Owens Corning
Form 10-Q
October 24, 2012
Table of Contents

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, 2012

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, 2012, 118,169,824 shares of registrant s common stock, par value $0.01 per share, were outstanding.

Table of Contents

Contents

Table of Contents

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, 2012	Three Months Ended Sep. 30, 2011	Nine Months Ended Sep. 30, 2012	Nine Months Ended Sep. 30, 2011
NET SALES	$ 1,276	$ 1,450	$ 4,013	$ 4,139
COST OF SALES	1,074	1,133	3,386	3,341
Gross margin	202	317	627	798
OPERATING EXPENSES				
Marketing and administrative expenses	115	119	380	395
Science and technology expenses	20	20	60	58
Charges related to cost reduction actions	-	-	36	-
Other (income) expenses, net	8	1	19	(28)
Total operating expenses	143	140	495	425
EARNINGS BEFORE INTEREST AND TAXES	59	177	132	373
Interest expense, net	29	28	85	81
EARNINGS BEFORE TAXES	30	149	47	292
Less: Income tax expense (benefit)	(14)	23	8	63
Equity in net earnings of affiliates	-	-	-	1
NET EARNINGS	44	126	39	230
Less: Net earnings attributable to noncontrolling interests	-	2	2	4
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 44	$ 124	$ 37	$ 226
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO OWENS CORNING COMMON STOCKHOLDERS				
Basic	$ 0.37	$ 1.02	$ 0.31	$ 1.83
Diluted	$ 0.37	$ 1.01	$ 0.31	$ 1.82
WEIGHTED-AVERAGE COMMON SHARES				
Basic	117.9	121.7	119.8	123.2

Diluted	118.8	122.6	120.6	124.2

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

Table of Contents

- 4 -

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE EARNINGS

(unaudited)

(in millions)

	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2012	**2011**	**2012**	**2011**
NET EARNINGS	$ 44	$ 126	$ 39	$ 230
Currency translation adjustment	28	(84)	9	(23)
Pension and other postretirement adjustment (net of tax of $0 and $(1) for the periods ended September 30, 2012 and 2011, respectively)	(1)	2	(2)	1
Deferred income (loss) on hedging (net of tax of $(1), and $0 for the periods ended September 30, 2012 and 2011, respectively)	2	(3)	3	(1)
COMPREHENSIVE EARNINGS	73	41	49	207
Less: Comprehensive earnings attributable to noncontrolling interests	-	2	2	4
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 73	$ 39	$ 47	$ 203

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

Table of Contents

- 5 -

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions)

ASSETS	**Sep. 30, 2012**	**Dec. 31, 2011**
CURRENT ASSETS		
Cash and cash equivalents	$ 51	$ 52
Receivables, less allowances of $19 at Sep. 30, 2012, and $15 at Dec. 31, 2011	770	610
Inventories	793	795
Other current assets	155	179
Total current assets	1,769	1,636
Property, plant and equipment, net	2,912	2,904
Goodwill	1,144	1,144
Intangible assets	1,050	1,073
Deferred income taxes	564	538
Other non-current assets	253	232
TOTAL ASSETS	$ 7,692	$ 7,527
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 867	$ 876
Short-term debt	19	28
Long-term debt current portion	6	4
Total current liabilities	892	908
Long-term debt, net of current portion	2,191	1,930
Pension plan liability	420	435
Other employee benefits liability	259	267
Deferred income taxes	43	51
Other liabilities	207	195
Commitments and contingencies		
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	3,917	3,907
Accumulated earnings	507	470
Accumulated other comprehensive deficit	(305)	(315)
Cost of common stock in treasury (c)	(475)	(362)

Total Owens Corning stockholders equity		3,645		3,701
Noncontrolling interests		35		40
Total equity		3,680		3,741
TOTAL LIABILITIES AND EQUITY	$	7,692	$	7,527

(a) 10 shares authorized; none issued or outstanding at Sep. 30, 2012, and Dec. 31, 2011

