

Edgar Filing: Owens Corning - Form 10-Q

Owens Corning
Form 10-Q
October 26, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

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

(State or other jurisdiction of incorporation or organization)

43-2109021

(I.R.S. Employer Identification No.)

One Owens Corning Parkway, Toledo, OH

(Address of principal executive offices)

43659

(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 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 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

Edgar Filing: Owens Corning - Form 10-Q

one):

Large accelerated filer

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

As of October 14, 2011, 120,883,439 shares of registrant's common stock, par value \$0.01 per share, were outstanding.

Table of Contents**Contents**

<u>Cover Page</u>	1
<u>PART I FINANCIAL INFORMATION (unaudited)</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Earnings</u>	3
<u>Consolidated Balance Sheets</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	
<u>1. General</u>	6
<u>2. Segment Information</u>	6
<u>3. Inventories</u>	8
<u>4. Derivative Financial Instruments</u>	8
<u>5. Goodwill and Other Intangible Assets</u>	11
<u>6. Property, Plant and Equipment</u>	12
<u>7. Divestitures</u>	12
<u>8. Acquisitions</u>	13
<u>9. Warranties</u>	13
<u>10. Cost Reduction Actions</u>	13
<u>11. Debt</u>	14
<u>12. Pension Plans and Other Postretirement Benefits</u>	15
<u>13. Contingent Liabilities and Other Matters</u>	17
<u>14. Stock Compensation</u>	17
<u>15. Earnings per Share</u>	21
<u>16. Comprehensive Earnings</u>	21
<u>17. Fair Value Measurement</u>	22
<u>18. Income Taxes</u>	23
<u>19. Accounting Pronouncements</u>	23
<u>20. Condensed Consolidating Financial Statements</u>	23
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
Item 4. <u>Controls and Procedures</u>	43
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	44
Item 1A. <u>Risk Factors</u>	44
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	44
Item 3. <u>Defaults Upon Senior Securities</u>	44
Item 4. <u>(Removed and Reserved)</u>	44
Item 5. <u>Other Information</u>	44
Item 6. <u>Exhibits</u>	44
<u>Signatures</u>	45
<u>Exhibit Index</u>	46

Table of Contents

- 3 -

PART I**ITEM 1. FINANCIAL STATEMENTS****OWENS CORNING AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EARNINGS****(unaudited)****(in millions, except per share amounts)**

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
NET SALES	\$ 1,450	\$ 1,186	\$ 4,139	\$ 3,829
COST OF SALES	1,133	950	3,341	3,073
Gross margin	317	236	798	756
OPERATING EXPENSES				
Marketing and administrative expenses	119	123	395	385
Science and technology expenses	20	19	58	55
Charges related to cost reduction actions	-	15	-	24
Other (income) expenses, net	1	10	(28)	15
Total operating expenses	140	167	425	479
EARNINGS BEFORE INTEREST AND TAXES	177	69	373	277
Interest expense, net	28	28	81	85
EARNINGS BEFORE TAXES	149	41	292	192
Less: Income tax expense (benefit)	23	(19)	63	(854)
Equity in net earnings of affiliates	-	1	1	3
NET EARNINGS	126	61	230	1,049
Less: Net earnings attributable to noncontrolling interests	2	3	4	6
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$ 124	\$ 58	\$ 226	\$ 1,043
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO OWENS CORNING COMMON STOCKHOLDERS				
Basic	\$ 1.02	\$ 0.46	\$ 1.83	\$ 8.27
Diluted	\$ 1.01	\$ 0.46	\$ 1.82	\$ 8.19
WEIGHTED-AVERAGE COMMON SHARES				
Basic	121.7	125.1	123.2	126.1
Diluted	122.6	126.6	124.2	127.4

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

Table of Contents

- 4 -

OWENS CORNING AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS****(unaudited)****(in millions)**

	Sept. 30, 2011	Dec. 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 50	\$ 52
Receivables, less allowances of \$15 at Sept. 30, 2011 and \$19 at Dec. 31, 2010	783	546
Inventories	746	620
Assets held for sale - current	-	16
Other current assets	214	174
Total current assets	1,793	1,408
Property, plant and equipment, net	2,839	2,754
Goodwill	1,145	1,088
Intangible assets	1,079	1,090
Deferred income taxes	517	529
Assets held for sale - non-current	-	26
Other non-current assets	293	263
TOTAL ASSETS	\$ 7,666	\$ 7,158
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 960	\$ 942
Short-term debt	221	1
Long-term debt - current portion	3	5
Liabilities held for sale - current	-	7
Total current liabilities	1,184	955
Long-term debt, net of current portion	1,832	1,629
Pension plan liability	311	378
Other employee benefits liability	295	298
Deferred income taxes	60	75
Other liabilities	203	137
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	3,900	3,876
Accumulated earnings	420	194
Accumulated other comprehensive deficit	(217)	(194)
Cost of common stock in treasury (c)	(362)	(229)

Edgar Filing: Owens Corning - Form 10-Q

Total Owens Corning stockholders' equity	3,742	3,648
Noncontrolling interests	39	38
Total equity	3,781	3,686
TOTAL LIABILITIES AND EQUITY	\$ 7,666	\$ 7,158

- (a) 10 shares authorized; none issued or outstanding at Sept. 30, 2011 and Dec. 31, 2010
- (b) 400 shares authorized; 134.4 issued and 120.9 outstanding at Sept. 30, 2011; 133.2 issued and 123.9 outstanding at Dec. 31, 2010
- (c) 13.5 shares at Sept. 30, 2011 and 9.3 shares at Dec. 31, 2010

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

Table of Contents

- 5 -

OWENS CORNING AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in millions)

	Nine Months Ended Sept. 30,	
	2011	2010
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Net earnings	\$ 230	\$ 1,049
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	243	242
Gain on sale of businesses and fixed assets	(30)	(4)
Deferred income taxes	29	(874)
Provision for pension and other employee benefits liabilities	26	23
Stock-based compensation expense	16	16
Other non-cash	(18)	(6)
Change in working capital	(330)	(132)
Pension fund contribution	(104)	(29)
Payments for other employee benefits liabilities	(17)	(19)
Other	14	15
Net cash flow provided by operating activities	59	281
NET CASH FLOW USED FOR INVESTING ACTIVITIES		
Additions to plant and equipment	(303)	(199)
Investment in subsidiaries and affiliates, net of cash acquired	(84)	-
Proceeds from the sale of assets or affiliates	81	16
Net cash flow used for investing activities	(306)	(183)
NET CASH FLOW PROVIDED BY (USED FOR) FINANCING ACTIVITIES		
Proceeds from senior revolving credit facility	805	406
Payments on senior revolving credit facility	(629)	(315)
Proceeds from long-term debt	6	1
Payments on long-term debt	(10)	(606)
Net increase (decrease) in short-term debt	219	(8)
Purchases of treasury stock	(138)	(102)
Other	12	2
Net cash flow provided by (used for) financing activities	265	(622)
Effect of exchange rate changes on cash	(20)	(5)
Net decrease in cash and cash equivalents	(2)	(529)
Cash and cash equivalents at beginning of period	52	564

Edgar Filing: Owens Corning - Form 10-Q

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 50	\$ 35
---	-------	-------

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

Table of Contents

- 6 -

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, 2010 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. 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 2010 annual report on Form 10-K. During the nine months ended September 30, 2010, the Company recorded additional net pre-tax income of \$2 million (\$3 million after tax expense) related to prior periods. The effect was not material to the previously issued financial statements. Certain reclassifications have been made to the periods presented for 2010 to conform to the classifications used in the periods presented for 2011.

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

- 7 -

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 and geographic region (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 Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
<u>Reportable Segments</u>				
Composites	\$ 496	\$ 477	\$ 1,517	\$ 1,431
Building Materials	1,009	742	2,766	2,526
Total reportable segments	1,505	1,219	4,283	3,957
Corporate eliminations	(55)	(33)	(144)	(128)
NET SALES	\$ 1,450	\$ 1,186	\$ 4,139	\$ 3,829
<u>External Customer Sales by Geographic Region</u>				
United States	\$ 1,008	\$ 748	\$ 2,781	\$ 2,529
Europe	147	135	487	423
Asia Pacific	171	173	504	504
Other	124	130	367	373
NET SALES	\$ 1,450	\$ 1,186	\$ 4,139	\$ 3,829

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):

Edgar Filing: Owens Corning - Form 10-Q

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Reportable Segments				
Composites	\$ 49	\$ 43	\$ 152	\$ 116
Building Materials	144	67	277	272
Total reportable segments	\$ 193	\$ 110	\$ 429	\$ 388
Corporate, Other and Eliminations				
Charges related to cost reduction actions and related items	\$ -	\$ (16)	\$ (17)	\$ (33)
Acquisition integration, transaction, and other costs	-	(4)	-	(6)
Net precious metal lease expense	-	(1)	-	(1)
Gain on sale of Capivari, Brazil facility	-	-	16	-
General corporate expense and other	(16)	(20)	(55)	(71)
EBIT	\$ 177	\$ 69	\$ 373	\$ 277

Table of Contents

- 8 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****3. INVENTORIES**

Inventories consist of the following (in millions):

	Sept. 30, 2011	Dec. 31, 2010
Finished goods	\$ 537	\$ 452
Materials and supplies	209	168
Total inventories	\$ 746	\$ 620

4. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to, among other risks, the impact of changes in commodity prices, foreign currency exchange rates, interest rates, and precious metals lease 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 setoff 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, 2011 and December 31, 2010 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.

Assets and liabilities designated as hedged items are assessed for impairment or for the need to recognize an increased obligation. Such assessments are made after hedge accounting has been applied to the asset or liability and exclude consideration of (1) any anticipated effects of hedge accounting and (2) the fair value of any related hedging instrument that is recognized as a separate asset or liability. The assessment for an impairment of an asset, however, includes a consideration of the losses that have been deferred in other comprehensive deficit (OCI) as a result of a cash flow hedge of that asset.

Table of Contents

- 9 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

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

	Location	Fair Value at Sept. 30, 2011	Dec. 31, 2010
<u>Derivative assets designated as hedging instruments:</u>			
<u>Cash flow hedges:</u>			
Natural gas	Other current assets	\$ -	\$ 2
Amount of gain recognized in OCI (effective portion)	OCI	\$ -	\$ 2
<u>Fair value hedges:</u>			
Interest rate swaps	Other non-current assets	\$ 41	\$ 12
<u>Derivative liabilities designated as hedging instruments:</u>			
<u>Cash flow hedges:</u>			
Natural gas	Accounts payable and accrued liabilities	\$ 2	\$ 3
Amount of loss recognized in OCI (effective portion)	OCI	\$ 2	\$ 3
<u>Derivative assets not designated as hedging instruments:</u>			
<u>Cash flow hedges:</u>			
Natural gas	Other current assets	\$ 2	\$ -
<u>Other derivatives:</u>			
Foreign exchange contracts	Other current assets	\$ -	\$ 3
<u>Derivative liabilities not designated as hedging instruments:</u>			
<u>Cash flow hedges:</u>			
Natural gas	Accounts payable and accrued liabilities	\$ 1	\$ 2
<u>Other derivatives:</u>			
Energy supply contract	Accounts payable and accrued liabilities	\$ 1	\$ 1

Table of Contents

- 10 -

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):

	Location	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
		2011	2010	2011	2010
<u>Derivative activity designated as hedging instruments:</u>					
<u>Natural gas:</u>					
Amount of loss reclassified from OCI into earnings (effective portion)	Cost of sales	\$ -	\$ 2	\$ 2	\$ 6
<u>Interest rate swaps:</u>					
Amount of loss recognized in earnings (ineffective portion)	Interest expense, net	\$ 1	\$ 2	\$ -	\$ 5
<u>Derivative activity not designated as hedging instruments:</u>					
<u>Natural gas:</u>					
Amount of (gain) loss recognized in earnings	Other expenses	\$ -	\$ -	\$ (1)	\$ 2
<u>Energy supply contract:</u>					
Amount of loss recognized in earnings	Other expenses	\$ -	\$ -	\$ -	\$ 1
<u>Foreign currency exchange contract:</u>					
Amount of (gain) loss recognized in earnings	Other expenses	\$ (1)	\$ (1)	\$ -	\$ 3

Cash Flow Hedges

The Company uses forward and swap contracts, which qualify as cash flow hedges, to manage forecasted exposure to natural gas price and foreign exchange risk. The effective portion of the change in the fair value of cash flow hedges is deferred in accumulated OCI and is subsequently recognized in other expenses on the Consolidated Statements of Earnings for foreign exchange hedges, and in cost of sales on the Consolidated Statements of Earnings for commodity hedges, when the hedged item impacts earnings. Cash flow hedges related to foreign exchange risk were immaterial for all periods presented. Changes in the fair value of derivative assets and liabilities designated as hedging instruments are shown in other 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. 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.

Edgar Filing: Owens Corning - Form 10-Q

As of September 30, 2011, \$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 uses forward currency exchange contracts, some of which qualify as fair value hedges, 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

- 11 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

The Company manages its interest rate exposure by balancing the mixture of its fixed and variable rate instruments. The Company has entered into several interest rate swaps to manage its interest rate exposure by converting fixed rate debt to variable rate debt. These swaps are carried at fair value and recorded as other non-current assets or other 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 on the Consolidated Statements of Earnings.

Separately, as a result of first quarter 2009 capacity curtailments taken at certain facilities, the normal purchase scope exception was no longer met for one of the Company's energy supply contracts. The contract is now required to be marked to market each quarter through its termination date of January 31, 2012. Going forward, the impact of this contract could be positive, neutral or negative in any period depending on market fluctuations.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

Sept. 30, 2011	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	19	\$ 170	\$ (46)	\$ 124
Technology	20	205	(52)	153
Franchise and other agreements	15	36	(11)	25
Indefinite-lived intangible assets:				
Trademarks		777	-	777
Total intangible assets		\$ 1,188	\$ (109)	\$ 1,079
Goodwill		\$ 1,145		

Edgar Filing: Owens Corning - Form 10-Q

Dec. 31, 2010	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	19	\$ 169	\$ (38)	\$ 131
Technology	20	202	(45)	157
Franchise and other agreements	15	34	(9)	25
Indefinite-lived intangible assets:				
Trademarks		777	-	777
Total intangible assets		\$ 1,182	\$ (92)	\$ 1,090
 Goodwill		 \$ 1,088		

Table of Contents

- 12 -

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, 2010	\$ 60	\$ 1,028	\$ 1,088
Acquisitions (see Note 8)	-	59	59
Foreign currency adjustments	(2)	-	(2)
Balance as of September 30, 2011	\$ 58	\$ 1,087	\$ 1,145

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.

6. PROPERTY, PLANT AND EQUIPMENT

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

	Sept. 30, 2011	Dec. 31, 2010
Land	\$ 220	\$ 218
Buildings and leasehold improvements	718	687
Machinery and equipment	2,884	2,699
Construction in progress	208	167
	4,030	3,771
Accumulated depreciation	(1,191)	(1,017)

Property, plant and equipment, net	\$ 2,839	\$ 2,754
------------------------------------	----------	----------

Machinery and equipment includes certain precious metals used in our production tooling, which comprise approximately 20% and 21% of total machinery and equipment as of September 30, 2011 and December 31, 2010, 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. 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. The Company is a guarantor of the performance of the Capivari facility as a lessor of precious metals used in production tooling. Pursuant to the purchase agreement, CPIC covenanted to use all reasonable efforts to substitute and release the Company from such guarantees. The Company estimates that at September 30, 2011 the maximum future payment that the Company could be required to make under the guarantees was \$25 million. The majority of guarantees terminate within the next year. CPIC has agreed to indemnify the Company in the event that the Company suffers any liability in connection with such guarantees.

Table of Contents

- 13 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****7. DIVESTITURES (continued)**

On December 31, 2010, the Company sold its United States Masonry Products business (Masonry Products) to Boral Industries Ltd, an unrelated third party. At closing, the Company received \$45 million and will receive an additional \$45 million in 2014. The \$45 million to be received in 2014 was recorded at its net present value of \$40 million in noncurrent assets on the Consolidated Balance Sheets. Additionally, the Company could receive contingent proceeds in 2014 based on 2013 financial performance of the former Masonry Products business. The Company will maintain an interest in the former Masonry Products business until the second payment is received. Masonry Products was a component of the Company's Building Materials segment.

8. ACQUISITIONS

On July 31, 2011, the Company completed the acquisitions of FiberTEK Insulation West, LLC, an insulation manufacturing operation located in Nephi, Utah and FiberTEK Insulation, LLC, an insulation manufacturing operation located in Lakeland, Florida (the Acquisitions) from third parties unrelated to the Company (the Sellers). As part of the Company's global growth strategy, these acquisitions strengthen its position as a market leader in the loosefill insulation market. Operating results of these manufacturing facilities are included in the Company's Building Materials segment within the Consolidated Financial Statements beginning August 1, 2011.

The Company provided total consideration that had a fair value of \$105 million at the acquisition date. Total consideration that the Company provided for the Acquisitions consisted of cash payments of \$84 million to the Sellers on July 31, 2011, and \$25 million in deferred payments starting in 2013 through 2018. The deferred payments are recorded at their net present value of \$21 million in other liabilities on the Consolidated Balance Sheets.

Values of assets acquired and liabilities assumed at the date of the acquisitions include: \$37 million in property, plant and equipment and other assets; \$3 million in intangible assets; \$6 million in working capital and \$59 million in goodwill. The pro-forma effect of these acquisitions on revenues and earnings was not material to the three and nine months ended September 30, 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 Sept. 30, 2011
Beginning balance	\$ 38
Amounts accrued for current year	15
Settlements of warranty claims	(12)

Ending balance \$ 41

10. COST REDUCTION ACTIONS

2010 Cost Reduction Actions

As part of the Company's continuing review of its manufacturing network, actions were taken during 2010 to further balance global capacity and respond to market conditions. No charges related to these actions were incurred during the nine months ended September 30, 2011. During the three and nine months ended September 30, 2010, the Company recorded \$16 million and \$33 million in charges related to these cost reduction actions and related items; of which \$15 million and \$24 million related to severance and are presented in charges related to cost reduction actions on the Consolidated Statements of Earnings and \$1 million and \$9 million related to accelerated depreciation expense and are included in cost of sales on the Consolidated Statements of Earnings, respectively. Payments related to these activities will continue throughout 2011.

Table of Contents

- 14 -

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 2010 cost reduction actions (in millions):

	Beginning Balance Dec. 31, 2010	Costs Incurred	Payments	Ending Balance Sept. 30, 2011	Cumulative Charges Incurred
Severance	\$ 17	\$ -	\$ 13	\$ 4	\$ 29
Total	\$ 17	\$ -	\$ 13	\$ 4	\$ 29

11. DEBT

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

	Sept. 30, 2011	Dec. 31, 2010
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	345
Senior revolving credit facility, maturing in 2016	188	12
Various capital leases, due through and beyond 2050	56	52
Various floating rate debt, maturing through 2017	3	11
Other fixed rate debt, with maturities up to 2025, at rates up to 11.0%	9	10
Effects of interest rate swap on 6.50% senior notes, due 2016	44	15
Total long-term debt	1,835	1,634
Less current portion	3	5
Long-term debt, net of current portion	\$ 1,832	\$ 1,629

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

Edgar Filing: Owens Corning - Form 10-Q

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, 2011.

In the fourth quarter of 2009, the Company entered into several interest rate swaps to manage its interest rate exposure by swapping \$500 million of fixed rate to variable rate interest designated against the 6.50% senior notes. The swaps are carried at fair value and recorded as other assets, with the offset to long-term debt on the Consolidated Balance Sheets. See Note 4 for further information.

Table of Contents

- 15 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

11. DEBT (continued)

Senior Credit Facilities

On May 26, 2010, the Company entered into a credit agreement (the Credit Agreement) that established a new \$800 million multi-currency senior revolving credit facility (the Senior Revolving Credit Facility). Also on May 26, 2010, the Company terminated the credit agreement dated as of October 31, 2006, which contained a \$1.0 billion multi-currency senior revolving credit facility (the Prior Revolving Credit Facility) and a \$600 million senior term loan facility.

The available principal amount of \$800 million on the Senior Revolving Credit Facility includes both borrowings and letters of credit. The Company amended the Senior Revolving Credit Facility in July 2011 to extend the maturity date and reduce the pricing. The facility matures in July 2016. 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 well within compliance with these covenants as of September 30, 2011.

At September 30, 2011, the Company had no letters of credit outstanding under the Senior Revolving Credit Facility. At December 31, 2010, the Company had \$49 million of letters of credit outstanding under the Senior Revolving Credit Facility.

Short-Term Debt

At September 30, 2011 and December 31, 2010, short-term borrowings were \$ 221 million and \$ 1 million, respectively.

Included in short-term debt 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 RPA includes a letter of credit sub-facility. At September 30, 2011, the Company had \$43 million of letters of credit outstanding under the RPA. In addition, at September 30, 2011, \$202 million of borrowings were outstanding under the RPA, which is included in short-term debt on the Consolidated Balance Sheets. The commitments of the financial institutions under the RPA expire on March 29, 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.

The remaining 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 all short-term borrowings was approximately 0.9% for September 30, 2011 and 2.5% for December 31,

2010.

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.

Table of Contents

- 16 -

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 Sept. 30, 2011			Three Months Ended Sept. 30, 2010		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	\$ 2	\$ 1	\$ 3	\$ 3	\$ 1	\$ 4
Interest cost	13	5	18	13	6	19
Expected return on plan assets	(16)	(5)	(21)	(16)	(6)	(22)
Amortization of actuarial loss	3	-	3	1	1	2
Net periodic pension cost	\$ 2	\$ 1	\$ 3	\$ 1	\$ 2	\$ 3

	Nine Months Ended Sept. 30, 2011			Nine Months Ended Sept. 30, 2010		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	\$ 6	\$ 4	\$ 10	\$ 7	\$ 4	\$ 11
Interest cost	40	18	58	41	18	59
Expected return on plan assets	(48)	(19)	(67)	(48)	(18)	(66)
Amortization of actuarial loss	9	1	10	1	2	3
Net periodic pension cost	\$ 7	\$ 4	\$ 11	\$ 1	\$ 6	\$ 7

The Company expects to contribute approximately \$94 million in cash to the United States Pension Plans and approximately \$22 million to non-United States plans during 2011. The Company made cash contributions of approximately \$104 million to the plans during the nine months ended September 30, 2011.

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.

Edgar Filing: Owens Corning - Form 10-Q

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		Nine Months Ended	
	Sept. 30,		Sept. 30,	
	2011	2010	2011	2010
<u>Components of Net Periodic Benefit Cost</u>				
Service cost	\$ -	\$ 1	\$ 2	\$ 3
Interest cost	4	4	11	12
Amortization of actuarial gain	-	-	(1)	(1)
Net periodic benefit cost	\$ 4	\$ 5	\$ 12	\$ 14

Table of Contents

- 17 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

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, 2011, we had environmental remediation liabilities as a PRP at 21 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, 2011, our estimated liability for such items was \$9 million.

Other Items

On December 17, 2010, the French tax authorities made a claim in the amount of approximately 123 million Euros against a subsidiary the Company acquired as part of the acquisition of Saint-Gobain's reinforcement and composite fabrics business in 2007 (the 2007 Acquisition). The claim relates to transactions that occurred prior to the closing of the 2007 Acquisition. Pursuant to the purchase agreement governing the 2007 Acquisition, Saint-Gobain is required to indemnify Owens Corning and its subsidiaries for pre-closing tax claims and related damages, attorney fees and expenses. On assessment of the information available to the Company, including discussions with Saint-Gobain, the Company believes that it is likely that the claim will not be sustained during the administrative process; therefore, the Company has not recorded an accrual for the claim or a corresponding receivable with respect to the Company's contractual indemnification rights. The Company does not expect this tax claim to have a material impact on its results.

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, 2011, the number of shares remaining available under the 2010 Stock Plan for all stock awards was 3.6 million.

Stock Options

Edgar Filing: Owens Corning - Form 10-Q

The Company has granted stock options under its employee emergence equity program, its officer appointment program and its long-term incentive plans (LTIP). 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.

Table of Contents

- 18 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

14. STOCK COMPENSATION (continued)

During the nine months ended September 30, 2011, 412,200 stock options were granted with a weighted-average grant date fair value of \$15.85. Assumptions used in the Company's Black-Scholes valuation model to estimate the grant date fair value were expected volatility of 44.3%, expected dividends of 0%, expected term of 6.26 years and a risk-free interest rate of 2.6%.

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. During the three and nine months ended September 30, 2010, the Company recognized expense of less than \$1 million and \$2 million respectively, related to the Company's stock options. As of September 30, 2011 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 2.79 years. The total aggregate intrinsic value of options outstanding as of September 30, 2011 and 2010 was \$6 million and \$11 million.

The following table summarizes the Company's stock option activity for the nine months ended Sept. 30, 2011:

	Nine Months Ended Sept. 30, 2011	
	Number of Options	Weighted- Average Exercise Price
Beginning Balance	3,397,858	\$ 25.06
Granted	412,200	33.98
Exercised	(363,413)	26.19
Forfeited	(111,525)	20.82
Ending Balance	3,335,120	\$ 26.18

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

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Options Outstanding	Remaining Contractual Life	Exercise Price	Number	Remaining Contractual Life	Exercise Price
\$7.57- \$34.94	3,335,120	6.45	\$ 26.18	2,210,086	5.58	\$ 27.00

Restricted Stock Awards and Restricted Stock Units

Edgar Filing: Owens Corning - Form 10-Q

The Company has granted restricted stock awards and restricted stock units (collectively referred to as restricted stock) under its employee emergence equity program, non-employee director programs, LTIP and officer appointment program. 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 vesting period. Stock restrictions are subject to alternate vesting plans for death, disability, approved early retirement and involuntary termination, over various periods ending in 2014.

During the three and nine months ended September 30, 2011, the Company recognized expense of \$4 million and \$10 million respectively, related to the Company's restricted stock. During the three and nine months ended September 30, 2010, the Company recognized expense of \$4 million and \$10 million respectively. As of September 30, 2011 there was \$24 million of total unrecognized compensation cost related to restricted stock. That cost is expected to be recognized over a weighted-average period of 2.72 years. The total fair value of shares vested during the nine months ended September 30, 2011 and 2010 was \$8 million and \$6 million, respectively.

Table of Contents

- 19 -

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, 2011 and changes during the nine months ended September 30, 2011 are presented below. The weighted-average grant-date fair value of the restricted stock granted during the nine months ended September 30, 2010 was \$26.22.

	Nine Months Ended Sept. 30, 2011	
	Number of Shares	Weighted- Average Grant- Date Fair Value
Beginning Balance	1,987,705	\$ 19.74
Granted	533,067	33.86
Vested	(445,678)	18.92
Forfeited	(111,079)	21.79
Ending Balance	1,964,015	\$ 23.64

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 LTIP, of which 50 percent will be settled in stock and 50 percent will be settled in cash. The amount of the PSUs ultimately distributed is contingent on meeting 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. Performance stock award restrictions are subject to alternate vesting plans for death, disability, approved early retirement and involuntary termination, over various periods ending in 2014.

In the first nine months of 2011, the Company granted PSUs. The 2011 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, 2011 the Company recognized income of \$9 million and expense of \$2 million. During the three and nine months ended September 30, 2010, the Company recognized expense of \$1 million and \$9 million, respectively, related to PSUs. As of September 30, 2011, there was \$9 million of total unrecognized compensation cost related to PSUs. That cost is expected to be recognized over a weighted-average period of 1.81 years.

Edgar Filing: Owens Corning - Form 10-Q

2011 Grant

For the 2011 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, 2011, the Company estimated the fair value of the PSUs granted using a Monte Carlo simulation that used various assumptions that include expected volatility of 39.8%, a risk-free interest rate of 0.3% and an expected term of 2.26 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, 2011 to the end of the three-year performance period.

For the 2011 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 57.2%, a risk free interest rate of 1.1% and an

Table of Contents

- 20 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****14. STOCK COMPENSATION (continued)**

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.

2010 Grant

For the 2010 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, 2011, the Company estimated the fair value of the PSUs granted using a Monte Carlo simulation that used various assumptions that include expected volatility of 37.3%, a risk free rate of 0.2% and an expected term of 1.26 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, 2011 to the end of the three-year performance period.

For the 2010 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 58.8%, a risk free interest rate of 1.4% 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, 2011, and changes during the nine months ended September 30, 2011 are presented below:

	Nine Months Ended Sept. 30, 2011	
	Number of PSUs	Weighted- Average Grant- Date Fair Value
Beginning Balance	1,255,689	\$ 22.41
Granted	485,554	34.06
Vested	(745,801)	19.91
Forfeited	(80,184)	27.71
Ending Balance	915,258	\$ 30.16

Table of Contents

- 21 -

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 Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Net earnings attributable to Owens Corning	\$ 124	\$ 58	\$ 226	\$ 1,043
Weighted-average number of shares outstanding used for basic earnings per share	121.7	125.1	123.2	126.1
Non-vested restricted and performance shares	0.6	1.3	0.6	1.1
Options to purchase common stock	0.3	0.2	0.4	0.2
Weighted-average number of shares outstanding and common equivalent shares used for diluted earnings per share	122.6	126.6	124.2	127.4
Earnings per common share attributable to Owens Corning common stockholders:				
Basic	\$ 1.02	\$ 0.46	\$ 1.83	\$ 8.27
Diluted	\$ 1.01	\$ 0.46	\$ 1.82	\$ 8.19

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 August 1, 2010, 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 Repurchase Program). The Repurchase Program authorizes the Company to repurchase shares through 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. As of September 30, 2011, 3.7 million shares were available for repurchase under the Repurchase Program.

For each of 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 2.6 million and 0.4 million options, respectively, 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 each of the three and nine months ended September 30, 2010, the number of shares used in the calculation of diluted earnings per share did not include 2.4 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. COMPREHENSIVE EARNINGS

The following table presents the comprehensive earnings attributable to Owens Corning (in millions):

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Net earnings	\$ 126	\$ 61	\$ 230	\$ 1,049
Currency translation adjustment	(84)	75	(23)	22
Pension and other postretirement adjustment	2	(1)	1	(1)
Deferred loss on hedging	(3)	-	(1)	-
Comprehensive earnings	41	135	207	1,070
Less: Comprehensive earnings attributable to noncontrolling interests	2	3	4	5
Comprehensive earnings attributable to Owens Corning	\$ 39	\$ 132	\$ 203	\$ 1,065

Table of Contents

- 22 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****17. 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, 2011 (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:				
Derivative assets	\$ 43	\$ -	\$ 43	\$ -
Total assets	\$ 43	\$ -	\$ 43	\$ -
Liabilities:				
Derivative liabilities	\$ (4)	\$ -	\$ (3)	\$ (1)
Total liabilities	\$ (4)	\$ -	\$ (3)	\$ (1)

Cash equivalents, by their nature, utilize Level 1 inputs in determining fair value. 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. The fair value of the Company's interest rate swaps is determined by a mark to market valuation based on forward curves observable in the market using Level 2 inputs. A significant portion of the value of the Company's energy supply derivative contract uses Level 3 inputs. The fair value of the Company's energy supply derivative contract is determined by a mark to market valuation based on forward curves and on broker quotes.

Edgar Filing: Owens Corning - Form 10-Q

The following table provides a rollforward of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in millions):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Derivatives
December 31, 2010	\$ (1)
Total losses included in net earnings attributable to Owens Corning	-
September 30, 2011	\$ (1)

Changes in the fair value of this energy supply derivative contract are included in other (income) expenses on the Consolidated Statements of Earnings.

Table of Contents

- 23 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

17. 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 \$47 million as of September 30, 2011.

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, 2011, the Company's 6.50% senior notes due 2016 were trading at approximately 106% of par value, the 7.00% senior notes due 2036 were trading at approximately 100% of par value and the 9.00% senior notes due 2019 were trading at approximately 117% of par value.

At September 30, 2011, the Company used a market participant approach to value the remaining long-term debt instruments. This approach, which utilized indicative market rates for a new debt issuance, approximated the fair value of the remaining long-term debt at \$256 million.

18. INCOME TAXES

The Company's effective tax rate for the three and nine months ended September 30, 2011 was 15 percent and 22 percent, respectively. 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 adjusted effective tax rate was 28 percent. The difference between the 28 percent adjusted effective tax rate and the statutory rate of 35 percent is primarily attributable to lower foreign tax rates and various tax planning initiatives.

Income tax benefit of \$854 million for the nine months ended September 30, 2010, was a result of the reversal of a \$858 million valuation allowance against certain of the Company's United States deferred tax assets. The valuation allowance was originally established in 2008 based on the Company's losses before income taxes in the United States during 2007 and 2008, as well as the Company's then estimates for near-term results in the United States. Financial performance in the United States during that time period was adversely impacted by the decline in United States housing starts. Since that time, earnings performance in our United States operations has strengthened and our forecasts have improved.

19. ACCOUNTING PRONOUNCEMENTS

In September 2011, the Financial Accounting Standards Board (FASB) issued updated guidance on the periodic testing of goodwill 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. The amendment is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The updated accounting guidance is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company currently believes there will be no impact on its consolidated financial statements.

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).

Table of Contents

- 24 -

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 (benefit)	(2)	26	(1)	-	23
Equity in net earnings (loss) 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

- 25 -

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, 2010****(in millions)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	\$ -	\$ 787	\$ 490	\$ (91)	\$ 1,186
COST OF SALES	(3)	647	397	(91)	950
Gross margin	3	140	93	-	236
OPERATING EXPENSES					
Marketing and administrative expenses	11	78	34	-	123
Science and technology expenses	-	16	3	-	19
Charges related to cost reduction actions	-	-	15	-	15
Other expenses, net	(27)	33	4	-	10
Total operating expenses	(16)	127	56	-	167
EARNINGS BEFORE INTEREST AND TAXES					
Interest expense, net	19	13	37	-	69
Interest expense, net	30	(2)	-	-	28
EARNINGS BEFORE TAXES	(11)	15	37	-	41
Less: Income tax expense (benefit)	(4)	(14)	(1)	-	(19)
Equity in net earnings (loss) of subsidiaries	65	36	-	(101)	-
Equity in net earnings (loss) of affiliates	-	-	1	-	1
NET EARNINGS	58	65	39	(101)	61
Less: Net earnings attributable to noncontrolling interest	-	-	3	-	3
	\$ 58	\$ 65	\$ 36	\$ (101)	\$ 58

**NET EARNINGS ATTRIBUTABLE TO
OWENS CORNING**

Table of Contents

- 26 -

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 expenses, 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 (benefit)	(4)	35	32	-	63
Equity in net earnings (loss) of subsidiaries	241	118	-	(359)	-
Equity in net earnings (loss) of affiliates	-	(2)	3	-	1
NET EARNINGS	226	241	122	(359)	230
Less: Net earnings attributable to noncontrolling interest	-	-	4	-	4
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$ 226	\$ 241	\$ 118	\$ (359)	\$ 226

Table of Contents

- 27 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF LOSS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010****(in millions)**

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	\$ -	\$ 2,650	\$ 1,443	\$ (264)	\$ 3,829
COST OF SALES	(9)	2,157	1,189	(264)	3,073
Gross margin	9	493	254	-	756
OPERATING EXPENSES					
Marketing and administrative expenses	39	246	100	-	385
Science and technology expenses	-	46	9	-	55
Charges related to cost reduction actions	-	-	24	-	24
Other expenses, net	(79)	56	38	-	15
Total operating expenses	(40)	348	171	-	479
EARNINGS BEFORE INTEREST AND TAXES	49	145	83	-	277
Interest expense, net	89	(5)	1	-	85
EARNINGS BEFORE TAXES	(40)	150	82	-	192
Less: Income tax expense (benefit)	(32)	(841)	19	-	(854)
Equity in net earnings (loss) of subsidiaries	1,051	59	-	(1,110)	-
Equity in net earnings (loss) of affiliates	-	1	2	-	3
NET EARNINGS	1,043	1,051	65	(1,110)	1,049
Less: Net earnings attributable to noncontrolling interest	-	-	6	-	6
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$ 1,043	\$ 1,051	\$ 59	\$ (1,110)	\$ 1,043

Table of Contents

- 28 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF SEPTEMBER 30, 2011****(in millions)**

ASSETS	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	\$ 50	\$ -	\$ -	\$ -	\$ 50
Receivables, net	-	-	943	(160)	783
Due from affiliates	640	2,325	-	(2,965)	-
Inventories	-	409	337	-	746
Other current assets	1	92	121	-	214
Total current assets	691	2,826	1,401	(3,125)	1,793
Investment in subsidiaries	6,351	2,505	533	(9,389)	-
Due from affiliates	-	92	950	(1,042)	-
Property, plant and equipment, net	496	1,135	1,208	-	2,839
Goodwill	-	1,068	77	-	1,145
Intangible assets	-	964	364	(249)	1,079
Deferred income taxes	(26)	524	19	-	517
Other non-current assets	106	78	109	-	293
TOTAL ASSETS	\$ 7,618	\$ 9,192	\$ 4,661	\$ (13,805)	\$ 7,666
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 37	\$ 646	\$ 437	\$ (160)	\$ 960
Due to affiliates	1,808	-	1,157	(2,965)	-
Short-term debt	-	-	221	-	221
Long-term debt - current portion	-	1	2	-	3
Total current liabilities	1,845	647	1,817	(3,125)	1,184
Long-term debt, net of current portion	1,767	30	35	-	1,832

Edgar Filing: Owens Corning - Form 10-Q

Due to affiliates	36	950	56	(1,042)	-
Pension plan liability	-	205	106	-	311
Other employee benefits liability	-	276	19	-	295
Deferred income taxes	-	-	60	-	60
Other liabilities	228	200	24	(249)	203
Commitments and contingencies					
OWENS CORNING STOCKHOLDERS EQUITY					
Common stock	1	-	-	-	1
Additional paid in capital	3,900	6,158	2,052	(8,210)	3,900
Accumulated earnings (deficit)	420	726	453	(1,179)	420
Accumulated other comprehensive deficit	(217)	-	-	-	(217)
Cost of common stock in treasury	(362)	-	-	-	(362)
Total Owens Corning stockholders equity	3,742	6,884	2,505	(9,389)	3,742
Noncontrolling interest	-	-	39	-	39
Total equity	3,742	6,884	2,544	(9,389)	3,781
TOTAL LIABILITIES AND EQUITY	\$ 7,618	\$ 9,192	\$ 4,661	\$ (13,805)	\$ 7,666

Table of Contents

- 29 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF DECEMBER 31, 2010****(in millions)**

ASSETS	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	\$ 3	\$ -	\$ 49	\$ -	\$ 52
Receivables, net	1	229	316	-	546
Due from affiliates	788	1,934	285	(3,007)	-
Inventories	-	369	251	-	620
Assets held for sale - current	-	-	16	-	16
Other current assets	1	83	90	-	174
Total current assets	793	2,615	1,007	(3,007)	1,408
Investment in subsidiaries	5,841	2,230	440	(8,511)	-
Due from affiliates	-	40	924	(964)	-
Property, plant and equipment, net	462	1,145	1,147	-	2,754
Goodwill	-	1,068	20	-	1,088
Intangible assets	-	980	488	(378)	1,090
Deferred income taxes	(28)	535	22	-	529
Assets held for sale - noncurrent	-	-	26	-	26
Other non-current assets	71	79	113	-	263
TOTAL ASSETS	\$ 7,139	\$ 8,692	\$ 4,187	\$ (12,860)	\$ 7,158
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 28	\$ 426	\$ 488	\$ -	\$ 942
Due to affiliates	1,547	347	1,113	(3,007)	-
Short-term debt	-	-	1	-	1
Long-term debt - current portion	-	1	4	-	5
Liabilities held for sale - current	-	-	7	-	7

Edgar Filing: Owens Corning - Form 10-Q

Total current liabilities	1,575	774	1,613	(3,007)	955
Long-term debt, net of current portion	1,560	32	37	-	1,629
Due to affiliates	-	924	40	(964)	-
Pension plan liability	-	265	113	-	378
Other employee benefits liability	-	277	21	-	298
Deferred income taxes	-	-	75	-	75
Other liabilities	356	139	20	(378)	137
Commitments and contingencies					
OWENS CORNING STOCKHOLDERS EQUITY					
Preferred stock	-	-	-	-	-
Common stock	1	-	-	-	1
Additional paid in capital	3,876	5,796	1,895	(7,691)	3,876
Accumulated earnings (deficit)	194	485	335	(820)	194
Accumulated other comprehensive deficit	(194)	-	-	-	(194)
Cost of common stock in treasury	(229)	-	-	-	(229)
Total Owens Corning stockholders equity	3,648	6,281	2,230	(8,511)	3,648
Noncontrolling interest	-	-	38	-	38
Total equity	3,648	6,281	2,268	(8,511)	3,686
TOTAL LIABILITIES AND EQUITY	\$ 7,139	\$ 8,692	\$ 4,187	\$ (12,860)	\$ 7,158

Table of Contents

- 30 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011****(in millions)**

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES	\$ -	\$ 47	\$ 12	\$ -	\$ 59
NET CASH FLOW USED FOR INVESTING ACTIVITIES					
Additions to plant and equipment	(3)	(155)	(145)	-	(303)
Investment in subsidiaries and affiliates, net of cash acquired	-	(84)	-	-	(84)
Proceeds from the sale of assets or affiliates	-	3	78	-	81
Net cash flow used for investing activities	(3)	(236)	(67)	-	(306)
NET CASH FLOW USED FOR FINANCING ACTIVITIES					
Proceeds from senior revolving credit facility	805	-	-	-	805
Payments on senior revolving credit facility	(629)	-	-	-	(629)
Proceeds from long-term debt	-	-	6	-	6
Payments on long-term debt	-	-	(10)	-	(10)
Net decrease in short-term debt	-	-	219	-	219
Purchases of treasury stock	(138)	-	-	-	(138)
Intercompany loans	-	189	(189)	-	-
Other	12	-	-	-	12
Net cash flow provided used for financing activities	50	189	26	-	265
Effect of exchange rate changes on cash	-	-	(20)	-	(20)
	47	-	(49)	-	(2)

Edgar Filing: Owens Corning - Form 10-Q

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents at beginning of period	3	-	49	-	52
--	---	---	----	---	----

**CASH AND CASH EQUIVALENTS AT
END OF PERIOD**

	\$ 50	\$ -	\$ -	\$ -	\$ 50
--	-------	------	------	------	-------

Table of Contents

- 31 -

OWENS CORNING AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010****(in millions)**

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES	\$ -	\$ 170	\$ 111	\$ -	\$ 281
NET CASH FLOW USED FOR INVESTING ACTIVITIES					
Additions to plant and equipment	-	(99)	(100)	-	(199)
Proceeds from the sale of assets or affiliates	-	-	16	-	16
Net cash flow used for investing activities	-	(99)	(84)	-	(183)
NET CASH FLOW USED FOR FINANCING ACTIVITIES					
Proceeds from senior revolving credit facility	406	-	-	-	406
Payments on senior revolving credit facility	(315)	-	-	-	(315)
Proceeds from long-term debt	-	-	1	-	1
Payments on long-term debt	(600)	-	(6)	-	(606)
Net decrease in short-term debt	-	-	(8)	-	(8)
Purchase of treasury stock	(102)	-	-	-	(102)
Parent loans and advances	71	(71)	-	-	-
Other	2	-	-	-	2
Net cash flow used for financing activities	(538)	(71)	(13)	-	(622)
Effect of exchange rate changes on cash	-	-	(5)	-	(5)
Net increase (decrease) in cash and cash equivalents	(538)	-	9	-	(529)

Edgar Filing: Owens Corning - Form 10-Q

Cash and cash equivalents at beginning of period	538	-	26	-	564
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ -	\$ -	\$ 35	\$ -	\$ 35

Table of Contents

- 32 -

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis (MD&A) is intended to help the reader understand Owens Corning, our operations and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying Notes thereto contained in this report. Unless the context requires otherwise, the terms Owens Corning, Company, we and our in this report refer to Owens Corning.

GENERAL

Owens Corning is a leading global producer of glass fiber reinforcements and other materials for composites and of residential and commercial building materials. The Company's business operations fall within two reportable segments, Composites and Building Materials. Composites includes our Reinforcements and Downstream businesses. Building Materials includes our Insulation and Roofing businesses. Through these lines of business, we manufacture and sell products worldwide. We maintain leading market positions in many of our major product categories.

EXECUTIVE OVERVIEW

The Company generated \$177 million in EBIT for the third quarter 2011, which was nearly 100 percent higher than adjusted EBIT in the third quarter 2010. Our portfolio of businesses performed well despite continued weakness in some of our end markets. Our Composites segment continued to grow its profitability with lower costs achieved through manufacturing productivity in the third quarter. In our Building Materials segment, our Roofing business delivered strong performance on about a 60 percent increase in volumes compared to 2010. Our Insulation business delivered higher sales despite a continued weak United States housing market.

In our Composites segment, EBIT improved by 14 percent from the third quarter 2010 as a result of lower costs achieved through manufacturing productivity and higher selling prices. The overall improvement in price that began in late 2009 has returned prices across our key product groups to the levels seen prior to the 2008 global economic downturn.

In our Building Materials segment, our Roofing business delivered EBIT of \$156 million for the three months ended September 30, 2011, up about 71 percent on strong growth in shingle demand supported by storm activity. Our Insulation business reduced EBIT losses primarily as a result of productivity improvements and cost.

We maintain a strong balance sheet with ample liquidity. We have access to an \$800 million senior revolving credit facility and a \$250 million receivables securitization facility. As of September 30, 2011, we had \$612 million available under the senior revolving credit facility and \$5 million under the securitization facility.

We repurchased 2.8 million shares of the Company's common stock for \$85 million during the third quarter of 2011 under a previously announced repurchase program. As of September 30, 2011, 3.7 million shares remain available for repurchase under the authorized program.

RESULTS OF OPERATIONS**Consolidated Results (in millions)**

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Net sales	\$ 1,450	\$ 1,186	\$ 4,139	\$ 3,829
Gross margin	\$ 317	\$ 236	\$ 798	\$ 756
% of net sales	22%	20%	19%	20%
Earnings before interest and taxes	\$ 177	\$ 69	\$ 373	\$ 277
Interest expense, net	\$ 28	\$ 28	\$ 81	\$ 85
Income tax expense (benefit)	\$ 23	\$ (19)	\$ 63	\$ (854)

Edgar Filing: Owens Corning - Form 10-Q

Net earnings attributable to Owens Corning	\$	124	\$	58	\$	226	\$	1,043
--	----	-----	----	----	----	-----	----	-------

Table of Contents

- 33 -

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Consolidated Results discussion below provides a summary of our results and the trends affecting our business, and should be read in conjunction with the more detailed Segment Results discussion that follows.

NET SALES

Third quarter and year-to-date net sales in 2011 increased from the same periods in 2010 due to increased sales volumes, higher sales prices, and the impact of translating sales denominated in foreign currencies into United States dollars. Our Roofing business delivered higher net sales as a result of significantly increased volumes based on strong demand supported by storm activity. Despite continued weakness in the United States housing market, our Insulation business delivered higher net sales driven by increased United States shipments and growth in some of our international markets compared to the same period in 2010. These increases were partially offset by the impact of the fourth quarter 2010 divestiture of our United States Masonry Products business.

GROSS MARGIN

The increase in gross margin in the third quarter 2011 as compared to the third quarter 2010 was the result of higher sales volumes within the Building Materials group and improved gross margins in our Composites business. During the first nine months of 2011, gross margin increased as a result of higher sales volumes within our Roofing business and improved unit margins in our Composites business. These impacts were offset by charges related to actions we took to reduce costs and eliminate unprofitable product lines in our Insulation business during the second quarter.

OTHER ITEMS IMPACTING EARNINGS BEFORE INTEREST AND TAXES

In addition to the items noted above, the year-over-year comparability of earnings before interest and taxes was positively impacted by the \$16 million gain from the sale of our Composites glass reinforcement facility in Capivari, Brazil in May 2011. A gain on the sale of precious metals used in production tooling in the first half 2011 also increased EBIT on a year-to-date basis. The gain on the sale of the facility and precious metals are recorded in other (income) expenses on the Consolidated Statements of Earnings.

INTEREST EXPENSE, NET

Interest expense for the nine months ended September 30, 2011 was lower than 2010 due to the impact of the interest rate swap and higher interest income partially offset by higher average borrowing rates.

INCOME TAX EXPENSE

The Company's effective tax rate for the three and nine months ended September 30, 2011 was 15 percent and 22 percent, respectively. 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 adjusted effective tax rate was 28 percent. The difference between the 28 percent adjusted effective tax rate and the statutory rate of 35 percent is primarily attributable to lower foreign tax rates and various tax planning initiatives.

Income tax benefit of \$854 million for the nine months ended September 30, 2010, was a result of the reversal of a \$858 million valuation allowance against certain of the Company's United States deferred tax assets. The valuation allowance was originally established in 2008 based on the Company's losses before income taxes in the United States during 2007 and 2008, as well as the Company's then estimates for near-term results in the United States. Financial performance in the United States during that time period was adversely impacted by the decline in United States housing starts. Since that time, earnings performance in our United States operations has strengthened and our forecasts have improved.

Adjusted Earnings Before Interest and Taxes (Adjusted EBIT)

Edgar Filing: Owens Corning - Form 10-Q

Adjusted EBIT excludes certain significant items that management does not allocate to our segment results because it believes they are not a result of the Company's current operations. Adjusted EBIT is used internally by the Company for various purposes, including reporting results of operations to the Board of Directors of the Company, analysis of performance and related employee compensation measures. Although management believes that these adjustments result in a measure that provides it a useful representation of our operational performance, the adjusted measure should not be considered in isolation or as a substitute for net earnings attributable to Owens Corning as prepared in accordance with accounting principles generally accepted in the United States.

Table of Contents

- 34 -

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Adjusting items are shown in the table below (in millions):

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Charges related to cost reduction actions and related items	\$ -	\$ (16)	\$ -	\$ (33)
Acquisition, integration, transaction, and other costs	-	(4)	-	(6)
Net precious metal lease expense	-	(1)	-	(1)
Total adjusting items	\$ -	\$ (21)	\$ -	\$ (40)

The reconciliation from net earnings attributable to Owens Corning to Adjusted EBIT is shown in the table below (in millions):

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$ 124	\$ 58	\$ 226	\$ 1,043
Less: Net earnings attributable to noncontrolling interests	2	3	4	6
NET EARNINGS	126	61	230	1,049
Equity in net earnings of affiliates	-	1	1	3
Income tax expense (benefit)	23	(19)	63	(854)
EARNINGS BEFORE TAXES	149	41	292	192
Interest expense, net	28	28	81	85
EARNINGS BEFORE INTEREST AND TAXES	177	69	373	277
Less: adjusting items from above	-	(21)	-	(40)
ADJUSTED EARNINGS BEFORE INTEREST AND TAXES	\$ 177	\$ 90	\$ 373	\$ 317

Segment Results

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, which is presented following the discussion of our reportable segments.

Composites

The table below provides a summary of net sales, EBIT and depreciation and amortization expense for the Composites segment (in millions):

Edgar Filing: Owens Corning - Form 10-Q

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Net sales	\$ 496	\$ 477	\$ 1,517	\$ 1,431
<i>% change from prior year</i>	4%	6%	6%	21%
EBIT	\$ 49	\$ 43	\$ 152	\$ 116
<i>EBIT as a % of net sales</i>	10%	9%	10%	8%
Depreciation and amortization expense	\$ 31	\$ 32	\$ 97	\$ 90

Table of Contents

- 35 -

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**NET SALES**

Net sales for our Composites segment increased for both the quarter and year-to-date comparison. For the third quarter 2011 as compared to 2010, increased sales volume and higher selling prices contributed about equally to the increase in net sales. In addition, the favorable impact of translating sales denominated in foreign currencies into United States dollars, which accounted for more than three fourths of the increase over third quarter 2010, was offset by the divestiture of our Capivari, Brazil facility in May 2011. For the year-to-date comparison, higher selling prices contributed nearly one-half of the increase in net sales. Favorable product mix, which contributed about one-fourth of the increase in net sales, was offset by the divestiture of our Capivari, Brazil facility in May 2011. The remainder of the change in net sales was the impact of translating sales denominated in foreign currencies into United States dollars for 2011 as compared to 2010.

EBIT

For the three months ended September 30, 2011, EBIT was up \$6 million. Lower costs achieved through manufacturing productivity drove all of the increase in EBIT as compared to the same period in 2010. In addition, higher selling prices partially offset inflation in material and energy costs. For the nine months ended September 30, 2011, EBIT was up \$36 million. Lower costs achieved through manufacturing productivity drove substantially all of the increase in EBIT as compared to the same period in 2010. Higher selling prices more than offset inflation in material and energy costs and there were increases in our selling, general and administrative expenses.

OUTLOOK

We believe demand in this segment has grown with regional industrial demand around the world and that, this relationship will continue. The rate and extent of the market growth is expected to vary among products, end-use markets, geographic regions, and to vary with the global economic cycle. Over time, we expect to increase our production capacity in line with overall global market growth, particularly in developing markets. We have previously announced capacity expansions in Russia and Mexico.

Building Materials

The table below provides a summary of net sales, EBIT and depreciation and amortization expense for the Building Materials segment and our businesses within this segment (in millions):

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Net sales				
Insulation	\$ 365	\$ 315	\$ 981	\$ 953
Roofing	644	404	1,785	1,507
Other	-	23	-	66
Total Building Materials	\$ 1,009	\$ 742	\$ 2,766	\$ 2,526
<i>% change from prior year</i>	<i>36%</i>	<i>-21%</i>	<i>10%</i>	<i>-2%</i>
EBIT				
Insulation	\$ (12)	\$ (18)	\$ (97)	\$ (80)
Roofing	156	91	374	368
Other	-	(6)	-	(16)
Total Building Materials	\$ 144	\$ 67	\$ 277	\$ 272
<i>EBIT as a % of net sales</i>	<i>14%</i>	<i>9%</i>	<i>10%</i>	<i>11%</i>

Edgar Filing: Owens Corning - Form 10-Q

Depreciation and amortization expense								
Insulation	\$	30	\$	34	\$	89	\$	94
Roofing		10		9		31		30
Total Building Materials	\$	40	\$	43	\$	120	\$	124

Table of Contents

- 36 -

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NET SALES

Net sales in our Building Materials segment were higher in both the third quarter 2011 and nine month period ended September 30, 2011, as compared to 2010. The increase in net sales during the third quarter was the result of increased sales volumes within both the Roofing and Insulation businesses. Offsetting this increase was the loss of sales from the divestiture of the United States Masonry Products business.

In our Roofing business, net sales increased significantly for both the three and nine month periods ended September 30, 2011. Sales volume increased for both periods as a result of greater overall United States shingle demand supported by storm activity and market conditions in 2011 as compared to 2010. Weakness in market demand that began in June 2010 persisted throughout the third quarter 2010. Higher sales volume accounted for about three-fourths of the increase in net sales for the three months ended September 30, 2011. The remaining increase in net sales between the third quarter 2011 and 2010 was due to higher selling prices and favorable product mix. Nearly all of the increase in year-to-date sales was due to higher sales volumes and product mix. Selling prices were higher in the third quarter 2011 compared to 2010 as price increases in the second and third quarter 2011 offset price declines in the second half 2010 and the first quarter 2011. On a year-to-date basis, selling prices have been in line with 2010.

In our Insulation business, net sales increased for both the third quarter and year-to-date comparison. Higher sales volumes accounted for more than three-fourths of the increase in net sales in the third quarter 2011 as compared to 2010. Our experience shows that our residential insulation demand lags United States housing starts by approximately three months. Lagged United States housing starts for both the third quarter and year-to-date were down 5 percent. Strength in our United States retail and contractor channels and favorable geographical mix in 2011 as compared to 2010 offset the impact of the decline in United States housing starts. The remaining increase in net sales was about equally impacted by our July 2011 acquisitions of the two FiberTEK facilities and by higher selling prices. For the year-to-date comparison, higher sales volume and customer mix accounted for nearly one-half of the increase in net sales. The remaining increase for the nine months ended September 30, 2011, was due to slightly higher sales prices and the favorable impact of translating sales denominated in foreign currencies into United States dollars.

EBIT

EBIT for our Building Materials segment increased \$77 million and \$5 million for the three and nine month periods ended September 30, 2011, respectively.

In our Roofing business, EBIT increased by 71 percent in the third quarter 2011 as a result of strong demand supported by storm activity as compared to 2010. Substantially all of the increase during the third quarter 2011 was due to higher sales volumes. The quarter-over-quarter comparison benefitted from storm related demand in 2011 and relative weakness in market demand in the third quarter 2010. Higher selling prices during the third quarter offset raw material inflation, primarily asphalt. For the nine month period ended September 30, 2011, EBIT increased slightly due to higher sales volumes on relatively flat prices. Price increases in the second and third quarter 2011 brought year-to-date selling prices in line with 2010. The benefit of higher sales volumes was offset by significant raw material inflation, primarily asphalt, which negatively impacted year-to-date unit margins as compared to 2010.

In our Insulation business, we reduced EBIT losses for the three month period ended September 30, 2011 as compared to 2010. For the three month period ended September 30, 2011, the increase was driven by favorable manufacturing productivity and cost reductions. Higher sales volumes and selling prices were offset by inflation in raw materials. For the nine month period ended September 30, 2011, higher selling prices were more than offset by inflation, contributing about half of the increase in EBIT losses as compared to 2010. The remaining change was due to lower sales volumes in the first half of 2011 as compared to 2010 and costs associated with the launch of EcoTouch .

Table of Contents

- 37 -

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**OUTLOOK**

We expect that continued weakness in the United States housing industry will depress new residential construction-related demand through the remainder of the year and into 2012. The timing and pace of recovery of the United States housing market remains uncertain.

In our Roofing business, we expect that the margins seen in recent years will continue to drive profitability. