

INTERNATIONAL SPECIALTY PRODUCTS INC /NEW/
Form PRER14A
January 09, 2003

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SECURITIES AND EXCHANGE COMMISSION
SCHEDULE 14A
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

AMENDMENT NO. 1
TO

SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14 OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant /x/
Filed by a Party other than the Registrant / /

Check the appropriate box:

/x/ Preliminary Proxy Statement
/ / Confidential, for the use of the Commission
only (as permitted by Rule 14a-6(e) (2))
/ / Definitive Proxy Statement
/ / Definitive Additional Materials
/ / Soliciting Material Pursuant to Rule 14a-12

INTERNATIONAL SPECIALTY PRODUCTS INC.

(Name of Registrant As Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

/ / No fee required.
/x/ Fee computed on table below per Exchange Act
Rules 14a-6(i) (1) and 0-11.

(1) Title of each class of securities to which transaction
applies:

Common Stock, par value \$0.01 per share of International
Specialty Products Inc.

(2) Aggregate number of securities to which transaction applies:
12,810,336 Shares of International Specialty Products Inc. Common
Stock, options to purchase 1,700,156 shares of Common Stock

(3) Per unit price or other underlying value of transaction
computed pursuant to Exchange Act Rule 0-11 (set forth the amount
on which the filing fee is calculated and state how it was
determined):

The transaction valuation was based upon the sum of (i) the
product of 12,810,336 shares of International Specialty
Products Inc. Common Stock at a price of \$10.30 per share in cash

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and (ii) a cash-out of 1,700,156 shares of Common Stock covered by outstanding options at an aggregate cost of \$2,414,103.

(4) Proposed maximum aggregate value of transaction:

\$134,360,564

(5) Total fee paid:

\$26,873:

/X/ Fee paid previously with preliminary materials.

/ / Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid: N/A

(2) Form, Schedule or Registration Statement No.: N/A

(3) Filing party: N/A

(4) Date filed: N/A

[LOGO]

International Specialty Products Inc.

1361 Alps Road

Wayne, New Jersey

07470

Fellow Stockholder:

You are cordially invited to attend a special meeting of stockholders of International Specialty Products Inc. ("ISP"), to be held on February____, 2003, at _ .m., local time, at _____.

At the special meeting, you will be asked to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of November 8, 2002, between ISP and International Specialty Products Holdings Inc. ("ISPH"). Samuel J. Heyman, our Chairman, formed ISPH for purposes of entering into this transaction and is currently the sole "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of all of ISPH's common stock and approximately 81% of ISP's common stock. Under the merger agreement, ISPH will be merged with and into ISP, with ISP as the surviving corporation.

Pursuant to the merger, you will be entitled to receive \$10.30 per share in cash, without interest, for each share of ISP common stock that you own. This price represents a 30% premium over the closing price per share of \$7.95 on July 8, 2002, the last trading day before Mr. Heyman's public proposal to acquire the shares of ISP that he does not already beneficially own. No merger consideration will be paid for shares Mr. Heyman beneficially owns at the time of the merger, except shares held by qualified charitable organizations (which will be entitled to receive the \$10.30 per share merger consideration). SINCE YOU WILL ONLY HAVE THE RIGHT TO RECEIVE CASH PURSUANT TO THE MERGER, AFTER THE MERGER OCCURS, YOU WILL NO LONGER BE A STOCKHOLDER OF ISP AND MR. HEYMAN WILL BE THE SOLE BENEFICIAL OWNER OF ISP.

Based on the number of our outstanding shares of common stock and options to purchase common stock, the aggregate cash consideration to be paid in connection with the merger is approximately \$134.4 million.

Details of the merger and the merger agreement are discussed in the accompanying proxy statement. A copy of the merger agreement is attached as

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Exhibit A to the proxy statement. We encourage you to read the proxy statement and the merger agreement carefully.

The receipt of cash in exchange for your shares of common stock in the merger will constitute a taxable transaction for U.S. federal income tax purposes. Please read the accompanying proxy statement carefully regarding the tax consequences of the merger.

Our board of directors formed a special committee of independent directors who are not officers or employees of ISP and who are otherwise independent of Mr. Heyman to review and evaluate the merger and the merger agreement. The special committee unanimously recommended to our board of directors that the merger agreement be approved. In connection with its evaluation of the merger, the special committee engaged Lehman Brothers Inc. as its financial advisor. Lehman Brothers has rendered its opinion that, as of the date of that opinion and, based upon and subject to the assumptions, limitations and qualifications set forth in that opinion, the \$10.30 per share cash merger consideration is fair, from a financial point of view, to the stockholders of ISP other than Mr. Heyman and his affiliates. The written opinion of Lehman Brothers is attached as Annex B to the accompanying proxy statement, and you should read it carefully for a discussion of the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Lehman Brothers in rendering its opinion.

Our board of directors, based on the unanimous recommendation of the special committee, has approved and declared the advisability of the merger agreement. The board of directors and special committee believe that the terms of the merger are fair to, and in the best interests of, ISP's stockholders, other than Mr. Heyman and his affiliates. Our board of directors recommends that the stockholders of ISP vote "for" the adoption of the merger agreement. When you consider the recommendation of our board of directors to adopt the merger agreement, you should be aware that some of our directors and executive officers have interests in the merger that may be different than the interests of our stockholders generally.

Your vote is very important. We cannot complete the merger unless the merger agreement is adopted by the affirmative vote of a majority of the outstanding shares of ISP common stock. As of the record date for the special meeting, Mr. Heyman and our directors and officers beneficially owned a total of _____ shares, which is approximately ____% of all outstanding shares. Mr. Heyman has agreed to vote all of the shares of common stock beneficially owned by him at the time of the special meeting (but excluding shares held by qualified charitable organizations) in favor of the merger, and we also expect our directors and executive officers to vote for the transaction. If that occurs, we will have obtained the requisite vote under the General Corporation Law of the State of Delaware. In addition, while not required by the General Corporation Law of the State of Delaware or ISP's amended and restated certificate of incorporation or by-laws, the merger also is conditioned upon the affirmative vote of a majority of shares of common stock voting on the merger at the special meeting that are not owned beneficially or of record by Mr. Heyman or any other officer or director of ISP or ISPH.

Please complete and sign the enclosed proxy card and return it as soon as possible in the enclosed postage paid envelope. This will ensure that your shares are represented at the special meeting.

Sincerely,

/s/ SUNIL KUMAR

Sunil Kumar
PRESIDENT AND CHIEF EXECUTIVE OFFICER

This proxy statement is dated January __, 2003, and is first being mailed to stockholders of ISP on or about January __, 2003.

THIS TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS PASSED UPON THE FAIRNESS OF MERITS OF THIS TRANSACTION OR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

[LOGO]
INTERNATIONAL SPECIALTY PRODUCTS INC.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

A special meeting of stockholders of International Specialty Products Inc. will be held at __ __.m., local time, February __, 2003 at _____ for the following purposes:

- o To vote on a proposal to adopt the Agreement and Plan of Merger, dated as of November 8, 2002, by and between ISP and International Specialty Products Holdings Inc.; and
- o To consider any other matters that are properly brought before the special meeting or any adjournments or postponements of the special meeting.

Our board of directors has fixed the close of business on January 10, 2003 as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting and any adjournments or postponements of the special meeting.

The accompanying proxy statement forms a part of this notice. We urge you to read it carefully.

Under the General Corporation Law of the State of Delaware, holders of our common stock who do not vote in favor of the adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Court of Chancery of the State of Delaware if the merger is completed, but only if they submit a written demand for such an appraisal prior

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to the vote on the merger agreement and they comply with the other procedures required by the General Corporation Law of the State of Delaware. See "The Merger--Appraisal Rights" in the accompanying proxy statement and Annex D to the proxy statement for more information concerning appraisal rights under Delaware law.

By Order of the Board of Directors,

/s/ RICHARD A. WEINBERG

Richard A. Weinberg
SECRETARY

Wayne, New Jersey
Dated January __, 2003

Return of your signed proxy is the only way your shares can be counted unless you personally cast a ballot at the meeting.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU INTEND TO BE PRESENT AT THE SPECIAL MEETING, PLEASE COMPLETE THE ENCLOSED PROXY CARD AND SIGN, DATE AND RETURN IT IN THE ENVELOPE PROVIDED, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

TABLE OF CONTENTS

SUMMARY TERM SHEET
The Merger
What You Will Be Entitled to Receive in the Merger
Recommendations of the Special Committee and our Board of Directors
Opinion of Lehman Brothers Inc.
Our Position as to the Fairness of the Merger
Mr. Heyman and ISPH's Position as to the Fairness of the Merger
Interests of Directors and Executive Officers in the Merger
Material U.S. Federal Income Tax Consequences
Appraisal Rights
The Special Meeting
Accounting Treatment
The Merger Agreement
Information About ISP, Mr. Heyman and ISPH
Selected Consolidated Financial Data of ISP
Trading Market and Price; Dividends

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

SPECIAL FACTORS
Background of the Merger
Recommendations of the Special Committee
Recommendations of our Board of Directors
Special Committee's Position as to Fairness of the Merger
Board of Directors' Position as to the Fairness of the Merger
Mr. Heyman and ISPH's Positions as to the Fairness of the Merger

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Opinion of Lehman Brothers	
ISP's Forecasts	
Reasons for the Merger; Purpose and Structure of the Merger	
Effects of the Merger; Plans or Proposals After the Merger	
Interests of Directors and Executive Officers in the Merger	
Material U.S. Federal Income Tax Consequences of the Merger to our Stockholders	
Litigation	
THE SPECIAL MEETING	
Date, Time and Place of the Special Meeting	
Proposal to be Considered at the Special Meeting	
Record Date	
Voting Rights; Vote Required for Approval	
Voting and Revocation of Proxies	
Solicitation of Proxies	
i	
THE MERGER	
Effective Time of Merger	
Payment of Merger Consideration and Surrender of Stock Certificates	
Accounting Treatment	
Fees and Expenses of the Merger	
Financing of the Merger	
Appraisal Rights	
Regulatory Approvals and Other Consents	
The Merger Agreement	
OTHER MATTERS	
Security Ownership of Specified Beneficial Owners and Management	
Transactions in Capital Stock by Certain Persons	
Certain Transactions	
Future Stockholder Proposals	
Independent Auditors	
WHERE YOU CAN FIND MORE INFORMATION	
Annex A--Agreement and Plan of Merger	
Annex B--Opinion of Lehman Brothers Inc.	
Annex C--Stockholder Voting Agreement	
Annex D--Section 262 of the DGCL	

ii

SUMMARY TERM SHEET

This summary term sheet highlights important information in this proxy statement and does not contain all of the information that is important to you. You should carefully read this entire proxy statement and the other documents we refer you to for a more complete understanding of the matters being considered

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at the special meeting. In addition, we incorporate by reference important business and financial information about International Specialty Products Inc., or ISP, into this proxy statement. You may obtain the information incorporated by reference into this proxy statement without charge by following the instructions in the section entitled "Where You Can Find More Information."

