Owens Corning
Form 10-Q
October 23, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to

Commission File Number: 1-33100

Owens Corning

(Exact name of registrant as specified in its charter)

Delaware	**43-2109021**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
One Owens Corning Parkway, Toledo, OH	**43659**
(Address of principal executive offices)	*(Zip Code)*

(419) 248-8000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

As of October 15, 2013, 117,721,366 shares of registrant s common stock, par value $0.01 per share, were outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited)

(in millions, except per share amounts)

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2013	**2012**	**2013**	**2012**
NET SALES	$ 1,320	$ 1,276	$ 4,017	$ 4,013
COST OF SALES	1,067	1,074	3,284	3,386
Gross margin	253	202	733	627
OPERATING EXPENSES				
Marketing and administrative expenses	128	115	395	380
Science and technology expenses	19	20	57	60
Charges related to cost reduction actions	6	-	8	36
Other (income) expenses, net	(6)	8	(8)	19
Total operating expenses	147	143	452	495
EARNINGS BEFORE INTEREST AND TAXES	106	59	281	132
Interest expense, net	29	29	87	85
EARNINGS BEFORE TAXES	77	30	194	47
Less: Income tax expense (benefit)	26	(14)	71	8
Equity in net earnings of affiliates	-	-	-	-
NET EARNINGS	51	44	123	39
Less: Net earnings attributable to noncontrolling interests	-	-	1	2
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 51	$ 44	$ 122	$ 37
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO OWENS CORNING COMMON STOCKHOLDERS				
Basic	$ 0.43	$ 0.37	$ 1.03	$ 0.31
Diluted	$ 0.43	$ 0.37	$ 1.02	$ 0.31
WEIGHTED-AVERAGE COMMON SHARES				
Basic	118.0	117.9	118.4	119.8
Diluted	118.8	118.8	119.3	120.6

The accompanying Notes to the Consolidated Financial Statements are an integral part of this Statement.

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OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(unaudited)

(in millions)

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2013	**2012**	**2013**	**2012**
NET EARNINGS	$ 51	$ 44	$ 123	$ 39
Currency translation adjustment	15	28	(30)	9
Pension and other postretirement adjustment (net of tax of $2, $0 $7, and $0 for the three and nine months ended September 30, 2013 and 2012, respectively)	2	(1)	11	(2)
Deferred income on hedging (net of tax of $0 and $(1) for both the three and nine month periods ended September 30, 2013 and 2012, respectively)	-	2	-	3
COMPREHENSIVE EARNINGS	68	73	104	49
Less: Comprehensive earnings attributable to noncontrolling interests	-	-	1	2
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 68	$ 73	$ 103	$ 47

The accompanying Notes to the Consolidated Financial Statements are an integral part of this Statement.

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OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions)

ASSETS	**Sep. 30, 2013**	**Dec. 31, 2012**
CURRENT ASSETS		
Cash and cash equivalents	$ 51	$ 55
Receivables, less allowances of $13 at Sep. 30, 2013, and $17 at Dec. 31, 2012	758	600
Inventories	834	786
Other current assets	270	176
Total current assets	1,913	1,617
Property, plant and equipment, net	2,905	2,903
Goodwill	1,166	1,143
Intangible assets	1,046	1,045
Deferred income taxes	482	604
Other non-current assets	215	256
TOTAL ASSETS	$ 7,727	$ 7,568
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 938	$ 907
Short-term debt	8	5
Long-term debt current portion	3	4
Total current liabilities	949	916
Long-term debt, net of current portion	2,175	2,076
Pension plan liability	452	480
Other employee benefits liability	265	274
Deferred income taxes	35	38
Other liabilities	200	209
OWENS CORNING STOCKHOLDERS EQUITY		
Preferred stock, par value $0.01 per share (a)	-	-
Common stock, par value $0.01 per share (b)	1	1
Additional paid in capital	3,961	3,925
Accumulated earnings	573	451
Accumulated other comprehensive deficit	(382)	(364)
Cost of common stock in treasury (c)	(538)	(475)
Total Owens Corning stockholders equity	3,615	3,538
Noncontrolling interests	36	37

Total equity		3,651		3,575
TOTAL LIABILITIES AND EQUITY	$	7,727	$	7,568

(a) 10 shares authorized; none issued or outstanding at Sep. 30, 2013, and Dec. 31, 2012
(b) 400 shares authorized; 135.5 issued and 117.7 outstanding at Sep. 30, 2013; 135.6 issued and 118.3 outstanding at Dec. 31, 2012
(c) 17.8 shares at Sep. 30, 2013, and 17.3 shares at Dec. 31, 2012

The accompanying Notes to the Consolidated Financial Statements are an integral part of this Statement.

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OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in millions)

	Nine Months Ended Sep. 30, 2013	Nine Months Ended Sep. 30, 2012
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Net earnings	$ 123	$ 39
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	235	269
Gain on sale of fixed assets	(6)	(3)
Deferred income taxes	57	(25)
Provision for pension and other employee benefits liabilities	27	33
Stock-based compensation expense	21	18
Other non-cash	(13)	(9)
Change in working capital	(214)	(171)
Pension fund contribution	(30)	(42)
Payments for other employee benefits liabilities	(16)	(17)
Other	(21)	1
Net cash flow provided by operating activities	163	93
NET CASH FLOW USED FOR INVESTING ACTIVITIES		
Additions to plant and equipment	(199)	(235)
Investment in subsidiaries and affiliates, net of cash acquired	(62)	-
Proceeds from Hurricane Sandy insurance claims	26	-
Proceeds from sale of affiliates	17	12
Purchases of alloy	(15)	-
Proceeds from sale of alloy	16	-
Net cash flow used for investing activities	(217)	(223)
NET CASH FLOW PROVIDED BY FINANCING ACTIVITIES		
Proceeds from senior revolving credit and receivables securitization facilities	1,063	1,205
Payments on senior revolving credit and receivables securitization facilities	(957)	(929)
Payments on long-term debt	(1)	(13)
Net increase (decrease) in short-term debt	3	(9)
Purchases of noncontrolling interest	-	(22)
Purchases of treasury stock	(63)	(113)
Other	7	9
Net cash flow provided by financing activities	52	128
Effect of exchange rate changes on cash	(2)	1

Net decrease in cash and cash equivalents		(4)		(1)
Cash and cash equivalents at beginning of period		55		52
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	51	$	51

The accompanying Notes to the Consolidated Financial Statements are an integral part of this Statement.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. GENERAL

Unless the context requires otherwise, the terms Owens Corning, Company, we and our in this report refer to Owens Corning, a Delaware corporation, and its subsidiaries.

The Consolidated Financial Statements included in this report are unaudited, pursuant to certain rules and regulations of the Securities and Exchange Commission, and include, in the opinion of the Company, adjustments necessary for a fair statement of the results for the periods indicated, which, however, are not necessarily indicative of results which may be expected for the full year. The December 31, 2012, balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States (U.S.). In connection with the Consolidated Financial Statements and Notes included in this report, reference is made to the Consolidated Financial Statements and Notes contained in the Company s 2012 annual report on Form 10-K. Certain reclassifications have been made to the periods presented for 2012 to conform to the classifications used in the periods presented for 2013.

2. SEGMENT INFORMATION

The Company has two reportable segments: Composites and Building Materials. Accounting policies for the segments are the same as those for the Company. The Company s reportable segments are defined as follows:

Composites comprised of our Reinforcements and Downstream businesses. Within the Reinforcements business, the Company manufactures, fabricates and sells glass reinforcements in the form of fiber. Within the Downstream business, the Company manufactures and sells glass fiber products in the form of fabrics, mat, veil and other specialized products.