(b) 400 shares authorized; 135.5 issued and 118.2 outstanding at Sep. 30, 2012; 134.4 issued and 120.9 outstanding at Dec. 31, 2011

(c) 17.3 shares at Sep. 30, 2012, and 13.5 shares at Dec. 31, 2011

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

Table of Contents

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in millions)

	Nine Months Ended Sep. 30, 2012	Nine Months Ended Sep. 30, 2011
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Net earnings	$ 39	$ 230
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	269	243
Gain on sale of businesses and fixed assets	(3)	(30)
Deferred income taxes	(25)	29
Provision for pension and other employee benefits liabilities	33	26
Stock-based compensation expense	18	16
Other non-cash	(9)	(18)
Change in working capital	(171)	(330)
Pension fund contribution	(42)	(104)
Payments for other employee benefits liabilities	(17)	(17)
Other	1	14
Net cash flow provided by operating activities	93	59
NET CASH FLOW USED FOR INVESTING ACTIVITIES		
Additions to plant and equipment	(235)	(303)
Investment in subsidiaries and affiliates, net of cash acquired	-	(84)
Proceeds from the sale of assets or affiliates	12	81
Net cash flow used for investing activities	(223)	(306)
NET CASH FLOW PROVIDED BY FINANCING ACTIVITIES		
Proceeds from senior revolving credit and receivables securitization facilities	1,205	1,007
Payments on senior revolving credit and receivables securitization facilities	(929)	(629)
Proceeds from long-term debt	-	6
Payments on long-term debt	(13)	(10)
Net increase (decrease) in short-term debt	(9)	17
Purchases of noncontrolling interest	(22)	-
Purchases of treasury stock	(113)	(138)
Other	9	12
Net cash flow provided by financing activities	128	265
Effect of exchange rate changes on cash	1	(20)

Net decrease in cash and cash equivalents		(1)		(2)
Cash and cash equivalents at beginning of period		52		52
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	51	$	50

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

Table of Contents

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, 2011, 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 2011 annual report on Form 10-K. During the three and nine months ended September 30, 2012, the Company recorded additional net pre-tax expense of $7 million ($3 million after tax expense) and net pre-tax expense of $2 million ($1 million after tax income), respectively, related to prior periods. The effect was not material to the current or any previously issued financial statements. Certain reclassifications have been made to the periods presented for 2011 to conform to the classifications used in the periods presented for 2012.

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 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.

Table of Contents

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,	
	2012	**2011**	**2012**	**2011**
Reportable Segments				
Composites	$ 459	$ 496	$ 1,433	$ 1,517
Building Materials	855	1,009	2,719	2,766
Total reportable segments	1,314	1,505	4,152	4,283
Corporate eliminations	(38)	(55)	(139)	(144)
NET SALES	$ 1,276	$ 1,450	$ 4,013	$ 4,139
External Customer Sales by Geographic Region				
United States	$ 856	$ 1,008	$ 2,755	$ 2,781
Europe	133	147	431	487
Asia Pacific	165	171	477	504
Other	122	124	350	367
NET SALES	$ 1,276	$ 1,450	$ 4,013	$ 4,139
Sales by Product Group				
Composites	$ 459	$ 496	$ 1,433	$ 1,517
Insulation	384	365	1,055	981
Roofing	471	644	1,664	1,785
Corporate Eliminations	(38)	(55)	(139)	(144)
NET SALES	$ 1,276	$ 1,450	$ 4,013	$ 4,139

Table of Contents

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 consists 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,	
	2012	**2011**	**2012**	**2011**
Reportable Segments				
Composites	$ 11	$ 49	$ 68	$ 152
Building Materials	86	144	242	277
Total reportable segments	$ 97	$ 193	$ 310	$ 429
Corporate, Other and Eliminations				
Charges related to cost reduction actions and related items	$ (22)	$ -	$ (109)	$ (17)
Gain on sale of Capivari, Brazil, facility	-	-	-	16
General corporate expense and other	(16)	(16)	(69)	(55)
EBIT	$ 59	$ 177	$ 132	$ 373