THE MERGER (SEE PAGE 36)

In the merger, International Specialty Products Holdings Inc., or ISPH, will merge into ISP, with ISP as the surviving corporation in the merger.

As a result of the merger, we will cease to be a publicly held company and will become a private corporation. Our Chairman and major stockholder, Samuel J. Heyman, will beneficially own all of our stock after the merger.

WHAT YOU WILL BE ENTITLED TO RECEIVE IN THE MERGER (SEE PAGE 36)

If we complete the merger, holders of our common stock, other than holders of common stock beneficially owned by Mr. Heyman and other than stockholders that validly exercise appraisal rights under the General Corporation Law of the State of Delaware, or DGCL, will be entitled to receive \$10.30 in cash for each share of common stock that they own. Shares beneficially owned by Mr. Heyman, other than 525,000 shares held by a qualified charitable organization, will be canceled in the merger, and the shares of ISPH, all of which are beneficially owned by Mr. Heyman, will be converted into shares of ISP in the merger. The 525,000 shares held by the qualified charitable organization are deemed to be beneficially owned by Mr. Heyman because he is a director and the president of the organization. In accordance with the merger agreement, the qualified charitable organization will receive \$10.30 in cash for each of these shares.

RECOMMENDATIONS OF THE SPECIAL COMMITTEE AND OUR BOARD OF DIRECTORS (SEE PAGE 16)

Because Mr. Heyman is our majority stockholder and proposed the merger and because Mr. Heyman and Sunil Kumar, ISP's President and Chief Executive Officer, are both directors of ISP and ISPH, our board of directors established a special committee to consider and evaluate the proposed merger. The special committee consists of three of our directors who are not members of our management or affiliated with Mr. Heyman. After careful consideration, the special committee unanimously:

- o determined that the merger agreement is advisable, fair to, and in the best interests of, the holders of our common stock, other than Mr. Heyman and his affiliates, and
- o recommended to our board of directors that it
 - approve the merger agreement,
 - declare its advisability and
 - recommend that our stockholders vote to adopt the merger agreement.

Based on this unanimous recommendation, our board of directors determined the merger agreement to be advisable and the terms and conditions of the merger to be fair to, and in the best interests of, the holders of our common stock, other than Mr. Heyman and his affiliates, and approved the merger agreement. ACCORDINGLY, OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE PROPOSAL TO ADOPT THE MERGER AGREEMENT.

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For a discussion of the material factors considered by the special committee and our board of directors in reaching their conclusions and the reasons why the special committee and the board of directors determined that the merger is fair, see "Special Factors--Recommendations of the Special Committee" and "Special Factors--Recommendations of our Board of Directors."

OPINION OF LEHMAN BROTHERS INC. (SEE PAGE 21)

In connection with the merger, the special committee and our board of directors considered the opinion of Lehman Brothers Inc., the special committee's financial advisor. Lehman Brothers delivered its written opinion to the special committee on November 8, 2002 to the effect that, as of that date, the \$10.30 per share cash merger consideration is fair, from a financial

1

point of view, to the holders of ISP's common stock, other than Mr. Heyman and his affiliates. You should be aware, however, that the opinion was based on and subject to important assumptions, limitations and qualifications. The full text of this opinion is attached as Annex B to this proxy statement. We urge you to read that opinion in its entirety for a description of the assumptions made, procedures followed, factors considered and limitations on the review undertaken.

OUR POSITION AS TO THE FAIRNESS OF THE MERGER (SEE PAGE 17)

We believe the merger is fair to the holders of our common stock, other than Mr. Heyman and his affiliates. Many facts support this conclusion, including:

- o the proposed merger would entitle each stockholder of ISP, other than holders of common stock beneficially owned by Mr. Heyman (except 525,000 shares held by a qualified charitable organizations that will be converted into the \$10.30 per share cash merger consideration), to the right to receive \$10.30 in cash;
- o the opinion of Lehman Brothers to the effect that, as of the date of the opinion, and based upon and subject to the assumptions, limitations and qualifications set forth in its written opinion, the \$10.30 per share cash merger consideration is fair, from a financial view, to holders of our common stock, other than Mr. Heyman and his affiliates;
- o the fact that the terms and conditions of the proposed merger were determined through negotiations between Mr. Heyman and his representatives and the special committee and its advisors, none of whom were affiliated with Mr. Heyman; and
- o the merger is conditioned upon the affirmative vote of a majority of shares of common stock voting on the merger at the special meeting that are not owned beneficially or of record by Mr. Heyman or any other officer or director of ISP or ISPH. We refer to this approval requirement as the majority of the minority condition.

MR. HEYMAN AND ISPH'S POSITION AS TO THE FAIRNESS OF THE MERGER (SEE PAGE 19)

Although neither Mr. Heyman nor ISPH has performed, or engaged a financial advisor to perform, any valuation analysis for the purposes of assessing the fairness of the merger to holders of ISP common stock, other than Mr. Heyman and his affiliates, both believe that the merger is substantively and procedurally fair to those holders. Mr. Heyman and ISPH believe this conclusion is supported by the factors described above and by other factors, including:

- o the merger consideration of \$10.30 per share represents a 30% premium over our common stock's \$7.95 closing price on the New York Stock Exchange on July 8, 2002, the last trading day before Mr. Heyman announced his initial merger proposal, and a 49% premium over the average closing price for the 30 days prior to that announcement;
- o the S&P 500 Index and the S&P Midcap Specialty Chemicals Index declined 5.5% and 9.3%, respectively, between July 8, 2002 and November 6, 2002 (the date the special committee agreed to recommend the merger agreement), indicating that the premium represented by the \$10.30 merger consideration might have been even greater had ISP's common stock performed consistently with the broader market and its industry peers in absence of the pending merger proposal;
- o the merger was approved and recommended by the special committee and the board of directors; and
- o stockholders who do not vote in favor of the merger would be entitled, subject to compliance with certain procedures described under "The Merger--Appraisal Rights", to exercise Delaware statutory appraisal rights in the merger, which allow stockholders to have the fair value of their shares determined by the Court of Chancery of the State of Delaware and paid to them in cash.

INTERESTS OF DIRECTORS AND EXECUTIVE OFFICERS IN THE MERGER (SEE PAGE 31)

In considering the recommendation of our board of directors that ISP's stockholders vote to adopt the merger agreement so that the merger can occur, you should be aware that our executive officers and directors have interests in the merger that may conflict with the interests of our stockholders generally. These interests include:

- o Mr. Heyman is the Chairman of our board of directors and, as a result of the merger, will increase his beneficial ownership of our common stock from approximately 81% to 100%;
- o Mr. Heyman and Mr. Kumar are members of both ISP and ISPH's board of directors;

- o each of ISPH's officers, consisting of Mr. Kumar (President and Chief Executive Officer), Richard A. Weinberg (Executive Vice President, General Counsel and Secretary) and Susan B. Yoss (Executive Vice President--Finance and Treasurer), is also an officer of ISP;
- o some of our officers and directors will receive cash payments in

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connection with the merger in exchange for their holdings of our common stock or stock options, as described under "Special Factors--Interests of Directors and Executive Officers in the Merger";

- o in addition, officers and directors holding restricted ISP common stock have agreed to forfeit the stock in connection with the merger in exchange for a cash payment equal to the number of shares that were forfeited, multiplied by the merger consideration, payable subject to the vesting restrictions applicable to the underlying restricted shares; and
- o after the merger, ISP will continue indemnification arrangements and directors' and officers' liability insurance for our present and former directors and officers.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES (SEE PAGE 33)

The receipt of \$10.30 in cash for each share of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. For U.S. federal income tax purposes, each of our stockholders generally will realize taxable gain or loss as a result of the merger measured by the difference, if any, between \$10.30 per share and the adjusted tax basis in that share owned by the stockholder. For additional information regarding material U.S. federal income tax consequences of the merger to our stockholders, see "Special Factors--Material U.S. Federal Income Tax Consequences of the Merger to our Stockholders."

APPRAISAL RIGHTS (SEE PAGE 37)

Stockholders who do not wish to accept the \$10.30 per share cash consideration payable pursuant to the merger may seek, under the DGCL, judicial appraisal of the fair value of their shares by the Court of Chancery of the State of Delaware. This value could be more or less than or the same as the merger consideration of \$10.30 in cash per share. This "right of appraisal" is subject to a number of restrictions and technical requirements. Generally, in order to exercise appraisal rights, among other things:

- o you must NOT vote in favor of the merger agreement;
- o you must make a written demand for appraisal in compliance with the DGCL before the vote on the merger agreement; and
- o you must continuously hold your shares from the date of making the demand through the effectiveness of the merger. A stockholder who is the record holder of shares of common stock on the date the written demand for appraisal is made, but who thereafter transfers those shares prior to the effectiveness of the merger will lose any right to appraisal in respect of those shares.

Merely voting against the merger agreement will not preserve your right of appraisal under the DGCL. Also, since a submitted proxy not marked "against" or "abstain" will be voted for the adoption of the merger agreement, the submission of a proxy not so marked will result in the waiver of appraisal rights. If you hold shares in the name of a broker or other nominee, you must instruct your nominee to take the steps necessary to exercise your appraisal right. If you or

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your nominee fails to follow all of the steps required by Section 262 of the DGCL, you will lose your right of appraisal.

Annex D to this proxy statement contains Section 262 of the DGCL relating to your right of appraisal.

THE SPECIAL MEETING (SEE PAGE 34)

DATE, TIME, PLACE AND MATTERS TO BE CONSIDERED (SEE PAGE 34).

Our special meeting will be held at _____ on February __, 2003 at __, local time. At the special meeting, you will be asked to vote on the adoption of the merger agreement. A copy of the merger agreement is attached as Annex A to this proxy statement.

3

RECORD DATE FOR VOTING (SEE PAGE 34).

You may vote at the special meeting if you owned shares of our common stock at the close of business on January 10, 2003. On that date, there were _____ shares of our common stock outstanding and Mr. Heyman beneficially owned _____ shares of our common stock. Each share of common stock entitles the holder to cast one vote at the special meeting.

PROCEDURES RELATING TO YOUR VOTE AT THE SPECIAL MEETING (SEE PAGE 34).