Building Materials comprised of our Insulation and Roofing businesses. Within the Insulation business, the Company manufactures and sells fiberglass insulation into residential, commercial, industrial and other markets for both thermal and acoustical applications. It also manufactures and sells glass fiber pipe insulation, energy efficient flexible duct media, bonded and granulated mineral wool insulation, and foam insulation used in above- and below-grade construction applications. Within the Roofing business, the Company manufactures and sells residential roofing shingles and oxidized asphalt materials used in residential and commercial construction and specialty applications.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. SEGMENT INFORMATION (continued)

NET SALES

The following table summarizes our net sales by segment, geographic region and product group (in millions). External customer sales are attributed to geographic region based upon the location from which the product is shipped to the external customer.

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2013	**2012**	**2013**	**2012**
Reportable Segments				
Composites	$ 453	$ 459	$ 1,384	$ 1,433
Building Materials	902	855	2,762	2,719
Total reportable segments	1,355	1,314	4,146	4,152
Corporate eliminations	(35)	(38)	(129)	(139)
NET SALES	$ 1,320	$ 1,276	$ 4,017	$ 4,013
External Customer Sales by Geographic Region				
United States	$ 909	$ 856	$ 2,797	$ 2,755
Europe	135	133	412	431
Asia Pacific	156	165	455	477
Other	120	122	353	350
NET SALES	$ 1,320	$ 1,276	$ 4,017	$ 4,013
Sales by Product Group				
Composites	$ 453	$ 459	$ 1,384	$ 1,433
Insulation	431	384	1,176	1,055
Roofing	471	471	1,586	1,664
Corporate Eliminations	(35)	(38)	(129)	(139)
NET SALES	$ 1,320	$ 1,276	$ 4,017	$ 4,013

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. SEGMENT INFORMATION (continued)

EARNINGS BEFORE INTEREST AND TAXES

Earnings before interest and taxes (EBIT) by segment consist of net sales less related costs and expenses and are presented on a basis that is used internally for evaluating segment performance. Certain items, such as general corporate expenses or income and certain other expense or income items, are excluded from the internal evaluation of segment performance. Accordingly, these items are not reflected in EBIT for our reportable segments and are included in the Corporate, Other and Eliminations category.

The following table summarizes EBIT by segment (in millions):

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2013	**2012**	**2013**	**2012**
Reportable Segments				
Composites	$ 21	$ 11	$ 62	$ 68
Building Materials	114	86	332	242
Total reportable segments	$ 135	$ 97	$ 394	$ 310
Corporate, Other and Eliminations				
Charges related to cost reduction actions and related items (a)	$ (11)	$ (22)	$ (23)	$ (109)
Losses related to Hurricane Sandy	(2)	-	(16)	-
General corporate expense and other	(16)	(16)	(74)	(69)
EBIT	$ 106	$ 59	$ 281	$ 132

(a) For the three months ended September 30, 2013 and 2012, includes $6 million and $0 million, respectively, of charges related to cost reduction actions and $5 million and $22 million, respectively, of other related cost reduction action items. For the nine months ended September 30, 2013 and 2012, includes $8 million and $36 million, respectively, of charges related to cost reduction actions and $15 million and $73 million, respectively, of other related items.

3. INVENTORIES

Inventories consist of the following (in millions):

	Sep. 30, 2013	Dec. 31, 2012
Finished goods	$ 584	$ 554
Materials and supplies	250	232
Total inventories	$ 834	$ 786

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

4. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to, among other risks, the impact of changes in commodity prices, foreign currency exchange rates, and interest rates in the normal course of business. The Company s risk management program is designed to manage the exposure and volatility arising from these risks, and utilizes derivative financial instruments to offset a portion of these risks. The Company uses derivative financial instruments only to the extent necessary to hedge identified business risks, and does not enter into such transactions for trading purposes.

The Company generally does not require collateral or other security with counterparties to these financial instruments and is therefore subject to credit risk in the event of nonperformance; however, the Company monitors credit risk and currently does not anticipate nonperformance by other parties. Contracts with counterparties generally contain right of offset provisions. These provisions effectively reduce the Company s exposure to credit risk in situations where the Company has gain and loss positions outstanding with a single counterparty. It is the Company s policy to offset on the Consolidated Balance Sheets the amounts recognized for derivative instruments with any cash collateral arising from derivative instruments executed with the same counterparty under a master netting agreement. As of September 30, 2013, and December 31, 2012, the Company did not have any amounts on deposit with any of its counterparties, nor did any of its counterparties have any amounts on deposit with the Company.

The following table presents the fair value of derivatives and hedging instruments and the respective location on the Consolidated Balance Sheets (in millions):

		Fair Value at	
	Location	Sep. 30, 2013	Dec. 31, 2012
Derivative liabilities designated as hedging instruments:			
Cash flow hedges:			
Natural gas and electricity	Accounts payable and accrued liabilities	$ 1	$ 1
Amount of loss recognized in OCI (effective portion)	OCI	$ 1	$ 1
Fair value hedges:			
Interest rate swaps	Accounts payable and accrued liabilities	$ 1	$ -
Derivative assets not designated as hedging instruments:			
Foreign exchange contracts	Other current assets	$ 1	$ 1
Derivative liabilities not designated as hedging instruments:			
Foreign exchange contracts	Accounts payable and accrued liabilities	$ 1	$ 3

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the impact and respective location of derivative activities on the Consolidated Statements of Earnings (in millions):

		Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	Location	**2013**	**2012**	**2013**	**2012**
Derivative activity designated as hedging instruments:					
Natural gas and electricity:					
Amount of loss reclassified from OCI into earnings (effective portion)	Cost of sales	$ 1	$ 1	$ -	$ 6
Interest rate swaps:					
Amount of loss recognized in earnings	Interest expense	$ -	$ -	$ -	$ -
Derivative activity not designated as hedging instruments:					
Natural gas and electricity:					
Amount of (gain) recognized in earnings	Other (income) expenses, net	$ -	$ -	$ -	$ (1)
Foreign currency exchange contract:					
Amount of loss recognized in earnings (a)	Other (income) expenses, net	$ 1	$ 1	$ 12	$ 5

(a) Losses related to foreign currency derivatives were substantially offset by net revaluation impacts on foreign denominated balance sheet exposures, which were also recorded in other expenses.

Cash Flow Hedges

The Company uses forward and swap contracts, which qualify as cash flow hedges, to manage forecasted exposure to commodity prices. The effective portion of the change in the fair value of cash flow hedges is deferred in accumulated OCI and is subsequently recognized in cost of sales on the Consolidated Statements of Earnings for commodity hedges, when the hedged item impacts earnings. Changes in the fair value of derivative assets and liabilities designated as hedging instruments are shown in other within operating activities on the Consolidated Statements of Cash Flows. Any portion of the change in fair value of derivatives designated as hedging instruments that is determined to be ineffective is recorded in other (income) expenses, net on the Consolidated Statements of Earnings.

The Company currently has natural gas and electricity commodity derivatives designated as hedging instruments that mature within 15 months. The Company s policy for natural gas exposures is to hedge up to 75% of its total forecasted exposures for the next two months, up to 50% of its total forecasted exposures for the following four months, and lesser amounts for the remaining periods. The Company s policy for electricity exposures is to hedge up to 75% of its total forecasted exposures for the current calendar year and up to 65% of its total forecasted exposures for the first calendar year forward. Based on market conditions, approved variation from the standard policy may occur. The Company performs an analysis for effectiveness of its derivatives designated as hedging instruments at the end of each quarter based on the terms of the contract and the underlying item being hedged.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

As of September 30, 2013, $1 million of losses included in accumulated OCI on the Consolidated Balance Sheets relate to contracts that will impact earnings during the next 12 months. Transactions and events that are expected to occur over the next 12 months that will necessitate recognizing these deferred amounts include the recognition of the hedged item through earnings.

