conversion Rate until further adjusted as herein provided; provided, however, that no such adjustment shall be made if the aforesaid quotient shall be less than the basic Conversion Rate.

For the purposes of this paragraph (g), the Corporation shall be deemed to have received as consideration for the shares of its Common Stock outstanding at the time of making any computation hereunder the sum of $293,525,331 plus any additional consideration received by the Corporation for its shares of Additional Stock plus, for each share of Common Stock hereafter issued which does not constitute Additional Stock, an amount determined by dividing $27.50 by the Conversion Rate. In any such computation of the aggregate consideration received by the Corporation for shares of its Common Stock, there shall be deducted an amount determined by dividing $27.50 by the Conversion Rate, for each share of Common Stock retired by the Corporation subsequent to the date of original issuance of Shares..

(ii) For the purposes of any adjustment of the Conversion Rate pursuant to this subparagraph 3, the following provisions shall be applicable:

(A) In case the Corporation shall at any time issue any Additional Stock for cash, the consideration received by the Corporation therefor shall be deemed to be the amount of cash received by the Corporation for such Additiona. Stock before deducting therefrom the amount of any commission, discount or other expenses which may have been paid or incurred by the Corporation for any underwriting of, or otherwise in connection with the issuance or sale of, such Additional Stock.

(B) In case of the issuance of Additional Stock in connection with a subdivision of the Common Stock of the Corporation, the Corporation shall be deemed to have issued such Additional Stock without consideration, and such Additional Stock shall be deemed to have been issued and to be outstanding at the close of business on the record date for the determination of stockholders entitled to receive the same.

(C) In case of the issuance of Additional Stock in payment or satisfaction of any dividend on any class of stock of the Corporation other than Common Stock, the amount of the consideration received by the Corporation for such Additional Stock shall be deemed to be the amount of the obligation in respect of dividends that shall be discharged by the issuance of such Additional Stock.

(D) In case of the issuance of Additional Stock for a consideration other than cash (and other than shares of stock or other securities of the Corporation) or a consideration part of which shall be other than cash (and other than shares of stock or other securities of the Corporation), the amount of such consideration other than cash received by the Corporation therefor shall be deemed to be the market value of the shares of Additional Stock on the date the issuance thereof is authorized by the Board of Directors of the Corporation less the cash received, if any. For the purposes of this subparagraph (D) and subparagraph (F) below the term "market value" shall mean the last reported sale price for shares of Common Stock of the Corporation on the New York Stock Exchange on such date. In the event there was no reported sale of the Corporation's Common Stock on such date market value shall mean the mean between the bid and asked quotations for the Corporation's Common Stock at the close of trading on the New York Stock Exchange on such date.

(E) In the case of the issuance of Additional Stock in exchange for outstanding shares of stock of any other class, or for other securities, of the Corporation, the amount of the consideration received by the Corporation for such Additional Stock shall be deemed to be the market value, determined as provided in subparagraph (D) above, of the shares of Additional Stock so issued.

(F) In the case of the issuance of Additional Stock upon conversion of any obligations of the Corporation that shall be convertible into Common Stock, the amount of the consideration received by the Corporation for such Additional Stock shall be deemed to be the principal amount of such obligations so converted into such Additional Stock plus the amount of cash, if any, required to be paid to the Corporation in connection with the conversion of such obligations other than by way of adjustment of interest.

(G) In the case of the issuance of Additional Stock upon conversion of any shares of the Corporation that shall be convertible into Common Stock, the amount of the consideration received by the Corporation for such Additional Stock shall be deemed to be the amount of the consideration received by the Corporation for the shares so converted plus the amount of cash if any, required to be paid to the Corporation in connection with the conversion of such shares other than by way of adjustment of dividends. For the purpose of this subparagraph, the amount of the consideration received by the Corporation for the shares so converted shall be computed in like manner to that provided in subparagraphs (A), (B), (C), (D) and (E) above, as appropriate.

(H) Any adjustments in the Conversion Rate required to be made in accordance with the provisions hereof by reason of the issuance of Additional Stock upon the conversion of convertible obligations or convertible shares shall be made only (i) as of the close of business on March 31, June 30, September 30 and December 31 in each calendar year, in respect of the shares of Additional Stock issued upon such conversion during the quarterly period ending on that day, and (ii) as of the close of business on the day upon which the right to convert such convertible obligations or convertible shares shall expire, in respect of the shares of Additional Stock so issued between the close of business on the preceding March 31, June 30, September 30 or December 31, as the case may be, and the close of business on the day on which such right of conversion shall expire.

(I) Neither the purchase or other acquisition by the Corporation of any Common Stock nor the sale or other disposition by the Corporation of any Common Stock at any time theretofore purchased or otherwise acquired by it shall effect any adjustment of the conversion rate or be taken into account in computing any subsequent adjustment of the Conversion Rate, so long as such Common Stock is not retired. Shares of Common Stock at anytime held in the treasury of the Corporation shall be deemed to be outstanding at that time for the purposes hereof.

(iii) In case the shares of Common Stock issuable upon conversion of the Shares at any time outstanding shall be subdivided (by the making of a stock dividend or otherwise) into a greater or combined into a lesser number of shares of Common Stock (whether with or without par value), the Conversion Rate shall be increased in the case of subdivision or decreased in the case of a combination to a rate which shall bear the same relation to the Conversion Rate in effect immediately prior to such subdivision or combination as the total number of shares of Common Stock outstanding immediately after such subdivision or combination shall bear to the total number of shares of Common Stock outstanding immediately prior to such subdivision or combination. At the same time the basic Conversion Rate shall be increased or decreased in the same proportion.

(iv) In case of any capital reorganization or of any reclassification of the Common Stock of the Corporation or in case of the consolidation of the Corporation with or the merger of the Corporation into any other corporation or of the sale of the properties and assets of the Corporation as, or substantially as, an entirety to any other corporation, each Share shall after such capital reorganization, reclassification of Common Stock, consolidation, merger or sale be convertible into the number of shares of stock or other securities or property of the Corporation, or of the Corporation resulting from such consolidation or surviving such merger or to which such sale shall be made, as the case may be, to which the Common Stock issuable (at the time of such capital reorganization, reclassification of Common Stock, consolidation, merger or sale) upon conversion of such Share would have been entitled upon such capital reorganization, reclassification of Common Stock, consolidation, merger or sale; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interest thereafter of the holders of the Shares shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any shares of stock or other securities or property thereafter deliverable on the conversion of the Shares. The subdivision or combination of shares of Common Stock issuable upon conversion of the Shares at any time outstanding into a greater or lesser number of shares of Common Stock (whether with or without par value) shall not be deemed to be a reclassification of the Common Stock of the Corporation for the purposes of this paragraph.

(v) Anything in this paragraph (g) to the contrary notwithstanding, the Corporation shall not be required, except as hereinafter provided, to make any adjustment of the Conversion Rate in any case in which the amount by which such Conversion Rate would be changed in accordance with the foregoing provisions would be less than one one-hundredth of a share of Common Stock, but in such case any adjustment that would otherwise be required then to be made will be carried forward and made at the time and together with the next subsequent adjustment which, together with any and all such adjustments so carried forward, shall amount to one one-hundredth of a share of Common Stock. In the event of any subdivision or combination of shares of Common Stock said amount of one one-hundredth (as therefore decreased or increased) shall be proportionately decreased or increased.

(vi) Whenever the Conversion Rate shall be adjusted as provided in this paragraph (g), the Corporation shall forthwith file at the office or agency in the Borough of Manhattan the City of New York maintained by the Corporation pursuant to subparagraph 1 of this paragraph (g), a statement signed by the President or one of the Vice Presidents of the Corporation and by its Treasurer or Assistant Treasurer, stating the adjusted Conversion Rate determined as provided herein. Such statement shall show in detail the facts requiring such adjustment. Whenever the conversion Rate is to be adjusted, the Corporation shall cause a notice stating the adjustment and the new Conversion Rate to be mailed to each holder of record of Shares at or prior to the time the Corporation mails an interim statement to its shareholders covering the quarterly period during which the facts requiring such adjustment occurred. but in any event within 60 days of the end of such quarter.

(vii) In case at any time:

(A) the Corporation shall pay any dividend payable in stock upon its Common Stock (other than a dividend payable in Common Stock) or make any distribution (other than cash dividends) to the holders of its Common Stock; or

(B) the Corporation shall offer for subscription pro rata to the holders of its Common Stock any additional shares of stock of any class or any other rights;

then, and in each such case, the Corporation shall cause at least twenty days' prior notice to be given to the office or agency in the Borough of Manhattan in The City of New York maintained by the Corporation purusant to subparagraph 1 of this paragraph (g), and mailed to each holder of record of Shares, of the date on which the books of the Corporation shall close or a record be taken for such stock dividend, distribution or subscription rights. Such notice shall also specify the date as of which holders of Common Stock of record shall participate in said dividend, distribution or subscription rights.

4. The issue of stock certificates on conversion of Shares shall be made free of any tax in respect of such issue. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of stock in a name other than that of the holder of the Shares converted, and the Corporation shall not be required to issue or deliver any such stock certificate unless and until the person or persons requesting the issuance thereof shall have paid to the Corporation the amount of any such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

5. The Corporation shall at all times keep reserved a number of shares of authorized Common Stock sufficient to provide for the conversion of Shares on the basis hereinbefore provided. If the Corporation shall purpose to make any change in its capital structure which would change the number of shares of Common Stock into which each Share shall be convertible as herein provided, the Corporation shall at the same time also make provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved for conversion of outstanding Shares on the new basis.

6. For the purposes of this paragraph (g):

(i) "Conversion Rate" at any time shall mean the amount of Common Stock of the Corporation into which at such time one Share shall be convertible in accordance with the provisions of this paragraph (g).

(ii) "Common Stock" shall mean stock of the Corporation of any class, whether now or hereafter authorized, which has the right to participate in the distribution of either earnings or assets of the Corporation without limit as to amount or percentage, provided, however, that the term "Common Stock issuable upon conversion of the Shares" shall mean only the class of Common Stock presently authorized and stock of any other class into which such presently authorized Common Stock may hereafter have been changed. In case by reason of the operation of subparagraph 3 (iv) of this paragraph (g) the Shares shall be convertible into any other shares of stock or other securities or property of the Corporation or of any other corporation, any reference herein to the conversion of Shares pursuant to this paragraph (g) shall be deemed to refer to and include the conversion of Shares into such other shares of stock or other securities or property.

(iii) "Additional Stock" shall mean any Common Stock issued after April 30, 1967 in addition to the 13,342,060.5 shares of Common Stock of the par value of $1 per share of the Corporation, outstanding at such date, other than

(A) Common Stock issued upon conversion of Shares in accordance with the provisions of this paragraph (g) and Common Stock issued on conversion of the Corporation's 5-1/2% Convertible Subordinated Notes due April 1, 1983; and

(B) Common Stock issued (i) pursuant to one or more stock purchase plans or stock option plans for employees (including officers) of the Corporation or of its subsidiaries adopted by the Board of Directors of the Corporation, (ii) pursuant to stock options granted to employees of acquired companies which have been assumed by the Corporation and (iii) pursuant to awards of Common Stock under the terms of incentive compensation or other remuneration plans for employees (including officers) of the Corporation or of its subsidiaries adopted by the Board of Directors of the Corporation.

Common Stock

Except as otherwise required by law, as hereinabove provided and as otherwise provided in the resolution or resolutions, if any, adopted by the Board of Directors of the Corporation with respect to any series of the Preferred Stock, the holders of the Common Stock shall exclusively possess all voting power. Each holder of shares of Common Stock shall be entitled to one vote for each share held by him.

Whenever there shall have been paid, or declared and set aside for payment, to the holders of the outstanding shares of Preferred Stock and to the holders of outstanding shares of any other class of stock having preference over the Common Stock as to the payment of dividends the full amount of dividends and of sinking fund or retirement fund or other retirement payments, if any, to which such holders are respectively entitled in preference to the Common Stock, then dividends may be paid on the Common Stock and on any class or series of stock entitled to participate therewith as to dividends, out of any assets legally available for the payment of dividends, but only when and as declared by the Board of Directors.

In the event of any liquidation, dissolution or winding up of the Corporation, after there shall have been paid to or set aside for the holders of the shares of Preferred Stock and any other class having preference over the Common Stock in the event of liquidation, dissolution or winding up of full preferential amounts to which they are respectively entitled, the holders of the Common Stock, and of any class or series of stock entitled to particpate therewith, in whole or in part, as to distributions of assets, shall be entitled to receive the remaining assets of the Corporation available for distribution, in cash or in kind.

Each share of Common Stock shall have the same relative rights as and be indentical in all respects with all the other shares of Common Stock.

General

No holder of any shares of any class of stock of the Corporation shall as such holder have any preemptive right or be entitled as a matter of right to subscribe for or to purchase any other shares or securities of any class which at any time may be sold or offered for sale by the Corporation.

SIXTH: The names and places of residences of the incorporators are as follows:

Name	Residence
Herman A. Metz,	38 West 74th Street New York City, N.Y.
Gustave P. Metz,	3907-209th Street, Bayside Long Island, N.Y.
Arthur L. Hack,	320 Eastern Parkway, Brooklyn, N.Y.

SEVENTH: The Corporation is to have perpetual existence.

EIGHTH: The private property of the stockholders of the Corporation shall not be subject to the payment of corporate debts to any extent whatever.

NINTH: The following provisions are adopted for the regulation of the business and for the conduct of the affairs of the corporation and for further defining, limiting and regulating the powers of the Corporation, its directors and stockholders:

(a) The Corporation may have one or more offices and may conduct its business, in whole or in part, not only within but without the State of Delaware. The books of the

Corporation may be kept outside the State of Delaware at such place or places as may, from time to time, be designated by the Board of Directors, except that either the original or a duplicate stock ledger shall be kept at the principal office of the Corporation within the said State.

(b) Subject to the provisions of this Certificate of Incorporation, and the laws of the State of Delaware, the Corporation may use and apply its funds or property to the purchase or acquisition of shares of its own stock of any class or series, from time to time, to such extent and in such manner and upon such terms as the board of directors shall determine. Shares of its own stock belonging to the Corporation shall not be voted upon, directly or indirectly.

(c) The number of directors of the Corporation shall be fixed by the By-Laws, and may be altered, from time to time, by amendment of the By-Laws, subject to the provisions of this Certificate of Incorporation and to the provisions of the laws of the State of Delaware existing at the time. An increase of the number of directors shall be deemed to create vacancies, in the Board, to be filled in the manner herein or in the By-Laws provided. Any director or any officer elected or appointed by the stockholders or by the Board of Directors may be removed at any time, subject to the provisions of this Certificate of Incorporation, in such manner as shall be provided in the By-Laws. Directors need not be stockholders.

(d) Subject to the provisions of the By-Laws the Board of Directors shall have power to make, alter, and repeal the By-Laws, and may provide therein for the appointment of an Executive Committee of two or more members from their own number, and of such other committees as the Board may deem advisable, to exercise, during the intervals between meetings of the Board, all or any of the powers of the Board which may lawfully be delegated, including the power to authorize the Seal of the Corporation to be affixed to all papers which may require it. The By-Laws may be altered or repealed at any time by the stockholders.

(e) The business of the Corporation shall be managed by its Board of Directors. The Board of Directors shall have the power to exercise all the powers of the Corporation, without any action of or by the stockholders, except as otherwise provided by the Statutes of the State of Delaware or by this Certificate of Incorporation, or by the By-Laws.

(f) Except as in this Certificate of Incorporation otherwise provided, or as provided by Statute to the contrary, the Board of Directors may, from time to time by vote of a majority of the whole number of directors then in office, without the assent or other action of the stockholders borrow or raise money, without limit as to amount, for any of the purposes of the Corporation, and may authorize the issue of bonds, debentures, notes or other obligations of the Corporation of any nature or in any manner for money so borrowed, and may authorize the creation of mortgages upon, or the pledge, conveyance or assignment of, the whole or any part of the property of the Corporation, real or personal, whether at the time owned or acquired thereafter, to secure the payment of such bonds, debentures, notes or other obligations and the interest thereon and may authorize the sale or pledge or other disposition of such bonds, debentures, notes or other obligations of the Corporation for its corporate purposes.

(g) Subject to the provision of this Certificate of Incorporation, to any provision of law and to the provisions of the By-Laws, the Board of Directors shall have power to determine whether any, and (if any) what part, of the net assets in excess of the capital of the Corporation computed in accordance with the provisions of the statutes of the State of Delaware, or, in case there shall be no excess, what part of the net profits for the fiscal year then current and/or the preceding fiscal year, subject however to the provisions of the statutes of the State of Delaware, shall be declared and paid out as dividends to the stockholders, and to direct and determine the use and disposition of any such profits or assets.

(h) The Board of Directors shall have power, in accordance with the By-Laws, in its discretion, to fix, determine and vary from time to time the amount to be maintained as surplus, and the amount or amounts to be set apart as working capital.

(i) The Board of Directors in accordance with the By-Laws, from time to time, shall determine whether and to what extent and at what times and places and under what conditions and regulations the accounts and books and papers of the Corporation, or any of them, shall be open to the inspection of the stockholders; and no stockholder shall have any right to inspect any account, book or document of the Corporation, except as expressly conferred by the laws of the State of Delaware, or authorized by resolution of the Board of Directors.

(j) In the absence of fraud, no contract or other transaction between the Corporation and any other corporation, and no act of the Corporation, shall in any way be affected or invalidated by the fact that any of the directors of the Corporation are pecuniarily or otherwise interested in, or are directors or officers of, such other corporation; and, in the absence of fraud, any director, individually, or any firm of which any director may be a member, may be a party to, or may be pecuniarily or otherwise interested in, any contract or transaction of the Corporation; PROVIDED, in any case, that the fact that he or such firm is so interested shall be disclosed or shall have been known to the Board of Directors or a majority thereof; and any director of the Corporation who is also a director or officer of any such other corporation, or who is also interested, may be counted in determining the existence of a quorum at any meeting of the Board of Directors of the Corporation which shall authorize any such contract, act or transaction and may vote thereat to authorize any such contract, act or transaction, with like force and effect as if he were not such director or officer of such other corporation, or not so interested.

Any contract, act or transaction of the Corporation or of the directors, may be ratified by a vote of fifty-one per cent of the shares having voting powers at any meeting of shareholders, as at any special meeting called for such purpose, and such ratification shall, so far as permitted by law and by this Certificate of Incorporation, be as valid and as binding as though ratified by every stockholder of the Corporation.

(k) The Corporation may, at any meeting of its Board of Directors, sell, convey, assign, transfer, lease, exchange or otherwise dispose of its properties and assets (including its good will and its corporate franchises), as an entirety or substantially as an entirety, upon such terms and conditions and for such consideration (whether cash or the stocks or bonds of any corporation or corporations, or other property) as its Board of Directors may deem expedient and for the best interests of the corporation, when and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power, given at a stockholders' meeting duly called for that purpose, or when authorized by written consent of the holders of a majority of the voting stock issued and outstanding.

(l) Subject to the provisions of this Certificate of Incorporation and the By-Laws, the Corporation reserves the right to amend, alter, change, add to or repeal any provisions contained in this Certificate of Incorporation, in the manner prescribed by law; and all rights herein conferred on officers, directors and stockholders are granted subject to this reservation.

(m) Subject to the provisions of this Certificate of Incorporation, the Corporation may issue its shares without par value, of any class or series, from time to time, and any securities convertible into shares without par value, of any class or series, for such consideration as may be fixed, from time to time, by the Board of Directors, which is hereby expressly authorized to fix the same, in its absolute and uncontrolled discretion.

IN WITNESS WHEREOF, GAF Corporation has caused this certificate to be signed by Edward E. Shea, its Senior Vice President and attested by Isabelle J. Lorans, its Assistant Secretary this 28th day of June, 1985.

GAF Corporation

By Edward E. Shea
Edward E. Shea
Senior Vice President

ATTEST:

By Isabelle J. Lorans
Isabelle J. Lorans
Assistant Secretary

Exhibit 10.7

G A F CORPORATION
1361 ALPS ROAD
WAYNE, NEW JERSEY 07470

SAMUEL J. HEYMAN
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

December 11, 1985

Dear

I am pleased to announce a new GAF employee benefit plan, Executive Deferred Compensation, for which you as a key employee are eligible to participate. The Company will pay the full cost of the plan. The plan will provide either of the two following benefits:

1. An annual benefit commencing when you reach age 65 equal to 25% of your last full year's salary. The benefit will continue for the longer of:

   .your lifetime and, if you are continuously married from the date your service terminates until the date of your death, for your spouse's lifetime

   .fifteen years

   The full annual benefit will be paid providing you have at least 10 years of service after the commencement of this plan. You will earn and vest in the retirement benefit in accordance with the following schedule.

Years of Plan Service	% of Retirement Benefit Vested	Years of Plan Service	% of Retirement Benefit Vested
1	7	6	48
2	15	7	58
3	23	8	70
4	31	9	84
5	39	10	100

   Annual retirement benefits may be paid before age 65 with company consent. The amount of these benefits will be reduced actuarially to reflect early commencement.

2. If you die while employed by GAF, a death benefit of 36% of your annual salary at date of death payable annually to your beneficiary for a term of 15 years.

IMAGE EVALUATION
TEST TARGET (MT-3)

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150mm

6"

BECHTEL

Information Services

15740 Shady Grove Road
Gaithersburg, Maryland 20877-1454

Your participation in the Executive Deferred Compensation Plan is voluntary, and if you elect to participate, your election is irrevocable. In view of the cost of this plan to GAF, if you elect to participate the company will cease making the basic 3% of salary and matching contributions to your account in the GAFCAP Plan. You will, however, be allowed to make tax deferred contributions from your salary as provided by the GAFCAP Plan. If you elect not to participate in the Executive Deferred Compensation Plan, the company will continue to make contributions to your GAFCAP account in accordance with the Plan provisions.

A Human Resources representative will contact you shortly to answer any questions you might have and to enroll you in the Executive Deferred Compensation Plan. At this time you should return a signed, dated copy of this letter to him if you want to participate in the Plan.

This plan is a significant addition to your company benefits. Our ability to continue to improve compensation and employee benefit plans is directly related to the progress we are making in achieving superior operating results and containing our costs. I know I can count on your continued efforts towards these objectives.

Very truly yours,

Samuel J. Heyman

I wish to participate in the Executive Deferred Compensation Plan. I understand that GAF will no longer make contributions to my GAFCAP account.

Date

Name

Exhibit 11

GAF CORPORATION AND SUBSIDIARIES   EXHIBIT 11

COMPUTATION OF EARNINGS PER COMMON SHARE

(In Thousands Except Per Share Amounts)

Item No.		Year Ended December 31, 1985	1984	1983
	PRIMARY EARNINGS PER COMMON SHARE			
1.	Income (loss) before extraordinary credits	$ 54,298	$ 41,046	$(29,199)
2.	Less preferred stock dividend requirements	283	2,958	2,970
3.	Income (loss) before extraordinary credits applicable to common stock	54,015	38,088	(32,169)
4.	Extraordinary credits	23,283	15,656	25,358
5.	Income (loss) applicable to common stock	$ 77,298	$ 53,744	$ (6,811)
6.	Weighted average number of shares of common stock outstanding during the period (Note 1)	16,834	14,382	14,375
7.	Add assumed exercise of weighted average number of stock options outstanding using the treasury stock method	337	128	67
8.	Weighted average number of shares of common stock and common stock equivalents outstanding during the period	17,171	14,510	14,442
9.	Primary earnings (loss) before extraordinary credits (Item 3 ÷ Item 8)	$ 3.14	$ 2.62	$ (2.23)
10	Primary earnings from extraordinary credits (Item 4 ÷ Item 8)	1.36	1.08	1.76
11.	Primary earnings (loss) per common share (Item 5 ÷ Item 8)	$ 4.50	$ 3.70	$ (.47)
	FULLY DILUTED EARNINGS PER COMMON SHARE			
12.	Item 3 above	$ 54,015	$ 38,088	$(32,169)
13.	Add preferred stock dividend requirements	283	2,958	2,970
14.	Add interest expense, less income tax effect, of 5% convertible subordinated notes	64	321	410
15.	Adjusted income (loss) before extraordinary credits	54,560	41,360	(28,789)
16.	Extraordinary credits	23,324	15,728	25,358
17.	Total earnings (loss)	$ 77,884	$ 57,088	$ (3,431)
18.	Item 8 above	17,171	14,510	14,442
19.	Add effect of conversion of shares of preferred stock and 5% convertible subordinated notes during the period, as if converted at beginning of period.	758	-	-
	Add assumed conversion of weighted average number of shares of preferred stock and 5% convertible subordinated notes outstanding during the period:			
20.	$1.20 convertible preferred stock (shares outstanding X 1.25)	-	3,046	3,091
21.	5% convertible subordinated notes ($7,600,000 for 1984, $8,200,000 for 1983 ÷ $22.50)	-	339	365
22.	Add incremental number of stock options outstanding using the treasury stock method at end of period (rather than average) market prices	120	105	8
23.	Total	18,047	17,998	17,907
24.	Fully diluted earnings (loss) before extraordinary credits (Item 15 ÷ Item 23)	$ 3.01	$ 2.30	$ (1.61)
25.	Fully diluted earnings from extraordinary credits (Item 16 ÷ Item 23)	1.29	.87	1.42
26.	Fully diluted earnings (loss) per common share (Item 17 ÷ Item 23)	$ 4.30	$ 3.17	$ (.19)

Note 1: The weighted average number of shares of common stock outstanding was computed by adding the number of shares outstanding at the end of each ten (10) day period and dividing by 36 for all periods.

Exhibit 13

TION

1985

CONTENTS

	1985	1984	1983
	$731,962	$ 731,314	$699,397
	$ 54,296	$ 41,046	$ (29,199)
	$ 77,581	$ 56,702	$ (3,841)
	$ 3.14	$ 2.62	$ (2.23)
	4.50	3.70	(.47)
	$ 3.01	$ 2.30	$ (2.23)
	4.30	3.17	(.47)
	$ .20	$ .10	$ .05

GAF Corporation [illegible]

A state-of-the-art nuclear magnetic resonance spectrometer determines detailed molecular structure of surfactants and acetylenic derivatives. Shown here are three-dimensional spectra of N-vinylpyrrolidone, a key GAF product.

[illegible]

GAF ON THE MOVE IN 1985

As demonstrated by the following chronology, GAF was on the move in 1985, compiling an impressive list of accomplishments, which included its best earnings performance in its 20 years as a public company.

January 2

GAF introduces its newest asphalt roofing product, Royal Sovereign®, a high performance, residential roofing shingle designed to capitalize on the emerging "middle market" for quality roofing shingles.

January 22

GAF calls for redemption 1,138,000 shares of its $1.20 Convertible Preferred Stock.

[illegible]

GAF introduces [illegible] x VC-713®, a new generation of hair care fixatives.

February 11

GAF announces plan to manufacture Ruberoid MB®, a promising new single-ply roofing system, at Mount Vernon, Indiana plant, underscoring the Company's commitment to its commercial roofing business. Expansion is to be financed by a $4.8 million industrial revenue bond issue.

February 19

GAF completes expansion of its production capacity for manufacture of Polyplasdone® and Polyclar® at its Calvert City, Kentucky plant.

March 18

GAF calls for redemption the remaining outstanding shares of its $1.20 Convertible Preferred Stock.

April 17

GAF reports its fifth consecutive quarter of sharply increased earnings, posting the highest first quarter earnings in the Company's history. Income before extraordinary credits was $11.1 million ($.62 per share on a fully diluted basis), compared with $7.4 million ($.42 per share) a year earlier. Chemicals Division reports the best quarter in its history, while Building Materials Division reports its best first quarter in five years.

April 18

Groundbreaking is held in connection with expansion of butanediol capacity at GAF's joint venture plant in Marl, West Germany.

April 29

Carl R. Eckardt and John A. Brennan elected Presidents, GAF Chemicals Division and Building Materials Division, respectively. Both remain Senior Vice Presidents of the Corporation.