- o In order to have a quorum at the special meeting, a majority of all outstanding shares of common stock as of the record date must be present, in person or by proxy. Mr. Heyman has agreed, pursuant to a voting agreement, to cause all of the shares beneficially owned by him at the time of the meeting (but excluding shares held by qualified charitable organizations) to be represented in person or by proxy at the meeting. Accordingly, a quorum at the meeting is assured. A copy of the voting agreement is attached as Annex C to this proxy statement.
- o In order to adopt the merger agreement under the DGCL, we must obtain the affirmative vote of the holders of a majority of the shares of common stock outstanding and entitled to vote at the special meeting. As of the record date for the special meeting, Mr. Heyman and our directors and officers beneficially owned a total of _____ shares, which is approximately _____% of all outstanding shares. Mr. Heyman has agreed in a voting agreement to cause all of the shares beneficially owned by him at the time of the special meeting (but excluding shares held by qualified charitable organizations) to vote "for" the adoption of the merger agreement, which will assure adoption of the merger agreement under the DGCL. We also expect our other directors and executive officers to vote to adopt the merger agreement.
- o In addition, although not required under Delaware law or the amended and restated certificate of incorporation or by-laws of ISP, the merger agreement requires that the majority of the minority condition must be satisfied before we can complete the merger.
- o After carefully reading and considering the information contained in this proxy statement, you should complete, date and sign your proxy

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card and mail it in the enclosed return envelope as soon as possible so that your shares are represented at the special meeting, even if you plan to attend the meeting in person. Unless you specify to the contrary, all of your shares represented by valid proxies will be voted "FOR" the adoption of the merger agreement. Abstentions, failures to vote and broker non-votes will have the same effect as a vote against the adoption of the merger agreement for purposes of obtaining a majority of all shares of ISP common stock. However, abstentions, failures to vote and broker non-votes will not affect satisfaction of the majority of the minority condition.

- o If your shares are held in "street name" by your broker, your broker will vote your shares, but only if you provide written instructions to your broker on how to vote. You should follow the procedures provided by your broker regarding how to instruct it to vote your shares. Without instructions, your shares will not be voted by your broker.
- o Until exercised at the special meeting, you can revoke your proxy and change your vote in any of the following ways:
 - o by delivering written notification of revocation to our Secretary at our executive offices at 1361 Alps Road, Wayne, New Jersey 07470,
 - o by delivering a proxy of a later date,
 - o by attending the special meeting and voting in person. Your attendance at the special meeting will not, by itself, revoke any proxy previously delivered by you; you must vote in person at the meeting, or
 - o if you have instructed a broker to vote your shares, by following the directions received from your broker to change those instructions.

For additional information regarding the procedure for delivering your proxy see "The Special Meeting--Voting and Revocation of Proxies" and "The Special Meeting--Solicitation of Proxies."

If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, you should contact Georgeson Shareholder Communications Inc., 17 State Street - 10th Floor, New York, NY 10004, (212) 440-9800.

4

ACCOUNTING TREATMENT (SEE PAGE 37)

We will account for the merger under the purchase method of accounting. See "The Merger--Accounting Treatment."

THE MERGER AGREEMENT (SEE PAGE 40)

CONDITIONS TO THE MERGER (SEE PAGE 44).

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The completion of the merger depends on the satisfaction or waiver of a number of conditions, including the following:

- o we must obtain the affirmative vote of the holders of a majority of the outstanding shares of ISP common stock;
- o the majority of the minority condition must be satisfied;
- o no injunction or similar prohibition to completion of the merger may be in effect and no proceeding by a governmental authority may have been commenced seeking to impose such an injunction or prohibition;
- o our and ISPH's respective representations and warranties in the merger agreement must be true and correct, subject to exceptions that would not have a material adverse effect on the party making the representations or warranties or the consummation of the merger; and
- o we and ISPH must each be in compliance in all material respects with our respective covenants in the merger agreement.

TERMINATION OF THE MERGER AGREEMENT (SEE PAGE 45).

We (with the approval of the special committee) and ISPH may agree to terminate the merger agreement at any time before the completion of the merger.

ISPH may terminate the merger agreement without our consent if our board of directors or the special committee withdraws, qualifies or modifies its approval of the merger agreement or its recommendation to ISP's stockholders to adopt the merger agreement, or publicly proposes to do so, or takes any other action or makes any other statement inconsistent with that recommendation. However, if ISPH chooses not to terminate the merger agreement in such an event, we will not be entitled to terminate the merger agreement and will be required to submit the merger agreement to our stockholders for consideration at the special meeting.

In addition, we (with the approval of the special committee) or ISPH may terminate the merger agreement by written notice to the other if:

- o any governmental entity issues a final nonappealable injunction or other governmental order permanently enjoining or otherwise prohibiting the merger;
- o the merger is not completed on or before May 31, 2003, unless the failure to complete the merger is due to the failure of the party seeking to terminate the merger agreement to fulfill its obligations under the merger agreement;
- o the other party materially breaches a representation, warranty or covenant in the merger agreement and the breach is not cured within 30 days after notice of the breach or cannot be cured prior to May 31, 2003; or
- o at the special meeting, the merger agreement is not adopted by the required votes of the holders of ISP common stock; except that this right to terminate will not be available to ISPH if Mr. Heyman has failed to cause the shares beneficially owned by him at the time of the special meeting (but excluding shares held by qualified charitable organizations) to vote in favor of the adoption of the merger agreement.

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EFFECT OF TERMINATION (SEE PAGE 45).

If the merger agreement is terminated by either ISP or ISPH, there will be no liability on the part of ISP, ISPH or any of their affiliates, directors, officers, employees or stockholders. However, no party will be relieved from liability for willful breaches of the merger agreement.

5

INFORMATION ABOUT ISP, MR. HEYMAN AND ISPH

- o ISP. ISP, formerly known as ISP Holdings Inc., is a leading multinational manufacturer of specialty chemicals and mineral products. We are a Delaware corporation incorporated in 1996. We operate our business exclusively through direct and indirect subsidiaries. The address and telephone number of our principal executive offices are 1361 Alps Road, Wayne, New Jersey 07470 (800) 526-5315.
- o SAMUEL J. HEYMAN. Mr. Heyman has been a director and Chairman of the Board of Directors of ISP since its formation. Mr. Heyman beneficially owns approximately 81% of ISP's common stock. The address and telephone number for Mr. Heyman are 1361 Alps Road, Wayne, New Jersey 07470 (800) 526-5315.
- o ISPH. ISPH is a Delaware corporation, all of the common stock of which is beneficially owned by Mr. Heyman. ISPH was formed for the purpose of facilitating a transaction with ISP and has not engaged in any business except in furtherance of the merger. The address and telephone number of ISPH's principal executive offices are 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808 (302) 636-5400.

SELECTED CONSOLIDATED FINANCIAL DATA OF ISP

Set forth below are our selected consolidated financial data. The selected financial data were derived from the historical financial statements and related notes of ISP. On July 15, 1998, International Specialty Products Inc. merged with and into ISP Holdings Inc., which changed its name to International Specialty Products Inc. The financial data for periods prior to the merger represent the results of the former ISP Holdings Inc. Interim unaudited data for the nine months ended September 29, 2002 and September 30, 2001 reflect, in the opinion of our management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of that data. Results for the nine months ended September 29, 2002 do not necessarily indicate results that may be obtained for any other interim period or for the year as a whole.

NINE MONTHS ENDED		YEAR ENDED DECEMBER 31,			
SEPTEMBER 29, 2002 (UNAUDITED)	SEPTEMBER 30, 2001 (UNAUDITED)	2001	2000	1999	1998
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(\$ in thousands, except per share and rat

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OPERATING DATA:

Net Sales	\$ 642,211	\$ 595,124	\$ 787,216	\$ 783,941	\$ 787,356	\$ 787,356	\$ 787,356
Gross Profit	226,074	224,633	286,379	269,054	304,959	304,959	304,959
Operating Income	110,650	92,004	112,589	81,353	145,978	145,978	145,978
Interest Expense	64,604	62,780	86,198	81,166	78,552	78,552	78,552
Income from Continuing Operations Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle ...	43,545	21,178	607	94,106	49,632	49,632	49,632
Net Income (Loss)	(116,580)	20,738	167	94,106	74,930	74,930	74,930
OTHER DATA:							
Depreciation	\$ 42,503	\$ 39,542	\$ 53,120	\$ 51,293	\$ 48,590	\$ 48,590	\$ 48,590
Amortization of Goodwill and Intangibles	680	12,144	17,229	16,192	16,344	16,344	16,344
Capital Expenditures and Acquisitions	42,551	58,716	101,375	58,382	108,955	108,955	108,955
Ratio of Earnings to Fixed Charges(1)	1.95x	1.48x	1.01x	2.64x	1.88x	1.88x	1.88x
COMMON STOCK DATA, PER SHARE:							
Income from Continuing Operations:							
Basic	\$.67	\$.32	\$.01	\$ 1.38	\$.72	\$.72	\$.72
Diluted67	.32	.01	1.38	.72	.72	.72
Book Value(2)	\$ 8.14	\$ 9.01	\$ 9.33	\$ 10.41	\$ 8.54	\$ 8.54	\$ 8.54

6

	SEPTEMBER 29, 2002 (UNAUDITED)	SEPTEMBER 30, 2001 (UNAUDITED)	DECEMBER 31, ----- 2001 2000 1999 ----- ----- -----		
			(\$ in thousands)		

BALANCE SHEET DATA:

Total Working Capital	\$ 602,184	\$ 462,447	\$ 564,516	\$ 339,751	\$ 438,083	\$ 438,083
Total Assets	1,846,705	2,134,468	2,172,568	1,960,284	1,835,308	1,835,308
Long-Term Debt Less Current Maturities	834,332	912,540	919,557	524,780	820,141	820,141
Stockholders' Equity	529,621	588,122	604,057	691,335	587,261	587,261

(1) For purposes of calculating the ratio of earnings to fixed charges, "earnings" consist of income from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense (including amortization of debt issuance costs), plus capitalized interest and that portion of lease rental expense representative of interest (estimated to be one-third of lease rental expense).

(2) Book value per share of common stock outstanding is calculated as total common stockholders' equity divided by the number of shares of common stock outstanding at the end of the period.

TRADING MARKET AND PRICE; DIVIDENDS

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Our common stock is traded on the New York Stock Exchange under the symbol "ISP." We have set forth below our quarterly per share data:

	SALES PRICE	
	HIGH	LOW
2003		
First Quarter (through January 8, 2003)	\$10.26	\$10.21
2002		
Fourth Quarter	\$10.26	\$8.90
Third Quarter	10.80	7.48
Second Quarter	10.20	5.45
First Quarter	9.83	8.20
2001		
Fourth Quarter	\$ 9.60	\$7.85
Third Quarter	11.25	7.95
Second Quarter	11.25	7.80
First Quarter	8.74	6.63
2000		
Fourth Quarter	\$ 7.00	\$5.00
Third Quarter	6.19	5.31
Second Quarter	6.50	5.19
First Quarter	9.31	5.75

During the time periods set forth above, ISP has paid no cash dividends to holders of ISP common stock. On July 8, 2002, the last full trading day prior to the initial announcement of the merger proposal, the last reported sale price per share was \$7.95. On January 8, 2003, the most recent practicable trading day prior to the date of this proxy statement, the last reported sales price per share was \$10.23. Stockholders should obtain current market price quotations for the common stock in connection with voting their shares.