Fair Value Hedges

The Company manages its interest rate exposure by balancing the mixture of its fixed and variable rate instruments through interest rate swaps. The swaps are carried at fair value and recorded as other assets or liabilities, with the offset to long-term debt on the Consolidated Balance Sheets. Changes in the fair value of these swaps and that of the related debt are recorded in interest expense, net on the Consolidated Statements of Earnings.

Other Derivatives

The Company uses forward currency exchange contracts to manage existing exposures to foreign exchange risk related to assets and liabilities recorded on the Consolidated Balance Sheets. Gains and losses resulting from the changes in fair value of these instruments are recorded in other (income) expenses, net on the Consolidated Statements of Earnings.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets and goodwill consist of the following (in millions):

Sep. 30, 2013	**Weighted Average Useful Life**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortizable intangible assets:				
Customer relationships	18	$ 180	$ (65)	$ 115
Technology	20	196	(71)	125
Franchise and other agreements	14	36	(16)	20
Indefinite-lived intangible assets:				
Trademarks		786	-	786
Total intangible assets		$ 1,198	$ (152)	$ 1,046
Goodwill		$ 1,166		

Dec. 31, 2012	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	19	$ 169	$ (58)	$ 111
Technology	20	198	(64)	134
Franchise and other agreements	14	37	(14)	23
Indefinite-lived intangible assets:				
Trademarks		777	-	777
Total intangible assets		$ 1,181	$ (136)	$ 1,045
Goodwill		$ 1,143		

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

5. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

The changes in the net carrying amount of goodwill by segment are as follows (in millions):

	Composites	Building Materials	Total
Balance as of December 31, 2012	$ 56	$ 1,087	$ 1,143
Acquisitions (see Note 7)	2	22	24
Foreign currency adjustments	(1)	-	(1)
Balance as of September 30, 2013	$ 57	$ 1,109	$ 1,166

Other Intangible Assets

The Company expects the ongoing amortization expense for amortizable intangible assets to be approximately $22 million in each of the next five fiscal years. The Company s future cash flows are not materially impacted by its ability to extend or renew agreements related to our amortizable intangible assets.

Goodwill

The Company tests goodwill and indefinite-lived intangible assets for impairment during the fourth quarter of each year, or more frequently should circumstances change or events occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount. No testing was deemed necessary in the third quarter of 2013.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following (in millions):

	Sep. 30, 2013	Dec. 31, 2012
Land	$ 222	$ 222
Buildings and leasehold improvements	817	789
Machinery and equipment	3,302	3,223
Construction in progress	202	147
	4,543	4,381

Accumulated depreciation		(1,638)		(1,478)
Property, plant and equipment, net	$	2,905	$	2,903

Machinery and equipment includes certain precious metals used in our production tooling, which comprise approximately 17 percent and 18 percent of total machinery and equipment as of September 30, 2013, and December 31, 2012, respectively. Precious metals used in our production tooling are depleted as they are consumed during the production process, which typically represents an annual expense of less than 3% of the outstanding carrying value.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

7. ACQUISITIONS

During the third quarter of 2013, the Company made cash payments of $10 million related to our July 31, 2011 acquisitions of FiberTEK Insulation West, LLC and FiberTEK Insulation, LLC. Deferred payments totaling $15 million remain outstanding and are due in annual installments through 2018. As of September 30, 2013, the deferred payments are recorded at their net present value of $5 million in accounts payable and accrued liabilities and $8 million in other liabilities on the Consolidated Balance Sheets.

During the second quarter of 2013 the Company completed the acquisitions of Thermafiber Inc., a leading manufacturer of mineral wool commercial and industrial insulation products located in Indiana and Tanaka Kikinzoku (Suzhou) Co., Ltd, a producer of glass fiber bushings in China.

The Company provided total consideration that had a fair value of $52 million at the acquisition dates. The acquisitions resulted in the recognition of $19 million in intangible assets; and $24 million in goodwill. The pro-forma effect of these acquisitions on revenues and earnings was not material.

8. DIVESTITURES

On September 13, 2013, the Company signed an agreement to sell its Composites glass reinforcements facility in Hangzhou, Peoples Republic of China for total compensation of approximately $70 million to the Hangzhou Municipal Land Reservation Center and the Development and Construction Management Office of Taoyuan New Zone of Gongshu District in Hangzhou (Hangzhou Government), both of which are unrelated third party government entities. On September 17, 2013, the Company received $17 million in cash, which is recorded as a deposit on the sale. An additional deposit of $18 million is expected to be received in the fourth quarter of 2013. The balance of the compensation, approximately $35 million, is payable upon returning the land to the Hangzhou Government, which is expected during the first half of 2014. The sale will result in a pre-tax gain of approximately $30 million to $40 million, which will be recognized at the transaction closing.

9. WARRANTIES

The Company records a liability for warranty obligations at the date the related products are sold. Adjustments are made as new information becomes available. A reconciliation of the warranty liability is as follows (in millions):

	Nine Months Ended Sep. 30, 2013
Beginning balance	$ 41
Amounts accrued for current year	18
Settlements of warranty claims	(18)
Ending balance	$ 41

10. COST REDUCTION ACTIONS

2013 Cost Reduction Actions

As a result of the Company s decision to divest its Composites glass reinforcements facility in Hangzhou, Peoples Republic of China discussed in Note 8 above, we have recorded $6 million in charges related to cost reduction actions on the Consolidated Statements of Earnings for the three month period ended September 30, 2013.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

10. COST REDUCTION ACTIONS (continued)

The following table summarizes the status of the unpaid liabilities from the Company s 2013 cost reduction actions (in millions):

	Beginning Balance Dec. 31, 2012	Costs Incurred	Payments	Ending Balance Sep. 30, 2013	Cumulative Charges Incurred
Severance	$ -	$ 6	$ -	$ 6	$ 6
Total	$ -	$ 6	$ -	$ 6	$ 6

2012 Cost Reduction Actions

As a result of evaluating market conditions in our Composites segment, we took actions to improve the competitive position of our global manufacturing network by closing certain facilities, with our most significant actions taking place in France, Spain and Italy. These actions were primarily due to market conditions that led to lower capacity requirements within the European region. In conjunction with these actions, the Company recorded $5 million and $17 million in charges related to cost reduction actions and related items for the three and nine months ended September 30, 2013, respectively; of which, $0 million and $2 million, respectively, is related to severance and is included in charges related to cost reduction actions on the Consolidated Statements of Earnings. The $5 million and $15 million of other charges consist of $2 million and $6 million in accelerated depreciation due to the shortened expected useful life of the closed facilities and $3 million and $9 million in other related charges that primarily consisted of facility closure and related other exit costs, respectively.