3. INVENTORIES

Inventories consist of the following (in millions):

	Sep. 30, 2012	Dec. 31, 2011
Finished goods	$ 578	$ 597
Materials and supplies	215	198

Total inventories	$ 793	$ 795

Table of Contents

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, 2012, and December 31, 2011, 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, 2012	Dec. 31, 2011
Derivative assets designated as hedging instruments:			
Cash flow hedges:			
Natural gas	Other current assets	$ 1	$ 1
Amount of gain recognized in OCI (effective portion)	OCI	$ 1	$ 1
Derivative liabilities designated as hedging instruments:			
Cash flow hedges:			
Natural gas	Accounts payable and accrued liabilities	$ 1	$ 4
Amount of loss recognized in OCI (effective portion)	OCI	$ 1	$ 4
Derivative assets not designated as hedging instruments:			
Foreign exchange contracts	Other current assets	$ -	$ 2
Derivative liabilities not designated as hedging instruments:			
Natural gas	Accounts payable and accrued liabilities	$ -	$ 1
Foreign exchange contracts	Accounts payable and accrued liabilities	$ 2	$ 1

Table of Contents

- 11 -

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	**2012**	**2011**	**2012**	**2011**
Derivative activity designated as hedging instruments:					
Natural gas:					
Amount of loss reclassified from OCI into earnings (effective portion)	Cost of sales	$ 1	$ -	$ 6	$ 2
Interest rate swaps:					
Amount of loss recognized in earnings (ineffective portion)	Interest expense, net	$ -	$ 1	$ -	$ -
Derivative activity not designated as hedging instruments:					
Natural gas:					
Amount of gain recognized in earnings	Other (income) expenses, net	$ -	$ -	$ (1)	$ (1)
Foreign currency exchange contract:					
Amount of (gain) loss recognized in earnings (a)	Other (income) expenses, net	$ 1	$ (9)	$ 5	$ (14)

(a) (Gains)/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 (income) expenses, net.

Cash Flow Hedges

The Company uses forward and swap contracts, which qualify as cash flow hedges, to manage forecasted exposure to natural gas 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 Statement 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 on the Consolidated Statements of Earnings.

The Company currently has natural gas derivatives designated as hedging instruments that mature within 15 months. The Company s policy is to hedge up to 75% of its total forecasted natural gas exposures for the next two months, up to 50% of its total forecasted natural gas exposures for the following four months, and lesser amounts for the remaining periods. 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.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

As of September 30, 2012, $1 million of gains 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. In the fourth quarter of 2011, the Company terminated all existing interest rate swaps.

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 on the Consolidated Statements of Earnings.

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

Sep. 30, 2012	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	19	$ 169	$ (55)	$ 114
Technology	20	197	(62)	135
Franchise and other agreements	15	37	(13)	24
Indefinite-lived intangible assets:				
Trademarks		777	-	777
Total intangible assets		$ 1,180	$ (130)	$ 1,050
Goodwill		$ 1,144		

Dec. 31, 2011	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	19	$ 170	$ (48)	$ 122
Technology	20	204	(54)	150
Franchise and other agreements	15	36	(12)	24
Indefinite-lived intangible assets:				
Trademarks		777	-	777
Total intangible assets		$ 1,187	$ (114)	$ 1,073
Goodwill		$ 1,144		

Other Intangible Assets

The Company expects the ongoing amortization expense for amortizable intangible assets to be approximately $21 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 2012.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

6. PROPERTY, PLANT AND EQUIPMENT

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

	Sep. 30, 2012	Dec. 31, 2011
Land	$ 221	$ 221
Buildings and leasehold improvements	766	727
Machinery and equipment	3,187	2,932
Construction in progress	161	268
	4,335	4,148
Accumulated depreciation	(1,423)	(1,244)
Property, plant and equipment, net	$ 2,912	$ 2,904

Machinery and equipment includes certain precious metals used in our production tooling, which comprise approximately 18% and 20% of total machinery and equipment as of September 30, 2012, and December 31, 2011, 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.