April 29

Based on 1984 performance, *Fortune* magazine ranks GAF 11th in total return to investors, 23rd in net income as a percent of stockholders' equity, and 92nd in net income as a percent of sales among the nation's 500 largest industrial companies.

May 10

GAF acquires Reichhold Chemicals' Glass Fiber Division for $9.25 million. Financing for the acquisition and related capital expansion programs is obtained through the issuance of industrial revenue bonds in the aggregate amount of $13.5 million.

June 3

GAF issues $150 million of ten year, 11¾% senior subordinated notes, the largest financing in GAF's history.

July 17

GAF reports the highest second quarter earnings in its history, the sixth consecutive quarter of sharply increased profits. Income before extraordinary credits was $15.4 million ($.86 per share), compared with $11.9 million ($.67 per share) a year earlier. Chemicals Division posts record income for the quarter, while Building Materials reports its best second quarter in seven years.

August 14

GAF announces it has acquired 3,943,600 shares of Union Carbide Corporation, or 5.6% of that company's total outstanding shares. In a filing with the SEC, the Company states that a business combination between GAF and Carbide is among the possibilities being considered.

October 17

GAF reports its seventh consecutive quarter of sharply increased earnings, with the Chemicals Division recording its most profitable third quarter ever and the Building Materials Division posting its best quarter in five years. Income before extraordinary credits was $15.6 million ($.87 per share), compared with $12.1 million ($.68 a share) a year earlier.

December 9

GAF announces tender offer for 80% of Union Carbide's outstanding shares.

December 13

GAF completes expansion of its production capacity for manufacture of butanediol at Calvert City, Kentucky plant.

December 26

GAF amends Union Carbide offer, proposing to pay $74 per share, all cash, for 100% of Union Carbide shares.

December 31

GAF common stock closes at $59, having increased by 140 percent from $24½ a year earlier.

OFF TO A STRONG START IN 1986

January 1

GAF begins a year-long commemoration of the 100th Anniversary of the formation of the company that later became Ruberoid, the predecessor of GAF's Building Materials business.

January 2

GAF proposes to increase its offer for 100% of Union Carbide's outstanding shares to $78 per share.

January 8

GAF announces withdrawal of its tender offer, stating that it is not in the best interests of GAF shareholders to compete against Union Carbide's own exchange offer. GAF tenders 3.5 million Carbide shares into that company's exchange offer, while retaining more than 3.2 million Union Carbide shares, constituting more than 10 percent of that company's outstanding shares. With respect to GAF's Carbide shares accepted in the exchange offer, GAF discloses that it expects to record a pre-tax gain of approximately $90 million and an after-tax gain of approximately $81 million, or $4.50 per share of GAF common stock, in the quarter ending March 31, 1986.

February 6

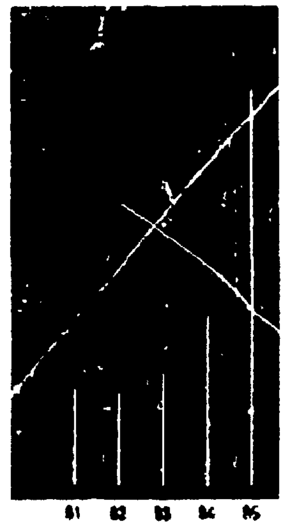
GAF completes expansion of commercial roofing manufacturing facility at Fontana, California.

February 11

GAF reports record earnings for 1985, with income before extraordinary credits reaching $54.3 million ($3.01 per share), compared with previous year's $41.0 million ($2.30 per share). Chemicals Division and GAF Broadcasting register record profits, while Building Materials Division posts its best year since 1979.

EARNINGS PER SHARE
(Dollars)

COMMON STOCK PRICE
(Dollars)



NET INCOME
($ in Millions)

OPERATING INCOME AS % OF SALES

"Net Income" represents income (loss) before extraordinary credits. "Earnings Per Share" represents earnings before extraordinary credits on a fully diluted basis. "Common Stock Price" is GAF's common stock price as of December 31 of each year.

[illegible] of accomplishments included GAF's best earnings performance in its 20 years as a public company.

For the twelve-month period ended December 31, 1985, income before extraordinary credits was $54.3 million ($3.01 a share on a fully diluted basis), compared with income of $41.0 million ($2.30 a share on a fully diluted basis) for the previous year. Division operating profits increased from $90.6 million in 1984 to $113.8 million in 1985, while revenues were $732 million compared to $731.3 million in 1984.

For the fourth quarter of 1985, income before extraordinary credits was $12.2 million ($.67 a share) versus $9.6 million ($.54 a share) for the 1984 period. Sales for the fourth quarter were $174.2 million, compared with $166.3 million for the same period a year earlier.

The Company's operating results included record-breaking Chemical profits of $92.6 million and a substantial improvement in the performance of its Building Materials Division from a profit of $10.9 million in 1984 to $25.1 million in 1985. The Company's 1985 performance was favorably influenced by increased unit sales for most of its product lines, a more favorable product mix in both its businesses, increased manufacturing efficiencies, and various cost control programs. Contributing to the improved performance was a [illegible] reduction in corporate operating expenses from $[illegible] million in 1984 to $[illegible] million in 1985.

GAF's financial performance [illegible]

[illegible] uct development, the most ambitious capital expansion program in the Company's history, recruitment of outstanding executives to the Company, implementation of unique incentive compensation programs at virtually every level of the Corporation, a successful $150 million bond offering, increased manufacturing efficiencies, intensification of the Company's cost control programs, etc., GAF was unmistakably on the move in 1985. While other parts of this Annual Report chronicle the Company's accomplishments in many of these areas, I would prefer to provide you, in this Message, an overview of several of the most significant developments at GAF during this past year.

The Chemicals Division reported in 1985 its third consecutive year of sharply increased operating profits, having advanced from $55.[illegible] million in 1982 to $64.[illegible] million in 1983, $[illegible] million in 1984 and $92.6 million in 1985. The [illegible] increase in GAF's chemicals profits for 1985 [illegible] result of higher [illegible] for most of the Division's [illegible] products [illegible]

This remarkable performance was all the more so given the fact that several of the end user markets for GAF products experienced depressed business conditions this past year and, further, that the chemicals industry itself registered in 1985 an earnings decline of 18% from 1984 levels. In this latter connection, the 42% return on assets achieved by GAF's Chemicals business in 1985 is further illustration of why the Division's outstanding financial performance continues to set the standard for the chemicals industry.

During this past year, GAF pursued a strategic direction whose major elements included continued capital expansion and significant initiatives in the product development area, both of which should enable the Chemicals Division to continue its rate of earnings growth in 1986.

GAF continued its ambitious capital program in 1985, and completed during the year several projects involving a substantial increase in production capacity at its Calvert City, Kentucky [illegible]

The Chemicals Division's capital expansion [illegible] 1986 [illegible]

1986, and involving an aggregate investment of $95 million, will provide GAF with sufficient capacity to serve its customers for the balance of the decade and beyond. Moreover, the fact that GAF's strategic plan has included capacity increases at both domestic and international facilities, with each of these locations utilizing a different source of acetylene (a key raw material in our manufacturing process), has enabled GAF to achieve a measure of diversification sufficient to assure its role for many years to come as a reliable, low cost supplier of quality products to its customers.

New Product Development

GAF accelerated both its activity and investment in research and development in 1985. In this connection, the Chemicals Division increased its annual expenditures in this area by 20% over the previous year, and a further increase is projected for 1986.

GAF's philosophy concerning the expansion of its research and development operation is that such activity is best nurtured not by the indiscriminate investment of financial and human resources but rather by a careful, deliberate endeavor to assemble at GAF a select group of outstanding scientists who bring, in their approach to research, a concern not only for the science itself but an appreciation for the relevant business and market considerations as well. Although an important aspect of the Division's research and development activity involves support programs designed to maintain and improve the quality of GAF's products while at the same time reducing their cost of production, a continually increasing portion of the Company's endeavor in this area is now being devoted to development of new products and new applications for GAF's existing products. Significantly, GAF's new product development activity is now fully coordinated with the Division's marketing department to assure that critical interplay between research and development and marketing disciplines.

While the increased investment entailed in the acceleration of the Chemicals Division's research and development activity cannot be reasonably expected to yield immediate results, it is noteworthy that GAF did introduce into the market this past year a number of significant new products. These product introductions included a new generation of hair fixatives based on GAF-developed technology for mousses and styling gels; unique thermoplastic polymer blends suitable for electronic applications, the expanding automotive body panel market, and undersea oil and gas drilling components; a new family of low-foaming, high detergency surfactants for household and industrial uses; and new and improved grades of Gaflex® thermoplastic polyester elastomers for applications where resistance to fatigue and temperature extremes is required. It is anticipated that these new products will make an increasing contribution to operating profits in 1986 and beyond.

Building Materials Business in 1985: Increased Profitability Through Greater Market Share, More Favorable Product Mix, and Low Cost Production

Operating profits in the Building Materials Division nearly doubled in 1985, despite another lackluster year for the roofing materials industry. Improved performance of GAF's roofing materials business resulted from higher unit sales, a more favorable product mix, and increased manufacturing efficiencies—the latter having enabled GAF to become one of the lowest cost producers in the industry. The Division's performance was all the more impressive when measured against an industry environment which witnessed reductions in prices for roofing materials products and total sales. Finally, an especially noteworthy accomplishment was the fact that GAF, by virtue of a substantial increase in its market share this past year, has now attained predominance as the nation's leading manufacturer of residential roofing products.

GAF acquired in May, 1985, Reichhold Chemicals' Glass Fiber Division for $9.25 million, in a move designed to ensure increased control over the Division's manufacturing costs as well as its enhanced reliability as a supplier. This business, which includes manufacturing and research and development facilities at Nashville, Tennessee and Irwindale, California has now been devoted to the manufacture of chopped glass fiber for mat substrate used in the Company's roofing products. With its own captive supply of glass fiber, glass mat, and roofing granules, GAF has become the most fully integrated roofing manufacturer in the industry. This provides the Company's building materials business, we believe, with a distinct advantage over its competition and has already enabled GAF to further reduce its manufacturing costs—a critical objective in an industry where severe competitive pressures have exerted downward pressure on prices for quite some time.

The major elements of the Division's marketing strategy this past year were to achieve a more favorable product mix and distinguish itself and its products in the marketplace. To this end, GAF successfully pursued a number of initiatives, two of which are worthy of mention at this time.

(1) GAF's Building Materials Division developed and introduced into the market two exciting new products this past year, both of which are expected to make a significant contribution to the Division's profits in 1986. The Royal Sovereign®, a durable residential shingle, is designed to capitalize on the "middle market" for quality roofing materials at a just slightly higher price than standard shingles. This new high-performance, designer-created product is experiencing rapidly increasing sales

and can be expected to be a meaningful contributor to profits in 1986. GAF also developed and brought to market in the latter part of 1985, Ruberoid MB®, a modified bitumen single-ply roofing system. This exciting new addition to GAF's line of commercial roofing products offers the advantages of improved flexibility, ease of application, and cost efficiency, and its development underscores GAF's commitment to establish itself as the premier supplier of commercial roofing products.

(2) GAF continued during the past year to increase market penetration of its premium roofing product, Timberline®. Programs designed to promote increased sales of this product included expansion of the GAF Finance Program, an innovative plan enabling roofing customers purchasing Timberline and other GAF roofing products to obtain prompt and easy home improvement loans on competitive terms, and the launching of a nationwide, radio advertising campaign featuring the theme from "Fiddler on the Roof." As a result of these initiatives, Timberline enjoyed substantially higher sales throughout the country this past year, and further gains are expected in 1986.

GAF's Union Carbide Investment

GAF began accumulating shares of the Union Carbide Corporation in June, 1985. By August, GAF had acquired almost 7 million shares, constituting a 9.9% interest in Carbide, at an average cost of $51 per share. While the shares were initially acquired because they presented an attractive investment opportunity, further analysis compelled GAF to conclude that: (1) Union Carbide, which consists of several attractive chemicals units, was in many respects an excellent strategic fit and acquisition opportunity for GAF; and (2) Despite the size of Union Carbide, our Company's standing in the investment community and its proven management talent would enable it to not only raise sufficient financing for the acquisition but, in the event that an acquisition effort were successful, to successfully incorporate this more sizeable enterprise into GAF's own operations.

On December 9, 1985, GAF launched a tender offer for 80% of the common stock of Union Carbide at $68 per share. After GAF subsequently increased its offer to $78 per share, all cash, for 100% of the outstanding Carbide shares, Union Carbide proposed a plan similar in some respects to GAF's own agenda for the company. Union Carbide's program called not only for divestiture of a number of business units (including its Consumer Products segment) but for a broad-based cost cutting effort. When coupled with a competing exchange offer for a substantial portion of its own outstanding shares, Carbide's plan of action would have required GAF to substantially increase its offer in order to have had a realistic chance of success. Under the circumstances, GAF determined that it was not in the interests of its shareholders to continue to compete against Carbide's own exchange offer.

GAF instead tendered its own Carbide shares into the company's exchange offer, exchanging almost one-half of its position for a package of cash and securities having an approximate value of $85 per share. With respect to the shares taken in the exchange offer, GAF expects to record, in the quarter ending March 31, 1986, a pre-tax gain of approximately $90 million and an after-tax gain of approximately $81 million, or $4.50 per share of GAF common stock. GAF will continue to retain approximately 3.2 million shares of Union Carbide, consisting of 10.6% of Carbide's outstanding shares, and will determine at a later time whether it wishes to renew its tender offer or pursue other alternative courses of action.

The determination to withdraw GAF's offer for Union Carbide was in keeping with the Company's acquisition philosophy, as outlined in my August 19, 1985, letter to you:

"You can be assured that neither GAF's Board nor its management is mesmerized by the thought of building imposing empires or increasing the size of GAF for the sake of sheer size. Quite to the contrary, we intend in our investment outlook to bring to bear the same bottom-line orientation which the Company applies on a day-to-day basis to the operation of its business. In so doing, our criterion for expansion at GAF will continue to be measured in terms of maximum return on capital, contribution to earnings, and enhancement of shareholder values."

Although GAF fell short of its goal to acquire Union Carbide, its investment has been a financially successful one. Based upon the current market price of Union Carbide's shares, GAF has pre-tax realized and unrealized gains, after expenses, of approximately $175 million. Moreover, GAF can derive satisfaction from the fact that it has not only done well for its own shareholders but has succeeded in creating for Carbide shareholders more than $3 billion of increased shareholder value. Finally, GAF expects to maintain its ownership interest in Union Carbide. As that company's major shareholder, we intend to closely monitor further developments and have retained the flexibility to pursue at a later time whatever course of action we determine to be in GAF's best interest.

Prospects for 1986

As we move into 1986, GAF's two principal businesses continue to outperform the industries in which they operate. Although GAF serves several markets which currently suffer from less than robust economic conditions, I nevertheless have every

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confidence that we can continue to improve the profitability of the Corporation and register substantial year-to-year earnings increases in 1986.

As for the Company's Chemicals Division, we anticipate another outstanding year. In this regard, results should be favorably influenced this year by expansions of our production capacity, new product development, a lower dollar, the anticipated rebound of a number of end user markets, such as electronics, plastics, and magnetic wire coating, and increased marketing penetration in areas of the world whose potential we have not yet begun to tap. In this latter connection, results thus far provide sufficient basis to expect that international profits will make an even more significant contribution to the Division's overall performance in 1986.

With regard to the Company's Building Materials Division, while operating profits were sharply higher than those of the previous year, the business is still far from achieving acceptable returns on capital. Although GAF in 1985 managed to improve market share and sharply reduce its cost of doing business at both administrative and plant levels, its efforts to achieve greater profitability were inhibited by continued erosion of pricing in the roofing materials industry. In this connection, current prices for GAF's roofing products have now fallen to a point below 1979 levels as a result of industry-wide overcapacity, a condition which has persisted for quite some time. Although 1985 witnessed a number of plant closings which operated to remove capacity from the industry, and while it would appear that roofing prices have at least stabilized over the period of the past ninety days, it is still too early to tell whether pricing will return to at least some semblance of normalcy in the current year. In any event, we remain confident that GAF's building materials business can continue to effectively compete in a challenging environment, and that 1986 results will demonstrate further improvements over the prior year.

Acknowledgments

GAF's record of accomplishment over the past year was attributable to the exemplary efforts of so many members of the GAF community, and I am delighted to take public cognizance of their many contributions to the success of our common endeavor.

I would first acknowledge the pivotal role played by GAF's Board of Directors. Through a willingness to analyze, examine, question, deliberate, disagree, and finally arrive at a consensus, sometimes after reconciliation of differences, each of our directors has made an inestimable contribution to the affairs of the Corporation. This is so not only because of the wisdom of their advice and counsel in the formulation and establishment of policies from which GAF's executive direction has stemmed, but also because of the constancy of Board support for both the endeavors and fundamental principles of our Corporation.

Foremost among the causal factors in what we have achieved at GAF over the past two years has been, and continues to be, my fellow GAF employees. As Chief Executive, I consider myself fortunate to be associated with so many hard working, dedicated, and loyal employees who approach their responsibilities and share the objectives of GAF's senior management with such an extraordinary degree of intensity.

On a related note, it is worthy of mention that more than 25% of our entire employee population—salaried, hourly, union and non-union—are shareholders of the Corporation. The degree of employee participation in the ownership of GAF is highly unusual, if not unique, in corporate experience and has contributed in no small measure to the creation at GAF of a corporate ethic in which employees treat the Corporation's money as if it were their own—as, in fact, it is!

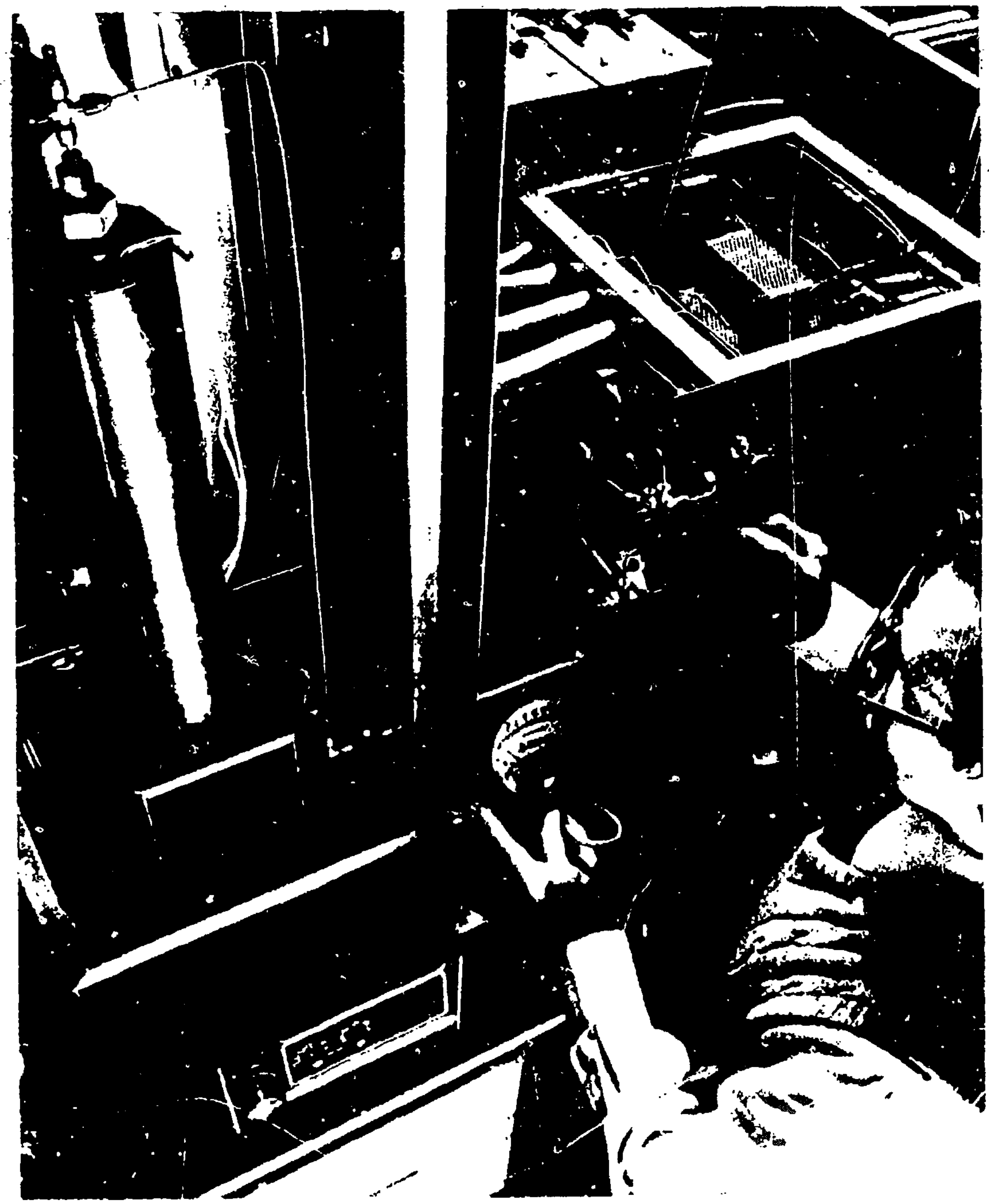
And, finally, I would express my gratitude to our shareholders for their continued support and encouragement. It has been and is no secret that I care for and about my fellow GAF shareholders, and that our philosophy of management at GAF emanates from a clear view of for whom and by whom corporate management is employed. While it is ever the role of the Chief Executive and the Board of Directors to reconcile the many competing interests of those in the GAF community at large, it is our simple credo that only through sustained achievement for the Company's shareholders can we assure the well-being of our employees, customers, suppliers, lenders, and communities in which GAF does business. And it is therefore with no small measure of pride that I recount the fact that over the period of the two years of new management's term of office we have managed, by virtue of our efforts, to increase shareholder wealth by more than $900 million.

We trust that we can continue to report such favorable developments in the coming year.

Sincerely,

Samuel J. Heyman
Chairman of the Board
and Chief Executive Officer

March 17, 1986



GAF's worldwide specialty chemicals business achieved record profits in 1985. Division income reached $92.6 million, a 17% gain over the previous year. Sales increased to $364.4 million from $357.2 million in 1984. Results in both years include income from GAF's 50-percent-owned foreign chemicals manufacturing and sales company, GAF-Hüls Chemie GmbH.

Domestic operating income rose to $64.8 million in 1985, a 17% gain over the year-earlier level of $55.3 million. Domestic sales increased from $260.9 million to $264.7 million, reflecting increased market penetration for virtually all major product lines which was partially offset by reduced selling prices. Despite the continued strength of the dollar through most of the year, international profits increased from $23.7 million in 1984 to $27.8 million in 1985, while international sales for the 1985 year were $99.7 million compared to $96.3 million in the previous year. The Division's overall profit performance resulted in part from an improved product mix as well as the successful implementation of a wide variety of programs to effect manufacturing efficiencies and energy cost reductions.

The Chemicals Division produces three major groups of specialty chemicals at five domestic facilities—acetylene derivatives and surfactants for markets in 72 countries around the world and engineering plastics for markets located principally in the United States and Canada. A fourth product line, mineral roofing granules, is manufactured at four domestic plants and sold to asphalt roofing manufacturers nationwide including GAF's own Building Materials Division. These pebble-like granules are developed from specially selected rock and are quarried, crushed, coated, and heat-processed by GAF into semi-ceramic granules in more than 20 colors.

Acetylene Derivatives

GAF's line of more than 70 different acetylene derivatives experienced significant growth in 1985. The Company's strength in acetylene derivatives—as evidenced in its technology, multi-source plants, broad product line, application research, and dedication to quality—has resulted in increased demand for the Company's existing products and the successful introduction of new and improved products.

Sales of butanediol to producers of thermoplastic engineering plastics increased substantially in 1985. These plastics are finding increasing application in the automotive, electronics, and appliance industries. In addition, sales of butanediol for urethane and plasticizer end-uses continued to meet increased customer demand.

GAF's acetylene-derived solvents, M-Pyrol,* BLO* and THF,* demonstrated continued growth by penetrating specialty solvent markets, where high performance and safety are critical requirements.

Major petroleum refining companies stepped up their demand for M-Pyrol, GAF's super-safe solvent. This growing demand was attributable to increased recognition of the product's superior performance characteristics, in terms of both cost efficiency and environmental safety, in the extraction of automotive lubrication oil. As a result, M-Pyrol has virtually replaced phenol solvent in this petroleum refining application. M-Pyrol also made further inroads this past year in markets previously dominated by furfural, another widely used extraction solvent.

Applications for acetylenic solvents continued to expand as a result of both restrictions placed on exposure to chlorinated solvents in a variety of applications and action taken by the United States Environmental Protection Agency in 1984 granting M-Pyrol exempt status for use in agriculture. M-Pyrol is especially suitable for use in the agricultural market because of the latter's requirement for improved safety characteristics in connection with products used in herbicides, pesticides, insecticides, and fungicides.

GAF chemicals and polymers are increasingly used in a great variety of pharmaceutical and healthcare products.

Laboratory distillation equipment is employed for the fundamental study of the organic reactions leading to GAF specialty chemical products.

Expanded manufacturing facilities for "Polyplasdone" and "Polyclar," key acetylene-based polymers used in pharmaceutical formulations and as clarifiers in the beverage industry.

Sales of fixative polymers to the haircare market reached substantially higher levels in 1985. GAF's Gafquat* polymers gained increased acceptance in styling products such as mousses. Hair mousses have been one of the fastest growing new products to reach the haircare market in more than a decade.

Gantrez* resins, used extensively in hair sprays, continued to maintain their market leadership. Gaffix* VC-713, a new generation polymer, was introduced during the year, thereby expanding GAF's product line in the hair fixative market.

GAF's line of Polyplasdone* disintegrants, used by major drug manufacturers around the world for pharmaceutical tablets, registered increased sales growth last year. In order to satisfy rapidly growing demand for Polyplasdone disintegrants and Polyclar,* GAF expanded its production capacity at the Company's Calvert City, Kentucky facility. Polyplasdone disintegrants are used primarily in pharmaceutical tablets, while Polyclar is employed as a stabilizer and clarifying agent in the production of beer, wine, fruit juices, and other beverages.

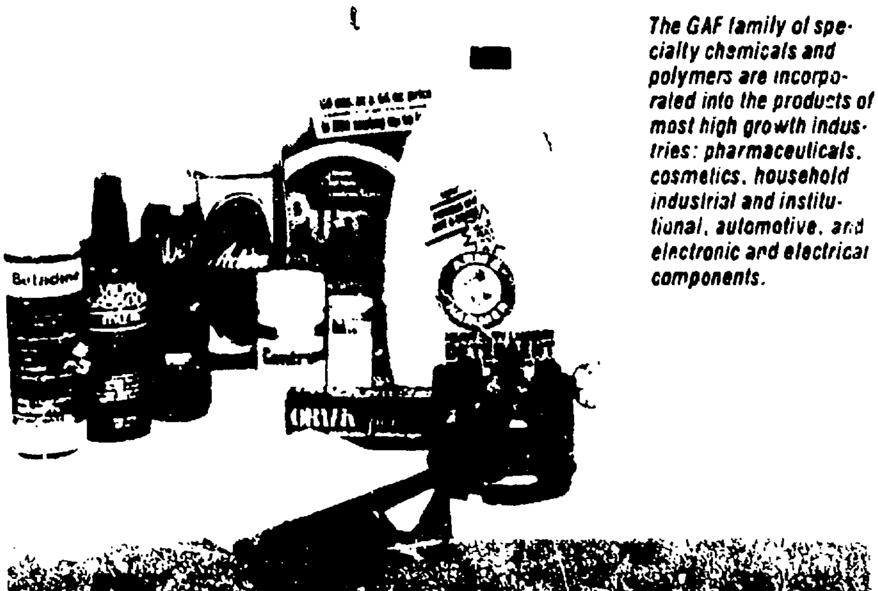
New product applications contributed to increased demand for Plasdone* excipients in the pharmaceuticals industry. One such successful development has been the use of Plasdone excipients in new transdermal devices to provide constant, controlled-release medication over lengthy periods of time. Plasdone excipients are also employed as binders for drug and vitamin tablets in both the medical and veterinary markets.