The following table summarizes the status of the unpaid liabilities from the Company s 2012 cost reduction actions (in millions):

	Beginning Balance Dec. 31, 2012	Costs Incurred	Payments	Ending Balance Sep. 30, 2013	Cumulative Charges Incurred
Severance	$ 45	$ 2	$ 15	$ 32	$ 53
Total	$ 45	$ 2	$ 15	$ 32	$ 53

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

11. DEBT

Details of the Company s outstanding long-term debt are as follows (in millions):

	Sep. 30, 2013	Dec. 31, 2012
6.50% senior notes, net of discount, due 2016	$ 400	$ 400
9.00% senior notes, net of discount, due 2019	248	247
4.20% senior notes, net of discount, due 2022	599	599
7.00% senior notes, net of discount, due 2036	540	540
Accounts receivable securitization facility, maturing in 2016	212	141
Senior revolving credit facility, maturing in 2016	108	73
Various capital leases, due through and beyond 2050	50	52
Various floating rate debt, maturing through 2027	1	2
Fair value adjustment to debt	20	26
Total long-term debt	2,178	2,080
Less current portion	3	4
Long-term debt, net of current portion	$ 2,175	$ 2,076

Senior Notes

The Company issued $600 million of senior notes on October 17, 2012, $350 million of senior notes on June 3, 2009, and $1.2 billion of senior notes on October 31, 2006, which are collectively referred to as the Senior Notes. The Senior Notes are general unsecured obligations of the Company and rank *pari passu* with all existing and future senior unsecured indebtedness of the Company.

The Senior Notes are fully and unconditionally guaranteed by each of the Company s current and future domestic subsidiaries that are a borrower or guarantor under the Company s Credit Agreement (as defined below). The guarantees are unsecured and rank equally in right of payment with all other existing and future senior unsecured indebtedness of the guarantors. The guarantees are effectively subordinated to existing and future secured debt of the guarantors to the extent of the assets securing that indebtedness.

The Company has the option to redeem all or part of the Senior Notes at any time at a make whole redemption price. The Company is subject to certain covenants in connection with the issuance of the Senior Notes that it believes are usual and customary. The Company was in compliance with these covenants as of September 30, 2013.

In the fourth quarter of 2011, the Company terminated all of its then existing interest rate swaps designated to hedge a portion of the 6.5% senior notes due 2016. The swaps were carried at fair value and recorded as other assets or liabilities, with a fair value adjustment to long-term debt on the Consolidated Balance Sheets. The fair value adjustment to debt will be amortized through 2016 as a reduction to interest expense in conjunction with the maturity date of the notes.

On June 28, 2013, the Company entered into interest rate swap agreements effective July 1, 2013 to manage its interest rate exposure by swapping $100 million of fixed rate to variable rate exposure designated against our 4.2% senior notes due 2022. The swaps are carried at fair value and recorded as other assets or liabilities, with a fair value adjustment to long-term debt on the Consolidated Balance Sheets.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

11. DEBT (continued)

Senior Credit Facility

In July 2011, the Company amended the credit agreement (the Credit Agreement) for the $800 million multi-currency senior revolving credit facility (the Senior Revolving Credit Facility) to extend the maturity to July 2016 and reduce the pricing. The Senior Revolving Credit Facility includes both borrowings and letters of credit. Borrowings under the Senior Revolving Credit Facility may be used for general corporate purposes and working capital. The Company has the discretion to borrow under multiple options, which provide for varying terms and interest rates including the United States prime rate or LIBOR plus a spread.

The Senior Revolving Credit Facility contains various covenants, including a maximum allowed leverage ratio and a minimum required interest expense coverage ratio that the Company believes are usual and customary for a senior unsecured credit agreement. The Company was in compliance with these covenants as of September 30, 2013.

The Company had $4 million of letters of credit outstanding under the Senior Revolving Credit Facility at September 30, 2013 and December 31, 2012.

Receivables Securitization Facility

Included in long-term debt on the Consolidated Balance Sheets are amounts outstanding under a Receivables Purchase Agreement (the RPA) that are accounted for as secured borrowings in accordance with ASC 860, Accounting for Transfers and Servicing. Owens Corning Sales, LLC and Owens Corning Receivables LLC, each a subsidiary of the Company, have a $250 million RPA with certain financial institutions. The securitization facility was amended in the third quarter of 2013 to extend maturity to July 2016 and reduce the size of the facility to $200 million during the months of November, December, and January each year. At September 30, 2013, the Company utilized the full amount permitted under the terms of the RPA. The Company had $38 million and $37 million of letters of credit outstanding under the receivables securitization facility at September 30, 2013 and December 31, 2012, respectively.

The RPA contains various covenants, including a maximum allowed leverage ratio and a minimum required interest expense coverage ratio that the Company believes are usual and customary for a securitization facility. The Company was in compliance with these covenants as of September 30, 2013.

Owens Corning Receivables LLC s sole business consists of the purchase or acceptance through capital contributions of trade receivables and related rights from Owens Corning Sales, LLC and the subsequent retransfer of or granting of a security interest in such trade receivables and related rights to certain purchasers who are party to the RPA. Owens Corning Receivables LLC is a separate legal entity with its own separate creditors who will be entitled, upon its liquidation, to be satisfied out of Owens Corning Receivables LLC s assets prior to any assets or value in Owens Corning Receivables LLC becoming available to Owens Corning Receivables LLC s equity holders. The assets of Owens Corning Receivables LLC are not available to pay creditors of the Company or any other affiliates of the Company or Owens Corning Sales, LLC.

Short-Term Debt

At September 30, 2013 and December 31, 2012, short-term borrowings were $8 million and $5 million, respectively. The short-term borrowings for both periods consisted of various operating lines of credit and working capital facilities. Certain of these borrowings are collateralized by receivables, inventories or property. The borrowing facilities are typically for one-year renewable terms. The weighted average interest rate on short-term borrowings was approximately 5.5% for September 30, 2013, and 4.5% for December 31, 2012.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Pension Plans

The Company sponsors defined benefit pension plans. Under the plans, pension benefits are based on an employee s years of service and, for certain categories of employees, qualifying compensation. Company contributions to these pension plans are determined by an independent actuary to meet or exceed minimum funding requirements. In our U.S. plan prior to 2013 and in all of our Non-U.S plans, the unrecognized cost of any retroactive amendments and actuarial gains and losses are amortized over the average future service period of plan participants expected to receive benefits. As of January 1, 2013, an increase in the number of inactive participants in our U.S. plan resulted in substantially all of the plan participants being inactive. Accordingly, we elected to begin amortizing the unrecognized cost of any retroactive amendments and actuarial gains and losses over the average remaining life expectancy of the inactive participants as opposed to the average remaining service period of the active participants.

The following tables provide information regarding pension expense recognized (in millions):

	Three Months Ended Sep. 30, 2013			Three Months Ended Sep. 30, 2012		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	$ 2	$ -	$ 2	$ 3	$ 1	$ 4
Interest cost	11	5	16	12	5	17
Expected return on plan assets	(14)	(7)	(21)	(15)	(7)	(22)
Amortization of actuarial loss	4	1	5	6	2	8
Net periodic pension cost	$ 3	$ (1)	$ 2	$ 6	$ 1	$ 7

	Nine Months Ended Sep. 30, 2013			Nine Months Ended Sep. 30, 2012		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	$ 7	$ 4	$ 11	$ 7	$ 5	$ 12
Interest cost	33	16	49	37	17	54
Expected return on plan assets	(44)	(19)	(63)	(45)	(20)	(65)
Amortization of actuarial loss	11	4	15	18	4	22
Net periodic pension cost	$ 7	$ 5	$ 12	$ 17	$ 6	$ 23

The Company expects to contribute approximately $20 million in cash to the United States Pension Plans and another $18 million to non-United States plans during 2013. The Company made cash contributions of approximately $30 million to the plans during the nine months ended September 30, 2013.