7. CHANGES IN NONCONTROLLING INTERESTS

In the third quarter of 2012, the Company executed a purchase agreement for the remaining noncontrolling interest of Northern Elastomeric Incorporated (NEI), one of the Company s consolidated subsidiaries. As a result of the purchase agreement, NEI became a wholly-owned subsidiary of the Company, with the Company providing $22 million in cash consideration. The transaction resulted in a $6 million decrease in Noncontrolling interests on the Consolidated Balance Sheets.

8. DIVESTITURES

On May 18, 2011, the Company sold its Composites glass reinforcements facility in Capivari, Brazil, to Chongqing Polycomp International Company (CPIC), an unrelated third party. At closing, the Company received $55 million in cash and an additional $6 million was placed into escrow to satisfy any potential adjustments or claims. The sale resulted in a $16 million gain that is recorded in other (income) expenses on the Consolidated Statements of Earnings in the second quarter of 2011.

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, 2012
Beginning balance	$ 38
Amounts accrued for current year	16
Settlements of warranty claims	(17)
Ending balance	$ 37

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

10. COST REDUCTION ACTIONS

2012 Cost Reduction Actions

As a result of evaluating market conditions, we took actions to improve the competitive position of our global manufacturing network by closing certain facilities in Europe along with other actions that align with our objectives in the region. In conjunction with these actions, the Company recorded $22 million and $109 million in charges related to cost reduction actions and related items for the three and nine months ended September 30, 2012, respectively; of which, $0 and $36 million is related to severance and is included in charges related to cost reduction actions on the Consolidated Statements of Earnings. The $22 million and $73 million in other related charges, respectively, relates primarily to accelerated depreciation and is included in cost of sales on the Consolidated Statements of Earnings. Cash payments related to these activities will continue through 2015. The Company will continue to evaluate its global network to ensure it has the appropriate capacity to respond to future anticipated demand around the world.

Composites

The Company recorded $22 million and $104 million in charges related to cost reduction actions and related items for the three and nine months ended September 30, 2012, respectively; of which $0 and $34 million is related to severance costs and $22 million and $70 million is related to other charges, respectively. The $22 million and $70 million of other charges consist of $14 million and $48 million in accelerated depreciation and $8 million and $22 million in other related charges, respectively.

The Company anticipates incurring approximately $25 million in additional charges throughout 2012 and into 2013 related to these actions, of which $6 million will be presented as charges related to cost reduction actions on the Consolidated Statements of Earnings.

Building Materials

In the first quarter of 2012, the Company s actions resulted in $5 million in charges, comprised of $2 million in severance costs and $3 million of other charges.

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

	Beginning Balance Dec. 31, 2011	Costs Incurred	Payments	Ending Balance Sep. 30, 2012	Cumulative Charges Incurred
Severance	$ -	$ 36	$ 2	$ 34	$ 36
Total	$ -	$ 36	$ 2	$ 34	$ 36

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, 2012	Dec. 31, 2011
6.50% senior notes, net of discount, due 2016	$ 649	$ 649
7.00% senior notes, net of discount, due 2036	540	540
9.00% senior notes, net of discount, due 2019	346	346
Accounts receivable securitization facility, maturing in 2014	180	158
Senior revolving credit facility, maturing in 2016	390	136
Various capital leases, due through and beyond 2050	53	55
Other floating rate debt, maturing through 2017	2	3
Other fixed rate debt, with maturities up to 2016, at rates up to 11.0%	3	8
Fair value adjustment to debt	34	39
Total long-term debt	2,197	1,934
Less current portion	6	4
Long-term debt, net of current portion	$ 2,191	$ 1,930

Senior Notes

The Company issued $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, 2012.

In the fourth quarter of 2011, the Company terminated all existing interest rate swaps. 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.