GAF experienced significant growth in unit sales of surfactants, notwithstanding the fact that the overall surfactant market registered flat sales in 1985 as compared to the previous year. GAF's positive performance was attributable to expanded applications for existing products, new product applications, and improved market penetration.

GAF's surfactants include the Igepal* series of alkylphenol ethoxylated nonionics and the Alipal,* Gafac* and Igepon* series of anionic surfactants. Several new Alipal surfactants were developed during 1985 which expanded our sales to customers producing latex bases for paint and specialized coatings. Igepals continued to register strong sales to the household cleaner and agricultural chemical markets. The demand for Gafac as resin emulsifiers and Igepals as deinking chemicals remained strong, notwithstanding the effect of increased foreign competition in the paper industry in the United States.

GAF's Igepon line of surfactants continued to gain increasing use in the cosmetics market. Igepon AC-78 is a widely used product among manufacturers of low-irritation synthetic soap bars and other new toiletry products. In addition, other surfactants, such as Igepon T-77, experienced higher sales to the agricultural market.

Sales of carbonyl iron powders, although adversely affected by the downturn in the electronics industry, experienced increased demand in the defense and powdered metallurgy industries.

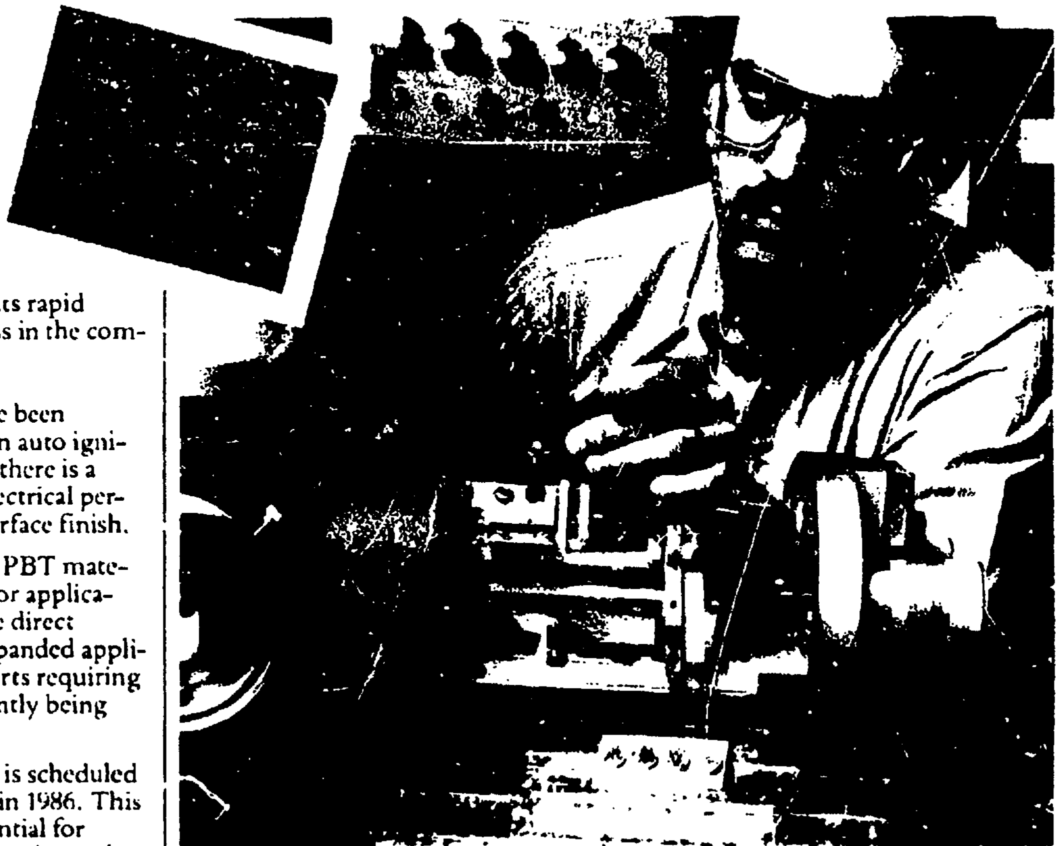


The GAF family of specialty chemicals and polymers are incorporated into the products of most high growth industries: pharmaceuticals, cosmetics, household industrial and institutional, automotive, and electronic and electrical components.

GAF's engineering thermoplastic business, in terms of its sales for automotive and extrusion applications, continued its growth pattern in 1985. While the electrical/electronics markets were depressed during most of the 1985 year, sales in both these sectors improved during the latter part of the year as inventories were reduced and customer demand began to rebound.

A number of significant developments occurred in 1985 which should

Scanning electron microscopy, here used to characterize carbonyl iron powder (inset): 5000X magnification of Type SF material employed in the fabrication of electronics parts.



enable GAF to continue its rapid expansion of this business in the coming year:

• Gafite* PBT alloys have been widely accepted for use in auto ignition applications, where there is a premium on excellent electrical performance and smooth surface finish.

• A UV stabilized Gafite PBT material has been developed for applications exposed to extreme direct sunlight. In addition, expanded applications for pigmented parts requiring UV protection are presently being developed.

• A foamable PBT grade is scheduled for market introduction in 1986. This new material offers potential for weight reduction while retaining the excellent combination of properties associated with conventional PBT.

• New high impact PBT materials have been developed and are now being marketed to the electrical/electronic connector market.

• Similar technology has been utilized to provide high impact alloys of PBT for use in exterior automotive parts.

• New grades of Gaflex* thermoplastic polyester elastomers, were first introduced in 1985, while the entire Gaflex line is finding expanding applications where resistance to fatigue, corrosion, and temperature extremes is required.

Mineral Products

GAF's granules business registered increased sales during 1985, despite the lack of industry-wide growth in asphalt shingle shipments. In order to satisfy increased customer demand, production capacity was expanded at our Blue Ridge Summit, Pennsylvania and Annapolis, Missouri plants during the past year.

The Division's granules business continued to benefit from the current trend among roofing manufacturers to convert production to glass fiber substrate, the glass product requiring more granules per unit of asphalt roofing. In addition, the increased popularity of three-dimensional shingles which simulate wood, such as GAF's premium Timberline* shingle, has resulted in increased granules demand on account of the fact that they require 30% more granules than lower-cost, commodity shingles.

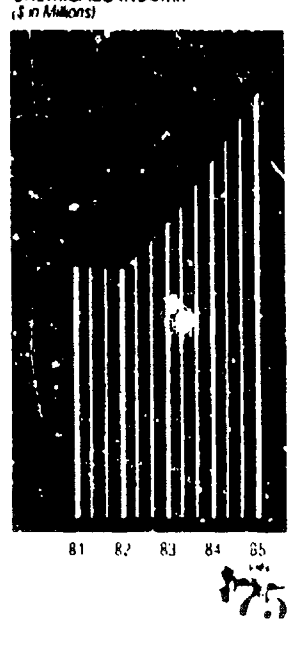
International

Despite the continued strength of the dollar through the greater part of the year, international profits increased from $23.7 million to $27.8 million for the 1985 year, while sales were $99.7 million versus $96.3 million in 1984. In achieving record results, GAF's international chemicals business accounted for 27% of the Company's total chemicals sales while contributing 30% of the Division's profits.

The Chemicals Division's international business is conducted by 15 subsidiary companies throughout the world and through distributors in those countries which do not have a GAF subsidiary. Key products for international markets are acetylene derivatives, surfactants, and a range of pressure-vessel filter systems. These filter products are manufactured in Belgium, Germany, Brazil, and Canada for use in the filtration of process liquids in industries, such as chemicals, pharmaceuticals, paints, and beverages. GAF is recognized as a market leader in this product line.

The Company participates in a joint venture operation in Marl, West Germany, GAF-Hüls Chemie GmbH.

CHEMICALS INCOME
($ in Millions)



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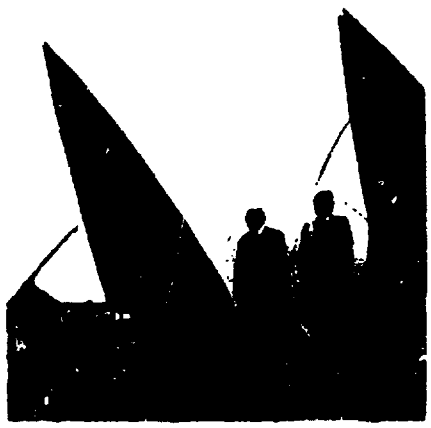
GAF specialty surfactants are widely used in a broad line of household products.

GAF's growing international presence—including the Australasia and North Pacific regions — offer new and expanding market opportunities.

GAF-Hüls manufactures butanediol and tetrahydrofuran (THF), a chemical intermediate and solvent, respectively. These products are marketed throughout Europe by both the GAF sales force and GAF-Hüls. The joint venture manufacturing facility is currently undergoing a major expansion of its present capacity. This expansion, scheduled for completion in mid-1986, will enable GAF to increase market penetration in not only Europe but in export markets throughout the world, such as the North Pacific.

International operations are divided into four geographic regional units, the largest of which is the European region. The European unit has responsibility for the Middle East, Africa, and the Indian subcontinent, as well as all European markets. Sales in the European region for 1985 increased by more than 8% over 1984 levels, notwithstanding the continued strength of the dollar during most of the year.

Plasdone and Polyplasdone in the pharmaceutical industry and Polyclar in the brewing industry continued to experience strong overseas demand. GAF maintained its position as a leading supplier to the hair care industry



through increased sales of Gafquat and other polymers used in styling mousses, a very important market segment in Western Europe and a growth area in other parts of the world as well. Sales of BLO, THF, and butenediol for agricultural formulations continued their strong growth patterns in 1985.

Western Hemisphere sales increased by more than 8% in 1985, despite the adverse impact of high inflation rates and continued currency devaluations in most Latin American countries. GAF operates through subsidiaries in Canada, Brazil, and Mexico and through distributors in other countries in that region. A strong performance was recorded throughout the Hemisphere by GAF's filter business and sales of polymers to the pharmaceutical and hair care industries.

The Australasian region experienced lower U.S. dollar sales in 1985, both as a result of the recession in the electronics industry which severely impacted the Company's operations in Southeast Asia, and also due to a 25% decline in the exchange rate of the Australian dollar. GAF is a leading supplier in that part of the world of M-Pyrol, which is used extensively in semiconductor microchip production. Partially offsetting the decline were strong advances in polymers to the hair care industry, where Australasian markets are now adopting formulations similar to those already widely accepted in Europe and the United States.

Sales in the North Pacific region for 1985 increased by 10% over 1984, largely on account of significant unit volume increases in acetylenic derivatives. Lower sales of M-Pyrol, resulting from the depressed state of the semi-conductor industry, were more than offset by substantial increases in the other acetylenic product lines and new business in Korea and the Peoples Republic of China.

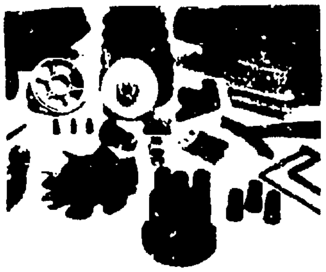
Research and Development

GAF's research and development activities received increased attention and emphasis in 1985. Research and development expenditures for 1985 increased 20% over 1984 levels and reflect management's strategic commitment to the development of expanded specialty product lines and new systems.

Thirty additional scientists, engineers, and support personnel were added to the research staff in 1985, and GAF's expanded research and development staff is now devoting an increasing portion of its time to the development of new products for the Company's strongest growth markets. Among the new products GAF introduced this past year were:

• A new generation of hair fixatives based on GAF-developed technology for mousses and styling gels. These

GAF specialty chemicals play a key role in the manufacture of pharmaceutical, cosmetic, and industrial products in Japan and the North Pacific.



GAF engineering plastics and elastomers—major materials used in the dynamic automotive, electronics, electric, and home appliance markets.

The cosmetics market—one of the larger users of GAF specialty surfactants and polymers for hair sprays and mousses, shampoos, and gels.

innovative materials exhibit superior holding properties, are compatible with other solvents, and are uniquely water soluble.

• New thermoplastic polymer blends, including light-stable formulations for rugged applications such as undersea oil and gas drilling components, high-impact, flame-retardant materials for electronics applications, and a new high-impact plastic polyblend designed for use in the huge automotive body panel market.

• A new family of low-foaming, high detergency surfactants for household and industrial uses based on an organic synthesis technology developed by GAF.

• Improved grades of Gaflex® thermoplastic elastomers, including a more flexible, blow-molding grade and a heat-stabilized version for automotive applications such as protective component coverings. These new customized plastics systems provide opportunities in other expanding market sectors as well.

GAF has also undertaken extensive development work in the biopharmaceutical area in connection with a number of new products and applications, and is developing newer technologies and product lines, based on proprietary GAF chemistry, which offer exciting opportunities for growth. Moreover, these potential markets can easily be exploited by GAF because of the Company's combination of chemical expertise, application development skills, and strong technical service and marketing orientation:

■ GAF is already a major factor in the pharmaceutical industry, where its Plasdone acetylene-based polymers have found increasing application as components in the controlled release of medication. Contributing to GAF's strong presence in the pharmaceutical area are its surfactants, which are under active study in a number of laboratories as potentially significant viricides

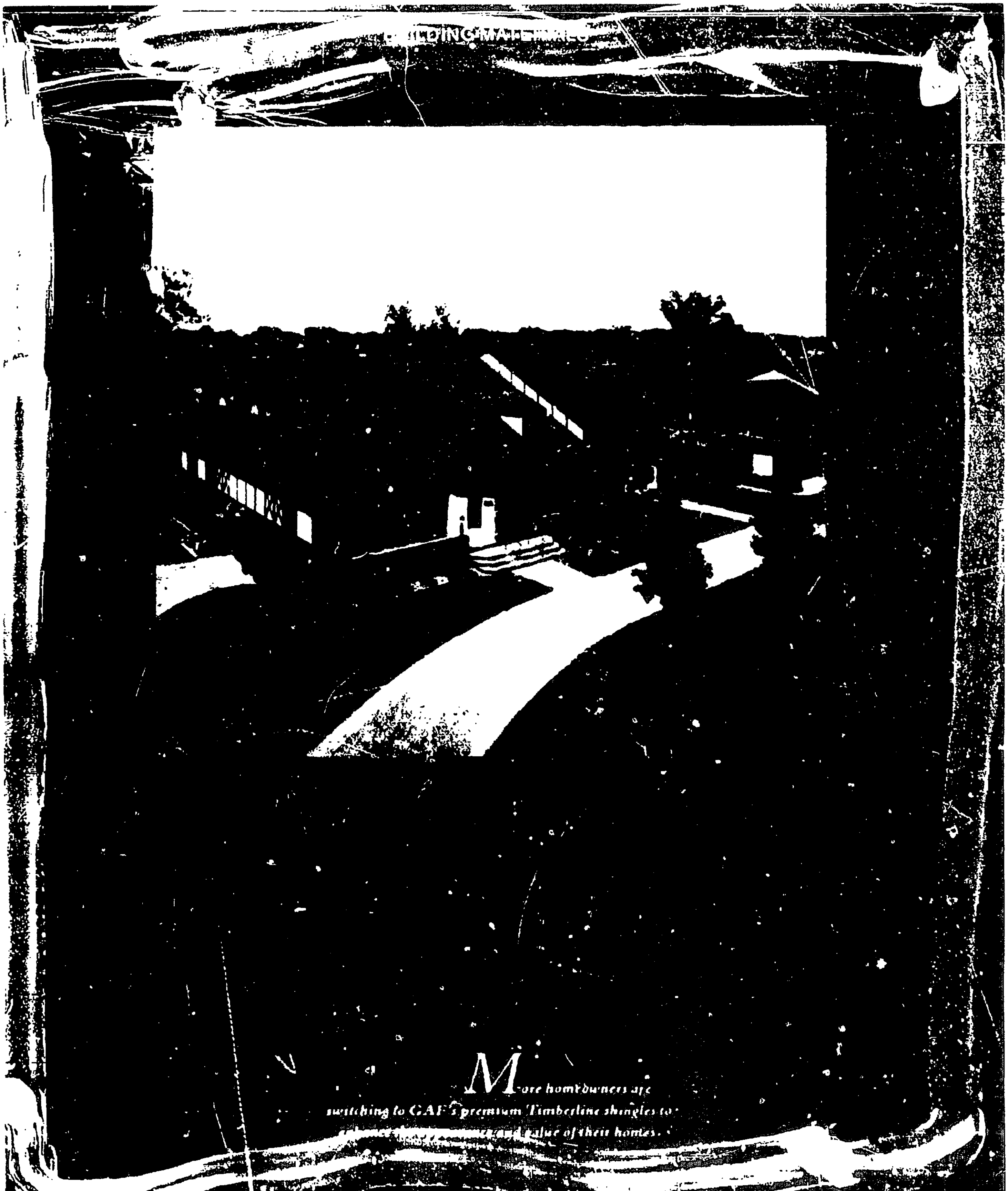
A fully equipped cosmetic salon, permitting the design, evaluation and final testing of newly developed hair care and skin care products

■ New controlled-release systems are in the developmental stage at GAF as well. These include materials as carriers or complexing agents for antibiotics and anti-tumor medicinals, a new application which capitalizes on the unusual ability of these substances to solubilize a variety of normally insoluble drugs for effective treatment of diseases.

■ GAF has developed a new class of specialty acetylenic-based molecules, designed for use not only as processing aids in the biosynthesis of complex drugs but so also as carriers for normally insoluble active ingredients in connection with cosmetic and agricultural applications.

In a wholly separate area, GAF has developed a non-silver imaging technique that affords high resolution photographs directly from electron beam signals. This processless, dry system is designed for applications where rapid printout of data is an important consideration, such as seismic exploration and business communications

07 77


More homeowners are
switching to GAF's premium Timberline shingles to
value of their homes.

The Building Materials Division posted its second consecutive year of sharply improved profits, with Division income increasing 85% to $20.1 million from $10.9 million in 1984. 1985's profit performance represented the Division's best year since 1979. Sales in 1985, reflecting lower prices for the Company's products, were $363.9 million versus $370.8 million in the previous year.

The continued turnaround in the profitability of the Building Materials Division was attributable to an improved product mix, expanded product lines, and manufacturing efficiencies. The significant improvement in the Division's performance was achieved notwithstanding severe competitive pressures in the industry, which continued to exert downward pressure on prices throughout most of the year.

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Acquisition of Reichhold Chemicals' Glass Fiber Division in 1985 was an important step in GAF's strategic plan to achieve vertical integration of its roofing manufacturing operations. The acquisition included manufacturing and research and development facilities in Nashville, Tennessee and Irwindale, California, which are now exclusively devoted to the production of chopped glass fiber for mat substrate used in the Company's roofing products. The Reichhold acquisition was designed to ensure increased control over the Division's manufacturing costs as well as to enhance GAF's reliability as a supplier. With its own captive supply of glass fiber, glass mat, and roofing granules, GAF is now the most fully integrated roofing manufacturer in the industry.

GAF completed during the past year a substantial capital spending program, which included not only an expansion of its manufacturing facilities in Fontana, California but the

John A. Brennan,
President,
Building Materials Division

implementation of improved manufacturing facilities at the Division's thirteen manufacturing facilities. As a result of this capital program and the Division's extensive effort to substantially reduce its cost of production, GAF has become one of the lowest cost producers of any major participant in the industry.

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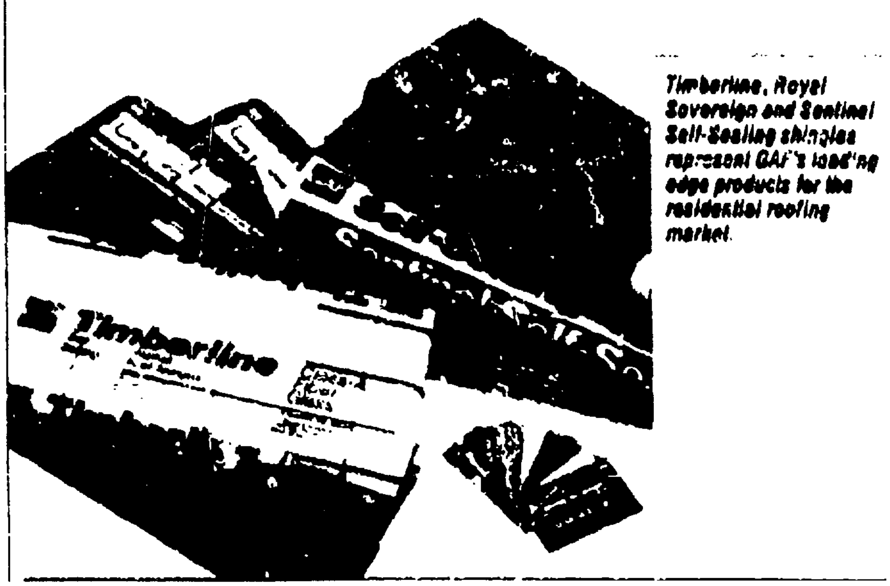
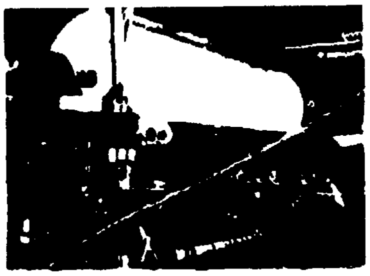
Increased sales of GAF's residential roofing products in 1985 resulted from higher re-roofing demand as well as the healthy pace of new home construction, both of which benefited from lower interest rates.

The Company's performance was highlighted by record demand for Timberline®, GAF's premium roofing product. Timberline shingles are a three-dimensional, laminated product offering a Class A fire rating and a 30-year limited warranty. GAF has accelerated its marketing efforts to reinforce Timberline's position as the industry's "top of the market" product. As a result, dealers, contractors and architects are recommending Timberline, and an increasing number of homeowners are switching to Timberline as a replacement roofing product in order to improve the appearance, and enhance the value, of their homes.

Royal Sovereign®, GAF's newest residential roofing product, experienced increased customer demand during the year. Royal Sovereign, a durable residential shingle, is designed to capitalize on the "middle market" for quality shingles at a just slightly higher price than standard shingles. This new high-performance, designer-created product has already experienced rapidly increasing sales and is expected to be a more substantial profit contributor in 1986. This exciting new product is offered in a wide range of colors and features a 25-year limited warranty.



Timberline, Royal Sovereign and Sentinel Self-Sealing shingles represent GAF's leading edge products for the residential roofing market.



Glass mat manufacturing machine at GAF's Chester, South Carolina, roofing products plant.

Packaged asphalt is produced at the Company's roofing products plant in Tampa, Florida.

Expansion of the GAF Finance Program contributed to the Company's 1985 sales improvement. This innovative plan enables customers purchasing Timberline and other GAF products to obtain prompt and easy home improvement loans on competitive terms. In addition to its favorable impact on sales, the GAF Finance Program has enabled GAF to strengthen its relationships with roofing contractors across the country.

Gafglas® Ply 4 continued to gain acceptance by roofing contractors because of the product's superior handling characteristics and its in-place performance. Higher sales were recorded by #75 Gafglas® Base, an asphalt-coated glass fiber product used as an underlayment for large, flat commercial roofs, which was introduced into the market in 1984.

As a result of the expansion of production capacity at GAF's Fontana, California facility, it is expected that the Company will be in a position to increase its share of the commercial roofing market for the California region in the coming year.

GAF developed and brought to market in the latter part of 1985 Ruberoid MB®, a modified bitumen single-ply roofing system. This exciting new addition to GAF's line of commercial roofing products offers the advantages of improved flexibility, ease of application, and cost efficiency. The development marks the sharply increased commitment on the part of GAF to establish itself as the premier supplier of commercial roofing products. Ruberoid MB is being marketed this year through a promotional campaign featuring the theme of Ruberoid's 100th anniversary, the long-established Ruberoid roofing business having been acquired by GAF in 1967.

The Division's research and development department played an ever increasing role this past year in its contribution to the increased productive efficiency of GAF's roofing manufacturing facilities and the development of improved methods for the utilization of basic raw materials. In this latter connection, research and development activity focused on new technologies to enhance the performance of glass formulations, glass mat processing, and asphalt coatings.

A significant portion of research and development resources was allocated in 1985 to the development of new and improved products. In addition to Ruberoid MB, GAF's product introductions this past year included:

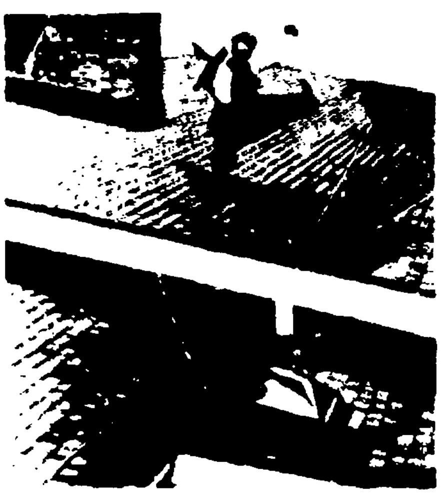
• A new asphalt-based underlayment for residential shingles with improved vapor transmission and superior dimensional stability characteristics.

• A new modified self-seal adhesive for all GAF shingle products which provides stronger sealing characteristics at a wider range of temperatures, resulting in superior wind resistance.

GAF's leading commercial roofing products include Gafglas Ply 4, #75 Gafglas Base Sheet, Gafglas Stratavent, and Ruberoid MB.

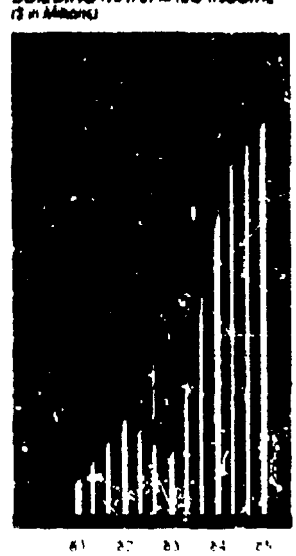
GAF established a program in 1985 to promote the licensing of GAF's roofing manufacturing technology outside the United States. Under the program, GAF will license its technology for the manufacture of asphalt roofing and related materials, such as glass mat and organic felt, as well as its glass fiber manufacturing technology. GAF's first licensing project involved a fiber glass mat manufacturing plant located in the Far East.

Constant testing of strength and durability under a variety of weather conditions ensures top-flight quality control for GAF's residential roofing shingles.



GAF's new marketing program, in connection with its premium Timberline roofing product, features national advertising based on the theme from the popular musical Fiddler On The Roof.

BUILDING MATERIALS INCOME
($ in Millions)



Radio station WNCN (104.3-FM) New York, GAF's classical music station, registered an outstanding performance in 1985. Operating income increased by 58% to $1.1 million on a 12% increase in sales. The station experienced substantially increased business this past year from major advertisers, highlighted by a doubling of advertising revenues from retail and restaurant accounts.

WNCN's sharply improved financial performance reflected continued success of the station's theme, "The Good Life," which was introduced in the fall of 1984. This theme, with its orientation toward upscale listeners in the 25-to-54-age group, has gained for WNCN one of the youngest listening audiences of any classical music station in the United States.

New programs were developed in 1985 to support "The Good Life" theme such as the "Hamptons Report" on the popular New York resort in the summer months and news coverage of ski conditions in the New England area during the wintertime. WNCN also strengthened its financial news coverage in 1985. Expanded newsstand distribution of Keynote, the station's monthly magazine and program guide, contributed to the effectiveness of WNCN's marketing efforts.

Other 1985 WNCN highlights included:

• WNCN won the Major Armstrong Award administered by Columbia University for excellence in FM broadcasting quality, one of several prestigious awards WNCN has received in recent years.