Postemployment and Postretirement Benefits Other than Pension Plans

The Company maintains healthcare and life insurance benefit plans for certain retired employees and their dependents. The health care plans in the United States are non-funded and pay either (1) stated percentages of covered medically necessary expenses, after subtracting payments by Medicare or other providers and after stated deductibles have been met, or (2) fixed amounts of medical expense reimbursement.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (continued)

The following table provides the components of net periodic benefit cost for aggregated United States and non-United States Plans for the periods indicated (in millions):

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2013	**2012**	**2013**	**2012**
Components of Net Periodic Benefit Cost				
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	2	2	7	8
Amortization of prior service cost	(1)	(1)	(3)	(3)
Amortization of actuarial gain	(1)	(1)	(1)	(2)
Net periodic benefit cost	$ 1	$ 1	$ 5	$ 5

13. CONTINGENT LIABILITIES AND OTHER MATTERS

Litigation

The Company is involved in various legal proceedings relating to employment, product liability and other matters (collectively, Proceedings). The Company regularly reviews the status of such Proceedings along with legal counsel. Liabilities for such Proceedings are recorded when it is probable that the liability has been incurred and when the amount of the liability can be reasonably estimated. Liabilities are adjusted when additional information becomes available. Management believes that the amount of any reasonably possible losses in excess of any amounts accrued, if any, with respect to such Proceedings or any other known claim, including the matters described below under the caption Environmental Matters (the Environmental Matters) will not be material to the Company s financial statements. Management believes that the ultimate disposition of the Proceedings and the Environmental Matters will not have a material adverse effect on the Company s operations or financial condition taken as a whole.

Environmental Matters

We have been deemed by the Environmental Protection Agency (EPA) to be a Potentially Responsible Party (PRP) with respect to certain sites under the Comprehensive Environmental Response Compensation and Liability Act. We have also been deemed a PRP under similar state or local laws and in other instances other PRPs have brought suits against us as a PRP for contribution under such federal, state, or local laws. At September 30, 2013, we had environmental remediation liabilities as a PRP at 20 sites where we have a continuing legal obligation to either complete remedial actions or contribute to the completion of remedial actions as part of a group of PRPs. For these sites we estimate a reserve to reflect environmental liabilities that have been asserted or are probable of assertion, in which liabilities are probable and reasonably estimable. At September 30, 2013, our reserve for such liabilities was $6 million.

Kearny, New Jersey Manufacturing Facility

During the week of October 29, 2012, the Company experienced a flood at its Kearny, New Jersey manufacturing facility as a result of Hurricane Sandy. This facility is insured for property damage and business interruption losses related to such events, subject to deductibles and policy limits. The Company believes that all costs/losses will be substantially covered by insurance; however, the timing of any recoveries may result in expenses being taken in periods before the insurance receipts

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

13. CONTINGENT LIABILITIES AND OTHER MATTERS (continued)

are recorded or received. For the three months ended September 30, 2013, the Company incurred losses related to clean up activities and business interruption in the amount of $4 million reported in Cost of Sales and $9 million reported in Other (income) expenses, net, on the Consolidated Statements of Earnings, partially offset by $11 million of insurance proceeds recorded in Other (income) expenses, net, on the Consolidated Statements of Earnings. For the nine months ended September 30, 2013, the Company incurred losses related to clean up activities and business interruption in the amount of $26 million reported in Cost of Sales and $16 million reported in Other (income) expenses, net, on the Consolidated Statements of Earnings, partially offset by $26 million of insurance proceeds recorded in Other (income) expenses, net, on the Consolidated Statements of Earnings.

14. STOCK COMPENSATION

2013 Stock Plan

On April 18, 2013, the Company s stockholders approved the Owens Corning 2013 Stock Plan (the 2013 Stock Plan) which replaced the 2010 Stock Plan. The 2013 Stock Plan authorizes grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units, bonus stock awards and performance stock awards. Under the 2013 Stock Plan, 1.5 million shares of common stock may be granted in addition to the shares of Company common stock that rolled over from the 2010 Stock Plan as of April 18, 2013. Such shares of common stock include shares that were available but not granted, or which were granted but were not issued or delivered due to expiration, termination, cancellation or forfeiture of such awards. There will be no future grants made under the 2010 Stock Plan. At September 30, 2013 the number of shares remaining available under the 2013 Stock Plan for all stock awards was 3.4 million.

Stock Options

The Company has granted stock options under its stockholder approved stock plans. The Company calculates a weighted-average grant-date fair value using a Black-Scholes valuation model for options granted. Compensation expense for options is measured based on the fair market value of the option on the date of grant, and is recognized on a straight-line basis over a four year vesting period. In general, the exercise price of each option awarded was equal to the market price of the Company s common stock on the date of grant and an option s maximum term is 10 years. The volatility assumption was based on a benchmark study of our peers.

During the nine months ended September 30, 2013, 329,800 stock options were granted with a weighted-average grant date fair value of $18.94. Assumptions used in the Company s Black-Scholes valuation model to estimate the grant date fair value were expected volatility of 45.3%, expected dividends of 0%, expected term of 6.25 years and a risk-free interest rate of 1.2%.

During the three and nine months ended September 30, 2013, the Company recognized expense of $1 million and $4 million respectively, related to the Company s stock options. During the three and nine months ended September 30, 2012, the Company recognized expense of $1 million and $3 million respectively, related to the Company s stock options. As of September 30, 2013, there was $9 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 2.68 years. The total aggregate intrinsic value of options outstanding as of September 30, 2013 and 2012 was $25 million and $19 million.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

14. STOCK COMPENSATION (continued)

The following table summarizes the Company s stock option activity for the nine months ended Sep. 30, 2013:

	Nine Months Ended Sep. 30 2013	
	Number of Options	Weighted-Average Exercise Price
Beginning Balance	3,025,220	$ 27.78
Granted	329,800	42.16
Exercised	(540,725)	26.96
Forfeited	(56,500)	34.58
Ending Balance	2,757,795	$ 29.52

The following table summarizes information about the Company s options outstanding and exercisable:

	Options Outstanding			Options Exercisable		
		Weighted-Average			Weighted-Average	
Range of Exercise Prices	Options Outstanding	Remaining Contractual Life	Exercise Price	Number Exercisable at Sep. 30, 2013	Remaining Contractual Life	Exercise Price
$13.89- $42.16	2,757,795	5.60	$ 29.52	1,948,220	4.45	$ 26.73

Restricted Stock Awards and Restricted Stock Units

The Company has granted restricted stock awards and restricted stock units (collectively referred to as restricted stock) under its stockholder approved stock plans. Compensation expense for restricted stock is measured based on the market price of the stock at date of grant and is recognized on a straight-line basis over the four-year vesting period. Stock restrictions are subject to alternate vesting plans for death, disability, approved early retirement and involuntary termination, over various periods ending in 2017.

During the three and nine months ended September 30, 2013, the Company recognized expense of $4 million and $12 million respectively, related to the Company s restricted stock. During the three and nine months ended September 30, 2012, the Company recognized expense of $3 million and $11 million respectively. As of September 30, 2013, there was $28 million of total unrecognized compensation cost related to restricted stock. That cost is expected to be recognized over a weighted-average period of 2.75 years. The total fair value of shares vested during the nine months ended September 30, 2013 and 2012 was $16 million and $11 million, respectively.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

14. STOCK COMPENSATION (continued)

A summary of the status of the Company s plans that had restricted stock issued as of September 30, 2013, and changes during the nine months ended September 30, 2013, are presented below:

	Nine Months Ended Sep. 30, 2013		
	Number of Shares		Weighted-Average Grant-Date Fair Value
Beginning Balance	1,875,065	$	27.14
Granted	497,694		41.13
Vested	(602,501)		25.92
Forfeited	(75,869)		34.54
Ending Balance	1,694,389	$	31.35

Performance Stock Awards and Performance Stock Units

The Company has granted performance stock awards and performance stock units (collectively referred to as PSUs) as a part of its long-term incentive plan. Outstanding grants issued in 2013 will be fully settled in stock and outstanding grants issued in 2011 and 2012 will be settled 50 percent in stock and 50 percent in cash. The amount of the stock and/or cash ultimately distributed is contingent on meeting various company or stockholder return goals.