Senior Credit Facilities

In July 2011, the Company amended the Senior Revolving Credit Facility to extend the maturity to July 2016 and reduce the pricing. The available principal amount of $800 million on 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.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

11. DEBT (continued)

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 well within compliance with these covenants as of September 30, 2012.

The Company had $15 million and $42 million of letters of credit outstanding under the Senior Revolving Credit Facility at September 30, 2012 and December 31, 2011, respectively.

Receivables Securitization Facility

Included in long-term debt on the Consolidated Balance Sheets are amounts outstanding under a Receivable Purchase Agreement (the RPA). 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 fourth quarter of 2011 to extend maturity to December 2014. At September 30, 2012, the Company utilized the full amount permitted under the terms of the receivables securitization facility. The Company had $37 million of letters of credit outstanding under the receivables securitization facility at September 30, 2012. There were no letters of credit outstanding under the receivables securitization facility at December 31, 2011.

The receivables securitization 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 securitization facility. The Company was well within compliance with these covenants as of September 30, 2012.

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 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, 2012 and December 31, 2011, short-term borrowings were $19 million and $28 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 5.8% for September 30, 2012, and 7.4% for December 31, 2011.

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. 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.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (continued)

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

	Three Months Ended Sep. 30, 2012			Three Months Ended Sep. 30, 2011		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	$ 3	$ 1	$ 4	$ 2	$ 1	$ 3
Interest cost	12	5	17	13	5	18
Expected return on plan assets	(15)	(7)	(22)	(16)	(5)	(21)
Amortization of actuarial loss	6	2	8	3	-	3
Net periodic pension cost	$ 6	$ 1	$ 7	$ 2	$ 1	$ 3

	Nine Months Ended Sep. 30, 2012			Nine Months Ended Sep. 30, 2011		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	$ 7	$ 5	$ 12	$ 6	$ 4	$ 10
Interest cost	37	17	54	40	18	58
Expected return on plan assets	(45)	(20)	(65)	(48)	(19)	(67)
Amortization of actuarial loss	18	4	22	9	1	10
Net periodic pension cost	$ 17	$ 6	$ 23	$ 7	$ 4	$ 11

During July of 2012, Congress passed the Moving Ahead for Progress in the 21st Century Act, which included pension funding stabilization provisions. The measure, which is designed to stabilize the discount rate used to determine funding requirements from the effects of interest rate volatility, reduces the Company s United States Pension Plan contributions by approximately $21 million during 2012.

The Company now expects to contribute approximately $32 million in cash to the United States Pension Plans and another $21 million to non-United States plans during 2012. The Company made cash contributions of approximately $42 million to the plans during the nine months ended September 30, 2012.

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.

Table of Contents

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,	
	2012	**2011**	**2012**	**2011**
Components of Net Periodic Benefit Cost				
Service cost	$ 1	$ -	$ 2	$ 2
Interest cost	2	4	8	11
Amortization of prior service cost	(1)	-	(3)	-
Amortization of actuarial gain	(1)	-	(2)	(1)
Net periodic benefit cost	$ 1	$ 4	$ 5	$ 12

13. CONTINGENT LIABILITIES AND OTHER MATTERS

Litigation

The Company is involved in various legal proceedings relating to employment, product liability and other matters. The Company regularly reviews the status of these proceedings along with legal counsel. Liabilities for such items 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 ultimate disposition of these 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, 2012, 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, 2012, our reserve for such liabilities was $6 million.

14. STOCK COMPENSATION

2010 Stock Plan

On April 22, 2010, the Company s stockholders approved the Owens Corning 2010 Stock Plan (the 2010 Stock Plan), which replaced the Owens Corning 2006 Stock Plan (the 2006 Stock Plan), as amended and restated. The 2010 Stock Plan authorizes grants of stock options, stock appreciation rights, stock awards, restricted stock awards, restricted stock units, bonus stock awards and performance stock awards. 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. At September 30, 2012, the number of shares remaining available under the 2010 Stock Plan for all stock awards was 2.8 million.