The merger agreement provides that neither our board of directors nor any committee of our board of directors will declare or pay any dividend until the closing of the merger, except with the consent of ISPH. Several of our significant subsidiaries are subject to financial and operating covenants, including limitations on the payment of cash dividends, under the credit agreement and indentures to which the subsidiaries are party.

We have not provided any pro forma data giving effect to the proposed merger. We do not believe that information is material to our stockholders in evaluating the merger agreement because the proposed merger is all cash and, if completed, our common stock would cease to be publicly traded.

We also have not provided any separate financial information for ISPH since it is a special purpose entity formed in connection with the proposed merger and has no independent operations.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This proxy statement

contains "forward-looking statements." These statements may be made directly in this proxy statement referring to us, and they may also be made a part of this proxy statement by reference to other documents filed by us with the Securities and Exchange Commission, which is known as "incorporation by reference." Any reference to forward-looking statements is not covered by the Private Securities Litigation Reform Act of 1995 and is not covered by the safe harbor provisions of that act. No part of that act is incorporated into, nor is it applicable to, this proxy statement.

Words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "objective," "goal" and words and terms of similar substance used in connection with any discussion of future operating or financial performance, or the consummation of the merger identify forward-looking statements. Our forward-looking statements are based on management's current views about future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The following risks related to our business, among others, could cause or contribute to actual results differing materially from those described in the forward-looking statements:

- o general economic, capital market and business conditions,
- o risks arising from litigation or similar proceedings,
- o risks and uncertainties inherent in the satisfaction of the closing conditions to the merger and the consummation of the merger, and
- o the risks and uncertainties disclosed in filings by ISP and its subsidiaries with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

We caution you not to place undue reliance on our forward-looking statements, which speak only as of the date of this proxy statement or the date of the document incorporated by reference in this proxy statement. We are under no obligation, and expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

For additional information about factors that could cause actual results to differ materially from those described in the forward-looking statements, please see the quarterly reports on Form 10-Q and the annual report on Form 10-K that ISP and its subsidiary have filed with the Securities and Exchange Commission as described under "Where You Can Find More Information."

All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

SPECIAL FACTORS

BACKGROUND OF THE MERGER

Throughout ISP's existence as a public company, the market value and liquidity of ISP's common stock has been negatively impacted generally by the inherent difficulty of attracting analyst and investor interest to a company with a majority stockholder and a small public float and, more recently, the

general stock market downturn. As a result, the liquidity of the market for ISP's common stock has remained consistently limited, with an average daily trading volume of only 21,850 shares during the 360 days prior to July 8, 2002. ISP has from time to time taken steps to attempt to improve the liquidity and trading value of its common stock. In particular, in 1998, ISP explored the possibility of publicly offering additional shares of its common stock in order to increase the liquidity of the public trading market for ISP's common stock. At that time, ISP filed a "shelf" registration statement on Form S-3 with the Securities and Exchange Commission. However, in light of market conditions, and the reluctance of institutional investors to purchase stock of a company with a small public float, ISP concluded that such a public offering would not be feasible on terms that were economically attractive and withdrew the registration statement. Upon concluding that its common stock was undervalued in the market, ISP from time to time engaged in share repurchases in an effort to enhance stockholder value. These repurchases, however, further limited the liquidity of the trading market for ISP's common stock.

In light of the failure of the foregoing actions to significantly improve the market performance of ISP's common stock, and for the reasons further described below under "Reasons for the Merger; Purpose and Structure of the Merger", in March 2002, Mr. Heyman began to explore preliminarily the possibility of pursuing a going private transaction. Mr. Heyman's decision to begin considering such a transaction at that time was influenced by the combination of the factors described above and Mr. Heyman's belief that the recent stock market downturn, together with ISP's relatively small public float, would have a further long-term negative impact on ISP's efforts to increase investor interest and enhance the market performance of ISP's common stock. As a result, Mr. Heyman began to believe that a transaction that would provide ISP's stockholders with a near-term cash premium for their shares while eliminating the costs and other burdens of maintaining ISP as a public company might benefit all of ISP's stockholders. During that period, he conducted an analysis as more fully described under "--Position of Mr. Heyman Regarding Fairness of the Merger." Based on that analysis, Mr. Heyman determined preliminarily that it might be advisable to seek to effect a transaction in which the holders of common stock of ISP (other than shares beneficially owned by Mr. Heyman) would each receive a cash payment in exchange for their shares. In April 2002, Mr. Heyman retained Simpson Thacher & Bartlett as legal counsel to provide advice regarding a possible transaction.

Mr. Heyman considered several transaction structures, including making a direct offer to ISP's stockholders through a cash tender offer or negotiating with an independent special committee of ISP's board of directors to effect a merger with ISP. During May and early June 2002, Mr. Heyman, with the assistance of certain members of ISP's management, explored financing alternatives for a tender offer for the public shares of ISP and held numerous discussions with potential lenders to determine the viability of such a transaction. Mr. Heyman ultimately concluded that a merger structure would be preferable to a tender offer because a merger would (1) enable ISP's independent directors to negotiate directly for a price they believed to be fair and to reject any proposal they concluded was not in the best interests of ISP's public stockholders and (2) eliminate the need for third party tender offer financing. During the remainder of June and through July 8, 2002, Mr. Heyman continued to explore the desirability of pursuing such a going private transaction by means of a merger.

On July 8, 2002, Mr. Heyman decided to proceed with the going private proposal and delivered a letter to the board of directors of ISP proposing a transaction that would result in Mr. Heyman acquiring beneficial ownership of all of the common stock of ISP not beneficially owned by him for a cash purchase price of \$10 per share. The closing price for ISP's common stock on the New York Stock Exchange on July 8, 2002 was \$7.95. Thus, the price proposed by Mr. Heyman represented a 26% premium over this closing price on the day before the proposal was announced.

The letter delivered to the board of directors of ISP is set forth below:

July 8, 2002

International Specialty Products Inc.
Board of Directors
1361 Alps Road
Wayne, NJ 07470

Gentlemen:

The focus of our interest at ISP has always been to increase shareholder value for all ISP shareholders. Nonetheless, our efforts have been hampered, at least in part, by the following: first, attracting analyst coverage and public investors to a Company with a majority shareholder and a small public float is inherently difficult and has been made more so by the general stock market downturn; and, second, I believe that investors have not given us sufficient credit for the not insubstantial earnings which have in the past been generated by the Company's investment portfolio, notwithstanding our outstanding investment performance over the years.

As you know, we have sought to take steps in the past to address some of these issues. For example, on several occasions, ISP has explored the possibility of offering additional common shares to increase stock market liquidity, but concluded that such offering would not make economic sense. Alternatively, believing that our common stock was undervalued in the market, ISP has from time to time engaged in share repurchases in order to enhance shareholder value. While these repurchases had a compelling economic rationale, they inevitably had the adverse effect of further limiting the liquidity of the trading market for ISP stock.

As a result, ISP has been unable to realize many of the benefits normally associated with public ownership. The following are just two examples: (1) ISP has not been able to utilize its common stock as currency for acquisitions; and (2) the lack of liquidity with respect to the Company's stock has impaired its ability to use stock options or equity-based incentives as a meaningful way to attract and retain employees.

Accordingly, I am proposing that the Company be taken private in a transaction in which the shareholders, other than my affiliates and myself, would receive \$10 per share in cash. This price represents an almost 45% premium over the average price for the prior 30 days.

I expect that the Board will form a committee of independent Board members to evaluate my proposal, and wish to assure you that I am most interested, as I'm sure you are, in providing for the utmost of procedural fairness in the interests of ISP's minority shareholders. In this connection, we propose that approval of any transaction require the vote of a majority of the minority shareholders. I am willing to meet with you promptly in order to discuss this proposal, and I would hope that we could move forward expeditiously to consider this proposed transaction.

Sincerely,

/s/ Samuel J. Heyman

ISP issued a press release shortly after its board of directors received the letter announcing the proposal and the price suggested by Mr. Heyman.

Shortly after ISP issued the press release, six purported class action suits were filed in the Court of Chancery of the State of Delaware against ISP and members of its board of directors. These six suits have been consolidated. On July 12, 2002, a purported class action suit was also filed in the United States District Court, District of New Jersey, against ISP and members of its board. The New Jersey claim was subsequently amended to assert derivative claims as well. The Delaware and New Jersey complaints allege, among other things, that the defendants have breached fiduciary and other duties in connection with the proposed transaction. These complaints variously seek a court order enjoining the proposed transaction, an award of unspecified damages and attorneys' fees, the unwinding of any transaction and other unspecified equitable relief.

10

After receiving the proposal letter from Mr. Heyman, the independent members of ISP's board of directors (Robert Englander, Sanford Kaplan, Burt Manning and Alan M. Meckler) met to discuss an appropriate response to the proposal. The independent directors decided to investigate and interview potential financial and legal advisors.

During the remainder of July and early August, ISP's independent directors held several conversations with each other and with ISP's other directors and management concerning the foregoing matters. In addition, the independent directors also discussed the possible composition of a special committee and discussed with the other directors and ISP's general counsel, the possible compensation and indemnification arrangements that might apply to the members of such a special committee. During that period, the independent directors also determined that Willkie Farr & Gallagher should be retained as counsel to the special committee. Among the factors considered by the independent directors in making this determination was the fact that Willkie Farr & Gallagher had not previously acted as counsel to ISP or, during the past approximately 20 years, Mr. Heyman. The independent directors met on August 1, 2002 to interview and discuss several investment banking firms as potential financial advisors.

On August 7, 2002, the board of directors of ISP held a telephonic meeting for the purpose of appointing a special committee to evaluate the merger proposal. In addition to ISP's directors, attending the meeting were ISP's general counsel, representatives of Willkie Farr & Gallagher and representatives of Simpson Thacher & Bartlett, counsel to Mr. Heyman and ISPH. During the meeting, Mr. Heyman confirmed his continuing interest in acquiring beneficial ownership of 100% of ISP, briefly summarized his merger proposal and acknowledged the appropriateness of the appointment of a special committee of directors who are not members of management or affiliated with Mr. Heyman to negotiate on behalf of ISP's minority stockholders. Mr. Heyman also informed the board of directors that he had no present intention to cause the shares of ISP common stock beneficially owned by him to be sold. The board of directors then voted to form a special committee composed of three independent directors, Robert Englander, Burt Manning and Alan M. Meckler. The board authorized the special committee to:

- o review and evaluate the merger proposal;

- o negotiate to the extent it deemed appropriate with Mr. Heyman with respect to the proposal;
- o determine, on behalf of the board of directors, whether the proposed transaction was fair to, and in the best interests of, ISP and the holders of ISP's common stock, other than shares beneficially owned by Mr. Heyman;
- o recommend what action, if any, should be taken with respect to the merger proposal; and
- o otherwise exercise the power of the board of directors in connection with the merger proposal.