Compensation expense for PSUs settled in stock is measured based on the grant date fair value and is recognized on a straight-line basis over the vesting period. Compensation expense for PSUs settled in cash is measured based on the fair value at the end of each quarter and is recognized on a straight-line basis over the vesting period. Vesting will be accelerated in the case of death or disability, and awards earned will be paid at the end of the three-year period.

In the first nine months of 2013, the Company granted PSUs. The 2013 grants vest after a three-year period based on the Company s total stockholder return relative to the performance of the companies in the S&P 500 Index for the respective three-year period. The amount of stock distributed will vary from 0% to 200% of PSUs awarded depending on the relative stockholder return performance.

For all PSUs, respectively during the three and nine months ended September 30, 2013, the Company recognized a gain of $1 million and an expense of $5 million. During the three and nine months ended September 30, 2012, the Company recognized expense of $5 million and $11 million, respectively, related to PSUs. As of September 30, 2013, there was $12 million of total unrecognized compensation cost related to PSUs. That cost is expected to be recognized over a weighted-average period of 1.86 years.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

14. STOCK COMPENSATION (continued)

A summary of the status of the Company s plans that had restricted stock issued as of September 30, 2013, and changes during the nine months ended September 30, 2013, are presented below:

	Nine Months Ended Sep. 30, 2013		
	Number of PSUs		Weighted-Average Grant-Date Fair Value
Beginning Balance	412,910	$	49.14
Granted	207,050		56.71
Forfeited	(40,550)		50.36
Ending Balance	579,410	$	51.76

2013 Employee Stock Purchase Plan

On April 18, 2013, the Company s stockholders approved the Owens Corning Employee Stock Purchase Plan (ESPP). The ESPP is a tax-qualified plan under Section 423 of the Internal Revenue Code. The purchase price of shares purchased under the ESPP is equal to 85% of the lower of the fair market value of shares of Owens Corning common stock at the beginning or ending of the offering period, which is a six-month period ending on May 31 and November 30 of each year. There are 2 million shares available for purchase under the ESPP as of its approval date. During the three and nine months ended September 30, 2013, the Company had expense of $0.4 million and $0.6 million respectively. As of September 30, 2013, there was less than $1 million of total unrecognized compensation cost related to the ESPP.

15. EARNINGS PER SHARE

The following table summarizes the number of shares outstanding as well as our basic and diluted earnings per-share (in millions, except per share amounts):

	Three Months Ended Sep. 30,				Nine Months Ended Sep. 30,			
	2013		2012		2013		2012	
Net earnings attributable to Owens Corning	$	51	$	44	$	122	$	37

Weighted-average number of shares outstanding used for basic earnings per share		118.0		117.9		118.4		119.8
Non-vested restricted and performance shares		0.4		0.6		0.4		0.5
Options to purchase common stock		0.4		0.3		0.5		0.3
Weighted-average number of shares outstanding and common equivalent shares used for diluted earnings per share		118.8		118.8		119.3		120.6
Earnings per common share attributable to Owens Corning common stockholders:								
Basic	$	0.43	$	0.37	$	1.03	$	0.31
Diluted	$	0.43	$	0.37	$	1.02	$	0.31

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

15. EARNINGS PER SHARE (continued)

Basic earnings per share is calculated by dividing earnings attributable to Owens Corning by the weighted-average number of shares of the Company s common stock outstanding during the period. Outstanding shares consist of issued shares less treasury stock.

On April 25, 2012, the Company announced a new share buy-back program under which the Company is authorized to repurchase up to 10 million shares of the Company s outstanding common stock (the 2012 Repurchase Program). The 2012 Repurchase Program is in addition to the share buy-back program announced August 4, 2010, (the 2010 Repurchase Program and collectively with the 2012 Repurchase Program, the Repurchase Programs). The Repurchase Programs authorize the Company to repurchase shares through the open market, privately negotiated, or other transactions. The actual number of shares repurchased will depend on timing, market conditions and other factors and will be at the Company s discretion. We repurchased 1.4 million shares of the Company s common stock for $54 million during the third quarter of 2013 under previously announced repurchase programs. As of September 30, 2013, 8.6 million shares remain available for repurchase under the authorized programs.

For the three and nine months ended September 30, 2013, the number of shares used in the calculation of diluted earnings per share did not include 0.2 million non-vested Restricted and Performance shares, 1.0 and 0.7 million of options to purchase common stock respectively, 17.5 million common equivalent shares from Series A Warrants or 7.8 million common equivalent shares from Series B Warrants due to their anti-dilutive effect.

For the three and nine months ended September 30, 2012, the number of shares used in the calculation of diluted earnings per share did not include 0.3 million options to purchase common stock, 17.5 million common equivalent shares from Series A Warrants or 7.8 million common equivalent shares from Series B Warrants due to their anti-dilutive effect.

16. FAIR VALUE MEASUREMENT

Items Measured at Fair Value

The Company classifies and discloses assets and liabilities carried at fair value in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

16. FAIR VALUE MEASUREMENT (continued)

The following table summarizes the fair values, and levels within the fair value hierarchy in which the fair value measurements fall, for assets and liabilities measured on a recurring basis as of September 30, 2013 (in millions):

	Total Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ 18	$ 18	$ -	$ -
Term deposits	2	-	2	-
Derivative assets	1	-	1	-
Total assets	$ 21	$ 18	$ 3	$ -
Liabilities:				
Derivative liabilities	$ (3)	$ -	$ (3)	$ -
Total liabilities	$ (3)	$ -	$ (3)	$ -

The following table summarizes the fair values, and levels within the fair value hierarchy in which the fair value measurements fall, for assets and liabilities measured on a recurring basis as of December 31, 2012 (in millions):

	Total Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				

Cash equivalents	$ 1	$ 1	$ -	$ -
Term deposits	1	-	1	-
Derivative assets	1	-	1	-
Total assets	$ 3	$ 1	$ 2	$ -
Liabilities:				
Derivative liabilities	$ (4)	$ -	$ (4)	$ -
Total liabilities	$ (4)	$ -	$ (4)	$ -

Cash equivalents, by their nature and less than 90 day maturity, utilize Level 1 inputs in determining fair value. Term deposits utilize Level 2 inputs in determining fair value based on their longer term maturity. Term deposits are included in other current assets on the Consolidated Balance Sheets. The Company measures the value of its natural gas hedge contracts and foreign currency forward contracts using Level 2 inputs. The fair value of the Company s natural gas hedges is determined by a mark to market valuation based on forward curves using observable market prices and the fair value of its foreign currency forward contracts is determined using observable market transactions in over-the-counter markets.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

16. FAIR VALUE MEASUREMENT (continued)

Items Disclosed at Fair Value

Long-term notes receivable

The fair value has been calculated using the expected future cash flows discounted at market interest rates. The Company believes that the carrying amounts reasonably approximate the fair values of long-term notes receivable. Long-term notes receivable were $10 million and $53 million as of September 30, 2013, and December 31, 2012, respectively. The decline in the fair value of long-term notes receivable was due to the reclassification of a receivable to other current assets related to the 2011 sale of our Stone business.