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

14. STOCK COMPENSATION (continued)

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, 2012, 409,700 stock options were granted with a weighted-average grant date fair value of $15.27. Assumptions used in the Company s Black-Scholes valuation model to estimate the grant date fair value were expected volatility of 45.8%, expected dividends of 0%, expected term of 6.26 years and a risk-free interest rate of 1.1%.

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. During the three and nine months ended September 30, 2011, the Company recognized expense of $1 million and $3 million respectively, related to the Company s stock options. As of September 30, 2012, 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, 2012 and 2011 was $19 million and $6 million.

The following table summarizes the Company s stock option activity for the nine months ended Sep. 30, 2012:

	Nine Months Ended Sep. 30, 2012	
	Number of Options	Weighted-Average Exercise Price
Beginning Balance	3,293,545	$ 26.26
Granted	409,700	33.73
Exercised	(397,045)	22.53
Forfeited	(130,375)	28.42
Ending Balance	3,175,825	$ 27.60

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

	Options Outstanding		Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted-Average	Number Exercisable at	Weighted-Average

		Remaining Contractual Life	Exercise Price	Sep. 30, 2012	Remaining Contractual Life	Exercise Price
$7.57- $34.94	3,175,825	5.85	$ 27.60	2,193,858	4.86	$ 27.00

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

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

14. STOCK COMPENSATION (continued)

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 2015.

During the three and nine months ended September 30, 2012, the Company recognized expense of $3 million and $11 million respectively, related to the Company s restricted stock. During the three and nine months ended September 30, 2011, the Company recognized expense of $4 million and $10 million respectively. As of September 30, 2012, there was $26 million of total unrecognized compensation cost related to restricted stock. That cost is expected to be recognized over a weighted-average period of 2.80 years. The total fair value of shares vested during the nine months ended September 30, 2012 and 2011 was $11 million and $8 million, respectively.

A summary of the status of the Company s plans that had restricted stock issued as of September 30, 2012, and changes during the nine months ended September 30, 2012, are presented below.

	Nine Months Ended Sep. 30, 2012	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Beginning Balance	1,941,742	$ 19.74
Granted	617,082	33.39
Vested	(512,409)	22.13
Forfeited	(136,230)	28.25
Ending Balance	1,910,185	$ 22.90

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, of which 50% will be settled in stock and 50% will be settled in cash. The number of the PSUs 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 pro-rated based on the number of full months employed during the performance period in the case of death, disability, change in control or involuntary termination, and pro-rated awards earned will be paid at the end of the three-year period.

In the first nine months of 2012, the Company granted PSUs. The 2012 grant vests after a three-year period based on the Company s total stockholder return relative to the performance of the components of the S&P 500 Index for the respective three-year period. The amount of PSUs earned 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, 2012, the Company recognized expense of $5 million and $11 million, respectively. During the three and nine months ended September 30, 2011, the Company recognized income of $9 million and expense of $2 million, respectively, related to PSUs. As of September 30, 2012, 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 1.83 years.

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

14. STOCK COMPENSATION (continued)

2012 Grant

For the 2012 grant, the portion of the PSUs settled in cash will be revalued every reporting period until the award is fully vested. As a result, compensation expense recognized will be adjusted and previous surplus compensation expense recognized will be reversed or additional expense will be recognized. For the nine-month period ended September 30, 2012, the Company estimated the fair value of the PSUs granted using a Monte Carlo simulation that used various assumptions that include expected volatility of 36.9%, a risk free rate of 0.3% and an expected term of 2.27 years. Expected volatility was based on a benchmark study of our peers. The risk-free interest rate was based on zero coupon United States Treasury bills at the time of revaluation. The expected term represents the period beginning September 30, 2012, to the end of the three-year performance period.

For the 2012 grant, the fair value of the portion of PSUs settled in stock was estimated at the grant date using a Monte Carlo simulation that used various assumptions that include expected volatility of 48.2%, a risk free interest rate of 0.3% and an expected term of 2.91 years. Expected volatility was based on a benchmark study of ourselves and our peers. The risk-free interest rate was based on zero coupon United States Treasury bills at the grant date. The expected term represents the period from the grant date to the end of the three-year performance period.

A summary of the status of the Company s plans that had issued PSUs as of September 30, 2012, and changes during the nine months ended September 30, 2012, are presented below:

	Nine Months Ended Sep. 30, 2012	
	Number of PSUs	Weighted-Average Grant-Date Fair Value
Beginning Balance	508,616	$ 42.24
Granted	256,400	47.97
Forfeited	(79,776)	43.27
Ending Balance	685,240	$ 44.26

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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,	
	2012	**2011**	**2012**	**2011**
Net earnings attributable to Owens Corning	$ 44	$ 124	$ 37	$ 226
Weighted-average number of shares outstanding used for basic earnings per share	117.9	121.7	119.8	123.2
Non-vested restricted and performance shares	0.6	0.6	0.5	0.6
Options to purchase common stock	0.3	0.3	0.3	0.4
Weighted-average number of shares outstanding and common equivalent shares used for diluted earnings per share	118.8	122.6	120.6	124.2
Earnings per common share attributable to Owens Corning common stockholders:				
Basic	$ 0.37	$ 1.02	$ 0.31	$ 1.83
Diluted	$ 0.37	$ 1.01	$ 0.31	$ 1.82

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 19, 2012, the Company approved 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. During the nine months ended September 30, 2012, 3.7 million shares were repurchased under the Repurchase Programs. As of September 30, 2012, 10 million shares remain available for repurchase under the Repurchase Programs.

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.

For the three and nine months ended September 30, 2011, the number of shares used in the calculation of diluted earnings per share did not include 0.3 and 0.2 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.

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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.

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, 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	$ 10	$ 10	$ -	$ -
Term deposits	$ 8	$ 8	$ -	$ -
Derivative assets	$ 1	$ -	$ 1	$ -
Total assets	$ 19	$ 18	$ 1	$ -
Liabilities:				
Derivative liabilities	$ (3)	$ -	$ (3)	$ -
Total liabilities	$ (3)	$ -	$ (3)	$ -

Cash equivalents and term deposits, by their nature, utilize Level 1 inputs in determining fair value. The 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.

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 $51 million as of September 30, 2012.

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

16. FAIR VALUE MEASUREMENT (continued)

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, 2012, the Company s 6.50% senior notes due 2016 were trading at approximately 114% of par value, the 7.00% senior notes due 2036 were trading at approximately 110% of par value and the 9.00% senior notes due 2019 were trading at approximately 128% of par value.

At September 30, 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 $628 million.

17. INCOME TAXES

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)% and 17%, 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% is primarily attributable to the tax accounting treatment related to various locations which are currently in a loss position and various tax planning initiatives.

Income tax expense for the three and nine months ended September 30, 2011, was $23 million and $63 million, respectively. The Company s effective tax rate for the third quarter 2011 was 15%. Excluding the effect of discrete items related to the reversal of the valuation allowance and uncertain tax positions, in the nine months ended September 30, 2011, the Company s adjusted effective tax would have been 28%. The difference between the adjusted effective tax rate for both the quarter and the year-to-date and the statutory rate of 35% is primarily attributable to the benefit of lower foreign tax rates and various tax planning initiatives.

18. SUBSEQUENT EVENTS

On October 17, 2012, the Company issued $600 million of Senior Notes to refinance portions of our 2016 Senior Notes, our 2019 Senior Notes and pay down our Senior Revolving Credit Facility. Interest on the notes is payable semiannually in arrears on June 15 and December 15 each year, beginning on June 15, 2013. The notes have a 10 year maturity.

As a result of refinancing portions of our Senior Notes, we anticipate incurring a loss from debt extinguishment of approximately $75 million in the fourth quarter of 2012.

19. ACCOUNTING PRONOUNCEMENTS

In July 2012, the Financial Accounting Standards Board issued updated guidance on the periodic testing of indefinite-lived intangible assets for impairment. The updated guidance gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount and, thus, whether further impairment testing is necessary. The updated accounting guidance is effective for fiscal years beginning after September 15, 2012, with early adoption permitted. The Company believes there will be no impact on its Consolidated Financial Statements.

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

20. 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.

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).

During the fourth quarter of 2011, the Company discovered certain items were not appropriately classified between the Parent and Guarantor Subsidiaries within the Condensed Consolidating Financial Statements. The effect of correcting these classifications was not material to the consolidating financial information. The Company has revised its 2011 quarterly consolidating information for comparison with 2012.

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

20. 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
Other 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 benefit	(16)	11	(9)	-	(14)
Equity in net earnings of subsidiaries	70	25	-	(95)	-
Equity in net earnings (loss) of affiliates	-	(1)	1	-	-
NET EARNINGS	44	70	25	(95)	44
Less: Net earnings attributable to noncontrolling interest	-	-	-	-	-
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 44	$ 70	$ 25	$ (95)	$ 44

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF EARNINGS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$ -	$ 1,028	$ 507	$ (85)	$ 1,450
COST OF SALES	(6)	809	415	(85)	1,133
Gross margin	6	219	92	-	317
OPERATING EXPENSES					
Marketing and administrative expenses	14	68	37	-	119
Science and technology expenses	-	16	4	-	20
Other expenses, net	(24)	6	19	-	1
Total operating expenses	(10)	90	60	-	140
EARNINGS BEFORE INTEREST AND TAXES	16	129	32	-	177
Interest expense, net	25	1	2	-	28
EARNINGS BEFORE TAXES	(9)	128	30	-	149
Less: Income tax expense	(2)	26	(1)	-	23
Equity in net earnings of subsidiaries	131	30	-	(161)	-
Equity in net earnings (loss) of affiliates	-	(1)	1	-	-
NET EARNINGS	124	131	32	(161)	126
Less: Net earnings attributable to noncontrolling interest	-	-	2	-	2
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 124	$ 131	$ 30	$ (161)	$ 124

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

20. 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 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	(52)	56	4	-	8
Equity in net earnings (loss) of subsidiaries	122	(41)	-	(81)	-
Equity in net earnings (loss) of affiliates	-	(1)	1	-	-
NET EARNINGS	37	122	(39)	(81)	39
Less: Net earnings attributable to noncontrolling interest	-	-	2	-	2
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 37	$ 122	$ (41)	$ (81)	$ 37

Table of Contents

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF EARNINGS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$ -	$ 2,865	$ 1,527	$ (253)	$ 4,139
COST OF SALES	(19)	2,371	1,242	(253)	3,341
Gross margin	19	494	285	-	798
OPERATING EXPENSES					
Marketing and administrative expenses	40	248	107	-	395
Science and technology expenses	-	47	11	-	58
Other income, net	(81)	41	12	-	(28)
Total operating expenses	(41)	336	130	-	425
EARNINGS BEFORE INTEREST AND TAXES	60	158	155	-	373
Interest expense, net	79	(2)	4	-	81
EARNINGS BEFORE TAXES	(19)	160	151	-	292
Less: Income tax expense	(4)	35	32	-	63
Equity in net earnings (loss) of subsidiaries	241	118	-	(359)	-
Equity in net earnings of affiliates	-	(2)	3	-	1
NET EARNINGS	226	241	122	(359)	230
Less: Net earnings attributable to noncontrolling interest	-	-	4	-	4
	$ 226	$ 241	$ 118	$ (359)	$ 226

NET EARNINGS ATTRIBUTABLE TO OWENS CORNING

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

20. 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 on hedging (net of tax)	2	-	-	-	2
COMPREHENSIVE EARNINGS	73	70	25	(95)	73
Less: Comprehensive earnings attributable to noncontrolling interest	-	-	-	-	