• WNCN continued to implement program changes designed to broaden the appeal of classical music to larger audiences.

• WNCN introduced a new program, "New York Music Magazine," which covers upcoming concerts in the metropolitan area through a magazine-style format.

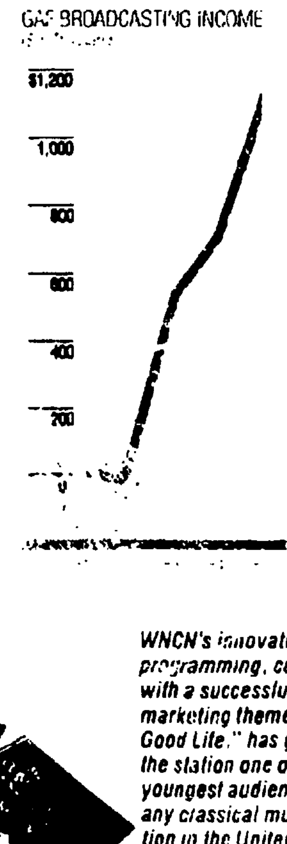
• WNCN developed a new "Lincoln's Music in America" concert series sponsored by the Ford Motor Company's Lincoln Division, while continuing the popular Chicago Symphony broadcasts and "AT&T Presents Carnegie Hall Tonight" series.

• WNCN inaugurated a unique series of celebrity disc jockey programs, hosted by such well-known figures of the musical world as Beverly Sills and Kiri Te Kanawa.

• WNCN continued as the flagship station of the Concert Music Network, serving as the only New York station to be represented by Concert Music Broadcast Sales, the nation's only all-classical sales representative.

• WNCN staged on-the-air ticket selling events to benefit both Carnegie Hall and the New York City Opera Company.

• WNCN continued to broadcast live concerts from its own performance studio, as well as recorded performances from the Waterloo Festival in New Jersey, the Caramoor Festival in New York's Westchester County, and the "Young Concert Artists" series at the 92nd Street "Y" in Manhattan.



WNCN's innovative programming, coupled with a successful new marketing theme, "The Good Life," has gained the station one of the youngest audiences of any classical music station in the United States.

GAF Corporation

Financial Condition

Record earnings and significant increases in cash flow from operations substantially improved the Company's financial condition during 1985. The Company's cash flow from operations improved an additional $20 million (25%) in 1985 to $100.3 million after a $38.5 million (92%) increase in 1984. Total working capital increased $36.4 million (26%) to $177.1 million after a $47.5 million (51%) jump in 1984, while total assets increased $426.9 million (94%) in 1985 to $879.2 million.

The increased asset base in 1985 principally reflects the Company's $405.4 million investment in 6,728,000 shares of Union Carbide common stock. See Note 5 to Consolidated Financial Statements. The Company has pre-tax realized and unrealized gains, after expenses, of approximately $175 million from this investment based on market prices as of February 28, 1986.

In June 1985, the Company issued $150 million in 11 3/8% senior subordinated notes. This financing and other new industrial revenue bonds issued during 1985 increased the Company's percent of debt to debt plus equity, from 29.4% at December 31, 1984, to 55.7% in 1985. As a result, interest expense was $19.8 million in 1985 as compared with $9.1 million in 1984. However, the added interest expense was more than offset by $22.4 million in investment income.

The Company has a $50 million revolving credit facility and additional short-term lines of credit, of which approximately $23 million and $67.5 million, respectively, were unused at December 31, 1985. See Note 6 to Consolidated Financial Statements.

The Company in 1985 called for redemption all of its outstanding shares of $1.20 convertible preferred stock. Shareholders converted 2,324,553 shares of preferred stock into 2,905,144 shares of common stock, and the Company redeemed 111,033 shares of preferred stock at a price of $27.50 plus accrued dividends.

The Company, on May 10, 1985, acquired glass fiber manufacturing facilities in Nashville, Tennessee and Irwindale, California from Reichhold Chemicals, Inc. for $9.25 million. The Company is now using these facilities to manufacture chopped glass fiber for mat substrate used in GAF's roofing products. As a result of this acquisition, GAF has become the most fully integrated roofing manufacturer in the industry, with a captive supply of glass mat, roofing granules, and now glass fiber. Financing for the acquisition and related subsequent capital expansion programs was obtained from the issuance of two industrial revenue bonds in the aggregate amount of $13.5 million, with interest rates at substantially less than the prime rate.

The Company's capital expenditures increased significantly in 1985 to $47.2 million, as compared with $17.9 million in 1984. The increased capital outlays were part of the $118 million capital expansion program announced in the fourth quarter of 1984 to substantially increase production capacity at several of the Company's domestic and foreign operations.

The capital expenditure program in 1986 will be financed from the proceeds of the industrial revenue bonds, internal cash flow and outside bank borrowings as necessary. As of the end of 1985, the Company had commitments of $9.4 million for approved capital expenditures. Commitments under various capital and operating lease obligations are detailed in Note 11 to Consolidated Financial Statements.

Results of Operations

GAF in 1985 recorded the highest earnings in its history, both in terms of net income and income before extraordinary credits. The $54.3 million income before extraordinary credits was 32% higher than the previous high of $41 million set in 1984, and represented an $83.5 million swing from a loss of $29.2 million in 1983. Operating income from the Chemicals Division and GAF Broadcasting reached record levels, while the Building Materials Division recorded its best year since 1979.

Division income improved more than 25% in 1985 to $113.8 million, reflecting a 17% increase in Chemicals profits from $79 million to $92.6 million, an 85% increase in Building Materials profits from $10.9 million to $20.1 million, and a 58% increase in GAF Broadcasting profits from $0.7 million to $1.1 million. Division income in 1984 had nearly tripled over 1983 levels to $90.6 million as a result of 22% higher Chemicals profits and a $45.4 million turnaround in Building Materials to a profit of $10.9 million.

Consolidated sales increased slightly in 1985 to $732 million after increases of $31.9 million (4.6%) in 1984 and $76.2 million (12.2%) in 1983. Chemicals sales were up $7.2 million (2%) in 1985, reflecting higher unit sales and increased market penetration for all major product lines, after a 1984 sales increase of $34 million (10.5%). Building Materials sales of $363.9 million were lower by $6.9 million (2%) in 1985, reflecting a substantial increase in residential roofing unit sales being more than offset by reduced selling prices, resulting from the industry's continuing competitive pricing structure, and lower unit sales of commercial roofing and insulation. Sales were $370.8 million in 1984 and $373.2 million in 1983.

Consolidated operating income for 1985 of $87.9 million represents an increase of 41% from last year's $62.2 million and a $60.1 million (216%) improvement over 1983 operating income of $27.8 million. Gross profit margin, which was 20.7% in 1983, increased to 24.9% and 29.8% in 1984 and 1985, respectively, as a result of cost control measures implemented by new management in 1984.

The Chemicals Division reported record high profits in 1985 of $92 6 million, a 17% increase over the previous high of $79 million for the year 1984 which, in turn, was 22% higher than 1983 results. Operating margins in 1985, 1984 and 1983 were 25.4%, 2[illegible].1% and 20%, respectively. The Division continued to show an increasingly high pretax operating return on assets, with a return of 42.6%, 38.8% and 32.6%, respectively, for the years 1985, 1984 and 1983.

The Chemicals Division's record performance resulted from increased manufacturing efficiencies, the continuation of a rigid cost control program, and higher unit sales in all major product lines. The Division's international operations made an important contribution to this strong performance, despite the continued strength of the U.S. dollar throughout most of the past year, reporting higher sales and improved profits. International sales increased 3.4% in 1985 after an increase of 12.7% in 1984, while profits, which include GAF's 50% equity in its joint venture manufacturing operation, increased 17.3% in 1985 and 3% in 1984 as compared with 1983.

In two years, the Building Materials Division has recorded a $54.6 million swing in operating results to a profit of $20.1 million in 1985, up 85% from $10.9 million in 1984, and from a loss of $34.5 million in 1983. This performance has been achieved through major cost cutting and production efficiency programs. The Division has benefited from increased sales volumes in residential roofing, a more favorable product mix as a result of increased sales of Timberline® and Royal Sovereign®, the closing of three unprofitable plants in 1984, and the effect of full conversion in 1984 from organic to glass fiber roofing production. The programs described have enabled GAF to become one of the lowest cost producers in the industry. After three consecutive years of losses in 1981-1983, this turnaround has enabled the Division to show pre-tax operating returns on assets of 10.4% and 6.9% in 1985 and 1984, respectively. Management expects this Division to operate at increasingly higher levels of profitability in the coming year.

Corporate operating expenses were reduced by $3.1 million (16.8%) in 1985, after a decrease of $4.2 million (18.5%) in 1984 as compared with 1983. These reductions were attributable to programs implemented in 1984 to decentralize operations, reduce corporate staffs, and relocate the Company's corporate headquarters. Interest expense was $19.8 million in 1985 as compared with $9.1 million in 1984 and $16.3 million in 1983. The increase in 1985 primarily reflects the debt service on the Company's senior subordinated notes which were issued in 1985, as well as borrowings in connection with the Company's investment program. The added interest expense was more than offset by $22.4 million in income on investments, as detailed in Note 5 to Consolidated Financial Statements.

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

GAF Corporation

Summary of Selected Financial Data

(Millions of Dollars, Except Per Share Amounts) *Year Ended December 31*	1985	1984	1983	1982	1981
Net Customer Sales					
Chemicals	**$364.4**	$357.2	$323.2	$294.4	$300.8
Building Materials	**363.9**	370.8	373.2	328.8	371.7
Broadcasting	**3.7**	3.3	3.0	—	—
Consolidated Sales	**732.0**	731.3	699.4	623.2	672.5
Division Income (Loss)					
Chemicals	**92.6**	79.0	64.6	55.4	55.9
Building Materials	**20.1**	10.9	(34.5)	(26.3)	(38.6)
Broadcasting	**1.1**	0.7	0.5	—	—
Total	**113.8**	90.6	30.6	29.1	17.3
Income (Loss) From Continuing Operations	**54.3**	41.0	(29.2)	12.2	(28.2)
Earnings (Loss) Per Common Share—					
Continuing Operations before Extraordinary Credits: Primary	**3.14**	2.62	(2.23)	.64	(2.24)
Fully Diluted	**3.01**	2.30	(2.23)	.70	(1.57)
Dividends Per Common Share	**.20**	.10	.05	.50	.80
As of December 31					
Current Assets	**$428.7**	$254.9	$220.9	$212.4	$337.3
Current Liabilities	**251.6**	114.2	127.7	123.4	179.6
Working Capital	**177.1**	140.7	93.2	89.0	157.7
Marketable Securities	**202.2**	—	—	—	—
Property, Plant and Equipment—net	**194.1**	159.1	164.5	192.4	196.4
Total Assets	**879.2**	452.3	414.3	468.3	559.8
Short-term Debt	**115.4**	6.5	30.7	7.8	17.4
Total Long-term Debt	**259.0**	82.8	88.8	157.1	215.6
Shareholders' Equity	**298.2**	214.0	169.8	181.9	134.7
Percent of Debt to Debt Plus Equity	**55.7%**	29.4%	41.3%	47.5%	63.4%

Market for Common Stock

As of February 28, 1986, the common stock price was $67 1/4, and there were 22,368 holders of 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

	1985	1984
First Quarter	**$.05**	$ —
Second Quarter	**.05**	—
Third Quarter	**.05**	.05
Fourth Quarter	**.05**	.05

Price Range of Common Stock

	1985		1984	
	High	**Low**	**High**	**Low**
First Quarter	**$31 3/8**	**$24 1/4**	$17 3/4	$15
Second Quarter	**35 7/8**	**29 1/2**	18 7/8	15 1/2
Third Quarter	**37 7/8**	**29 5/8**	24 1/4	17 5/8
Fourth Quarter	**70**	**36**	25 3/4	21

CONSOLIDATED STATEMENTS OF INCOME

GAF Corporation

(Thousands of Dollars, Except Per Share Amounts) *Year Ended December 31*	1985	1984	1983
Net Sales	$731,962	$ 731,314	$699,397
Costs and Expenses:			
Cost of Products Sold	513,813	548,967	554,876
Selling, General and Administrative	130,206	120,139	116,703
Total Costs and Expenses	644,019	669,106	671,579
Operating Income	87,943	62,208	27,818
Interest Expense	(19,799)	(9,143)	(16,280)
Income on Investments (Note 5)	22,438	4,151	3,531
Other Expense—net (Note 2)	(3,108)	(2,598)	(39,258)
Income (Loss) Before Income Taxes and Extraordinary Credits	87,474	54,618	(24,189)
Income Taxes (Note 3)	33,178	13,572	5,010
Income (Loss) Before Extraordinary Credits	54,296	41,046	(29,199)
Extraordinary Credits (Notes 3 & 4)	23,285	15,656	25,358
Net Income (Loss)	$ 77,581	$ 56,702	$ (3,841)
Earnings Per Common Share (Note 1):			
Primary:			
Before Extraordinary Credits	$ 3.14	$ 2.62	$ (2.23)
Extraordinary Credits	1.36	1.08	1.76
Net Income (Loss)	$ 4.50	$ 3.70	$ (.47)
Fully Diluted:			
Before Extraordinary Credits	$ 3.01	$ 2.30	$ (2.23)
Extraordinary Credits	1.29	.87	1.76
Net Income (Loss)	$ 4.30	$ 3.17	$ (.47)

See Notes to Consolidated Financial Statements.

’85

CONSOLIDATED BALANCE SHEETS

GAF Corporation

(Thousands of Dollars) *December 31*	1985	1984
Assets		
Current Assets		
Cash	$ 7,862	$ 16,186
Short-term investments (Note 5)	209,298	53,367
Accounts receivable, less reserve: 1985—$5,142; 1984—$5,426	109,580	95,139
Inventories (Note 1)	94,007	83,452
Other current assets	7,966	6,758
Total Current Assets	428,713	254,902
Marketable Securities (Note 5)	202,229	—
Property, Plant and Equipment—net (Note 1)	194,086	159,115
Other Assets	54,146	38,256
Total Assets	$879,174	$452,273
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term debt (Note 6)	$115,380	$ 6,461
Current maturities of long-term debt (Note 6)	10,132	10,278
Accounts payable	57,411	57,868
Accrued liabilities	58,924	36,562
Income taxes payable	9,785	2,994
Total Current Liabilities	251,632	114,163
Long-term Debt Less Current Maturities (Note 6)	248,853	72,478
Other Liabilities	80,536	51,626
Shareholders' Equity (Notes 7 & 8)		
Preferred stock, $1 par value per share: authorized 6,000,000 shares; $1.20 convertible series; issued shares: 1984—2,539,658; at assigned value of $1.25 per share	—	3,175
Common stock, $1 par value per share: authorized 25,000,000 shares; issued shares: 1985—17,877,589; 1984—14,508,987	17,878	14,509
Additional paid-in capital	60,836	56,420
Retained earnings	229,586	156,123
Accumulated translation adjustment	(6,135)	(10,451)
Treasury stock, at cost	(4,012)	(5,770)
Shareholders' Equity	298,153	214,006
Total Liabilities and Shareholders' Equity	$879,174	$452,273

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

GAF Corporation

(Thousands of Dollars) Year Ended December 31	1985	1984	1983
Cash and Short-term Investments, January 1	**$ 69,553**	$23,468	$12,377
Source (Use) of Funds:			
Income (Loss) Before Extraordinary Credits	**54,296**	41,046	(29,199)
Charges (credits) not affecting funds:			
Depreciation	**17,366**	19,397	21,469
Plant shutdown costs	—	—	26,146
Other—net	**5,308**	4,209	(1,937)
Total funds from operations before extraordinary credits	**76,970**	64,652	16,479
Extraordinary Credits	**23,285**	15,656	25,358
Total funds from operations	**100,255**	80,308	41,837
Additions to property, plant and equipment	**(47,161)**	(17,900)	(13,904)
Acquisition of glass fiber facilities	**(9,250)**	—	—
Other working capital items*	**2,492**	24,024	(6,540)
Other	**16,149**	(1,824)	37,240
Total source before financing and investment activity	**62,485**	84,608	58,633
Financing and investment activity:			
Increase (decrease) in short-term debt	**108,919**	(24,285)	(10,554)
Increases in long-term debt	**195,800**	6,325	62
Decreases in long-term debt	**(19,571)**	(12,407)	(34,800)
Investment in marketable securities	**(202,229)**	—	—
Cash dividends	**(4,118)**	(4,393)	(3,686)
Other	**6,321**	(3,763)	1,436
Total source (use) from financing and investment activity	**85,122**	(38,523)	(47,542)
Increase in cash and short-term investments	**147,607**	46,085	11,091
Cash and Short-term Investments, December 31	**$217,160**	$69,553	$23,468

*Other working capital items:	1985	1984	1983
Accounts receivable	**$(14,441)**	$ 3,027	$(12,497)
Inventories	**(10,555)**	7,299	4,028
Other current assets	**(1,208)**	1,759	4,724
Accounts payable	**(457)**	11,859	(4,744)
Accrued liabilities	**22,362**	(630)	1,057
Income taxes payable	**6,791**	710	892
Net source (use) of funds	**$ 2,492**	$24,024	$ (6,540)

See Notes to Consolidated Financial Statements.

87

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

GAF Corporation

(Thousands of Dollars) *Year Ended December 31*	1985	1984	1983
$1.20 Convertible Preferred Stock:			
Balance, January 1	$ 3,175	$ 3,187	$ 3,194
Converted into common stock: 1985—2,428,625 shares; 1984—9,740 shares; 1983—5,359 shares	(3,036)	(12)	(7)
Redemption of preferred stock—111,033 shares	(139)	—	—
Balance, December 31	—	3,175	3,187
Common Stock, $1 Par Value Per Share:			
Balance, January 1	14,509	14,466	14,459
Conversion of preferred stock and 5% convertible subordinated notes	3,369	43	7
Balance, December 31	17,878	14,509	14,466
Additional Paid-in Capital:			
Balance, January 1	56,420	55,548	55,008
Conversion of 5% convertible subordinated notes	7,167	669	—
Redemption of preferred stock	(2,888)	—	—
Excess of proceeds over cost of treasury common stock sold	13	128	484
Other	124	75	56
Balance, December 31	60,836	56,420	55,548
Retained Earnings:			
Balance, January 1	156,123	103,814	111,341
Net Income (Loss)	77,581	56,702	(3,841)
Cash dividends:			
Preferred stock (per share: 1985—$.30; 1984 and 1983—$1.20)	(748)	(2,958)	(2,970)
Common stock (per share: 1985—$.20; 1984—$.10; 1983—$.05)	(3,370)	(1,435)	(716)
Balance, December 31	229,586	156,123	103,814
Accumulated Translation Adjustment:			
Balance, January 1	(10,451)	(6,080)	—
Accounting change at January 1, 1983	—	—	(1,903)
Translation adjustment for the year	4,316	(4,371)	(4,177)
Balance, December 31	(6,135)	(10,451)	(6,080)
Treasury Stock, at cost:			
$1.20 Convertible preferred stock:			
Balance, January 1	(1,657)	(932)	(932)
Repurchase of odd-lot holdings—27,272 shares	—	(725)	—
Converted into common treasury shares—103,672 shares	1,657	—	—
Balance, December 31: 1984—103,672 shares; 1983—76,400 shares	—	(1,657)	(932)
Common stock:			
Balance, January 1	(4,113)	(199)	(1,151)
Repurchased under restricted stock purchase plan: 1984—20,928 shares; 1983—24,013 shares	—	(136)	(152)
Issued under various stock option and stock purchase plans: 1985—99,212 shares; 1984—81,569 shares; 1983—144,750 shares	1,758	1,062	1,104
Repurchase of odd-lot holdings—233,073 shares	—	(4,840)	—
Conversion of preferred stock in treasury—129,590 shares	(1,657)	—	—
Balance, December 31: 1985—226,820 shares; 1984—196,442 shares; 1983—24,010 shares	(4,012)	(4,113)	(199)
Shareholders' Equity	$298,153	$214,006	$169,804

See Notes to Consolidated Financial Statements

GAF Corporation

1. Summary of Significant Accounting Policies

Principles of Consolidation

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

Short-term Investments and Marketable Securities

Short-term investments and marketable securities are stated at cost. (See Note 5).

Inventories

Inventories are stated at the lower of cost (principally average) or market. Inventories at December 31 consist of the following:

Thousands of Dollars	1985	1984
Finished goods	$49,748	$40,296
Work in process	16,440	12,891
Raw materials and supplies	27,819	30,265
Total inventories	$94,007	$83,452

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.

Property, Plant and Equipment at December 31 consist of the following:

Thousands of Dollars	1985	1984
Land and land improvements	$ 16,760	$ 15,049
Buildings and building equipment	53,631	52,558
Machinery and equipment	226,387	200,658
Construction in progress	11,362	10,182
Total	308,140	278,447
Less Accumulated Depreciation	114,054	119,332
Property, Plant and Equipment—net	$194,086	$159,115

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 as a reduction of the provision for United States income tax (the flow-through method).

Research and Development

Research and development expenses are charged to operations as incurred and amounted to $10.4 million in 1985, $8.7 million in 1984 and $8.0 million in 1983.

Earnings Per Common Share

Primary earnings per common share are based on the weighted average number of common and common equivalent shares outstanding during each year after giving appropriate effect for preferred stock dividends. Weighted average shares for computing primary earnings per share were (in thousands) 17,171 for 1985, 14,510 for 1984 and 14,442 for 1983.

Fully diluted earnings per share are based on the weighted average number of common and common equivalent shares outstanding and the assumed conversion of convertible securities outstanding after appropriate adjustment for interest on convertible notes. Where the effect of the assumed conversion on net income would be anti-dilutive, primary and fully diluted earnings per share are stated the same. Weighted average shares for computing fully diluted earnings per share were (in thousands) 18,047 for 1985, 17,993 for 1984 and 17,907 for 1983.

2. Other Expense

A summary of Other Expense—net follows:

Thousands of Dollars Year ended December 31	1985	1984	1983
Equity method income	$ 4,268	$ 5,125	$ 4,705
Plant shutdown costs	—	—	(26,146)
Proxy contest and related expenses	—	—	(10,042)
Adjustment of insurance accruals	(4,438)	(2,400)	—
Office relocation expenses	—	—	(3,488)
Miscellaneous—net	(2,938)	(5,323)	(4,287)
Other Expense—net	$(3,108)	$(2,598)	$(39,258)

89

Equity Method Income and Net Assets

Financial data for investments which are accounted for by use of the equity method follows:

Thousands of Dollars *Year ended December 31*	1985		1984	
Income Statement Data	Joint Venture*	Captive Insurance Subsidiary	Joint Venture*	Captive Insurance Subsidiary
Revenues	$46,417	$ 3,403	$45,613	$3,125
Costs and Expenses	36,548	2,273	35,102	1,834
Operating Income	9,869	1,130	10,511	1,291
Income for the Year	5,445	1,130	6,735	1,291
GAF Equity Therein	3,138	1,130	3,834	1,291
December 31 Balance Sheet Data				
Current Assets	$ 9,298	$ 3,307	$18,997	$2,088
Noncurrent Assets	36,897	9,525	12,501	7,522
Total Assets	46,195	12,832	31,498	9,610
Current Liabilities	13,263	28	9,615	38
Noncurrent Liabilities	5,111	7,470	1,175	4,918
Total Liabilities	18,374	7,498	10,790	4,956
Net Assets	27,821	5,334	20,708	4,654
GAF Equity Therein	13,052	5,334	8,898	4,654

*Joint Venture data presented above pertains to GAF/Hüls Chemie GmbH, a joint ver..ure between GAF Corporation and Chemische Werke Hüls, which operates a chemical manufacturing plant in West Germany.

3. Income Taxes

Income Taxes consist of the following:

Thousands of Dollars *Year ended December 31*	1985	1984	1983
Federal	$19,684	$ 4,932	$ —
Foreign	7,882	5,835	5,310
State	5,612	2,805	(300)
Income Taxes	$33,178	$13,572	$5,010

The differences between the income tax provision (benefit) computed by applying the statutory federal income tax rate to pre-tax income (loss) and the actual tax provision are as follows:

Thousands of Dollars *Year ended December 31*	1985	1984	1983
Statutory Provision (Benefit)	$40,238	$25,125	$(11,127)
Adjustments:			
Operatı loss carryforward	—	—	19,674
Investme x credits	(3,217)	(10,700)	—
Impact of forc.gn operations	(1,581)	(1,572)	(2,038)
State and local taxes	3,031	1,515	—
Other	(5,293)	(796)	(1,499)
Income Taxes	$33,178	$13,572	$ 5,010

At December 31, 1985, the Company had for financial reporting purposes net operating loss carryforwards available to offset future income subject to tax of approximately $22 million, of which approximately $20 million relates to domestic operations.

As of December 31, 1985, provision had not been made for United States income taxes on approximately $20 million of unremitted earnings of consolidated foreign subsidiaries and the Company's 50% owned joint venture, because any United States taxes payable on foreign earnings which may be remitted in the future are expected to be substantially reduced by foreign tax credits.

Extraordinary Credits for 1985, 1984 and 1983 include $1,576,000, $1,830,000 and $3,527,000, respectively, representing the income tax benefit from the utilization of foreign operating loss carryforwards. The 1985 and 1984 Extraordinary Credits also include income tax benefits of $21,707,000 and $5,479,000 from the utilization of federal and state operating loss carryforwards. Future utilization of the operating loss carryforwards for financial reporting purposes will require the restoration of applicable deferred income tax amounts.

4. Ber.efit Plans

In 1982, the Board of Directors of the Company authorized the termination of the Retirement Plan for Salaried Employees (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. As a result of the termination, transfers of funds were made to the Company in 1983 and 1984 in the total amount of $65,178,000. Such reversion of the Plan's residual assets to the Company created Extraordinary Credits of $8,347,000 and $21,831,000 for the years 1984 and 1983, respectively.

Under the new GAF Capital Accumulation Plan, Company contributions consist of a basic contribution of three percent of the compensation of participants for the plan year together with matching contributions, up to an additional four percent as specified in the plan, for those participants who have elected to make voluntary contributions to the plan. Each participant is fully vested at all times in the balance in each of his or her accounts in the plan. The aggregate contributions made by the Company to the plan and charged to operations in 1985, 1984 and 1983 were $3,126,000, $2,896,000 and $3,029,000, respectively.

The retirement plans for hourly employees and Texas City facility employees are noncontributory defined benefit plans. Company policy is to fund accrued pension expense. Pension expense charged to operations was $559,000 in 1985, $289,000 in 1984 and $430,000 in 1983. A comparison of the accumulated plan benefits and plan net assets for these plans, after giving effect to the spin-off/termination as discussed in the following paragraph, is presented below:

Thousands of Dollars	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$1,877	$83,625
Nonvested	502	2,461
Total	$2,379	$86,086
Plan assets available for benefits	$1,216	$92,626
Assumed rate of return	8%	8%
Plan valuation date	1/1/85	1/1/84

In 1984, the Company announced a proposed spin-off/termination involving its Retirement Plan for Hourly Employees, pursuant to which the Company purchased an annuity contract approximating $69.6 million covering the benefits accrued to September 1, 1984, for participants of the plan. Assets were sufficient to provide for the accrued benefits of all hourly participants. Pursuant to governmental regulations, excess assets were then "spun-off" to a new plan for inactive members. The inactive plan was then terminated. Following government approvals of the spin-off/termination, excess assets of $16.1 million reverted to the Company in November, 1985. An additional $3.8 million was received and established as a reserve pending final resolution of any plan liabilities. The Company will contribute to the plan in future years for active employees to meet liabilities as they accrue.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees, including employees in foreign countries, may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits ($3.2 million and $3.7 million in 1985 and 1984, respectively) is recognized as expense as claims are incurred.

As part of the 1977 and 1980 discontinuance programs, the Company provided health and life insurance coverage for certain retired employees of discontinued businesses. The balance of the liability for such future obligations at December 31, 1985 and 1984 was $16.8 million and $18 million, respectively.

5. Marketable Securities

During 1985, the Company acquired 6,961,000 shares of Union Carbide (Carbide), or 9.9% of the total outstanding shares, at an average cost of approximately $51 a share. In December 1985, the Company announced its intention to commence a cash tender offer for all the remaining outstanding shares of Carbide. However, the Company withdrew its tender offer in January 1986, and exchanged 3.5 million shares of Carbide pursuant to Carbide's exchange offer. GAF will report the gain resulting from that transaction in the first quarter of 1986. The Company remains a major Carbide shareholder, retaining 3,228,187 shares or approximately 10.6% of Carbide's outstanding shares, which is classified as Marketable Securities, a non-current asset.

After the sale of 233,000 shares in December, the Company at December 31, 1985, held 6,728,000 shares of Carbide at a total cost of $405.4 million, including approximately $60 million in costs relating to the Company's tender offer. At that date, the market value of such shares was $476.8 million, based on $70⅞ per share. The cost basis of the 3.5 million shares exchanged in January, $203.2 million, has been classified as a current asset at December 31, 1985. The remaining $6.1 million of short-term investments at December 31, 1985, and $53.4 million at December 31, 1984, are stated at cost which approximates market.

Income on investments for 1985 includes $8.9 million in net realized gains, $10.6 million in dividends and $2.9 million in interest income. Income on investments for 1984 and 1983 represents interest income. The determination of cost in computing realized gains and losses on investments is based on the first-in first-out method.

6. Debt and Dividend Restrictions

Information regarding short-term debt is as follows:

Thousands of Dollars	1985	1984	1983
As of December 31:			
Balance outstanding	$115,380	$ 6,461	$30,746
Weighted average interest rate	8.7%	8%	10.7%
For the Year:			
Average month-end short-term debt outstanding	$ 51,757	$17,913	$73,931
Maximum month-end short-term debt outstanding	$118,315	$45,789	$95,517
Weighted average month-end interest rate	8.6%	11.4%	10.1%

Of the total short-term debt outstanding at December 31, 1985, $99.4 million represents margin loans secured by shares of Union Carbide stock. Such loans were repaid in January 1986, with proceeds from the exchange of 3.5 million Carbide shares (see Note 5).

At December 31, 1985, the Company had unused short-term lines of credit aggregating approximately $67.5 million (in addition to the revolving credit facility discussed below). The short-term lines of credit are maintained with banks on terms which expire on various dates, but are generally renewable. Borrowings generally bear interest at or near the prime commercial lending rate.

Long-term debt at December 31, 1985 and 1984 was as follows:

Thousands of Dollars	1985	1984
9½% senior notes due March 31, 1987, with annual scheduled principal repayments	$ 10,600	$17,100
9½% senior notes due January 15, 1992, with annual scheduled principal repayments	16,700	19,300
Revolving credit agreement	27,000	—
Industrial revenue bonds with various interest rates and maturity dates to 2012. Certain assets are pledged as collateral thereto.	39,926	22,981
Obligation under capital lease (Note 11)	9,525	10,319
11¾% senior subordinated notes due June 15, 1995	150,000	—
5% convertible subordinated notes due April 1, 1994	—	7,500
Other	5,234	5,556
Total	258,985	82,756
Less current maturities	10,132	10,278
Long-term debt, less current maturities	$248,853	$72,478

The Company has a $50 million revolving credit facility with a consortium of banks, terminating January 31, 1987. Interest on the borrowings is at the prime rate, a rate based on the London Interbank Offer Rate, or a rate based on the Certificate of Deposit Rate. Under the agreement, a commitment fee is charged on the daily average unused portion of the commitments.

The agreement includes restrictions on the payment of cash dividends on GAF common stock, generally based upon 50% of net income subsequent to April 1, 1984, less all cash dividends and certain other special payments made after April 1, 1984. As of December 31, 1985, $50.8 million of retained earnings were available under this agreement for such purposes. 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 and capital expenditures, restrict the right to sell capital assets, engage in mergers or consolidations and to incur certain contingent obligations.

The Company in June 1985, issued $150 million of 11¾% senior subordinated notes due June 15, 1995. The notes will be redeemable at the option of the Company after June 15, 1992, at their principal amount plus accrued interest. Interest on the notes will be payable on June 15 and December 15 each year.

The 5% convertible subordinated notes were convertible into shares of common stock at any time at a conversion price of $22.50 per share. During 1985 and 1984, $7,500,000 and $700,000, respectively, of notes were converted into 333,331 and 31,111, respectively, shares of common stock.

The aggregate maturities of long-term debt for the next five years are as follows. Borrowings of $27 million outstanding under the revolving credit agreement are included in the 1987 amount based on its term.

Thousands of Dollars	
1986	$10,132
1987	39,860
1988	4,107
1989	6,118
1990	3,985

7. Capital Stock

The Company in 1985 called for redemption all of its outstanding shares of $1.20 convertible preferred stock. Shareholders converted 2,324,553 shares of preferred stock into 2,905,144 shares of common stock, and the Company redeemed 111,033 shares of preferred stock at a price of $27.50 plus accrued dividends. In addition, the Company converted all 103,672 shares of its $1.20 convertible preferred stock held in treasury into 129,590 shares of common stock to be held in treasury.

At December 31, 1985, there were 1,896,753 shares of common stock reserved for issuance under the Company's stock option and stock purchase plans.

8. Stock Option and Stock Purchase Plans

In 1984, the Company adopted the 1984 Stock Option Plan which provides for the granting of incentive and nonqualified stock options to key employees of the Company and its subsidiaries to purchase common stock of the Company at not less than 100 percent of the fair market value at the date of grant. Under the terms of the plan, options for 800,000 shares of common stock may be granted from time to time until April 30, 1989. The term of each option is five years and sixty days. Options may not be exercised during the first year after the date of grant, but thereafter, options become exercisable as to 20% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant.

The Company's 1975 nonqualified stock option plan provided for the granting of 800,000 options to key employees to purchase common stock of the Company at not less than 100 percent of the fair market value at the date of grant. Options granted through April 30, 1984, are exercisable one year after grant and expire after 10 years. Options granted after April 30, 1984, are subject to the same terms and conditions as options issued under the 1984 Stock Option Plan.

These plans provide for stock appreciation rights, wherein an option holder may request "surrender" of the option in 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 Executive Compensation Committee of the Board of Directors. The plans also provide for limited stock appreciation rights permitting the option holder to surrender exercisable options in the event of a tender or exchange offer for the Company's common stock made by someone other than the Company.

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

Shares	1985	1984	1983
Outstanding January 1	675,800	254,400	404,650
Granted	92,005	480,400	—
Exercised	(58,185)	(52,000)	(144,750)
Terminated	(37,520)	(7,000)	(5,500)
Outstanding December 31	672,100	675,800	254,400
At December 31			
Exercisable	230,895	201,900	254,400
Available for grant	393,595	450,200	124,000
Option Price Range Per Share			
Outstanding	$ 9.625-$46.250	$ 9.625-$23.750	$ 9.625-$14.875
Exercised	$ 9.625-$23.750	$ 9.625-$14.875	$ 9.625-$14.875

In April 1984, the shareholders of the Company approved the 1984 Employee Stock Purchase Plan covering 600,000 shares of common stock. The plan provides for grants of options to purchase shares of common stock on a nondiscriminatory basis to all eligible employees of the Company and its subsidiaries. No options to purchase shares of common stock under the plan may be granted after April 30, 1989. The price at which shares may be purchased is the lesser of (i) 85% of the fair market value on the date of grant or (ii) 85% of the fair market value on the date of purchase. As of December 31, 1985, 46,832 shares of common stock had been issued under the plan.

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 percent and 80 percent, 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. At December 31, 1985, there were 277,890 shares available for sale under this stock purchase plan.

9. Business Segments Information

Millions of Dollars Year ended December 31	1985	1984	1983
Sales			
Chemicals*	$364.4	$357.2	$323.2
Building Materials	363.9	370.8	373.2
Broadcasting	3.7	3.3	3.0
Consolidated Sales	$732.0	$731.3	$699.4
Division Income (Loss)			
Chemicals**	$ 92.6	$ 79.0	$ 64.6
Building Materials	20.1	10.9	(34.5)
Broadcasting	1.1	0.7	0.5
Total	113.8	90.6	30.6
Corporate:			
Operating Expenses	(15.4)	(18.5)	(22.7)
Interest Expense	(19.8)	(9.1)	(16.3)
Other Income (Expense)—net	8.9	(8.4)	(15.8)
Net Corporate Expenses	(26.3)	(36.0)	(54.8)
Income (Loss) Before Income Taxes and Extraordinary Credits	$ 87.5	$ 54.6	$ (24.2)
Identifiable Assets			
Chemicals**	$217.3	$203.8	$198.1
Building Materials	194.2	158.6	164.1
Corporate and other	467.7	89.9	52.1
Total Assets	$879.2	$452.3	$414.3
Additions to Property, Plant and Equipment			
Chemicals	$ 21.5	$ 9.6	$ 5.2
Building Materials	24.4	8.0	8.3
Corporate and other	1.3	0.3	0.4
Total	$ 47.2	$ 17.9	$ 13.9
Depreciation			
Chemicals	$ 10.3	$ 11.1	$ 10.0
Building Materials	6.0	7.0	9.3
Corporate and other	1.1	1.3	2.2
Total	$ 17.4	$ 19.4	$ 21.5

*Chemicals sales are net of intersegment sales of $27.4 million, $23.2 million and $20.9 million for 1985, 1984 and 1983, respectively. Intersegment sales are recorded at the same prices charged to unaffiliated customers.

**Chemicals Division income and identifiable assets include GAF's 50% equity in the income and assets of GAF/Hüls Chemie GmbH (see Note 2).

10. Geographic Information

Millions of Dollars *Year ended December 31*	1985	1984	1983
Domestic Operations:			
Net Sales*	$642.9	$649.9	$627.9
Operating Income	$ 73.5	$ 49.2	$ 16.0
Other Income (Expense)	(7.3)	(14.9)	(60.0)
Income (Loss) Before Income Taxes and Extraordinary Credits	$ 66.0	$ 34.3	$ (44.0)
Identifiable Assets	$826.6	$404.8	$375.0
Foreign Operations:			
Net Sales**	$ 89.1	$ 81.4	$ 71.5
Operating Income	$ 14.6	$ 13.0	$ 11.8
Other Income (Expense)***	6.9	7.3	8.0
Income (Loss) Before Income Taxes and Extraordinary Credits	$ 21.5	$ 20.3	$ 19.8
Identifiable Assets***	$ 52.6	$ 47.5	$ 39.3

*Domestic sales are net of transfers between geographic areas of $40.8 million, $34.9 million and $29.0 million, respectively.

**Foreign sales are net of transfers between geographic areas of $10.4 million, $7.3 million and $9.4 million, respectively.

***Foreign Operations income and identifiable assets include GAF's 50% equity in the income and assets of GAF/Hüls Chemie GmbH (see Note 2).

11. Commitments and Contingencies

The lease for the Company's headquarters in Wayne, N.J., is accounted for as a capital lease and is included in Property, Plant and Equipment—net at December 31, 1985 and 1984 in the amount of $7,106,000 and $7,546,000, respectively. The related present value of future net minimum lease payments is reflected as long-term debt (see Note 6), and the amortization expense associated with the 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 which are held under long-term noncancelable leases as of December 31, 1985 are as follows:

Thousands of Dollars *Minimum Payments*	Capital Lease	Operating Leases
1986	$ 1,544	$5,334
1987	1,482	1,840
1988	1,419	898
1989	1,356	714
1990	1,294	317
Later Years	7,306	—
Total minimum payments	14,401	$9,103
Less interest included above	4,876	
Present value of net minimum lease payments	$ 9,525	

At December 31, 1985, there were various lawsuits pending against the Company relating to matters arising from its business, including approximately 23,000 involving bodily injury claims relating to the exposure to asbestos or asbestos-containing products no longer sold by the Company. The Company is also named as a defendant in approximately 76 asbestos property damage lawsuits by school districts and other owners of buildings seeking to recover damages including the cost of removal of asbestos insulation and other asbestos products. The full cost of indemnity and defense of all the asbestos bodily injury and property damage lawsuits is being paid by the Company's insurance carriers, subject to reservations 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.

12. Supplementary Financial Information

Thousands of Dollars *Year ended December 31*	1985	1984	1983
Maintenance and repairs	$41,068	$41,796	$40,822
Rentals—operating leases	6,296	7,746	6,954

AUDITORS' REPORT

ARTHUR ANDERSEN & CO.

101 Eisenhower Parkway
Roseland, New Jersey 07068

To the Shareholders and Board of Directors of
GAF Corporation:

We have examined the consolidated balance sheets of GAF Corporation (a Delaware corporation) and subsidiaries as of December 31, 1985 and 1984, and the related consolidated statements of income, changes in financial position and shareholders' equity for the years then ended. 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. The financial statements for the year ended December 31, 1983 were examined by other auditors whose report thereon dated February 17, 1984, expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of GAF Corporation and subsidiaries as of December 31, 1985 and 1984, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods and on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

February 10, 1986 Arthur Andersen & Co.

Financial Reporting and Changing Prices

The Company's financial statements are presented on an historical cost basis and, as such, are not intended to measure the effects of changing prices in an inflationary economy. In accordance with the Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices," as amended, 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 financial data have been adjusted for the effects of changes in specific prices (current cost basis) on inventories and property, plant and equipment. 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. 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.

Adjusted income before extraordinary credits of $44.8 million for the year ended December 31, 1985, compares to reported earnings of $54.3 million, reflecting the increased cost of replacing assets during inflationary periods. This hypothetical decrease in income is due to the higher depreciation expense on property, plant and equipment and higher costs of inventories sold. Sales and other costs and expenses, including income taxes, have not been adjusted. This points out the higher tax burden on companies during inflationary periods, as the effective tax rate for GAF on the adjusted income statement is 42.6% compared with a rate of 37.9% on the 1985 historical financial statements.

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

Consolidated Statement of Income Adjusted for Changing Prices

Thousands of Dollars *Year Ended December 31, 1985*	As Reported in the Primary Statements (Historical Cost)	Adjusted for Changes in Specific Prices (Current Cost)
Net Sales	$731,962	$731,962
Cost of Products Sold*	498,842	502,406
Depreciation	17,366	23,340
Other Expenses—net	108,481	108,481
Interest Expense	19,799	19,799
Income Taxes	33,178	33,178
Income Before Extraordinary Credits	$ 54,296	$ 44,758
Purchasing power gain on net monetary liabilities		$ 2,548
Increase in specific prices (current cost) of inventories and property, plant and equipment held during the year**		$ 5,693
Effect of increase in the general price level		12,007
Increase in specific prices over (under) effect of increase in the general price level		$ (6,314)

*Excludes $14,971 depreciation expense included in Cost of Products Sold in the primary financial statements.

**The estimated current cost of net Property, Plant and Equipment and Inventories was $248,267 and $94,824, respectively, at December 31, 1985.

Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (In Average 1985 Dollars)

Thousands of Dollars, Except Per Share Amounts	1985	1984	1983	1982	1981
Net Sales	$731,962	$757,422	$755,223	$694,653	$795,526
Current cost information:					
Income (loss) from continuing operations	44,758	26,840	(56,109)	(12,235)	(57,662)
Income (loss) per common share—primary	2.59	1.64	(4.10)	(1.08)	(4.37)
Increase in specific prices of inventory and property over (under) effect of increase in general price level	(6,314)	1,434	(8,450)	4,353	(28,966)
Net assets at year-end	347,535	286,457	265,459	300,709	274,272
Other data, adjusted for general inflation:					
Purchasing power gain on net monetary liabilities	2,548	1,999	3,431	6,845	25,709
Dividends per common share	.20	.10	.05	.56	.95
Year-end market price per common share	58.06	25.02	17.66	15.43	16.46
Average Consumer Price Index	322.2	311.1	298.4	289.1	272.4

SUPPLEMENTARY DATA (Unaudited)

Quarterly Financial Data (Unaudited)

Millions of Dollars Except Per Share Amounts	1985 by Quarter First	Second	Third	Fourth	1984 by Quarter First	Second	Third	Fourth
Net Sales	$175.9	$188.1	$193.8	$174.2	$169.9	$191.3	$203.8	$166.3
Cost of Products Sold	127.1	130.2	135.1	121.4	129.8	143.8	151.1	124.3
Gross Profit	$ 48.8	$ 57.9	$ 58.7	$ 52.8	$ 40.1	$ 47.5	$ 52.7	$ 42.0
Income before Income Taxes and Extraordinary Credits	$ 19.5	$ 25.2	$ 24.9	$ 17.9	$ 10.1	$ 15.5	$ 17.0	$ 12.[illegible]
Income Taxes	8.4	9.8	9.3	5.7	2.7	3.6	4.9	2.4
Income Before Extraordinary Credits	11.1	15.4	15.6	12.2	7.4	11.9	12.1	9.6
Extraordinary Credits	6.4	8.4	7.3	1.2	6.2	3.2	1.5	4.8
Net Income	$ 17.5	$ 23.8	$ 22.9	$ 13.4	$ 13.6	$ 15.1	$ 13.6	$ 14.4
Earnings Per Common Share*								
Primary:								
Before Extraordinary Credits	$ .72	$ .87	$ .87	$ .67	$ .46	$ .77	$ .79	$ .61
Extraordinary Credits	.42	.48	.41	.07	.42	.22	.10	.33
Net Income	$ 1.14	$ 1.35	$ 1.28	$ .74	$ .88	$ .99	$ .89	$ .94
Fully Diluted:								
Before Extraordinary Credits	$ .62	$ .86	$ .87	$ .67	$ .42	$ .67	$ .68	$ .54
Extraordinary Credits	.36	.47	.41	.07	.34	.18	.08	.27
Net Income	$ .98	$ 1.33	$ 1.28	$ .74	$ .76	$ .85	$ .76	$ .81

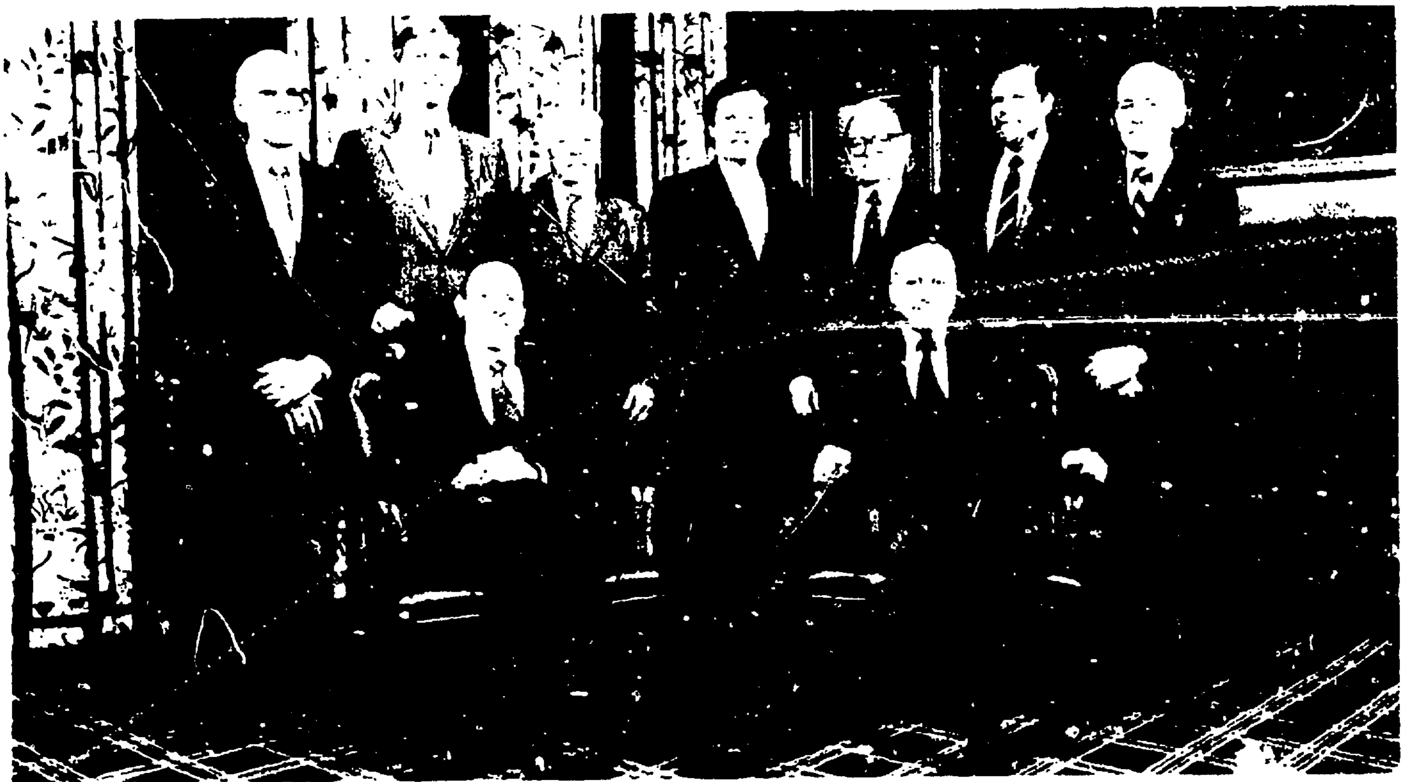
*In accordance with the provisions of APB Opinion No. 15, earnings per share are calculated separately for each quarter and the full year. Accordingly, annual earnings per share will not necessarily equal the total of the interim periods.

"Foremost among the causal factors in what we have achieved at GAF over the past two years has been and continues to be my fellow GAF employees. As Chief Executive, I consider myself fortunate to be associated with so many hard working, dedicated and loyal employees who approach their responsibilities and share the objectives of GAF's senior management with an extraordinary degree of intensity."—Chairman's letter to shareholders, March 17, 1986

The people of GAF — 4,300 men and women who represent the Company throughout the world — perform many diverse roles, such as secretaries, scientists, production workers, technical salespersons, cafeteria workers, engineers, security guards, computer programmers and maintenance workers. While only a few GAF employees are depicted here, they are representative of the overwhelming number of GAF people who bring to the discharge of their responsibilities not only abundant energy but an overriding concern for the Company's welfare — as demonstrated by their actions and accomplishments.

97

BOARD OF DIRECTORS AND OFFICERS



THE WORLD OF GAF

Corporate Offices
1361 Alps Road
Wayne, New Jersey 07470

Domestic
GAF Corporation's plants, research laboratories and sales offices are located throughout the United States.

Chemicals

Manufacturing
Alabama-Huntsville
Kentucky-Calvert City
Missouri-Annapolis
New Jersey-Bound Brook
New Jersey-Linden
Pennsylvania-Blue Ridge Summit
Texas-Seadrift
Texas-Texas City
Wisconsin-Pembine

Sales Offices
California-Irvine
Illinois-Lombard
New Jersey-Linden
North Carolina-Charlotte
Ohio-Cincinnati
Pennsylvania-King of Prussia
Texas-Arlington

Research & Development
Maryland-Hagerstown
New Jersey-Wayne

Building Materials

Manufacturing
Alabama-Mobile
California-Fontana
California-Irwindale
Florida-Tampa
Georgia-Savannah
Indiana-Mount Vernon
Maryland-Baltimore
Massachusetts-Millis
Minnesota-Minneapolis
Pennsylvania-Erie
South Carolina-Chester
Tennessee-Nashville
Texas-Dallas

Sales Offices
Alabama-Mobile
California-Fontana
Florida-Tampa
Georgia-Savannah
Illinois-Hodgkins
Indiana-Mount Vernon
Maryland-Baltimore
Massachusetts-Millis
Minnesota-Minneapolis
New Jersey-South Bound Brook
Pennsylvania-Erie
Texas-Dallas

Research & Development
New Jersey-Wayne
Tennessee-Nashville

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

European Region
Great Britain, Esher-Headquarters
Austria-Vienna
Belgium-Sint Niklaas
France-Paris
Great Britain-Manchester
Italy-Milan
Netherlands-Schiedam
South Africa-Sandton
Spain-Barcelona
Sweden-Johanneshov (headquarters for Norden countries)
Switzerland-Zug
West Germany-Frechen

Western Hemisphere Region
New Jersey, Wayne-Headquarters
Brazil-São Paulo
Canada-Mississauga, Ontario
Canada-Ville St. Laurent, Quebec
Mexico-Mexico City
Puerto Rico-Carolina

Australasia Region
Australia, Sydney-Headquarters
Australia-Melbourne
New Zealand-Auckland
Republic of Singapore-Singapore

North Pacific Region
Japan, Tokyo-Headquarters

GAF Broadcasting Company, Inc.

New York, New York

Subsidiary:
GAF Insurance, Ltd.
Hamilton, Bermuda

Affiliate:
GAF/Hüls Chemie GmbH
Marl, West Germany

SHAREHOLDER INFORMATION

Annual Meeting
The 1986 Annual Meeting of Shareholders will be held at 10 a.m., Monday, April 28 at the Chase Manhattan Bank auditorium; Ground floor, One Chase Manhattan Plaza, New York, NY 10081

Form 10K
A copy of the Company's Annual Report on Form 10K as filed with the Securities and Exchange Commission may be obtained, free of charge, by writing to:
GAF Corporation
Corporate Affairs Department
1361 Alps Road
Wayne, NJ 07470

Dividend Reinvestment Service
GAF offers holders of its common stock the opportunity to buy additional shares through an automatic dividend reinvestment service, administered by Morgan Guaranty Trust Company of New York. For further details contact:
Morgan Guaranty Trust Company of New York
30 West Broadway
New York, NY 10015
(212) 587-6515

GAF's common stock is listed on the New York Stock Exchange (symbol: "GAF").

Transfer Agent
Stock Transfer Agent and Registrar:
Morgan Guaranty Trust Company of New York
30 West Broadway
New York, NY 10015

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GAF Corporation
1361 Alps Road
Wayne, NJ 07470

Exhibit 21.1

G A F CORPORATION
1361 ALPS ROAD
WAYNE, NEW JERSEY 07470

SAMUEL J. HEYMAN
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

March 27, 1986

FELLOW SHAREHOLDERS:

You are cordially invited to attend GAF's Annual Meeting of Shareholders to be held at the Chase Manhattan Bank auditorium, One Chase Manhattan Plaza, New York City at 10:00 A.M. on Monday, April 28, 1986. I look forward to personally greeting you at the meeting as well as to reviewing for you at that time significant developments at GAF during the past year.

The matters to be voted on are: (1) the election of directors; (2) a proposal to adopt certain amendments to the Company's Certificate of Incorporation, commonly known as anti-takeover provisions, including amendments providing for classification of the Board of Directors and amendments affecting the removal and replacement of directors, the calling and conduct of shareholder meetings, and the taking of actions by written consent in lieu of a shareholders' meeting; (3) a proposal to amend the Certificate of Incorporation to increase the Company's authorized common shares in connection with a two-for-one stock split already declared by the Board; and (4) a proposal to ratify the Company's selection of auditors.

Your Board of Directors has given careful consideration to these proposals and believes that they are in the best interests of the Company and its shareholders. The Board recommends a vote FOR the proposals and urges you to sign, date and mail the enclosed proxy in the reply envelope at your earliest convenience.

The proposal calling for the adoption of certain anti-takeover amendments to the Company's Certificate of Incorporation is intended primarily to enhance GAF's ability to successfully conclude potential acquisitions free from the concern that a target company will be in a position to utilize a retaliatory offer for GAF as a means of resisting our own acquisition effort. In this regard, it is our view that a retaliatory offer, which is designed to frustrate GAF's own offer, is not likely to be in the best interests of GAF shareholders. Your Board's concern is warranted, I believe, by its recent experience in connection with GAF's tender offer for Union Carbide. During the pendency of GAF's offer, it came to our attention that Carbide's Board of Directors took under consideration a plan to gain control of GAF as a means of thwarting GAF's offer for Carbide. In view of the fact that GAF may wish at a future time to make a new offer for Union Carbide or pursue the acquisition of other companies, GAF's Board is convinced that these measures are necessary to enable our Company to successfully pursue an acquisition strategy which is in the best interests of GAF shareholders.

With respect to the proposal to increase GAF's authorized common stock, the Company's Board of Directors has already declared a two-for-one stock split, subject to the approval by shareholders of an increase in the number of authorized common shares. The stock split will be distributed to shareholders of record on May 8, 1986 as soon as is practicable after the record date if this proposal is approved. The newly authorized shares will be available not only to effectuate the stock split but for potential acquisitions, financings, and other corporate purposes.

The enclosed notice and proxy statement will provide you with complete information concerning the business to come before the meeting. The Company's 1985 Annual Report is also enclosed.

I believe that the actions which are being recommended by your Board of Directors at this time are particularly significant in terms of the Company's future direction. Should you require further information concerning these matters, please do not hesitate to contact our Corporate Affairs Department.

Sincerely,

SAMUEL J. HEYMAN
Chairman of the Board
and Chief Executive Officer

GAF Corporation

NOTICE OF ANNUAL MEETING

To Be held April 28, 1986

The Annual Meeting of Shareholders of GAF Corporation will be held Monday, April 28, 1986 at 10:00 A.M. at the auditorium of The Chase Manhattan Bank, N.A., One Chase Manhattan Plaza, New York, New York, for the following purposes:

1. To elect 10 directors;

2. To amend the Corporation's Certificate of Incorporation to classify the Board of Directors and adopt various other amendments affecting, among other things, the removal and replacement of directors, the calling and conduct of shareholders' meetings, and the taking of action by written consent in lieu of a shareholders' meeting, all as more fully described beginning on page 20 of the accompanying Proxy Statement;

3. To amend the Corporation's Certificate of Incorporation to increase the authorized number of shares of the Corporation's Common Stock from 25,000,000 shares to 100,000,000 shares;

4. To ratify the selection of Arthur Andersen & Co. as the Corporation's auditors; and

5. To transact such other business as may properly come before the meeting.

The Board of Directors has fixed the close of business on March 17, 1986 as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

A list of shareholders entitled to vote at the meeting will be open to the examination of any shareholder, for any purpose germane to the meeting, at the offices of the Corporation's stock transfer agent, Morgan Guaranty Trust Company, 30 West Broadway, New York, New York, during ordinary business hours for ten days prior to the meeting.

By Order of the Board of Directors

EDWARD E. SHEA
Secretary

Wayne, New Jersey
March 27, 1986

Return of your signed proxy is the only way your shares can be counted unless you personally cast a ballot at the meeting. No matter how many shares you hold, your proxy vote is important.

PLEASE INDICATE YOUR VOTING INSTRUCTIONS ON THE ENCLOSED PROXY CARD AND SIGN, DATE AND RETURN IT IN THE ENVELOPE PROVIDED, WHICH NEEDS NO POSTAGE IF MAILED IN THE UNITED STATES.

PROXY STATEMENT

GAF CORPORATION
1361 Alps Road
Wayne, New Jersey 07470

ANNUAL MEETING OF SHAREHOLDERS

This proxy statement is furnished to shareholders by the Board of Directors of GAF Corporation (the "Corporation" or "GAF") for solicitation of proxies to be voted at the Annual Meeting of Shareholders to be held on Monday, April 28, 1986, and at any adjournment thereof.

The Board of Directors has set March 17, 1985, as the Record Date for the determination of shareholders entitled to notice of, and to vote at, the meeting. As of the close of business on the Record Date, there were outstanding 17,682,034 shares of the Corporation's Common Stock. Holders of record of shares are entitled to one vote for each share held by them as of the Record Date on any matter which may properly come before the meeting.

Shares represented by a valid unrevoked proxy will be voted at the meeting, or any adjournment thereof, as specified therein by the person giving the proxy. If no specification is made, the shares represented by such proxy will be voted (1) FOR the election of the nominees named herein to the Board of Directors, (2) FOR the classification of the Board of Directors and the other proposed amendments to the Corporation's Certificate of Incorporation, (3) FOR increasing the number of authorized shares of Common Stock of the Corporation, (4) FOR the ratification of the selection of auditors, and (5) in the discretion of the persons named as proxies, on such other matters as may properly come before the meeting. Proxies may be revoked by the person executing the same at any time before the authority thereby granted is exercised by execution of a later dated proxy, by delivery to and receipt by the Corporation's Secretary of written notice to such effect, or by attending the meeting and voting in person.

This statement and the proxies solicited hereby are being first sent or delivered to shareholders on or about March 27, 1986.

Proposal No. 1
ELECTION OF DIRECTORS

Unless authority to do so has been withheld, shares represented by proxies will be voted in favor of the election of the following 10 nominees as directors. Directors will be elected by a plurality of the votes cast at the Annual Meeting by the holders of shares entitled to vote in the election.

If the proposed amendment to the Restated Certificate of Incorporation of the Corporation (the "Certificate") concerning the classification of the Board of Directors is adopted (see Proposal 2 under the heading, "Classification of the Board of Directors and Other Amendments to the Certificate," and Appendix A hereto), at the 1986 Annual Meeting three directors, constituting the "Class I Directors," will be elected for a term expiring at the Annual Meeting in 1987; three directors, constituting the "Class II Directors," will be elected for a term expiring at the Annual Meeting in 1988; and four directors, constituting the "Class III Directors," will be elected for a term expiring at the Annual Meeting in 1989 (and, in all cases, until their respective successors are elected and qualify). Set forth opposite each nominee's name below is the year in which such nominee's term would expire.

If the proposed amendment to the Certificate is not adopted, all 10 nominees will be elected for a term expiring at the 1987 Annual Meeting of Shareholders (and until their respective successors are elected and qualify).

If, prior to the Annual Meeting, any nominee becomes unable to serve as a director by reason of death or otherwise, the persons designated as proxies will have full discretion to vote for another person to serve as director in place of any such nominee.

Nominees

The following persons, all of whom are currently directors of the Corporation, have been nominated for election as directors by the Nominating Committee of the Board. Harold C. Simmons, who has been a director of the Corporation since April 1984, is not standing for reelection, and the number of directors of the Corporation has been reduced to 10 accordingly. The information presented below with respect to each nominee has been furnished by that nominee. Unless otherwise stated, all employments have continued for at least five years. All nominees other than James T. Sherwin, have served the Corporation as directors since December 13, 1983. Mr. Sherwin has served as a director since 1974, except for the period May 1983 to May 1984. All present directors were elected to serve until the next annual meeting and until their successors are elected and qualify. No family relationship exists between any of the directors, nominees or officers.

William P. Lyons **Class I: Term to expire in 1987**

Mr Lyons, age 44, has been President of William P. Lyons & Co., Inc., an investment banking and financial consulting firm since 1975. In addition, he has been a Professor (Adjunct) at Yale University Law School since 1985, and a Professor (Adjunct) since 1984 and an Associate Professor (Adjunct) from 1979 to 1984 at the Yale University School of Organization and Management. He is a director of Lydall, Inc. and LMH, Ltd.

Scott A. Rogers, Jr. **Class I: Term to expire in 1987**

Mr. Rogers, age 68, has been a consultant since 1984. He formerly was Chairman, Chief Executive Officer, President and a director from 1981 to 1983 of Publishers Equipment Corp., a firm engaged in the engineering and manufacturing of offset printing equipment. Prior to that time, he was President and a director of General Portland, Inc., a cement and construction aggregates producer. He is a director of Parker Hannifin Corporation.

Edward E. Shea **Class I: Term to expire in 1987**

Mr. Shea, age 53, has been Senior Vice President, General Counsel and Secretary, of GAF Corporation since June 1984. From 1982 to 1984 he was counsel to and then a member of the New York law firm Windels, Marx, Davies & Ives. Since 1982, Mr. Shea has also been a Professor (Adjunct) in the Finance Department of the Graduate School of Business, Pace University. Prior to that time, he was Chairman of the Board and General Counsel of Reichhold Chemicals, Inc., a manufacturer of synthetic resins, basic chemicals and related products.

Dr. Jacob E. Goldman **Class II: Term to expire in 1988**

Dr. Goldman, age 64, has served as Chairman of the Board of Cauzin Systems Inc., a manufacturer of personal computer accessories, since 1984. He has also been President of Medisystems Management Co., a firm engaged in the devel ment of medical instruments, since 1982; and he has been President of GB Energy Systems, Inc., a high technology research and development ventures firm, since 1978. From 1982 to 1983, he was a Senior Vice President and Chief Scientist of Xerox Corporation. Prior to that time, he was Senior Vice President, Research and Development and a director of Xerox. He is currently serving as a director of General Instrument Co., Burndy Corporation, Comtex Scientific Co. and Intermagnetics General Corp.

Sanford Kaplan **Class II: Term to expire in 1988**

Mr. Kaplan, age 69, has been a private investor and consultant since 1977. Prior to that time, he was Senior Vice President and a director of Xerox Corporation. He is currently a director of Ashton-Tate, Cordura Corp., Daisy Systems Corp. Intel Corp., Silicon Systems, Inc., Whittaker Corp. and Wickes Companies, Inc.

James T. Sherwin **Class II: Term to expire in 1988**

Mr. Sherwin, age 52, joined GAF in 1960. He has been Vice Chairman and Chief Administrative Officer of GAF since May 1984 and was Executive Vice President—Finance from 1974 to May 1983. He briefly interrupted his service to GAF from June 1983 to May 1984 to serve as Executive Vice President and Chief Financial Officer of Triangle Industries, Inc. a manufacturer of vending machines, currency changers, juke boxes and copper insulated wire. Upon rejoining GAF in 1984, Mr. Sherwin, a director of the Corporation from 1974 to May 1983, was reelected as a director by the directors pursuant to the terms of an employment contract between Mr. Sherwin and the Corporation which expires on May 20, 1986.

Daniel T. Carroll **Class III: Term to expire in 1989**

Mr. Carroll, age 60, has been Chairman of the Board and President, since 1982, of The Carroll Group, Inc., a management consulting firm. He was President, Chief Executive Officer and a director from 1980 to 1982 of Hoover Universal, Inc., a manufacturer of automotive and industrial products. He is also a director of Combined International Corp., Comshare, Inc., Conrac Corporation, Diebold, Inc., Wolverine World Wide, Inc., Michigan National Corp. and A.M. Castle & Co.

Samuel J. Heyman **Class III: Term to expire in 1989**

Mr. Heyman, age 47, has been Chairman of the Board and Chief Executive Officer of GAF Corporation since December 13, 1983. He is also a principal of a number of closely-held companies and partnerships, whose investments include commercial real estate and a portfolio of publicly traded securities held largely in connection with arbitrage activities.

William Spier **Class III: Term to expire in 1989**

Mr. Spier, age 51, has been a private investor since 1982. He was Vice Chairman of the Board and a director from 1981 to 1982 of Phibro Salomon Inc., a commodities and securities firm. From 1980 to 1981, he was Senior Official in the European Division of Philipp Brothers Inc., a predecessor of Phibro Salomon Inc.

Joseph D. Tydings **Class III: Term to expire in 1989**

Senator Tydings, age 57, has been a member of the law firm of Finley, Kumble, Wagner, Heine, Underberg, Manley & Casey since 1981. Prior to that he was a member of the law firm of Danzansky, Dickey, Tydings, Quint & Gordon. Senator Tydings was a United States Senator from the State of Maryland from 1965 to 1971.

Committees, Meetings and Directors' Fees

The Board of Directors met fourteen times in 1985.

The Board of Directors has delegated certain of its functions and responsibilities to Committees of the Board.

The Executive Committee is authorized to exercise, in the absence of the Board, all the powers of the Board in the management of the Corporation, with several limited exceptions. Messrs. Heyman, Carroll, Goldman and Spier presently constitute the Executive Committee. The Executive Committee did not meet during 1985 because frequent meetings of the full Board of Directors were held.

The Audit Committee reviews the integrity of the Corporation's financial statements, financial controls and the internal audit function, the function and fees of the independent auditors, the procedures for monitoring the Corporation's investment activities and other matters relating to financial and accounting functions. Messrs. Carroll, Lyons, Rogers and Tydings presently constitute the Corporation's Audit Committee. The Audit Committee met three times in 1985.

The Executive Compensation Committee is responsible for the review and administration of the Corporation's compensation practices, policies and plans, including the Executive Incentive Compensation Plan, the 1984 Stock Option Plan and the Employee Stock Purchase Plan; the Stock Option Committee is responsible for the administration of the Corporation's 1975 Stock Option Plan and the Stock Purchase Committee for the administration of the Restricted Stock Plan. Each of these Committees is comprised of Messrs. Goldman, Carroll, Kaplan and Rogers. These Committees met eight times in 1985.

The Nominating Committee makes recommendations as to nominees for election as directors of GAF. It is presently comprised of Messrs. Rogers, Lyons, Spier and Tydings. The members of this Committee met once in 1985. The Committee will consider persons recommended by shareholders for nomination. Such recommendations should describe the qualifications of the candidates and should be submitted in writing to the Secretary of the Corporation at its address first above listed. Recommendations must be received at least 120 days in advance of the customary date of the annual meeting of shareholders, which is presently established as the fourth Monday in April.

The Retirement Committee is responsible for administering the Corporation's retirement plans. Messrs. Spier, Heyman, Kaplan, Lyons, Shea and Sherwin presently constitute the Retirement Committee. The Retirement Committee met twice in 1985.

The total combined attendance for all Board and Committee meetings exceeded 92%. Each director attended more than 75% of the Board and Committee meetings he was scheduled to attend except Harold C. Simmons.

During 1985, the Corporation compensated members of its Board of Directors who were not employees of the Corporation at the rate of $15,000 per year plus $600 per meeting of the Board or Committee thereof attended if such Committee meeting was held in conjunction with a Board meeting or by telephone and $1,000 when a Committee meeting was scheduled independent of a Board meeting. In addition, a chairperson of a Committee was compensated at the rate of $3,000 per year but only one such retainer was paid annually regardless of the number of Committees a director chaired. In addition, the Corporation provided life insurance in the face amount of $50,000 for any member of the Corporation's Board of Directors who was not an employee of the Corporation.

At its meeting on January 27, 1986, the fees payable to directors were increased. The annual fee to non-employee directors for the 1986 calendar year was increased to $18,000 and the fee per meeting was increased to $750 effective January 27, 1986.

Certain Litigation Involving Directors

Each of the directors (except Messrs. Sherwin and Simmons) are named as defendants together with the Corporation in a lawsuit in Supreme Court, New York County by Jesse Werner, the former Chairman and Chief Executive Officer of the Corporation, alleging that they wrongfully prevented him from exercising options to purchase 120,000 shares of Common Stock and seeking to recover $800,000 in compensatory damages and $5,000,000 in punitive and exemplary damages. Werner has also demanded that the Corporation submit to arbitration the dispute with respect to his employment agreement dated September 17, 1981 which the Corporation has declined to perform since the present management assumed office in December 1983. In March 1984, the Corporation commenced a lawsuit in Supreme Court, New York County against Werner and certain former directors of the Corporation seeking to recover compensatory damages in connection with Werner's compensation arrangements and costs incurred in waging the 1983 proxy contest plus $50,000,000 of punitive damages. In October 1985, The Court of Appeals for the State of New York ordered the Corporation to proceed with the arbitration. The Corporation is seeking review of that decision by the United States Supreme Court. Under its By-Laws and the

Delaware General Corporation Law, the present and former directors and officers of the Corporation are entitled to indemnification against certain liability, costs and expenses in any action, suit or proceeding as a result of their service in such capacity unless it is finally determined that they failed to act in good faith and in a manner which they reasonably believed to be in, or not opposed to, the best interests of the Corporation. The Corporation maintained company reimbursement and directors and officers liability insurance policies which were in effect during the period when the foregoing lawsuits were commenced.

Several lawsuits are pending in the courts of New York and Delaware which were commenced by shareholders of the Corporation during the recent proxy contest against Werner, and certain former directors including James T. Sherwin who is a present director and a nominee for reelection at the annual meeting. The complaints in these lawsuits make a variety of allegations against the former Chief Executive Officer and the former directors including mismanagement, corporate waste, breach of fiduciary duties and securities law violations. The defendants have answered and denied these allegations. The former directors may be entitled to indemnification by the Corporation and coverage under its directors and officers liability insurance policies described in the preceding paragraph.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of February 27, 1986, the following persons had reported to the Securities and Exchange Commission beneficial ownership in the amounts shown of more than five percent of a class of voting securities of the Corporation:

Name and Address of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class
Samuel J. Heyman................ 877 Post Road East Westport, CT 06881	Common	1,380,179(1)	7.81%
Harold C. Simmons .... 4835 LBJ Freeway Dallas, TX 75244	Common	2,125,800(2)	12.03%
Strong/Corneliuson Capital Management, Inc... .... 815 East Mason Street Milwaukee, Wisconsin 53202	Common	1,442,485(3)	8.17%

(1) Mr. Heyman has reported that the shares of Common Stock beneficially owned by him include 10,500 shares of Common Stock owned by a private foundation of which Mr. Heyman is an officer, 925,594 shares of Common Stock owned by partnerships of which Mr. Heyman is Manager. 18,000 shares of Common Stock owned by Annette Heyman, Mr. Heyman's mother, from whom Mr. Heyman has a power of attorney entitling him to vote such shares. Mr. Heyman reported that he has the sole power to vote and to direct the vote, and the sole power to dispose and to direct the disposition of all shares of Common Stock of which he is the beneficial owner, except for 18,000 shares of Common Stock owned by his mother, with respect to which shares of Common Stock Mr. Heyman shares voting and investment powers with his mother. Mr. Heyman also holds presently exercisable options to acquire 15,000 shares of Common Stock.

(2) Mr. Simmons has reported in an amendment to his Schedule 13D, dated February 6, 1986, that the shares of Common Stock are held by the following corporations which may be deemed to be controlled by Mr. Simmons: National City Lines, Inc.–157,025 shares of Common Stock and The Amalgamated Sugar Company–1,968,775 shares of Common Stock. Mr. Simmons disclaims beneficial ownership of these shares. In May 1985, Amalgamated Sugar issued detachable warrants to purchase one share each of GAF Common Stock. Mr. Simmons reports that there are 440,000 warrants presently outstanding and that Amalgamated Sugar has placed 440,000 of its GAF shares in escrow to satisfy warrant exercises. The warrants became exercisable at $50.00 per share on August 28, 1985 and will expire on May 1, 1990.

(3) Strong/Corneliuson Capital Management, Inc. has reported on its Schedule 13G, dated February 12, 1986, that it owns 1,368,400 shares and that it has sole voting and dispositive power with respect to the shares. In addition, it has reported that it also holds 140,000 warrants to purchase 140,000 shares of GAF Common Stock. For a description of the warrants, see footnote (2) above. Strong/Corneliuson has recently advised GAF that it increased its ownership to 1,442,485 shares as of February 27, 1986.

As of February 27, 1986, each director of the Corporation and all directors and executive officers of the Corporation as a group beneficially owned the following equity securities of the Corporation:

Name	Title of Class	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Daniel T. Carroll	Common	1,000	*
Dr. Jacob E. Goldman	Common	3,333	*
Samuel J. Heyman	Common	1,380,179(2)	7.81%
Sanford Kaplan	Common	30,600	.17%
William P. Lyons	Common	24,000(3)	.14%
Scott A. Rogers, Jr.	Common	1,000	*
Edward E. Shea	Common	2,620(4)	*
James T. Sherwin	Common	11,329(5)	*
Harold C. Simmons	Common	2,125,800(6)	12.03%
William Spier	Common	22,300	.13%
Joseph D. Tydings	Common	3,441(7)	*
All Directors and Executive Officers as a Group (14 individuals)	Common	3,665,377(8)	20.75%

*Less than .1%

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

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

(3) Includes 7,500 shares held in trust for the benefit of Mr. Lyons' children of which beneficial ownership is disclaimed by Mr. Lyons, 11,600 shares held in a pension trust of which Mr. Lyons is one of two trustees and 4,900 shares held jointly by Mr. Lyons and Justine Lyons.

(4) All shares held jointly with his wife.

(5) Includes 5,000 shares subject to options which are presently exercisable and 5,000 shares subject to options which are exercisable within 60 days of the date of this Proxy Statement.

(6) See footnote (2) to preceding table.

(7) Includes 2,550 shares held in a Defined Benefit Trust of which Mr. Tydings is a trustee.

(8) See footnotes above. Includes an additional 100 shares held jointly with a spouse and 47,700 shares which officers who are not directors have the right to acquire upon exercise of options (which are presently exercisable).

EXECUTIVE COMPENSATION AND CERTAIN TRANSACTIONS

CASH COMPENSATION

The following information is furnished with respect to all cash compensation paid for services rendered to the Corporation in all capacities during fiscal 1985 by (i) all six current executive officers of the Corporation whose cash compensation exceeded $60,000, and (ii) all persons who were executive officers during 1985 as a group:

Name of Individual or Number in Group	Capacities in Which Served	Salary	Bonus(1)	Other(2)
Samuel J. Heyman	Chairman of the Board and Chief Executive Officer	$291,667	$275,000	$14,074
James T. Sherwin	Vice Chairman of the Board and Chief Administrative Officer	188,750	175,000	18,798
Edward E. Shea	Senior Vice President, General Counsel and Secretary	130,417	65,000	15,439
Carl R. Eckardt	Senior Vice President and President-Chemicals Division	156,667	125,000	20,028
John A. Brennan	Senior Vice President and President-Building Materials Division	123,333	85,000	16,073
Raymond J. Lacroix	Senior Vice President and Chief Financial Officer	104,167	45,000	12,863
All Executive Officers as a Group—(6 individuals)		$995,001	$770,000	$97,277

(1) Includes cash bonuses earned during 1985 and paid in early 1986 to the executive officers pursuant to the "Executive Incentive Compensation Plan" described below. Bonuses earned during 1984 and paid in early 1985 were reported in the Corporation's 1985 Proxy Statement.

(2) Includes the Corporation's cash contributions to the "GAF Capital Accumulation Plan" and the cost to the Corporation of special life insurance provided to the Corporation's elected officers. Both plans are described below.

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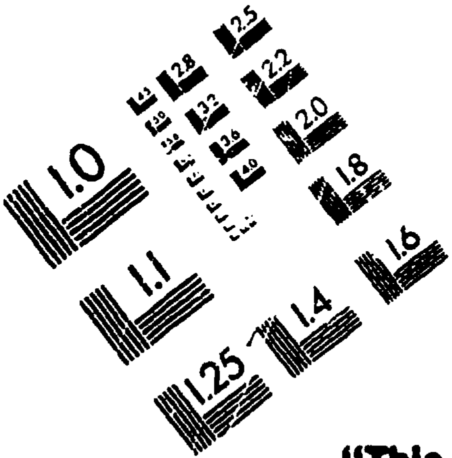

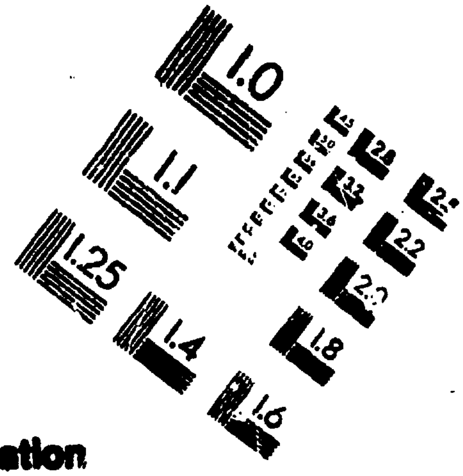

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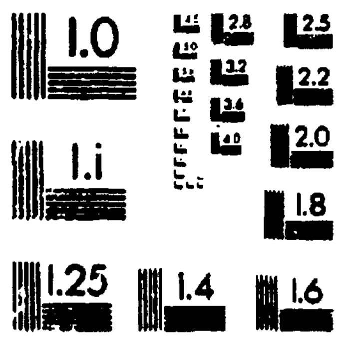

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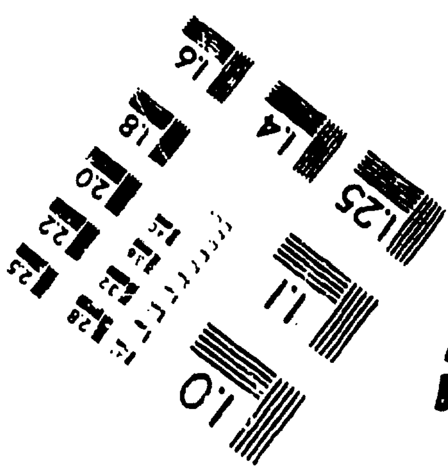

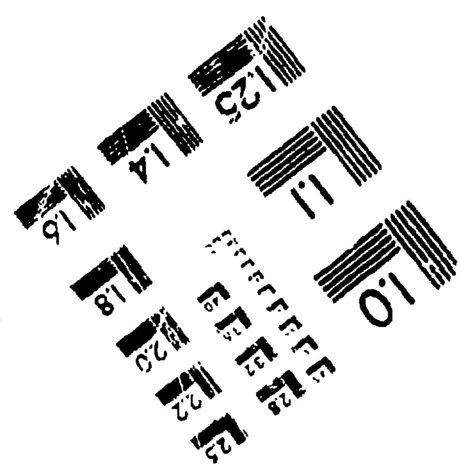

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Information Services
15740 Shady Grove Road
Gaithersburg, Maryland 20877-1454

Compensation Pursuant To Plans

Executive Incentive Compensation Plan

GAF has an Executive Incentive Compensation Plan which was approved by the shareholders in May, 1967. The Plan covers approximately 275 officers, managers and other professional employees of the Corporation.

The Plan provides that the Board of Directors, in its discretion, may credit to an incentive compensation fund an amount no greater than 6% of the excess of GAF's adjusted income over 6% of the value of shareholders' equity at the beginning of the year for which the computation is made. A percentage of this amount, consisting of not less than 5% nor more than 15%, shall be used for special awards to employees as the Board directs, with the balance to be used for Executive Incentive Compensation Awards to key employees. The Plan provides that the Chief Executive Officer of the Corporation shall furnish the Executive Compensation Committee, and that the Committee shall furnish the Board of Directors, with recommendations as to particular awards. An award under the Plan may be payable in cash or GAF Common Stock or both. Common Stock may be subject to restrictions on disposition.

Criteria used to determine awards include the level of success achieved during the year by the employee, the Division or department in which the employee works and the Corporation. For fiscal 1985, the total incentive compensation fund was determined to be $2,875,000 for allocation among the 275 eligible officers, managers and employees. All awards made for fiscal 1985 were paid in cash. The awards paid to the executive officers appear in the Cash Compensation Table.

1969 Restricted Stock Purchase Plan

The Plan for the Sale of Restricted and Unrestricted Common Stock to Employees Who Perform Executive, Administrative or Supervisory Functions authorizes the sale of an aggregate of 650,000 shares of Common Stock to full-time executive, administrative and supervisory employees of the Corporation and its subsidiaries. The price of Restricted Shares must be at least 50% of the closing price of the Corporation's Common Stock on the New York Stock Exchange on the last trading day on which such stock was traded preceding the date on which an employee is designated as one to whom such shares may be offered for sale. To accept an award, the employee must make payment in full of the purchase price.

The Plan authorizes the sale of shares subject to prescribed restrictions as to disposition ("Restricted Shares") and without such restrictions ("Unrestricted Shares"). All sales under the

1969 Purchase Plan to date have been of Restricted Shares. Restricted Shares may not be resold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except as provided in the Plan, for a one-year period from the date of purchase and such further period or periods as may be provided by the Committee. Since March 1984, the policy of the Stock Purchase Committee with respect to new sales pursuant to the Plan has been to provide for the lapsing of the restrictions on one-fifth of the stock awarded on each of the first through fifth anniversaries of the date of sale. The policies in effect prior to that time provided, in general, for a nine year lapsing schedule on restrictions, and there are Restricted Shares outstanding which are still subject to the nine year schedule. If a participant's employment terminates for certain reasons prior to the fifth anniversary of the date of purchase or due to death prior to the completion of five years of continuous employment, the Corporation has the right to repurchase the shares which remain subject to restrictions at the price which the employee paid for them.

The selection of eligible employees to receive awards under the Plan is made by the Stock Purchase Committee. Awards are based on the Committee's evaluation of an employee's past or potential contribution to the Corporation or its subsidiaries. The Committee determines the number of shares to be awarded to any employee, the date of the award and the terms and conditions governing the award. There is no stated maximum or minimum number of shares which may be awarded under the Plan to any one eligible person or group of persons.

No awards of stock were made to executive officers under this Plan in 1985. Several executive officers do, however, own shares which they purchased in prior years on which the restrictions lapsed in 1985. The difference between the original purchase price and the market value on the date of lapse for the Restricted Shares was as follows: Carl R. Eckardt $45,871 (992 shares); John A. Brennan - $[illegible]6,573 (1,768 shares); Raymond J. Lacroix - $12,092 (364 shares) and all executive officers as a group (6 individuals) - $114,537 - (3,124 shares).

Stock Option Plans

1975 Stock Option Plan. This Plan authorizes the grant of "non-qualified" options (within the meaning of the Internal Revenue Code) to purchase a maximum of 800,000 shares of the Corporation's Common Stock to key employees. The exercise price at which shares of Common Stock may be purchased may not be less than 100% of the fair market value of the shares on the date the option is granted.

Options granted after April 30, 1984 are exercisable as to 20% of the shares after the expiration of one year from the date of grant, 40% after two years, 60% after three years, 80% after four years, and 100% after five years, with no such option to be exercisable as to all or any portion thereof more than 60 days after the fifth anniversary of the date of grant. Options granted on or before April 30, 1984 may not be exercised unless the optionee has remained in the continuous employ of the Corporation or its subsidiaries for a period of one year after the date of grant, but thereafter may be exercised in full at any time over the remaining term of the option. Such earlier options expire not later than ten years from the date of grant and there is no maximum amount of options which may be exercised in any year.

The selection of eligible employees to receive options is made by the Stock Option Committee. Awards of options are based on the Stock Option Committee's evaluation of an employee's past or potential contribution to the Corporation or its subsidiaries. The Stock Option Committee determines the number of shares to be optioned to any employee, the date of the option grant and the terms and conditions governing the options. There is no stated maximum or minimum number of options or shares which may be issued to any one eligible person or group of persons.

The 1975 Stock Option Plan and the Corporation's right to grant options under it terminated on February 12, 1985. Options outstanding on February 12 were not affected by the termination of the Plan.

1984 Stock Option Plan. This Plan authorizes the grant of options to purchase a maximum of 800,000 shares of the Corporation's Common Stock. Options may be either options intended to be "incentive stock options" within the meaning of section 422A of the Internal Revenue Code of 1954, as amended (the "Code"), or "non-qualified" stock options for purposes of the Code. The exercise price of options granted must be at least equal to the fair market value of such shares on the date of grant. With respect to any incentive stock option granted to a participant who owns stock possessing more than 10% of the voting rights of the Corporation's outstanding capital stock on the date of grant, the exercise price of the option must be at least equal to 110% of the Fair Market Value on the date of grant.

The term of each option is five years and sixty days (five years for certain incentive stock options granted to persons owning more than 10% of the Corporation's Stock). Options may not be exercised during the first year after the date of grant. Thereafter, except as noted below, each option becomes exercisable as to 20% of the shares subject thereto on each of the first through the fifth anniversaries of the date of grant. With respect to options granted to persons owning more than 10% of the Corporation's stock, the option will become exercisable as to the final 20% of shares subject thereto four years and ten months from the date of grant.

The selection of eligible employees to receive options is made by the Executive Compensation Committee. Awards of options are based on the Executive Compensation Committee's evaluation of an employee's past or potential contribution to the Corporation or its subsidiaries. The Executive Compensation Committee determines the number of shares to be optioned to any employee, the date of the option grant, whether the option is intended to be an incentive stock option or a nonqualified stock option, and other terms governing the options. There is no stated maximum or minimum number of options or shares which may be issued to any one eligible person or group of persons. However, the aggregate fair market value of the Common Stock (determined at the date of the option grant) for which any employee may be granted incentive stock options in any calendar year may not exceed $100,000, plus certain carryover allowances from the previous three years permitted under the Code.

Holders of stock options granted under both the 1975 and 1984 Stock Option Plans have certain limited stock appreciation rights ("Limited Rights") which are in addition to the stock appreciation rights already included under the 1975 and 1984 Stock Option Plans. These Limited Rights apply only in the event of a tender or exchange offer for the Corporation's Common Stock by a bidder other than the Corporation, and entitle the option holder to surrender any then exercisable option or portion thereof and receive either cash or the Corporation's Common Stock, as determined by the Executive Compensation Committee or Stock Option Committee, as applicable, equal to the difference between the aggregate fair market value of the shares subject to options on the date of surrender (as determined in accordance with the Limited Rights) and the aggregate option price.

The following table includes, for each executive officer named in the Executive Compensation Table and for all executive officers as a group, data on the following: (i) all options granted in fiscal 1985 under the 1984 Stock Option Plan [each of which includes provision for stock appreciation rights ("SARs")] whether incentive stock options or nonqualified stock options and (ii) the net value realized in shares or cash on exercise of options awarded in previous years under both the 1975 and 1984 Stock Option Plans.

	Options and related SARs granted in 1985	Net value of options exercised during 1985 (1)
Samuel J. Heyman	0	0
James T. Sherwin	0	0
Edward E. Shea	0	$40,875
Carl R. Eckardt	0	0
John A. Brennan	0	0
Raymond I. Lacroix	0	0
All Executive Officers as a Group (6 individuals)	0	$40,875

(1) Net value of shares received on exercise of options (market value on date of exercise less exercise price). No stock appreciation rights were exercised.

Employee Stock Purchase Plan

The 1984 Employee Stock Purchase Plan authorizes the grant of options to purchase a maximum of 600,000 shares of the Corporation's Common Stock on a non-discriminatory basis to all full time employees of the Corporation and its subsidiaries except employees who own 5% or more of the total combined voting power of all classes of stock of the Corporation. All options granted shall be for the same number of shares unless the Executive Compensation Committee provides that the number of shares granted by each option shall bear a uniform relationship to the compensation of each eligible employee. The price at which shares of stock may be purchased under any offering is 85% of the lesser of fair market value of the Common Stock on the date of grant or the date of purchase. Payments for stock purchased may be made either by immediate delivery of the full purchase price, on an installment basis through payroll deductions or a combination of both.

There have been three offerings of stock pursuant to the Plan on October 1, 1984, June 3, 1985 and January 20, 1986. All three offerings have granted employees the option to purchase a number of shares which bears a uniform relationship to compensation. Options not exercised by the end of the offering period (typically one month) expire.

The following table sets forth, as to each of the executive officers named in the Cash Compensation Table above (except Mr. Heyman who is not eligible to participate) and to all executive officers as a group the number of shares of the Corporation's Common Stock purchased by immediate payment or payroll deduction pursuant to the Plan during 1985 and the aggregate net value of the shares purchased over and above the purchase price thereof.

Name of Individual or Number in Group	Number of Shares Purchased	Price Per Share	Aggregate Net Value of Shares Purchased (1)
James T. Sherwin	481	$18.70	
	348	28.05	$3,310(2)
Edward E. Shea	334	18.70	
	86	28.05	1,528
Carl R. Eckardt	374	18.70	
	285	28.05	2,645(2)
John A. Brennan	0	—	—
Raymond J. Lacroix	267	18.70	
	187	28.05	1,807(2)
All Executive Officers	1,456	18.70	
as a Group (5 individuals)	906	28.05	$9,290

(1) Net value of shares purchased on exercise of options (market value on date of grant, based on closing price on New York Stock Exchange, less exercise price).

(2) These executive officers are participating in the third offering under the Stock Purchase Plan by payroll deduction. They will acquire shares on August 29, 1986 with an aggregate exercise price as follows: James T. Sherwin—$9,750; Carl R. Eckardt—$8,000 and Raymond J. Lacroix—$5,250. The exercise price per share will be the lesser of $48.24 or 85% of the closing market price on August 29, 1986, adjusted to reflect the stock split which will occur if Proposal No. 3, *infra*, is approved by the shareholders at the 1986 Annual Meeting.

Prior Pension Plan

On September 23, 1982, the Board of Directors authorized the termination, effective December 31, 1982, of the GAF Salaried Employees' Retirement Plan (the "Pension Plan"), a defined benefit pension plan. All participants in the Pension Plan who were not otherwise vested became vested on the termination date and each participant became entitled, as one of several options, to receive an annuity contract providing for the monthly payment of his accrued benefit as of December 31, 1982, in accordance with the terms of the Pension Plan. Messrs. Sherwin, Eckardt, Brennan and Lacroix elected to receive annuity contracts which will provide at age 65 maximum monthly payments for their accrued benefits of $4,334, $665, $1,218 and $908, respectively, pursuant to the terms of the Pension Plan. No other current executive officers were participants in the Pension Plan at the time of its termination.

Capital Accumulation Plan

Effective January 1, 1983, the Corporation adopted the GAF Capital Accumulation Plan ("GAFCAP") for salaried employees to encourage employees to accumulate funds for retirement.

GAFCAP is a profit sharing retirement plan which contains a salary reduction arrangement which complies with Section 401(k) of the Internal Revenue Code of 1954, as amended. Pursuant to GAFCAP, each participant may elect to reduce his compensation by up to 14% (thereby excluding from his income for federal income tax purposes the amount of such reduction) and to have the Corporation contribute such amount to GAFCAP on his behalf. The Corporation will contribute an additional amount equal to 3% of a participant's compensation and will match the lesser of 4% of a participant's compensation or two-thirds of a participant's salary reduction contribution. A participant also may elect to make non-deductible (for federal income tax purpose) voluntary contributions to GAFCAP in an amount not to exceed 10% of his compensation. Distributions commence as soon as practicable after either the termination of employment or retirement, and a participant may elect to receive payment either (a) in monthly installments over a period equal to the participant's life expectancy or that of his spouse, if longer, or (b) in a lump sum. The amounts contributed during fiscal 1985 by the Corporation to the executive officers are listed in the Executive Compensation Table.

Executive Deferred Compensation Program

In November 1985, the Corporation established a new deferred compensation plan for the benefit of key employees. The benefit payable under the Plan, which accrues in accordance with a ten year schedule, consists of an annual payment commencing at age 65 equal to 25% of a covered employee's last full year's salary. The benefit will continue for the longer of 15 years or the joint lifetimes of the employee and his spouse. If a covered employee dies while employed by the Corporation, a death benefit of 36% of the employee's annual income at the date of death is payable to the employee's beneficiary for a term of 15 years. Employees who participate in this plan are not entitled to have employer contributions made to their accounts, if any, under GAFCAP.

Employees are selected for eligibility for this plan based upon the key nature of their responsibilities. Key managerial and professional employees, including all executive officers, were offered participation in November 1985. All executive officers accepted except Mr. Shea. Since the plan was in effect for less than two months in 1985, the amount of vested benefits to which each executive officer was entitled at the end of 1985 was negligible.

Severance Policy

The Corporation's basic severance policy for salaried employees provides for payments to employees based upon the age and length of service of the employee at the time of termination. Pursuant to the terms of this policy, the only executive officers currently entitled to severance payments in excess of $60,000 are Carl R. Eckardt and James T. Sherwin. Mr. Eckardt would be entitled to a severance payment of $60,000 and Mr. Sherwin would be entitled to a severance payment of $97,500, as adjusted by the terms of his employment agreement with the Corporation which expires on May 21, 1986.

Life Insurance

In 1985 employees of the Corporation were eligible to enroll on a contributory basis in a benefits package providing generally for term life insurance equal to approximately two times current annual base salary, an accidental death and dismemberment payment equal to two times current annual base salary and monthly long-term disability benefits of approximately 2% of two times current annual salary. All elected officers received the aforementioned accidental death and dismemberment and long-term disability coverages on a non-contributory basis; in addition, they are eligible to receive group term life insurance coverage equal to approximately four times current annual base salary on a non-contributory basis. The cost to the Corporation of such insurance coverage for all executive officers is listed in the Executive Compensation Table.

Personal Benefits

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

CERTAIN TRANSACTIONS WITH RELATED PARTIES

In 1985, the Corporation engaged Finley, Kumble, Wagner, Heine, Underberg, Manley & Casey, to render legal services in connection with a variety of matters. Joseph D. Tydings, a director of the Corporation, is a member of this firm. During 1985, the Corporation paid Finley, Kumble, Wagner, Heine, Underberg, Manley & Casey fees and disbursements which were less than 1% of the firm's revenues for the last full fiscal year.

In 1985, the Corporation engaged G.B. Energy Systems, Inc. as a consultant on research and development pursuant to a contract between it and the Corporation. Dr. Jacob E. Goldman, a director of the Corporation, is President of G.B. Energy Systems, Inc. During 1985, the Corporation paid G.B. Energy Systems, Inc. $60,000 in fees.

Proposal No. 2
CLASSIFICATION OF THE BOARD OF DIRECTORS AND OTHER AMENDMENTS TO THE CERTIFICATE

General

The Board of Directors of the Corporation has approved by a unanimous vote of those present a number of amendments to the Corporation's Restated Certificate of Incorporation (the "Certificate") and has directed that they be submitted to a vote of the shareholders at the Annual Meeting. To be adopted, this proposal requires the affirmative vote of holders of a majority of all outstanding shares of Common Stock of the Corporation entitled to vote thereon at the meeting. The Board of Directors believes that it is in the best interests of the Corporation to amend the Certificate to give effect to the proposed amendments.

Appendix A to this proxy statement contains the text of the proposed amendments to the Certificate, and the following discussion is qualified in its entirety by reference to such Appendix. The proposed amendments are interrelated, and the purpose of some of the amendments is to prevent circumvention of the desired protection afforded by others. Accordingly, the Board has approved these amendments as a single proposal. Any shareholders who favor some but oppose others of these proposed amendments will have to decide, therefore, if the advantages of the amendments they favor outweigh the disadvantages of the ones they oppose. Votes may not be cast in favor of or against portions of this Proposal No. 2 and attempts to do so on the proxy card will invalidate that card's voting instructions on this Proposal.

The proposed amendments to the Certificate would (a) provide for a classified Board of Directors and authorize the directors to increase or decrease the size of the Board within the limits set by proposed Article NINTH (c) and to fill vacancies on the Board; (b) provide that any shareholder action be taken only at a meeting of shareholders and not by written consent; (c) provide that only the Chairman of the Board or the Board of Directors and not the shareholders are authorized to call special meetings of the shareholders; (d) provide certain procedures that a shareholder must follow in order to nominate any person for election to the Board of Directors or to bring any business before an annual meeting of shareholders; (e) provide that the Board of Directors is exclusively authorized to establish the rights, powers, duties and procedures governing the Board and the management of the Corporation; (f) provide that directors may not be removed without cause and may be removed for cause only by the holders of a majority of the outstanding shares entitled to vote, including, in certain circumstances, the vote of the holders of a majority of the shares not beneficially owned by any owner of more than 5% of the total voting power of all classes of stock of the Corporation; and (g) provide that unless certain conditions are met, the proposed amendments may not be altered, amended, changed or repealed without a vote of the holders of not less than 80% of the Corporation's shares entitled to vote thereon. This may be considered to be an anti-takeover proposal.

As more fully discussed below, the primary purpose of the proposed amendments is to enhance the Corporation's ability to successfully conclude any potential acquisition free from the concern that a target company will be in a position to utilize a retaliatory offer for GAF as a means of resisting the Corporation's acquisition effort. The Board of Directors believes that such a retaliatory offer, designed solely to thwart the Corporation's offer, is not likely to be in the best interests of the Corporation's shareholders.

The Corporation has from time to time purchased securities in other corporations and regularly reviews its holdings of such securities to determine, among other things, whether to increase, decrease, hold or liquidate such holdings or whether to seek to acquire control of any such corporation by tender offer or otherwise. In this connection, the Board of Directors is aware that in recent years, several corporations have made defensive counteroffers in response to acquisition attempts. During the pendency of the Corporation's recent tender offer for Union Carbide Corporation, the Corporation's Board of Directors became aware that the Board of Directors of Union Carbide took under consideration such a plan to gain control of the Corporation as a means of frustrating the Corporation's offer for Union Carbide. As the Corporation may wish at a future time to make a new offer for Union Carbide or pursue the acquisition of other companies, the Corporation's Board believes that these proposed amendments are necessary to enable the Corporation to successfully pursue an acquisition strategy which is in the best interests of the Corporation's shareholders.

The proposed amendments are also intended to promote conditions of continuity and stability in the Corporation's leadership, business, management and policies and to ensure that all shareholders are afforded the opportunity at shareholder meetings to fully discuss and consider matters which affect their rights.

Other Considerations

Although the proposed amendments are intended primarily to deter and discourage retaliatory counter tender offers, the proposed amendments, if adopted, will necessarily have the effect of making more difficult all tender offers or other acquisitions of stock for the purpose of acquiring control of the Board of Directors regardless of the offeror's motivation, as well as proxy contests or other attempts to change management. To the extent adoption of the proposed amendments makes the acquisition of control or a change in management of the Corporation more difficult, the Corporation may become a less attractive takeover target. As a result, offers from a significant shareholder or from third parties to acquire some or all of the shares of the Corporation which some shareholders might deem to be favorable could be discouraged. Further, to the extent tender offers or accumulations of the Corporation's stock are discouraged, shareholders may be deprived of the higher market prices for their stock which often prevail as a result of such events. Accordingly, before voting on the proposed amendments to the Certificate, shareholders are urged to read carefully the following sections of this Proxy Statement which discuss the reasons for and effects of the proposed amendments and describe more fully the specific provisions of each proposed amendment.

The Corporation is not at present involved in the acquisition of any other company nor is it presently aware of any pending or threatened effort to acquire the Corporation or to change current management, either by a third party or by any holder or holders of any substantial block of the Corporation's Common Stock. The Board of Directors has concluded that it is desirable to consider these amendments at a time when the Corporation is not involved in an acquisition.

Description of the Proposed Amendments to the Certificate

Classification of the Board of Directors. Under the Corporation's current By-Laws, each of the directors of the Corporation is elected annually by the shareholders for a term of one year. The proposed amendment to Article NINTH (c) of the Certificate provides for a Board of Directors divided into three classes having staggered three-year terms, to take effect beginning with the election of directors at the 1986 Annual Meeting. If the proposed amendment is approved, at the 1986 Annual Meeting three directors will be elected for terms expiring in 1987, three for terms expiring in 1988, and four for terms expiring in 1989, as more fully described under "ELECTION OF DIRECTORS." At each Annual Meeting after 1986, directors would be elected to succeed those whose terms then expire, each newly elected director to serve for a three-year term.

The proposed amendment also limits the number of directors on the classified Board to a maximum of twenty-four and a minimum of three. The amendment vests in the Board the power, by vote of a majority of the directors then in office, to fix the exact number of such directors within these limits and to fill vacancies in the Board which may occur as a result of an increase in the number of such directors, or because of resignations or otherwise. Any director chosen by the Board to fill a vacancy shall hold office until the next election of the class for which such director shall have been chosen.

The provisions for a classified Board, combined with the ability of the Board to increase the size of the Board, will extend the time required to elect a majority of the directors from one annual meeting to as many as three annual meetings. Thus, the classification of directors will have the effect of making it more difficult to change the over-all composition of the Board of Directors and will therefore make it more difficult for the management of a company which the Corporation may be seeking to acquire to affect a sudden change in control of the Corporation in order to terminate the Corporation's acquisition efforts. However, tender offers or other acquisitions of stock for the purpose of acquiring control of the Board and proxy contests or other attempts to change management which are not undertaken as defensive tactics may also be discouraged by adoption of this proposal.

The Board of Directors also believes that classification of the Board will promote continuity and stability of the Corporation's leadership, management policies and business strategies by assuring that experienced personnel associated with the implementation of these policies and strategies will be on the Board at all times.

Removal of Directors; Filling Vacancies on the Board of Directors. The Corporation's By-Laws presently provide that a director may be removed, either with or without cause, by the affirmative vote of the holders of a majority of the outstanding shares of the stock of the Corporation entitled to vote. Under Delaware law, a director on a classified Board may be removed from office during his or her term without cause only if the Certificate of Incorporation so provides. The proposed amendment to Article NINTH (c) specifically provides that directors may be removed only for cause and only by the affirmative vote of the holders of a majority of the Corporation's shares entitled to vote thereon, including, in certain circumstances, the vote of the holders of a majority of the shares not beneficially owned by a Related Person (as defined). Accordingly, the proposed amendment would eliminate the present ability of the holders of a majority of the Corporation's shares to remove a director without cause.

Proposed Article NINTH (q) to the Certificate defines a Related Person generally as any person or entity which is the beneficial owner of more than 5% of the total voting power of all classes of stock of the Corporation entitled to vote generally in the election of directors. However, any person or entity which owned 5% or more of the Corporation's outstanding Common Stock on March 17, 1986 will not be deemed a Related Person.

The provisions of proposed Article NINTH (c) relating to the removal of directors and those which limit the number of directors are believed necessary in order to assure that the advantages of a classified Board are not circumvented. The provisions for a classified Board of Directors, together with the other provisions of the proposed amendment, if adopted, would make it more difficult to remove directors, and ultimately the management, even if a majority of shareholders decide to do so. In particular, absent the approval of shareholders having sufficient votes to amend proposed Article NINTH (c), it would not be possible to change the majority of the directors at any annual meeting, even where the only reason for the change may be shareholder dissatisfaction with the performance of the incumbent directors.

Procedures for Shareholder Nominations and Proposals. The proposed amendments to Article NINTH (c) and new Article NINTH (o) of the Certificate set forth the procedures that a shareholder must follow in order to nominate any person for election to the Board of Directors or to bring any business before an annual meeting of shareholders. Currently, no such procedural requirements exist in either the Certificate or the By-Laws.

Both amendments will provide that a shareholder must furnish written notice of the shareholder's nomination or business proposal to the Secretary of the Corporation not less than 60 days prior to the first anniversary of the date of the last meeting of shareholders called for the election of directors. The amendments would, accordingly, eliminate the present ability of shareholders to nominate directors or introduce business matters from the floor at the annual meeting of shareholders without having provided prior notice thereof to the Corporation. In addition, proposed Article NINTH (c)(iv) would provide that a shareholder's notice with respect to the nomination of candidates for election to the Board of Directors must contain certain information concerning the nominee, including his age, business and residence addresses and principal occupation, and the number of shares of stock of the Corporation beneficially owned by him. The proposed amendment to Article NINTH (c) (iv) would not be applicable to nominations by the Board of Directors or a nominating committee of the Board. New proposed Article NINTH (o) would provide that a shareholders' notice with respect to business matters to be brought before a shareholders' meeting must contain a brief description of the business matter, the identity of and number of shares owned by the shareholder proposing such business matters, and any interest of the shareholder in such business matter. New proposed Article NINTH (o) would not affect the current requirement that shareholder proposals be delivered to the Corporation at least 120 days prior to the anniversary of the date the prior year's proxy statement was released to shareholders in order to be included in the proxy statement.

The procedures set forth in proposed Article NINTH (c)(iv) and new proposed Article NINTH (o) will prohibit last-minute attempts by a shareholder to nominate a director or present a business proposal at an annual shareholders' meeting, even if such a nomination or proposal might be desired by a majority of the shareholders. These procedures will enable the Board of Directors of the Corporation to be informed in advance of nominations or business proposals (including any that may be made by a person seeking to acquire control of the Corporation) to be presented at meetings of shareholders in order to prepare informed and reasoned positions with respect to such nominations and business proposals. These procedures would also eliminate the element of surprise that a person seeking to acquire the Corporation might otherwise use to advantage in making a shareholder proposal.

Requirement that Any Special Meeting be Called by the Board of Directors. Under the Corporation's current By-Laws, special meetings may be called by the Chairman of the Board, the Board of Directors or the President and shall be called by the Secretary at the request in writing of shareholders owning at least a majority of the shares of capital stock of the Corporation issued and outstanding and entitled to vote. New proposed Article NINTH (p) would provide that only the Chairman of the Board or the Board of Directors and not the shareholders are authorized to call special meetings of the shareholders. Thus, the proposed amendment would eliminate the present ability of shareholders to call special meetings of the shareholders. If adopted, the proposed amendment would make it more difficult to remove directors, and ultimately, the management, even if a majority of shareholders desire to do so.

Requirement that Any Shareholder Action Be Taken Only at a Meeting. New proposed Article NINTH (n) to the Certificate would require that any shareholder action be taken only at a meeting of shareholders. At present, any action which may be taken at any annual or special meeting of shareholders may also be taken without a meeting, without prior written notice and without a vote, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

The amendment is designed to assure that matters of importance are presented and voted on at shareholder meetings and not decided by a major shareholder without giving all shareholders an opportunity to be heard and to vote at a meeting of shareholders. The Board believes that it is important for shareholders to be able to discuss matters which may affect their rights and for management to be able to give advance consideration to any such matters, and that it is therefore appropriate for shareholders of a publicly-held corporation to take action affecting the corporation and its shareholders only at a meeting.

This amendment, combined with the amendment eliminating the right of shareholders to call special meetings (see "Requirement that Any Special Meeting be Called by the Board of Directors") would effectively preclude shareholders from taking any action except at a special meeting called by the Board of Directors or at any annual meeting. Accordingly, the proposed amendments may make it more difficult for shareholders to take action opposed by the Board of Directors and thus deter persons from seeking to acquire substantial stock positions in or control of the Corporation, including an attempt to acquire control of the Corporation made in response to any attempt by the Corporation to acquire securities or control of another corporation.

Authority of Board of Directors to Manage the Business and Affairs of the Corporation. Under Delaware law, the business and affairs of the corporation shall be managed by or under the direction of the Board of Directors except as otherwise provided by Delaware law or the certificate of incorporation. The Corporation's Certificate currently permits both the Certificate and the By-Laws to qualify this authority with respect to certain matters. The proposed amendment to Article NINTH (e) of the Certificate would provide that the Board has the exclusive authority to establish the rights, powers, duties and procedures governing the Board and the management of the business and affairs of the Corporation.

The proposed amendment would prevent shareholders from seeking to disrupt the management and policies of the Board of Directors by adopting changes to the By-Laws which, for example, alter the vote required for any action of the Board or the election by the Board of officers of the Corporation. This amendment is viewed as a necessary adjunct to the classification of the Corporation's Board of Directors. The adoption of the proposed amendment may also deter certain mergers, tender offers or other future takeover attempts favored by the holders of some or a majority of the Corporation's voting stock, including an attempt made in response to any effort by the Corporation to acquire securities or control of another corporation.

Increased Shareholder Vote for Alteration, Amendment or Repeal of Proposed Amendments. At present, any alteration, amendment, repeal or rescission of any provision of the Certificate must be approved by a majority of the directors of the Corporation then in office and by the affirmative vote of the holders of a majority of the outstanding stock of the Corporation entitled to vote at a meeting. Proposed new Article TENTH of the Certificate would provide that any alteration, amendment, repeal or rescission of Articles NINTH and TENTH of the Certificate must be approved by the affirmative vote of the holders of not less than eighty percent (80%) of the outstanding stock of the Corporation entitled to vote generally in the election of directors, subject to the provisions of any series of preferred stock which may at any time be outstanding. However, this supermajority voting requirement will not apply to any change recommended to the stockholders by two-thirds of the whole Board of Directors so long as a majority of the directors acting upon such matter shall be Continuing Directors. Proposed Article NINTH (q) generally defines a Continuing Director as any member of the Board of Directors who is not a Related Person and who (i) was a director on March 17, 1986, (ii) became a director prior to the time that any person or entity became a Related Person or (iii) was recommended to succeed a Continuing Director by a majority of Continuing Directors. Inasmuch as all of the nominees for election at the 1986 annual Meeting were directors on March 17, 1986 and none of the nominees are Related Persons, all of such persons will be deemed Continuing Directors for purposes of Article NINTH (q). In addition, under proposed Article TENTH no By-Law provisions inconsistent with the proposed amendments to Articles NINTH and TENTH may be adopted.

The requirement of an increased shareholder vote is designed to prevent a shareholder with a majority of the voting stock from avoiding the requirements of the proposed amendments by simply repealing them. If this proposal is adopted, any shareholder desiring to alter, amend, repeal or rescind any of the proposed amendments without the support of current management would have to obtain the affirmative vote of the holders of at least 80% of the Corporation's outstanding shares. Such a requirement would thus limit a majority shareholder's ability to act unilaterally without the support of other shareholders.

This proposal will, however, make it hard to change any of the amendments proposed in this proxy statement. In general, a supermajority vote of 80% is difficult to obtain, even when there is substantial shareholder support for a proposal, as it is not uncommon for less than 80% of the total number of shares of stock entitled to vote at a meeting to cast ballots. For example, the percentage of shares represented in person or by proxy at the Corporation's last three annual meetings of shareholders was: 1985–78.31%, 1984–84.2% and 1983–78.94%. With respect to the Corporation's voting stock, the obtaining of a supermajority vote may be further complicated by the fact that, at February 27, 1986, Mr. Heyman and Harold C. Simmons* (who is currently a director, but is not standing for reelection) beneficially owned more than 19% of the outstanding Common Stock. Thus, assuming that they retain or increase their shareholdings, it would be a practical necessity that the affirmative vote of at least one of them be obtained in order to adopt certain proposed amendments to the Certificate of Incorporation.

Conforming Amendment. · To avoid any conflicts with the proposed amendments a conforming amendment to Article NINTH (k) of the Certificate is proposed. Proposed changes are set forth in Appendix A hereto.

Other Possible Anti-Takeover Provisions in the Corporation's Certificate

The Certificate and By-Laws of the Corporation do not currently contain provisions intended by the Corporation to have "antitakeover" effects, although the Corporation is authorized to issue up to 6,000,000 shares of Preferred Stock, in respect of which the Board may determine voting and other rights. The Preferred Stock could be issued so as to dilute the stock ownership or voting power of persons seeking to obtain control of the Corporation and could be utilized to frustrate a takeover plan. In addition, Preferred Stock could be privately placed. However, the Board has no present intention of issuing Preferred Stock for any of such purposes.

Cumulative voting is not permitted under the Corporation's Certificate.

The proposed amendments, combined with the power of the Board of Directors to issue a class of authorized, but unissued Preferred Stock, may have the effect of maintaining the continuity of management and may make changes in management more difficult, even if a majority of shareholders might consider such changes advisable.

* Mr. Simmons disclaims beneficial ownership of these shares. See footnote (2) on page 9.

Other than the amendment to increase the number of authorized shares of Common Stock discussed in Proposal No. 3, the Board does not presently contemplate adopting, or recommending to the shareholders for their adoption, any further amendments to the Corporation's Certificate or By-Laws which would affect the ability of third parties to take over or change control of the Corporation, except for amendments to the Corporation's By-Laws to be adopted by the Board to conform them to the proposed amendments.

The Board of Directors recommends a vote "FOR" Proposal 2.

Proposal No. 3
INCREASE OF AUTHORIZED SHARES OF COMMON STOCK AND RELATED MATTERS

General

The Board of Directors has approved by a unanimous vote of those present and recommends that the shareholders consider and approve an amendment to Article FOURTH of the Certificate that would increase the number of authorized shares of Common Stock from 25,000,000 shares to 100,000,000 shares. To be adopted, this proposal requires the affirmative vote of holders of a majority of all outstanding shares of Common Stock of the Corporation entitled to vote thereon at the meeting. The Board of Directors believes that it is in the best interests of the Corporation to amend the Certificate to give effect to the proposed amendments.

Appendix B to this proxy statement contains the text of the proposed amendments to the Certificate, and the following discussion is qualified in its entirety by reference to such Appendix.

As of February 27, 1986, there were 17,666,301 shares of Common Stock issued and outstanding. Approximately 2,089,765 additional shares of Common Stock were reserved for issuance in connection with the Corporation's 1969 Restricted Stock Plan, 1975 and 1984 Stock Option Plans and 1984 Stock Purchase Plan. This leaves a balance of 5,158,422 authorized but unissued shares (including shares held in treasury) available and unreserved for future use.

On February 24, 1986, the Board of Directors authorized a 2 for 1 stock split pursuant to which all holders of record of GAF Common Stock on May 8, 1986 would be entitled to receive one additional share of Common Stock for each share held. This authorization, however, is necessarily conditioned upon the approval by the shareholders of an increase in the authorized Common Stock of the Corporation sufficient to allow the issuance of more than 17,000,000 new shares of Common Stock.

In addition, the Board of Directors considers it desirable that the Corporation have a further amount of Common Stock available for issuance in connection with possible additional stock splits and dividends, acquisitions, financings, employee benefit plans and other corporate purposes in order to avoid, in each instance, the delay and expense otherwise involved in obtaining shareholder approval for individual amendments to the Certificate of Incorporation. Other than such matters, the Corporation has no present plans, arrangements, understandings or commitments to issue any additional shares of Common Stock. If the proposed amendments to increase the number of authorized shares of Common Stock are approved, there will be 80,158,422 unissued and unreserved shares of Common Stock (including shares held in treasury), of which approximately 18,000,000 will be issued in the stock split if the shareholders approve this proposal.

The Corporation continuously reviews opportunities to acquire businesses, some of which might involve the issuance of shares of Common Stock. The Board of Directors believes that if authorization of any increase in the Common Stock were postponed until a specific need arose, the delay and expense incident to obtaining the approval of shareholders at that time could significantly impair the Corporation's ability to meet its financing or other objectives. If the proposed amendment is approved, the Board of Directors would be able to issue, for any proper corporate purpose, such authorized but unissued shares without further action by the shareholders.

The Common Stock is entitled to dividends when, as and if declared by the Board of Directors. The holders of Common Stock have full voting powers and are entitled to receive any distribution made to shareholders in liquidation. No holders of Common Stock are entitled, as a matter of preemptive or other right as such holders, to subscribe for or purchase any stock of the Corporation, whether presently available or made available by amendment to the Certificate of Incorporation, or any obligation of the Corporation convertible into such stock.

Depending on the purpose, terms and conditions, any issuance of shares of the Corporation's Common Stock could have the effect of diluting current shareholders' proportionate interests in the Corporation.

Potential Anti-Takeover Effects

Although not a factor in the Board of Directors' decision to propose the amendment to increase the number of authorized shares of Common Stock, one of its effects may be to enable the Board to render more difficult or to discourage an attempt to obtain control of the Corporation by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of present management. The Board would have the additional shares available to effect a sale of shares, merger, consolidation or similar transaction whereby the number of the Corporation's outstanding shares would be increased and thereby would dilute the interest of a party attempting to obtain control of the Corporation as well as the voting rights of the Corporation's other shareholders. Adoption of the proposed amendment could reinforce the effects of the other proposed amendments to the Certificate for which shareholder approval is being sought at this meeting. See Proposal No. 2 above.

Additional Proposed Amendment

The Board of Directors also has approved and recommends that the shareholders consider and approve an amendment to Article FIFTH of the Certificate that would delete the designation of a series of $1.20 Convertible Preferred Stock. The Corporation redeemed and retired all outstanding shares of this series in 1985 and has no intention of authorizing the issuance of any more shares of this series.

The Corporation would continue to have a class of Preferred Stock, par value $1, undesignated as to any series. If the Corporation subsequently decides to issue a series of Preferred Stock, it may do so by filing a Certificate of Designation with the Secretary of State of the State of Delaware, its state of incorporation, setting forth the relative rights, qualifications, limitations, restrictions and powers of the series.

The Board of Directors Recommends a Vote "FOR" This Proposal 3.

Proposal No. [illegible]
PROPOSAL TO RATIFY SELECTION OF AUDITORS

Upon recommendation of the Audit Committee, the Board of Directors has selected Arthur Andersen & Co. to audit the Corporation's accounts for 1986. Arthur Andersen & Co. has provided audit services to the Corporation since 1984, including the examination of financial statements and the related review of the internal accounting controls of the Corporation and its consolidated subsidiaries, examinations of employee benefit plans and trusts, and meetings with the audit committee of the Board of Directors. The Board of Directors recommends that the shareholders ratify the selection of Arthur Andersen & Co. as auditors. A representative of Arthur Andersen & Co. is expected to be present at the meeting to answer appropriate questions and will have an opportunity to make a statement.

The Board of Directors Recommends a Vote "FOR" This Proposal.

1987 SHAREHOLDER PROPOSALS

Proposals of securities holders intended for inclusion in the Proxy Statement and presentation at the 1987 Annual Meeting must be received by the Corporation at its principal executive offices prior to November 28, 1986. All proposals received will be subject to the applicable rules of the Securities and Exchange Commission. See also "Procedure for Shareholder Nominations and Proposals" in Proposal No. 2, above.

OTHER MATTERS

The cost of solicitation of proxies will be borne by the Corporation. In addition to use of the mails, proxies may be solicited by telephone, telegraph or personal interview by employees of the Corporation without additional compensation. The Corporation has also retained Kissel-Blake Inc. to aid in the solicitation of proxies at an estimated aggregate fee of $14,000, plus out-of-pocket expenses.

The Corporation will reimburse brokerage firms, banks, trustees, nominees and other persons authorized by the Corporation for their out-of-pocket expenses in forwarding proxy material to the beneficial owners of the Corporation's stock.

Management does not know of any other matters that will be presented at the meeting other than matters incident to the conduct thereof. However, if any matters properly come before the meeting or any adjournments, it is intended that the holders of the proxies named in the accompanying form of proxy will vote thereon in their discretion.

For a copy of the Corporation's Annual Report on Form 10K for the year ending December 31, 1985 as filed with the Securities and Exchange Commission, please contact: Office of the Secretary, GAF Corporation, 1361 Alps Road, Building 10, Wayne, New Jersey 07470.

By Order of the Board of Directors,

EDWARD E. SHEA
Secretary

Wayne, New Jersey
March 27, 1986

PROPOSED AMENDMENTS TO ARTICLE NINTH OF THE RESTATED CERTIFICATE OF INCORPORATION OF GAF CORPORATION*

Article NINTH:

. . .

(c) (i) *Number, Election and Terms of Directors.* The number of directors of the Corporation (exclusive of directors to be elected by the holders of any one or more series of Preferred Stock of the Corporation which may at some time be outstanding, voting separately as a class or classes) shall be fixed from time to time by action of not less than a majority of the members of the Board of Directors then in office, but in no event shall be less than three nor more than twenty-four. The directors (other than those who may be elected by the holders of any one or more series of Preferred Stock of the Corporation which may at some time be outstanding, voting separately as a class or classes) shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible with the term of office of one class expiring each year. At the annual meeting of stockholders in 1986 three directors of the first class shall be elected to hold office for a term expiring at the next succeeding annual meeting, three directors of the second class shall be elected to hold office for a term expiring at the second succeeding annual meeting, and four directors of the third class shall be elected to hold office for a term expiring at the third succeeding annual meeting, with the members of each class to hold office until their respective successors are elected and qualified. Subject to the provisions of Paragraph (ii) of Article NINTH (c), at each annual meeting of the stockholders of the Corporation held after the 1986 meeting, the successors to the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the third succeeding annual meeting. Notwithstanding the foregoing and except as otherwise required by law, whenever the holders of any one or more series of Preferred Stock shall have the right, voting separately as a class or classes, to elect one or more directors of the Corporation, the terms of the director or directors elected by such holders shall expire at the next succeeding annual meeting of stockholders.

(ii) *Newly Created Directorships and Vacancies.* Newly created directorships resulting from any increase in the number of directors (except increases resulting from the rights of the holders of one or more series of Preferred Stock of the Corporation which may at some time be

* Only those sections of Article NINTH which are proposed to be revised or added are set forth in this Appendix. Substantially all of the text of these sections is new, except for section NINTH (k).

outstanding, voting separately as a class or classes, to elect directors) and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other reason shall be filled solely by the affirmative vote of a majority of the directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. No decrease in the number of directors shall shorten the term of any incumbent director. Notwithstanding the foregoing, and except as otherwise required by law, whenever the holders of any one or more series of Preferred Stock shall have the right, voting separately as a class or classes, to elect one or more directors of the Corporation, the terms of the director or directors elected by such holders shall expire at the next succeeding annual meeting of stockholders.

(iii) *Removal of Directors*. Notwithstanding any other provisions of this Certificate of Incorporation or the By-Laws of the Corporation (and notwithstanding the fact that some lesser percentage may be specified by law), any director or the entire Board of Directors may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of a majority of the Voting Stock; provided, however, that if a proposal to remove a director is made when there exists one or more Related Persons, then such majority vote must include the affirmative vote of the holders of a majority of the Disinterested Shares. Notwithstanding the foregoing, and except as otherwise required by law, whenever the holders of any one or more series of Preferred Stock shall have the right, voting separately as a class or classes, to elect one or more directors of the Corporation, the provisions of this Paragraph (iii) of Article NINTH (c) shall not apply with respect to the director or directors elected by such holders of Preferred Stock.

(iv) *Notice of Stockholder Nominees*. Nominations of persons for election to the Board of Directors of the Corporation shall be made only (1) by or at the direction of the Board of Directors or (2) by any stockholder of the Corporation entitled to vote for the election of directors at a meeting of stockholders who complies with the procedures set forth in this Paragraph (iv) of Article NINTH (c). Such nominations, other than those made by or at the direction of the Board of Directors, shall be made by notice in writing delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation not less than sixty (60) days prior to the first anniversary of the date of the last meeting of stockholders called for the election of directors. Such stockholder's notice shall set forth: (i) as to each person whom such stockholder proposes to nominate for election or re-election as a director, (A) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (B) the principal occupation or employment of each such nominee, (C) the number of shares of stock of the Corporation which are beneficially owned by each such nominee, and (D) such other information as would be required by the Federal Securities Laws and the Rules and Regulations promulgated thereunder in respect of an individual nominated as a director of the Corporation and for whom proxies are solicited by the Board of Directors of the Corporation (including such nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (ii) as to the stockholder giving the notice (A) the name and address, as they appear on the Corporation's books, of such stockholder, and (B) the class and number of shares of stock of the Corporation which are beneficially owned by such stockholder. Notwithstanding the foregoing, nothing in this Paragraph (iv) of Article NINTH (c) shall be interpreted or construed to require the inclusion of information about such nominee in any proxy statement distributed by, at the direction of, or on behalf of the Board of Directors.

The chairman of any meeting of stockholders may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by this Paragraph (iv) of Article NINTH (c), and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

(e) *Exclusive Authority of the Board.* The property, business and affairs of the Corporation shall be managed and controlled by the Board of Directors. Notwithstanding any other provision of this Certificate of Incorporation or the By-laws of the Corporation and subject to the provisions of Article NINTH (c) of this Certificate of Incorporation, the Board of Directors shall have the exclusive right to establish the rights, powers, duties, rules and procedures that from time to time shall (i) govern the Board of Directors and each of its members, including without limitation the vote required for any action by the Board of Directors, and (ii) affect the directors' power to manage and direct the property, business and affairs of the Corporation, including without limitation the election of officers of the Corporation and the assignment of powers and duties to such officers.

. . .

(k) *Disposition of Substantially All Assets.* The Corporation may, at any meeting of its Board of Directors, sell, convey, assign, transfer, lease, exchange or otherwise dispose of its properties and assets (including its good will and its corporate franchises), as an entirety or substantially as an entirety, upon such terms and conditions and for such consideration (whether cash or the stocks or bonds of any corporation or corporations, or other property) as its Board of Directors may deem expedient and for the best interests of the Corporation, when and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power, given at a stockholders' meeting duly called for that purpose.

. . .

(n) *Stockholder Action.* Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of such stockholders and may not be effected by any consent in writing by such stockholders.

(o) *Stockholder Proposals at Annual Meetings.* Business may be properly brought before an annual meeting of stockholders by a stockholder only upon the stockholder's timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be in writing and delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation not less than sixty (60) days prior to the first anniversary of the date of the last meeting of stockholders called for the election of directors. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting, (ii) the name and record address of the stockholder proposing such business, (iii) the class and number of shares of stock of the Corporation which are beneficially owned by the stockholder, and (iv) any material interest of the stockholder in such business. Notwithstanding the foregoing, nothing in this subparagraph (o) shall be interpreted or construed to require the inclusion of information about any such proposal in any proxy statement distributed by, at the direction of, or on behalf of the Board of Directors.

The chairman of an annual meeting may, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this subparagraph (o), and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(p) *Call of Special Meetings.* Special meetings of the stockholders of the Corporation for any purpose or purposes may be called at any time only by the Chairman of the Board of Directors or by a majority of the members of the Board of Directors, and the power of stockholders to call a special meeting for any and all purposes whatsoever is specifically denied.

(q) *Definitions.* For the purposes of this Article NINTH and Article TENTH the terms set forth below shall be defined as follows:

(i) "Affiliate" and "Associate" have the meanings set forth in Rule 12b-2 under the Securities Exchange Act of 1934 as in effect on March 27, 1986.

(ii) Beneficial ownership shall be determined pursuant to Rule 13d-3 under the Securities Exchange Act of 1934 as in effect on March 27, 1986.

(iii) "Continuing Director" means any member of the Board of Directors of the Corporation who is unaffiliated with and is not a Related Person and (x) held the office of director on March 17, 1986, (y) became a member of the Board of Directors prior to the time that any Related Person became a Related Person, or (z) is a person recommended to succeed a Continuing Director by a majority of Continuing Directors then on the Board of Directors.

(iv) "Disinterested Shares" means shares of Voting Stock beneficially owned by stockholders other than Related Persons.

(v) "Related Person" means and includes any individual, corporation, partnership or other person or entity, or any group of two or more of the foregoing that have agreed to act together, which, together with its Affiliates and Associates, beneficially owns, in the aggregate, five percent (5%) or more of the outstanding Voting Stock, and any Affiliate or Associate of any such individual, corporation, partnership or other person or entity, together with the successors and assigns of any such individual, corporation, partnership or other person or entity or Affiliate or Associate in any transaction or series of transactions not involving a public offering of the Corporation's stock within the meaning of the Securities Act of 1933, as amended; provided, however, that the term "Related Person" shall not include any individual, corporation, partnership or other person, entity or any group of two or more of the foregoing or any Affiliate or Associate of any such individual, corporation, partnership or other person or entity which beneficially owned on March 17, 1986 five percent (5%) or more of the outstanding Common Stock of the Corporation.

(vi) "Voting Stock" means all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors of the Corporation, and each reference to a percentage or portion of shares of Voting Stock shall refer to such percentage or portion of the votes entitled to be cast by such shares.

PROPOSED NEW ARTICLE TENTH OF THE RESTATED CERTIFICATE OF INCORPORATION OF GAF CORPORATION

Article TENTH:

(a) *Certificate of Incorporation*. Notwithstanding any other provisions of this Certificate of Incorporation or the By-Laws of the Corporation (and notwithstanding the fact that some lesser percentage may be specified by law), the affirmative vote of the holders of not less than 80% of the outstanding Voting Stock shall be required to amend, alter, change or repeal Articles NINTH and TENTH of this Certificate of Incorporation, subject to the provisions of any series of preferred stock which may at the time be outstanding; provided, however, that the provisions of this Article TENTH shall not apply to, and only such vote as shall be required by statute shall be required for, any amendment, alteration, change or repeal recommended to the stockholders by two-thirds of the whole Board of Directors of the Corporation, provided that and so long as a majority of the members of the Board of Directors acting upon such matter shall be Continuing Directors.

(b) *By-Laws*. If any By-Law of the Corporation shall be altered, amended, repealed or added in a manner which is inconsistent with any provisions of this Certificate of Incorporation, the provisions of this Certificate of Incorporation shall govern. Subject to the foregoing, the Board of Directors shall have the power to make, alter, amend, repeal or rescind the By-Laws of the Corporation.

APPENDIX B

PROPOSED AMENDMENTS TO ARTICLES FOURTH AND FIFTH OF THE RESTATED CERTIFICATE OF INCORPORATION OF GAF CORPORATION*

FOURTH: The total number of shares of all classes of stock which the Corporation shall have the authority to issue is 106,000,000, consisting of:

(1) 100,000,000 shares of Common Stock, par value $1 per share, and

(2) 6,000,000 shares of Preferred Stock, par value $1 per share.

FIFTH: A description of the different classes of stock of the Corporation and a statement of the designations, powers, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, fixed by the Certificate of Incorporation, and the express grant of authority to the Board of Directors to fix by resolution or resolutions certain rights, qualifications, limitations or restrictions thereof not so fixed, are as follows:

Preferred Stock

^ The Board of Directors is hereby expressly authorized, by resolution or resolutions from time to time adopted, to provide for the issuance of the Preferred Stock in series and to fix and to the extent not fixed by the provisions hereinafter set forth and subject to limitations prescribed by law, the voting powers, designations, preferences and relative, participating, optional and other special rights of the share of each such series and the qualifications, limitations and restrictions thereof, including, but not limited to, determination of any of the following:

(a) the distinctive serial designation and the number of shares constituting the series;

(b) the dividend rate, whether dividends shall be cumulative and, if so, from which date, the payment date or dates for dividends, and the participating or other special rights, if any, with respect to dividends;

(c) the voting powers, full or limited in addition to the voting powers provided by law;

* The text is marked to indicate the changes which would be effected by the proposed amendments. Underlined words indicate that the text has been revised. Carets indicate that text has been deleted.

(d) whether the shares shall be redeemable, and, if so, the price or prices at which, and the terms and conditions on which, the shares may be redeemed;

(e) the amount or amounts payable upon the shares in the event of voluntary or involuntary liquidations, dissolution or winding up of the Corporation;

(f) whether the shares shall be entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of shares of the series, and, if so entitled, the amount of such funds and the manner of its application, including the price or prices at which the shares may be redeemed or purchased through the application of such fund; and

(g) whether the shares shall be convertible into, or exchangeable for, shares of any other class or classes or of any other series of the same or any class or classes of stock of the Corporation, and if so convertible or exchangeable, the conversion price or prices, or the rates of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made, and any other terms and conditions of such conversion or exchange.

Each share of each series of Preferred Stock shall have the same relative rights as, and be identical in all respects with, all the shares of the same series.

Before the Corporation shall issue any shares of Preferred Stock of any series authorized as hereinbefore provided, a certificate setting forth a copy of the resolution or resolutions with respect to such series adopted by the Board of Directors of the Corporation pursuant to the foregoing authority vested in said Board shall be made, filed and recorded in accordance with the then applicable requirements, if any, of the laws of the State of Delaware, or, if no certificate is then so required, such certificate shall be signed and acknowledged on behalf of the Corporation by its Chairman of the Board, Vice Chairman of the Board, President or a Vice President and its corporate seal shall be affixed thereto and attested by its Secretary or an Assistant Secretary and such certificate shall be filed and kept on file at the principal office of the Corporation in the State of Delaware and in such other place or places as the Board of Directors shall designate.

Unless otherwise provided in any such resolution or resolutions, the number of stock of any series may be increased or decreased (but not below the number of shares thereof then outstanding) by resolution or resolutions of the Board of Directors set forth in a certificate complying with and filed in accordance with the foregoing requirements. In case the number of shares of any such series of Preferred Stock shall be decreased, the shares representing such decrease shall resume the status of authorized but unissued Preferred Stock.

Common Stock

Except as otherwise required by law, as thereinabove provided and as otherwise provided in the resolution or resolutions, if any, adopted by the Board of Directors of the Corporation with respect to any series of the Preferred Stock, the holders of the Common Stock shall exclusively possess all voting power. Each holder of shares of Common Stock shall be entitled to one vote for each share held by him.

Whenever there shall have been paid, or declared and set aside for payment, to the holders of the outstanding shares of Preferred Stock and to the holders of outstanding shares of any other class of stock having preference over the Common Stock as to the payment of dividends the full amount of dividends and of sinking fund or retirement fund or other retirement payments, if any, to which such holders are respectively entitled in preference to the Common Stock, then dividends may be paid on the Common Stock and on any class or series of stock entitled to participate therewith as to dividends, out of any assets legally available for the payment of dividends, but only when and as declared by the Board of Directors.

In the event of any liquidation, dissolution or winding up of the Corporation, after there shall have been paid to or set aside for the holders of the shares of Preferred Stock and any other class having preference over the Common Stock in the event of liquidation, dissolution or winding up of full preferential amounts to which they are respectively entitled, the holders of the Common Stock, and of any class or series of stock entitled to participate therewith, in whole or in part, as to distributions of assets, shall be entitled to receive the remaining assets of the Corporation available for distribution, in cash or in kind.

Each share of Common Stock shall have the same relative rights as and be identical in all respects with all the other shares of Common Stock.

YOUR VOTE IS IMPORTANT

PLEASE DATE, SIGN AND RETURN THE ENCLOSED WHITE PROXY PROMPTLY.

Notice of Annual Meeting April 28, 1986 and Proxy Statement

GAF

GAF Corporation

Exhibit 21.2

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported):
January 27, 1986

GAF CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	1-5026	13-C762027
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1361 Alps Road, Wayne, New Jersey 07470
(Address of principal executive offices)

Registrant's telephone number, including area code:
(201) 628-3000

Item 2. Acquisition or Disposition of Assets.

On January 16, 1986, Union Carbide Corporation ("Union Carbide"), pursuant to its exchange offer, purchased 3,499,813 shares of its Common Stock, par value $1.00 per share, tendered by wholly-owned subsidiaries of the registrant. Union Carbide paid for such shares a total purchase price of $297,484,495, consisting of $69,996,895 in cash, $87,495,200 principal amount of Senior Debentures due 2006, $69,996,200 principal amount of Senior Notes due 1996 and $69,996,200 principal amount of Senior Notes due 1993.

On January 27, 1986, the registrant sold $43,500,000 principal amount of Senior Debentures due 2006 for $45,369,000, $34,750,000 principal amount of Senior Notes due 1996 for $35,185,000 and $34,750,000 principal amount of Senior Notes due 1993 for $34,402,500.

The proceeds received from the sale of the foregoing securities, together with the cash proceeds received in Union Carbide's exchange offer, totalled $184,953,395 and were used primarily to repay margin loans in the amount of $99,400,000, the registrant's revolving credit line in the amount of $27,000,000, and other credit lines in the amount of $21,000,000.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

GAF CORPORATION

By: Edward E. Shea
Name: Edward E. Shea
Title: Senior Vice President and General Counsel

Date: February 24, 1986

Exhibit 22

Exhibit 22

LIST OF SUBSIDIARIES

Domestic Subsidiaries

GAF Broadcasting Company, Inc	Delaware
GAF Chemicals Corporation	Delaware
GAF Realty Corporation	Delaware
Jay & Company, Inc	Delaware
Mayfair Investments, Inc	Delaware

Foreign Subsidiaries

GAF (Australasia) Pty. Ltd	Australia
GAF (Belgium) N.V	Belgium
GAF do Brasil Industria e Comercio Ltda	Brazil
GAF (Canada) Inc	Canada
GAF (Deutschland) G.m.b.H	West Germany
GAF (France) S.A	France
GAF (Great Britain) Co. Ltd	Great Britain
GAF Insurance Ltd	Bermuda
GAF (Italia) Ltd	Italy
GAF (Japan) Ltd	Japan
GAF Corporation de Mexico, S.A. de C.V	Mexico
GAF (Norden) A.B	Sweden
GAF (Osterreich) G.m.b.H	Austria
GAF (Singapore) Private Ltd	Singapore
GAF (South Africa) Pty. Ltd	South Africa
GAF (Switzerland) A.G	Switzerland

Affiliate

GAF-Huls Chemie G.m.b.H	West Germany

BECHTEL

END

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MARCH 1986

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