Long-term debt

The fair value of the Company s long-term debt has been calculated based on quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities.

As of September 30, 2013, and December 31, 2012, respectively, the Company s 6.50% senior notes due 2016 were trading at approximately 113% and 112% of par value, the 9.00% senior notes due 2019 were trading at approximately 122% and 127% of par value, the 4.2% senior notes due 2022 were trading at approximately 97% and 102% of par value, and the 7.00% senior notes due 2036 were trading at approximately 109% and 109% of par value.

At September 30, 2013, and December 31, 2012, the Company determined that the book value of the remaining long-term debt instruments approximates market value. This approach, using level 1 inputs and utilizing indicative market rates for a new debt issuance, approximated the fair value of the remaining long-term debt at $370 million and $268 million respectively.

17. INCOME TAXES

Income tax expense for the three and nine months ended September 30, 2013, was $26 million and $71 million, respectively. For the third quarter and year-to-date 2013, the Company s effective tax rate was 34 percent and 37 percent, respectively. For both periods, the difference between the effective tax rate and the statutory rate of 35 percent is primarily attributable to various tax planning initiatives and the tax accounting treatment related to various locations which are currently in a loss position.

Income tax expense for the three and nine months ended September 30, 2012, was a benefit of $14 million and an expense of $8 million, respectively. For the third quarter and year-to-date 2012, the Company s effective tax rate was (47) percent and 17 percent, respectively. The third quarter 2012 effective tax rate is reflective of a cumulative adjustment attributable to lower estimated tax expense for 2012. For both periods, the difference between the effective tax rate and the statutory rate of 35 percent is primarily attributable to the tax accounting treatment related to various locations which are currently in a loss position and various tax planning initiatives.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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18. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes in accumulated other comprehensive income (AOCI) for the three months ended September 30, 2013 (in millions):

	Cash Flow Hedge Activity	Defined Benefit Pension Plan Activity	OCI Valuation Allowance activity	Foreign Currency Translation Adjustment	Total
Balance as of June 30, 2013, net of tax	$ (1)	$ (270)	$ (113)	$ (15)	$ (399)
Amounts classified into AOCI, net of tax	(1)	-	-	15	14
Amounts reclassified from AOCI, net of tax	1	2	-	-	3
Change in AOCI, net of tax	-	2	-	15	17
Balance as of September 30, 2013, net of tax	$ (1)	$ (268)	$ (113)	$ -	$ (382)

The following table summarizes the changes in AOCI for the nine months ended September 30, 2013 (in millions):

	Cash Flow Hedge Activity	Defined Benefit Pension Plan Activity	OCI Valuation Allowance activity	Foreign Currency Translation Adjustment	Total
Balance as of December 31, 2012, net of tax	$ (1)	$ (279)	$ (114)	$ 30	$ (364)
Amounts classified into AOCI, net of tax	(2)	2	1	(30)	(29)
Amounts reclassified from AOCI, net of tax	2	9	-	-	11
Change in AOCI, net of tax	-	11	1	(30)	(18)
Balance as of September 30, 2013, net of tax	$ (1)	$ (268)	$ (113)	$ -	$ (382)

The following table presents the impact and respective location of AOCI reclassifications on the Consolidated Statements of Earnings, net of tax (in millions):

	Three Months Ended	Nine Months Ended

	Location	Sep. 30, 2013	Sep. 30, 2013
Cash Flow Hedge Activity	Cost of sales	$ 1	$ 2
Defined Benefit Pension Plan Activity	Cost of sales	2	7
Defined Benefit Pension Plan Activity	Marketing and administrative expenses	-	2
Total reclassifications from AOCI		$ 3	$ 11

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The following Condensed Consolidating Financial Statements present the financial information required with respect to those entities which guarantee certain of the Company s debt. The Condensed Consolidating Financial Statements are presented on the equity method. Under this method, the investments in subsidiaries are recorded at cost and adjusted for the Company s share of the subsidiaries cumulative results of operations, capital contributions, distributions and other equity changes. The principal elimination entries eliminate investment in subsidiaries and intercompany balances and transactions.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

Guarantor and Nonguarantor Financial Statements

The Senior Notes and the Senior Revolving Credit Facility are guaranteed, fully, unconditionally and jointly and severally, by each of Owens Corning s current and future 100% owned material domestic subsidiaries that is a borrower or a guarantor under Owens Corning s Credit Agreement, which permits changes to the named guarantors in certain situations (collectively, the Guarantor Subsidiaries). The remaining subsidiaries have not guaranteed the Senior Notes and the Senior Revolving Credit Facility (collectively, the Nonguarantor Subsidiaries).

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF EARNINGS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$ -	$ 921	$ 497	$ (98)	$ 1,320
COST OF SALES	(3)	739	429	(98)	1,067
Gross margin	3	182	68	-	253
OPERATING EXPENSES					-
Marketing and administrative expenses	25	68	35	-	128
Science and technology expenses	-	13	6	-	19
Charges related to cost reduction actions	-	-	6	-	6
Other (income) expenses, net	(10)	4	-	-	(6)
Total operating expenses	15	85	47	-	147
EARNINGS BEFORE INTEREST AND TAXES	(12)	97	21	-	106
Interest expense, net	27	-	2	-	29
EARNINGS BEFORE TAXES	(39)	97	19	-	77
Less: Income tax expense (benefit)	(16)	32	10	-	26
Equity in net earnings of subsidiaries	74	9	-	(83)	-
Equity in net earnings of affiliates	-	-	-	-	-

NET EARNINGS		51		74		9		(83)		51
Less: Net earnings attributable to noncontrolling interests		-		-		-		-		-
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$	51	$	74	$	9	$	(83)	$	51

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF EARNINGS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$ -	$ 895	$ 485	$ (104)	$ 1,276
COST OF SALES	(3)	741	440	(104)	1,074
Gross margin	3	154	45	-	202
OPERATING EXPENSES					
Marketing and administrative expenses	24	58	33	-	115
Science and technology expenses	-	15	5	-	20
Charges related to cost reduction actions	-	-	-	-	-
Other (income) expenses, net	(6)	24	(10)	-	8
Total operating expenses	18	97	28	-	143
EARNINGS BEFORE INTEREST AND TAXES	(15)	57	17	-	59
Interest expense, net	27	-	2	-	29
EARNINGS BEFORE TAXES	(42)	57	15	-	30
Less: Income tax expense (benefit)	(16)	11	(9)	-	(14)
Equity in net earnings of subsidiaries	70	25	-	(95)	-
Equity in net earnings of affiliates	-	(1)	1	-	-
NET EARNINGS	44	70	25	(95)	44
Less: Net earnings attributable to noncontrolling interests	-	-	-	-	-
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 44	$ 70	$ 25	$ (95)	$ 44

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF EARNINGS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$ -	$ 2,872	$ 1,451	$ (306)	$ 4,017
COST OF SALES	(7)	2,340	1,257	(306)	3,284
Gross margin	7	532	194	-	733
OPERATING EXPENSES					-
Marketing and administrative expenses	89	202	104	-	395
Science and technology expenses	-	43	14	-	57
Charges related to cost reduction actions	-	-	8	-	8
Other (income) expenses, net	(17)	-	9	-	(8)
Total operating expenses	72	245	135	-	452
EARNINGS BEFORE INTEREST AND TAXES	(65)	287	59	-	281
Interest expense, net	81	1	5	-	87
EARNINGS BEFORE TAXES	(146)	286	54	-	194
Less: Income tax expense (benefit)	(57)	91	37	-	71
Equity in net earnings of subsidiaries	211	16	-	(227)	-
Equity in net earnings of affiliates	-	-	-	-	-
NET EARNINGS	122	211	17	(227)	123
Less: Net earnings attributable to noncontrolling interests	-	-	1	-	1
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 122	$ 211	$ 16	$ (227)	$ 122

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF EARNINGS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$ -	$ 2,846	$ 1,461	$ (294)	$ 4,013
COST OF SALES	-	2,353	1,327	(294)	3,386
Gross margin	-	493	134	-	627
OPERATING EXPENSES					
Marketing and administrative expenses	86	190	104	-	380
Science and technology expenses	-	47	13	-	60
Charges related to cost reduction actions	-	-	36	-	36
Other (income) expenses, net	(25)	34	10	-	19
Total operating expenses	61	271	163	-	495
EARNINGS BEFORE INTEREST AND TAXES	(61)	222	(29)	-	132
Interest expense, net	76	2	7	-	85
EARNINGS BEFORE TAXES	(137)	220	(36)	-	47
Less: Income tax expense (benefit)	(52)	56	4	-	8
Equity in net earnings of subsidiaries	122	(41)	-	(81)	-
Equity in net earnings of affiliates	-	(1)	1	-	-
NET EARNINGS	37	122	(39)	(81)	39
Less: Net earnings attributable to noncontrolling interests	-	-	2	-	2
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 37	$ 122	$ (41)	$ (81)	$ 37

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE EARNINGS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET EARNINGS	$ 51	$ 74	$ 9	$ (83)	$ 51
Currency translation adjustment	15	-	-	-	15
Pension and other postretirement adjustment (net of tax)	2	-	-	-	2
Deferred income (loss) on hedging (net of tax)	-	-	-	-	-
COMPREHENSIVE EARNINGS	68	74	9	(83)	68
Less: Comprehensive earnings attributable to noncontrolling interests	-	-	-	-	-
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 68	$ 74	$ 9	$ (83)	$ 68

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE EARNINGS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET EARNINGS	$ 44	$ 70	$ 25	$ (95)	$ 44
Currency translation adjustment	28	-	-	-	28
Pension and other postretirement adjustment (net of tax)	(1)	-	-	-	(1)
Deferred income (loss) on hedging (net of tax)	2	-	-	-	2
COMPREHENSIVE EARNINGS	73	70	25	(95)	73
Less: Comprehensive earnings attributable to noncontrolling interests	-	-	-	-	-
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 73	$ 70	$ 25	$ (95)	$ 73

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE EARNINGS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET EARNINGS	$ 122	$ 211	$ 17	$ (227)	$ 123
Currency translation adjustment	(30)	-	-	-	(30)
Pension and other postretirement adjustment (net of tax)	11	-	-	-	11
Deferred income (loss) on hedging (net of tax)	-	-	-	-	-
COMPREHENSIVE EARNINGS	103	211	17	(227)	104
Less: Comprehensive earnings attributable to noncontrolling interests	-	-	1	-	1
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 103	$ 211	$ 16	$ (227)	$ 103

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE EARNINGS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET EARNINGS	$ 37	$ 122	$ (39)	$ (81)	$ 39
Currency translation adjustment	9	-	-	-	9
Pension and other postretirement adjustment (net of tax)	(2)	-	-	-	(2)
Deferred income (loss) on hedging (net of tax)	3	-	-	-	3
COMPREHENSIVE EARNINGS	47	122	(39)	(81)	49
Less: Comprehensive earnings attributable to noncontrolling interests	-	-	2	-	2
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 47	$ 122	$ (41)	$ (81)	$ 47

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2013

(in millions)

ASSETS	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
CURRENT ASSETS					
Cash and cash equivalents	$ 1	$ 4	$ 46	$ -	$ 51
Receivables, less allowances	-	-	758	-	758
Due from affiliates	-	2,726	-	(2,726)	-
Inventories	-	510	324	-	834
Other current assets	43	132	95	-	270
Total current assets	44	3,372	1,223	(2,726)	1,913
Investment in subsidiaries	7,105	2,405	558	(10,068)	-
Due from affiliates	-	66	966	(1,032)	-
Property, plant and equipment, net	359	1,293	1,253	-	2,905
Goodwill	-	1,127	39	-	1,166
Intangible assets	-	1,017	283	(254)	1,046
Deferred income taxes	60	405	17	-	482
Other non-current assets	20	68	127	-	215
TOTAL ASSETS	$ 7,588	$ 9,753	$ 4,466	$ (14,080)	$ 7,727
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	$ 31	$ 599	$ 308	$ -	$ 938
Due to affiliates	1,550	-	1,176	(2,726)	-
Short-term debt	-	-	8	-	8
Long-term debt current portion	-	2	1	-	3
Total current liabilities	1,581	601	1,493	(2,726)	949

Long-term debt, net of current portion	1,914	27	234	-	2,175
Due to affiliates	-	966	66	(1,032)	-
Pension plan liability	313	-	139	-	452
Other employee benefits liability	-	247	18	-	265
Deferred income taxes	-	-	35	-	35
Other liabilities	165	249	40	(254)	200
OWENS CORNING STOCKHOLDERS EQUITY					
Preferred stock	-	-	-	-	-
Common stock	1	-	-	-	1
Additional paid in capital	3,961	6,558	1,962	(8,520)	3,961
Accumulated earnings	573	1,105	443	(1,548)	573
Accumulated other comprehensive deficit	(382)	-	-	-	(382)
Cost of common stock in treasury	(538)	-	-	-	(538)
Total Owens Corning stockholders equity	3,615	7,663	(2,405)	(10,068)	3,615
Noncontrolling interests	-	-	36	-	36
Total equity	3,615	7,663	2,441	(10,068)	3,651
TOTAL LIABILITIES AND EQUITY	$ 7,588	$ 9,753	$ 4,466	$ (14,080)	$ 7,727

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2012

(in millions)

ASSETS	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	$ -	$ 3	$ 52	$ -	$ 55
Receivables, less allowances	-	-	600	-	600
Due from affiliates	-	2,528	-	(2,528)	-
Inventories	-	473	313	-	786
Other current assets	5	75	96	-	176
Total current assets	5	3,079	1,061	(2,528)	1,617
Investment in subsidiaries	6,877	2,489	558	(9,924)	-
Due from affiliates	-	65	1,022	(1,087)	-
Property, plant and equipment, net	374	1,294	1,235	-	2,903
Goodwill	-	1,068	75	-	1,143
Intangible assets	-	939	302	(196)	1,045
Deferred income taxes	54	525	25	-	604
Other non-current assets	62	74	120	-	256
TOTAL ASSETS	$ 7,372	$ 9,533	$ 4,398	$ (13,735)	$ 7,568
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	$ 8	$ 620	$ 279	$ -	$ 907
Due to affiliates	1,419	-	1,109	(2,528)	-
Short-term debt	-	-	5	-	5
Long-term debt current portion	-	2	2	-	4
Total current liabilities	1,427	622	1,395	(2,528)	916

Long-term debt, net of current portion	1,884	28	164	-	2,076
Due to affiliates	-	1,022	65	(1,087)	-
Pension plan liability	331	-	149	-	480
Other employee benefits liability	-	254	20	-	274
Deferred income taxes	-	-	38	-	38
Other liabilities	192	172	41	(196)	209
OWENS CORNING STOCKHOLDERS EQUITY					
Preferred stock	-	-	-	-	-
Common stock	1	-	-	-	1
Additional paid in capital					