The board also determined not to authorize or recommend the merger proposal in absence of a favorable recommendation by the special committee.

Because Mr. Heyman informed ISP's board of directors that he was not interested in having the shares he beneficially owns in ISP sold, the board did not authorize the special committee, and the special committee did not seek authority, to solicit the interest of third-parties in a potential sale of ISP. In addition, the board determined that each member of the special committee would receive \$18,000 for his services and reimbursement of expenses related to the special committee's activities, which compensation and reimbursement would be payable whether or not the special committee recommended the merger proposal and whether or not any proposed transaction was consummated. The board also authorized ISP to enter into indemnity agreements with the members of the special committee and formally authorized the committee to engage independent legal, financial and other advisors selected by the special committee.

Pursuant to indemnity agreements dated August 7, 2002, ISP agreed to indemnify Messrs. Englander, Manning and Meckler for any expenses, liabilities and losses relating to their service as members of the special committee and/or the board of directors in connection with the transaction. These indemnity agreements are in addition to the indemnity available to the special committee members pursuant to ISP's amended and restated certificate of incorporation and by-laws.

Following the board meeting on August 7, 2002, the special committee met with Willkie Farr & Gallagher to further discuss potential financial advisors and to review the terms of the draft merger agreement received from Simpson Thacher & Bartlett. The special committee authorized Willkie Farr & Gallagher to commence negotiations with Mr. Heyman and his representatives regarding the terms of the merger agreement. The special committee also authorized Willkie Farr & Gallagher to commence negotiations with Lehman Brothers concerning the terms of its possible engagement as financial advisor to the special committee. Among the factors considered by the special committee in its selection of Lehman Brothers was its con-

sideration of past relationships between Lehman Brothers and ISP and Mr. Heyman and its determination that Lehman Brothers had not had a material relationship with, nor had it acted as financial advisor to, ISP, ISPH or Mr. Heyman within the past two years.

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In August 2002, Simpson Thacher & Bartlett and Willkie Farr & Gallagher held preliminary discussions regarding the terms of the merger agreement, other than the price per share to be paid pursuant to the merger agreement.

On August 29, 2002, the special committee entered into an engagement letter with Lehman Brothers to act as the committee's financial advisor and, on September 4, 2002, ISP issued a press release announcing the engagement.

Over the course of mid- to late-August, 2002, Lehman Brothers reviewed financial and other information provided by ISP, including ISP's business plan and other materials. On September 3, 2002, members of ISP's senior management met with representatives of Lehman Brothers and Willkie Farr & Gallagher in connection with Lehman Brothers' due diligence review of ISP. ISP's management made a formal presentation regarding the financial condition and results of operations of ISP's chemical business (which is conducted by ISP's subsidiary, ISP Chemco Inc.) and also reviewed copies of ISP's capitalization structure and sales and five-year projections through 2006 of ISP's chemical business (the "Five-Year Plan"), which had been prepared by ISP's management in December 2001 and presented to ISP's board of directors in April 2002.

ISP's management summarized ISP's earnings forecasts for the various business segments reflected in the Five-Year Plan and also provided a comparison of the financial performance of those businesses for the first half of 2002 with its planned first half financial performance as reflected in the Five-Year Plan. ISP's management informed Lehman Brothers that operating income of \$63.0 million for the first six months of 2002 for the chemicals businesses (excluding the investment activities of ISP's investment subsidiary) was \$1.4 million higher than projected. They also reported that better-than-expected results in the fine chemical business (\$4.9 million above projections), the industrial segment (\$4.0 million above projections) and the minerals segment (\$4.6 million above projections) had been mostly offset by substantially-lower-than-projected results in ISP's core chemicals business (\$12.1 million below projections). See "--ISP's Forecasts" below. ISP's management explained to Lehman Brothers that much of the better-than-expected operating income for the industrial, fine chemicals and minerals segments resulted from non-recurring events, including (1) in the case of the industrial segment, a significant delay in the opening of a competing plant by a major competitor of ISP, (2) in the case of the fine chemicals segment, resolution of a contractual obligation of a major customer that filed bankruptcy and (3) in the case of the minerals segment, a significant increase in granules sales to the roofing industry driven by the strong housing market in the first half of 2002. ISP's management also informed Lehman Brothers that ISP's core chemicals business was facing substantially greater pricing pressure than management had anticipated when it had prepared its Five-Year Plan.

Based on the first-half results, ISP's management revised its 2002 full-year budget from the Five-Year Plan and presented the revised full-year 2002 projections to Lehman Brothers during the September 3, 2002 meeting. The revised current-year projections were prepared consistent with ISP's normal financial planning and reporting practices, pursuant to which ISP management updates its current-year internal forecasts from time to time during the course of the year to take into account actual results achieved during the year. The revised full-year 2002 projections and the original projections reflected in the Five-Year Plan prepared in December 2001 are set forth under "--ISP's Forecasts" below.

ISP's management informed Lehman Brothers that, since the time of the preparation of the Five-Year Plan in December 2001, ISP's management had not revised any of its projections for any period after calendar year 2002 because while, as noted above, ISP updates its current-year forecasts throughout the

year as part of its ongoing financial planning process, projections for later years and the Five-Year Plan as a whole would ordinarily be reviewed and updated in the fourth quarter of each year in connection with ISP's normal annual budgeting process. Accordingly, the effects of the revisions and trends observed in 2002 with respect to individual business segments were not taken into account in the projections contained in the Five-Year Plan for calendar years 2003 through 2006. In addition, management noted that the weakened performance in the core chemicals segment, which resulted from substantial pricing pressure from competitors and from price discounts demanded by customers, was expected to continue into 2003 and potentially beyond.

On September 18, 2002, Lehman Brothers presented the special committee with a preliminary financial review of the proposed transaction based on information it had received or reviewed to date, including a review of ISP's business segments, competitors, financial forecasts from the Five-Year Plan and a review of various valuation methodologies that it would perform. Although it had not yet finalized its due diligence, Lehman Brothers also presented a preliminary valuation of ISP based on the forecasts from the Five-Year Plan and using a comparable trading analysis, an industry transaction analysis, a discounted cash flow analysis and a transactions premia paid analysis. Lehman Brothers noted that it had not discussed its preliminary

12

financial analysis with ISP management. Based on these points, the special committee instructed Lehman Brothers to undertake further steps as it deemed necessary to complete its analyses, including scheduling additional meetings with ISP's management to share its approach to value and obtain any further information management believed relevant to Lehman Brothers' evaluation.

On September 20, 2002, Lehman Brothers met again with members of ISP's senior management team to discuss its preliminary financial analyses (excluding any preliminary valuation ranges derived from those analyses). Also present at that meeting were representatives of Willkie Farr & Gallagher and Simpson Thacher & Bartlett. During the course of the September 20, 2002 meeting, Susan B. Yoss, ISP's Executive Vice President, Finance and Treasurer, Neal E. Murphy, ISP's Senior Vice President and Chief Financial Officer, and Richard A. Weinberg, ISP's Executive Vice President, General Counsel and Secretary, indicated their disagreement with a number of the assumptions and other parameters reflected in Lehman Brothers' preliminary analysis. Ms. Yoss and Mr. Weinberg are also officers of ISPH. In particular, Ms. Yoss and Messrs. Weinberg and Murphy expressed their belief that certain of the companies included by Lehman Brothers in ISP's peer group were not comparable to ISP because of the companies' differing product offerings, core businesses and size. In addition, Ms. Yoss and Messrs. Weinberg and Murphy noted their belief that the universe of precedent transactions chosen for purposes of Lehman Brothers' comparative analyses was not sufficiently comprehensive. They expressed their belief that the analysis should have included (1) additional transactions from a broader time range so as to include acquisitions that took place during periods of weak economic growth and stock market performance (and not just those effected during a period of unusually strong economic growth) and (2) only transactions involving companies with a controlling stockholder and a proportionately small public float. Finally, Ms. Yoss stated her opinion that the discount factor and perpetuity growth rates used by Lehman Brothers in its discounted cash flow analysis did not adequately reflect ISP's cost of capital and historical operating performance and, therefore, resulted in a higher than appropriate discounted cash flow valuation. In addition, Ms. Yoss and Messrs. Murphy and Weinberg noted their belief that the substantial decline in the performance of

the stock market generally and of the S&P Midcap Specialty Chemicals Index, in particular, was not adequately factored into Lehman Brothers' analysis of ISP's trading price. Ms. Yoss and Messrs. Murphy and Weinberg believed that ISP's stock price would likely be substantially lower than the closing price immediately prior to Mr. Heyman's merger proposal. Finally, Messrs. Murphy and Weinberg and Ms. Yoss expressed their belief that ISP's ability to achieve the results reflected in the Five-Year Plan was uncertain and that there were greater downside risks than upside opportunities in the plan. Specifically, they expressed their view that, based on their preliminary review of developments and operating results since December 2001, there was approximately \$5 million to \$10 million in risk to operating profit relative to the Five-Year Plan in 2003, with the risk growing in line with sales through 2006. The Lehman Brothers representatives indicated that while they would consider the input received at the meeting, they were bound to rely on the projections of ISP's management for purposes of their financial analysis. Accordingly, Lehman Brothers noted that if ISP management believed the projections in the Five-Year Plan were no longer up to date, ISP management should provide more current projections.

At a special committee meeting later that day, Lehman Brothers reviewed the views of ISP's management regarding Lehman Brothers' analysis, focusing on management's views on its projections and which valuation methods management believed to most accurately depict ISP's worth.

On September 27, 2002, the special committee met to discuss the proposed transaction and to hear a supplemental presentation from Lehman Brothers. The supplemental presentation was substantially similar to Lehman Brothers' presentation on September 18, 2002, except that Lehman Brothers updated its written materials to provide revised valuations based on recent market activity and certain additional expenses of ISP that ISP management had identified at the meeting on September 20, 2002 as having been omitted from Lehman Brothers' September 18, 2002 analysis. Lehman Brothers also discussed with the special committee the alternative valuation perspectives suggested by certain members of ISP's management. Following that meeting, representatives of Willkie Farr & Gallagher communicated the special committee's view that, based on Lehman Brothers' preliminary financial analysis to date and discussions with Lehman Brothers on the methods of valuations utilized, the performance of ISP's stock in the marketplace and the projections of ISP's management provided to Lehman Brothers on September 3, 2002, the special committee was not then prepared to recommend the \$10 merger proposal.

On October 3, 2002, representatives of Lehman Brothers met again with Mr. Weinberg and Ms. Yoss to further discuss their respective views on the appropriate assumptions and methodologies for conducting a financial analysis of ISP and the pending merger proposal. Also present at that meeting were representatives of Willkie Farr & Gallagher and Simpson Thacher & Bartlett. Ms. Yoss and Mr. Weinberg once again expressed their views regarding the assumptions and methodologies underlying Lehman Brothers' valuation analyses. They reiterated their belief that ISP's ability to achieve the results reflected in the Five-Year Plan was highly uncertain and again summarized the trends in ISP's various business segments that lead to

that uncertainty. Furthermore, Mr. Weinberg noted that Mr. Heyman had indicated that, in light of the severe market downturn since the date of the merger

proposal, Mr. Heyman was finding it increasingly difficult to sustain a merger proposal at the \$10 per share price. Following that meeting, in light of the continued belief by ISP management that the analyses performed by Lehman Brothers did not adequately reflect the uncertainty inherent in ISP's financial outlook and diminished prospects for the company since the preparation of the Five-Year Plan, ISP's management agreed to provide Lehman Brothers with more current projections that would more fully reflect the impact of business developments -- primarily substantially greater than anticipated pricing pressures in ISP's core chemicals and minerals businesses -- that had occurred subsequent to the preparation of the Five-Year Plan in December 2001.

On October 10, 2002, Lehman Brothers met with ISP's management team and other ISP personnel at ISP, at which time ISP's management presented updated five-year projections (the "Updated Projections") to Lehman Brothers, including those set forth under "--ISP's Forecasts" below. The discussions highlighted certain differences between the original Five-Year Projections and the Updated Projections. ISP's management provided a detailed presentation regarding the manner in which the Updated Projections were prepared and the factors and developments leading to the differences between the Updated Projections and the projections reflected in the Five-Year Plan and answered questions regarding the Updated Projections. In particular, ISP's management explained that, while the revised 2002 projections presented on September 3, 2002 were substantially accurate, the projections for the subsequent four years had not been updated for developments in the business of ISP, the specialty chemicals industry and the economy generally since December 2001. ISP's management advised Lehman Brothers that as a result of these changes, the Updated Projections replaced the Five-Year Plan as management's best currently available estimates and judgments as to the future financial performance of ISP. The Updated Projections were based on several changed factors, including pricing pressures in the personal care and specialty chemicals segments, softness of demand in growth markets such as Asia and contemplated changes in the pricing terms of a major supply contract.

On October 21, 2002, the special committee met with members of ISP's senior management and Mr. Heyman to discuss, among other things, the Updated Projections and to continue its discussions regarding the merger proposal. Also present at that meeting were representatives from Willkie Farr & Gallagher, Simpson Thacher & Bartlett and Lehman Brothers. After presenting information concerning the Updated Projections to the special committee, ISP's management and Mr. Heyman answered questions posed by the special committee members and representatives from Lehman Brothers.

After ISP's management, Mr. Heyman and representatives from Simpson Thacher & Bartlett left the meeting, Lehman Brothers gave a presentation to the special committee highlighting certain differences between the original Five-Year Plan and the Updated Projections, as well as a preliminary valuation using the Updating Projections based on the same methodologies that had previously been presented to the special committee. The special committee, after considerable discussion regarding the Updated Projections, concluded that it would not recommend the merger proposal at \$10 per share because it did not believe that the offer represented the highest price available to ISP's stockholders. Following the October 21, 2002 meeting, the special committee's legal advisor and Mr. Heyman's legal advisor had numerous conversations regarding the parties' respective views concerning the appropriate per share price in the merger. Although the special committee had not identified a specific price or range of prices that would be an acceptable alternative to Mr. Heyman's \$10 merger proposal, the special committee's legal advisor indicated to Mr. Heyman's legal advisors that the special committee was not prepared to recommend the merger at the \$10 per share price because it did not believe that the offer represented the highest price available to ISP's stockholders, and, accordingly, sought to negotiate a higher price per share.

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Mr. Heyman continued to believe the proposed merger consideration was fair and, accordingly, instructed his legal advisors that, while he was willing to explore non-price contractual changes to the merger agreement and a possible settlement of the pending stockholder litigation referred to above, Mr. Heyman would not authorize an increase in the merger consideration. Furthermore, Mr. Heyman's representatives informed the special committee's legal advisors that Mr. Heyman continued to be concerned about the advisability of sustaining the merger proposal in light of the deterioration in market conditions and that Mr. Heyman might consider withdrawing the merger proposal if the special committee concluded it could not recommend the proposed transaction at \$10 per share. On October 25, 2002, counsel for Mr. Heyman met with plaintiffs' counsel in the stockholder litigation in Delaware to discuss a potential settlement of the litigation. Counsel for Mr. Heyman also attempted to include plaintiffs' counsel in the stockholder litigation pending in New Jersey in the settlement discussions. In light of the firm position of the special committee that it would not recommend a transaction at \$10 per share, on October 30, 2002, Mr. Heyman concluded that exploring an increase in the merger consideration would be preferable to abandoning the proposed transaction and authorized his legal advisors to explore with the special committee's legal advisors a possible increase in the per share merger consideration to \$10.25, subject to the prompt negotiation of a mutually acceptable merger agreement, approval of the agreement by the entire special committee and settlement of the stockholder litigation.

14

On October 30, 2002, in a meeting of the special committee, representatives of Willkie Farr & Gallagher reported that Mr. Heyman's representatives had advised them that Mr. Heyman would be willing to increase the per share merger consideration to \$10.25. The special committee discussed whether to accept \$10.25 per share but, in an effort to increase the per share merger consideration and achieve the best possible price for ISP's stockholders, instructed Willkie Farr & Gallagher to advise Mr. Heyman's representatives that the special committee was not in a position to recommend the proposed transaction at \$10.25 at that time, and further instructed Willkie Farr & Gallagher to propose an offer price of \$10.50 per share.

On October 31, 2002, the special committee's legal advisors conveyed the special committee's views to Mr. Heyman's legal advisors. In response, Mr. Heyman's representatives advised the special committee's legal advisors that Mr. Heyman would not increase the merger consideration to \$10.50 and that if prompt agreement could not be reached by the parties at a merger price of \$10.25 per share, Mr. Heyman would consider withdrawing his offer.

On November 1, 2002, the special committee met, along with representatives of Willkie Farr & Gallagher and Lehman Brothers to further discuss the proposed transaction.

On November 4, 2002, Mr. Heyman authorized his legal advisors to indicate his potential willingness to increase the per share merger consideration to \$10.30 per share. In a meeting on that day, the special committee discussed the fairness of the proposal to ISP's minority stockholders and agreed to reject the proposal of \$10.30 per share, but, in an effort to maximize value for ISP's stockholders, to inform Mr. Heyman's representative that, while it was not in a position to recommend the proposed transaction at \$10.30 per share at that time, it would consider recommending the proposal at \$10.35 per share. Mr. Heyman's representative stated that Mr. Heyman would not accept that share price, and that if the special committee could not recommend the proposed transaction at \$10.30 per share that Mr. Heyman would withdraw the offer.

The special committee evaluated the possibility of turning down the proposed merger consideration and remaining a public company, but was concerned that such decision might result in the minority stockholders losing the opportunity to receive \$10.30 per share. If Mr. Heyman were to withdraw the offer, the price of ISP's publicly-traded stock would likely fall significantly from its closing price of \$9.40 on November 1, 2002. The special committee noted that the market in general or the specialty chemical sector could deteriorate further, lowering the market price of the shares. The special committee also considered each of Lehman Brothers' preliminary financial analyses presented to it on October 21, 2002, the implied valuations resulting from each of those analyses and that Lehman Brothers would most likely be in a position to issue a fairness opinion with respect to a proposal of \$10.30 per share. The special committee further considered that the proposed price was within the comparable trading, premiums paid in going private transactions with less than a 50% minority ownership, premiums paid in going private transactions with less than a 20% minority ownership, premiums paid in unaffected going private transactions, premiums paid in full acquisitions and discounted cash flow valuation ranges analyzed in Lehman Brothers' presentations. The special committee further noted that if the special committee rejected the proposed merger consideration and Mr. Heyman withdrew his offer, the stockholders would lose the opportunity to vote on the proposed merger, which would likely prove to be the best option available to the stockholders. For further discussion of valuation methods and ranges that the special committee considered, see "--Opinion of Lehman Brothers" below. Finally, the special committee noted that it was unlikely that a third party would attempt to purchase ISP stock held by minority stockholders due to Mr. Heyman's substantial beneficial ownership interest in ISP.

Between November 4 and November 6, the parties' legal advisors completed negotiations of the open contractual terms in the merger agreement and voting agreement.

Settlement discussions between counsel for Mr. Heyman and plaintiffs' counsel in the pending stockholder litigation in Delaware and New Jersey also continued during this period.

On November 6, 2002, the special committee met to discuss Mr. Heyman's response to the special committee's attempts to increase the offer price of \$10.30 per share. Lehman Brothers presented a financial analysis of the offer and orally delivered its opinion, which it committed to deliver later in writing, that, as of that date and based upon and subject to the assumptions, limitations and qualifications set forth in the Lehman Brothers' written opinion, the proposed transaction at \$10.30 per share was fair, from a financial point of view, to ISP's stockholders, other than holders of shares beneficially owned by Mr. Heyman. Ultimately, the special committee concluded that the proposed merger was substantively and procedurally fair to ISP's stockholders and that the opportunity to receive \$10.30 cash per share should be presented to ISP's stockholders. In reaching that conclusion, the special committee noted that the adoption of the merger agreement at that price would be subject to acceptance by a majority of the minority stockholders voting at the special meeting to consider approval of the merger. After further discussion and deliberation and taking into account all of the factors noted above, the special committee unanimously

(1) concluded that the proposed transaction was advisable, fair to, and in the best interests of, the stockholders of ISP, other than holders of shares beneficially owned by Mr. Heyman, and (2) agreed to recommend that our board approve the terms of the proposed transaction. Later that day, Willkie Farr & Gallagher reported the special committee's decision to ISP.

On November 7, the parties announced that Mr. Heyman and the special committee had reached an agreement with respect to the merger at a price of \$10.30 per share in cash, subject to approval by ISP's board of directors.

On November 8, 2002, the special committee met to approve the proposed resolutions, which (1) concluded that the proposed transaction at \$10.30 per share was advisable, fair to, and in the best interests of, the stockholders of ISP, other than holders of shares beneficially owned by Mr. Heyman, and (2) recommended that the full board approve the terms of the proposed transaction.

Later that day, our board of directors met to consider approval of the merger agreement. At the meeting, Lehman Brothers once again presented a financial analysis of the transaction that was substantially identical to the analysis presented to the special committee on November 6, 2002 in connection with Lehman Brothers' rendering of its oral opinion. The board also reviewed the terms of the merger agreement. Thereafter, based on the unanimous recommendation of the special committee, the board determined that the proposed merger was advisable, fair to, and in the best interests of, ISP's stockholders, other than holders of shares beneficially owned by Mr. Heyman. Each director (other than Mr. Heyman and Sunil Kumar, who abstained) voted to approve the merger and voting agreements and recommend that ISP's stockholders vote to adopt the merger agreement.

Following settlement discussions between counsel for Mr. Heyman and counsel for plaintiffs in the Delaware and New Jersey litigations, the parties to the stockholder litigation pending in Delaware agreed on and, on November 19, 2002, executed a memorandum of understanding to reflect a proposed settlement of the Delaware litigation. The parties also agreed, subject to various conditions, to enter into a settlement agreement, cooperate in public disclosures related to the settlement and use best efforts to gain approval of the settlement by the Delaware courts. Without any admission of fault by the defendants, the memorandum of understanding contemplates a dismissal of all claims with prejudice and a release in favor of all defendants of any and all claims related to the merger that have been or could have been asserted by the plaintiffs or any members of the purported class (including the pending claims in the New Jersey litigation). The settlement is subject to, among other factors, completion of confirmatory discovery, execution of a settlement agreement and final approval of the settlement by the Court of Chancery of the State of Delaware and completion of the merger.

RECOMMENDATIONS OF THE SPECIAL COMMITTEE

The special committee has unanimously determined that the merger agreement is advisable, fair to and in the best interests of the stockholders of ISP, other than Mr. Heyman and his affiliates, and unanimously determined to recommend to our board of directors that the board of directors:

- o approve the merger agreement and the voting agreement;
- o declare the advisability of the merger agreement; and
- o recommend that the stockholders of ISP vote to adopt the merger agreement.

RECOMMENDATIONS OF OUR BOARD OF DIRECTORS

The board of directors of ISP consists of six directors, three of whom served on the special committee and two of whom are also directors of ISPH and, therefore, abstained from voting with regard to the merger. At the November 8, 2002 meeting of the board of directors, the special committee, with its legal and financial advisors participating, reported to the other members of the board of directors on the course of its negotiations with Mr. Heyman and ISPH and their legal counsel, its review of the merger agreement and the factors it took into account in reaching its determination that the merger agreement is advisable, fair to and in the best interests of the stockholders of ISP, other than Mr. Heyman and his affiliates.

Based on the unanimous recommendation of the special committee, our board of directors has:

- o approved the merger agreement and the voting agreement;
- o determined that the merger and the merger agreement are substantively and procedurally fair to the stockholders of ISP, other than Mr. Heyman and his affiliates; and
- o recommended that the stockholders of ISP vote to adopt the merger agreement.

16

SPECIAL COMMITTEE'S POSITION AS TO FAIRNESS OF THE MERGER

In reaching the conclusions described above, the special committee considered a number of factors, including the following factors, each of which, in the special committee's judgment supported its conclusion as to substantive fairness:

- o the proposed merger in which the stockholders of ISP, other than holders of common stock beneficially owned by Mr. Heyman, except shares held by qualified charitable organizations (which will be converted into the \$10.30 per share merger consideration), would be entitled to receive \$10.30 cash per share as merger consideration, a price the special committee viewed as attractive in light of ISP's historical and current financial performance and in light of general economic and stock market conditions;
- o the written opinion of Lehman Brothers to the special committee dated November 8, 2002, which was adopted by the special committee, a copy of which is attached to this proxy statement as Annex B, that, as of the date of the opinion and based upon and subject to the assumptions, limitations and qualifications set forth in that opinion, the merger consideration is fair, from a financial point of view, to the stockholders of ISP, other than Mr. Heyman and his affiliates;
- o the special committee's belief, based on, among other things, the detailed financial and valuation advice provided to the special committee by its financial advisor, that the \$10.30 per share merger consideration:
 - o represented an attractive multiple of historical and projected earnings per share and cash flow per share;

- o was within the range of implied per share valuations based on comparable trading for non-controlled companies that Lehman Brothers, the special committee's financial advisor, deemed comparable to ISP;
- o compared favorably to an implied per share value based on the hypothetical performance of ISP stock assuming the announcement of Mr. Heyman's proposal, dated July 8, 2002 had not been made by applying the return of the Lehman Brothers Specialty Chemical Index from July 8, 2002 through November 4, 2002 to ISP's stock price of \$7.95 the day prior to the announcement of the July 8, 2002 proposal letter;
- o was within the range of implied per share valuations based on recent full acquisitions as well as going-private transactions with a remaining minority interest of less than 50% and a remaining minority interest of less than 20%; and
- o was within the ranges of value produced by the discounted cash flow analysis based on ISP's Updated Projections;
- o the historical market prices of ISP's common stock and recent trading activity, including the substantial premiums implied by the \$10.30 per share merger consideration of 29.6% and 48.8%, respectively, over ISP's stock prices one day and one month prior to the initial announcement of Mr. Heyman's proposal on July 8, 2002;
- o that the increase in the market price of ISP's common stock following the initial proposal by Mr. Heyman may have reflected, in part, anticipation of a possible merger, rather than a higher intrinsic value for ISP common stock;
- o the presentations of Lehman Brothers regarding its financial analyses of the proposed merger. See "--Background of the Merger" above and "--Opinion of Lehman Brothers" below;
- o that the terms and conditions of the proposed merger were determined through lengthy negotiations between Mr. Heyman and his representatives and the special committee and its advisors, all of whom are unaffiliated with Mr. Heyman;
- o Mr. Heyman's controlling beneficial ownership interest in ISP and his unwillingness to cause ISP or his beneficial interest in ISP to be sold to a possible third party buyer, which suggested to the special committee that the proposed merger was an attractive alternative to the minority stockholders;
- o the availability of capital necessary to fund the merger consideration payable pursuant to the merger;
- o current difficult economic, industry and market conditions affecting ISP; and
- o that stockholders who do not waive their appraisal rights will have the opportunity in connection with the merger to demand appraisal of the fair value of their shares under Section 262 of the DGCL.

The special committee also considered the following adverse factors associated with the merger:

- o that Lehman Brothers' analysis of industry transactions described in detail under "Opinion of Lehman Brothers" on page 24 had produced a range per share of \$13.24 to \$13.39. The special committee determined that this valuation depended to a considerable extent on the fact that the transactions analyzed each involved a full change of control, whereas the merger does not involve a change of control. Furthermore, each of the transactions analyzed had meaningful distinctions to the business, operations and financial conditions of ISP;
- o that because Mr. Heyman desired to retain his approximate 81% ownership interest in ISP and had indicated no intent to cause any portion of his beneficial interest in ISP to be offered for sale to a third party, public stockholders were not afforded an opportunity to participate in any control premium that might have been generated by the sale of the entire company to a third party;
- o that the public stockholders of ISP would have no ongoing equity participation in the surviving corporation following the merger, meaning that the public stockholders would cease to participate in ISP's future earnings or growth, if any, or to benefit from increases, if any, in the value of their ISP stock.
- o that there exists known and possible conflicts of interest of certain directors and executive officers of ISP discussed below in "--Interests of the Directors and Executive Officers of the Merger."

After considering each of the factors outlined above, the special committee concluded that the positive factors relating to the merger outweighed the negative factors. Because of the variety of factors considered, the special committee did not find it practicable to quantify or otherwise assign relative weights to, and did not make specific assessments of, the specific factors considered in reaching its determination. However, individual members of the special committee may have assigned different weights to various factors. The determination of the special committee was made after consideration of all of the factors together.

The special committee also determined that the merger is procedurally fair because among other things:

- o the special committee consisted of directors that are not affiliated with Mr. Heyman and are not executive officers of ISP;
- o the special committee retained and was advised by independent legal counsel experienced in advising on similar transactions;
- o the special committee retained and was advised by Lehman Brothers Inc., an independent financial advisor, to assist in evaluating the proposed merger;
- o Lehman Brothers rendered an opinion concerning the fairness, from a financial point of view, of the consideration to be received by the holders of ISP common stock, other than Mr. Heyman and his affiliates, which was adopted by the special committee;
- o the proposed merger terms and conditions (including the majority of the minority condition), which were determined through lengthy negotiations

between Mr. Heyman and his representatives and the special committee and its advisors, all of whom are unaffiliated with Mr. Heyman;

- o the nature and duration of the deliberations pursuant to which the special committee evaluated the proposed merger and alternatives the proposed merger; and
- o that the special committee is a mechanism well-established under Delaware law in transactions of this type.

In its evaluation, the special committee did not ask Lehman Brothers to consider the liquidation or book values of ISP because it believed that those measures of asset value would be considerably less than the proposed merger consideration of \$10.30 per share and ISP's going concern value. The special committee's belief regarding liquidation value was based upon the committee members knowledge of the specialty chemical industry and their belief that liquidation sales generally result in proceeds substantially less than the sale of a going concern business. While the special committee reviewed with Lehman Brothers its various financial analyses and ISP's historical and projected results, the special committee did not independently generate its own separate financial analysis of the merger.

18

The special committee did not evaluate as alternatives to the proposed merger the possibility of a sale to a potential third party bidder due to Mr. Heyman's indicated unwillingness to cause his beneficial interest in ISP to be sold. Finally, the special committee believed that the merger consideration of \$10.30 per share in cash was fair in relation to the going concern value per share based upon Lehman Brothers' financial analysis referred to in "--Opinion of Lehman Brothers" below.

In reaching its determination, the special committee did not consider purchases by Mr. Heyman or ISPH of ISP stock during the past two years because, to the knowledge of the special committee, there were no purchases by Mr. Heyman or ISPH during that time. There were no firm offers made that the special committee is aware of by any unaffiliated person during the past two years for the merger, sale of a substantial portion of the assets of, or transaction resulting in the change of control of ISP.

BOARD OF DIRECTORS' POSITION AS TO THE FAIRNESS OF THE MERGER

In reaching the conclusions described above, the board of directors considered a number of factors, including the following factors, which, in the board's judgment, supported its conclusions as to fairness:

- o the conclusions and recommendations of the special committee; and
- o the factors referred to above as having been taken into account by the special committee, including the receipt by the special committee of the opinion of Lehman Brothers that, as of the date of the opinion and based upon and subject to the assumptions, limitations and qualifications set forth in that opinion, the merger consideration is fair, from a financial point of view, to the stockholders of ISP, other than Mr. Heyman and his affiliates.

In considering the conclusions and the recommendations of the special committee, the board of directors believed that the analysis of the special committee was

reasonable and adopted the special committee's conclusions and the analysis underlying the conclusion.

MR. HEYMAN AND ISPH'S POSITIONS AS TO THE FAIRNESS OF THE MERGER

The rules of the Securities and Exchange Commission require Mr. Heyman and ISPH to express their belief as to the fairness of the merger to the holders of ISP common stock, other than Mr. Heyman and his affiliates. Mr. Heyman and ISPH believe that the merger is substantively and procedurally fair to the holders of ISP common stock, other than Mr. Heyman and his affiliates. However, neither Mr. Heyman nor ISPH has performed, or engaged a financial advisor to perform, any valuation analysis for the purposes of assessing the fairness of the merger to holders of ISP common stock (other than Mr. Heyman and his affiliates). Moreover, neither Mr. Heyman nor ISPH participated in the deliberations of the special committee or received advice from the special committee's financial advisor.

Mr. Heyman and ISPH's belief that the merger is substantively fair to holders of ISP common stock (other than Mr. Heyman and his affiliates) is based on the following factors:

- o the conclusion and recommendation of the special committee that the merger is advisable, fair to, and in the best interests of, holders of common stock, other than Mr. Heyman and his affiliates;
- o the fact that the special committee received a written opinion from Lehman Brothers dated November 8, 2002 as to the fairness, from a financial point of view, of the \$10.30 per share cash merger consideration;
- o the consideration to be paid in the merger represents a nearly 30% premium over the reported closing price of ISP common stock on the New York Stock Exchange on the last trading day prior to the announcement of Mr. Heyman's proposal on July 8, 2002, and nearly a 49% premium over the average closing price for the 30 days prior to the announcement of the proposal;
- o the S&P 500 Index and the S&P Midcap Specialty Chemicals Index declined 5.5% and 9.3%, respectively, during the period from July 8, 2002 through November 6, 2002, the date on which the special committee agreed to recommend the merger agreement, thereby indicating that the premium of the merger consideration over the unaffected share price of ISP (i.e., the market price that would likely be in effect in absence of the merger proposal) would likely have been higher than the premium referred to above;

- o Mr. Heyman and ISPH's belief that the merger consideration is fair in relation to the going concern value per share of ISP (although they did not calculate a specific going concern value per share, Mr. Heyman and ISPH believe that the merger consideration is fair in relation to the going concern value per share based upon (1) their knowledge of ISP's business and prospects, (2) the projections contained in this proxy statement, including the assumptions contained therein, (3) ISP's historical results of operations and (4) their general knowledge of the specialty chemical industry;

- o the merger will provide consideration to ISP's stockholders entirely in cash and is not subject to any financing condition; and
- o the merger would shift the risk of the future financial performance of ISP from the public stockholders, who do not have the power to control decisions made as to ISP's business, entirely to Mr. Heyman, who has the power to control ISP's business.

Mr. Heyman and ISPH's belief that the merger is procedurally fair to holders of ISP common stock is based on the following factors:

- o the merger and the terms and conditions of the merger agreement were the result of good faith negotiations between the special committee and Mr. Heyman and their respective advisors and representatives;
- o the special committee retained Lehman Brothers, which is not affiliated with Mr. Heyman or ISPH management, to serve as its independent financial advisor, and the special committee received an opinion from Lehman Brothers on November 6, 2002 (subsequently confirmed in writing on November 8, 2002) to the effect that as of such date and, based upon and subject to, the assumptions, limitations and qualifications set forth in its written opinion, the \$10.30 in cash per share merger consideration was fair from a financial point of view to ISP's stockholders (other than Mr. Heyman and his affiliates);
- o the merger was approved by each member of ISP's board of directors, other than Mr. Heyman and Mr. Kumar (each of whom abstained because they are also directors of ISPH); and
- o the fact that stockholders who do not vote to adopt the merger agreement would be entitled, subject to compliance with certain statutorily required procedures to exercise appraisal rights pursuant to Section 262 of the DGCL, which allows stockholders to have the fair value of their shares determined by the Court of Chancery of the State of Delaware and paid to them in cash.

Mr. Heyman and ISPH considered each of the foregoing factors to support their determinations as to the fairness of the merger. Neither Mr. Heyman nor ISPH found it practicable to assign, nor did they assign, relative weights to the individual factors considered in reaching their conclusion as to fairness. Mr. Heyman and ISPH did not consider whether the merger consideration constitutes fair value in relation to the liquidation value of ISP and gave little consideration to the book value of ISP, because they believed that those measures of asset value were not relevant to the market value of ISP's business and that liquidation valuations result in lower valuations of leveraged manufacturing companies. In addition, the liquidation of ISP's assets was not considered to be a viable course of action because substantial value results from continuing ISP as a going-concern and any liquidation would destroy that value. Therefore, no appraisal of liquidation value was sought for purposes of valuing the shares of ISP common stock. Also, Mr. Heyman and ISPH believe that book value is a valuation methodology more typically used in the banking, utilities, real estate and financial services industries. Nonetheless, Mr. Heyman and ISPH note that the net book value per share of ISP, as of June 30, 2002, was \$7.85 and the net book value per share of ISP, as of September 30, 2002 was \$8.14. The merger consideration represents a premium of nearly 31% over the June 30, 2002 net book value per share and 27% over the September 30, 2002 net book value per share.

Neither Mr. Heyman nor ISPH made any purchases of ISP common stock during the last two years and, therefore, did not compare the merger consideration to any recent prices paid by them for ISP common stock. In addition, neither Mr.

Heyman nor ISPH is aware of any offer made during the last two years to acquire ISP, thus no comparison of the merger consideration could be made to any other comparable offer.

The foregoing discussion of the information and factors considered and given weight by Mr. Heyman and ISPH is not intended to be exhaustive, but is believed to include all material factors considered by Mr. Heyman and ISPH. The view of Mr. Heyman and ISPH as to the fairness of the merger is not a recommendation to any stockholder as to how that stockholder should vote on the merger.

20

OPINION OF LEHMAN BROTHERS

In August 2002, the special committee engaged Lehman Brothers to act as its financial advisor with respect to Mr. Heyman's July 8, 2002 proposal to acquire the remaining shares of ISP not already beneficially owned by him and his affiliates. On November 6, 2002, Lehman Brothers rendered its oral opinion (subsequently confirmed in writing on November 8, 2002) to the special committee that as of that date and based upon and subject to the assumptions, limitations and qualifications set forth in that opinion, the consideration offered in the merger to the stockholders of ISP other than Mr. Heyman and his affiliates is fair, from a financial point of view, to those stockholders.

THE FULL TEXT OF LEHMAN BROTHERS' WRITTEN OPINION DATED NOVEMBER 8, 2002 IS ATTACHED AS ANNEX B TO THIS PROXY STATEMENT. STOCKHOLDERS SHOULD READ THAT OPINION FOR A DISCUSSION OF THE ASSUMPTIONS MADE, PROCEDURES FOLLOWED, FACTORS CONSIDERED AND LIMITATIONS UPON THE REVIEW UNDERTAKEN BY LEHMAN BROTHERS IN RENDERING ITS OPINION. THE FOLLOWING IS A SUMMARY OF THAT OPINION AND THE METHODOLOGY THAT LEHMAN BROTHERS USED TO RENDER ITS FAIRNESS OPINION.

Lehman Brothers' advisory services and Lehman Brothers' opinion were provided for the information and assistance of the special committee in connection with its consideration of the merger agreement and the merger. Lehman Brothers' opinion is not intended to be and does not constitute a recommendation to any stockholder of ISP as to how such stockholder should vote with respect to the merger. Lehman Brothers was not requested to opine as to, and its opinion does not address, ISP's underlying business decision to proceed with or effect the merger.

In arriving at its opinion, Lehman Brothers reviewed and analyzed:

- o the merger agreement and the specific terms of the merger;
- o publicly available information concerning ISP that Lehman Brothers believed to be relevant to its analysis, including ISP's annual report on Form 10-K for the fiscal year ended December 31, 2001, ISP's quarterly reports on Form 10-Q for the quarters ended March 31 and June 30, 2002, and the amended Schedule 13D filed by Mr. Heyman on July 9, 2002;
- o financial and operating information with respect to the business, operations and prospects of ISP furnished to Lehman Brothers by ISP, including, without limitation, the Five-Year Plan provided to Lehman Brothers on September 3, 2002 and the Updated Projections provided to

Lehman Brothers and the special committee on October 21, 2002, which were updated and lower projections of future financial performance of ISP prepared by management of ISP;

- o a trading history of ISP's common stock from June 25, 1991 to November 4, 2002 and a comparison of that trading history with those of other companies that Lehman Brothers deemed relevant;
- o a comparison of the historical financial results and present financial condition of ISP with those of other companies that Lehman Brothers deemed relevant; and
- o a comparison of the financial terms of the merger with the financial terms of certain other recent transactions that Lehman Brothers deemed relevant.

In addition, Lehman Brothers had discussions with the management of ISP concerning its business, operations, assets, financial condition and prospects and undertook such other studies, analyses and investigations as Lehman Brothers deemed appropriate.

In arriving at its opinion, Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of that information and further relied upon the assurances of management of ISP that they were not aware of any facts or circumstances that would make that information inaccurate or misleading. With respect to the financial projections of ISP, Lehman Brothers was advised by ISP that the Updated Projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of ISP as to the future financial performance of ISP and, accordingly, Lehman Brothers assumed that ISP would perform substantially in accordance with those projections. Furthermore, Lehman Brothers discussed the Updated Projections with the management of ISP and the special committee, and it was agreed that the Updated Projections were the appropriate projections to use in performing Lehman Brothers' analysis.

21

In arriving at its opinion, Lehman Brothers did not conduct a physical inspection of the properties and facilities of ISP and did not make or obtain any evaluations or appraisals of the assets or liabilities of ISP. In addition, the special committee did not authorize Lehman Brothers to solicit, and Lehman Brothers did not solicit, any indications of interest from any third party with respect to the purchase of all or a part of ISP's business. Furthermore, based on advice of the management of ISP, Lehman Brothers understood that Mr. Heyman does not currently intend to cause his beneficial interest in ISP to be sold (other than as permitted pursuant to the terms of the voting agreement between Mr. Heyman and ISP) or to solicit or entertain any proposals from third parties for the acquisition of ISP as, or substantially as, an entirety. Lehman Brothers' opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, the date of the opinion.

In connection with rendering its opinion, Lehman Brothers performed certain financial, comparative and other analyses as described below. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial and comparative analysis and the application of those methods to the particular circumstances, and therefore, is not readily

susceptible to summary description. Furthermore, in arriving at its opinion, Lehman Brothers considered the results of all of its analyses and did not attribute any particular weight to any analysis or factor considered by it. Accordingly, Lehman Brothers believes that its analyses must be considered as a whole and that considering any portion of those analyses and factors, without considering all analyses and factors as a whole, could create a misleading or incomplete view of the process underlying its opinion.

In its analyses, Lehman Brothers made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of ISP. None of ISP, Lehman Brothers or any other person assumes responsibility if future results are materially different from those discussed. Any estimates contained in these analyses are not necessarily indicative o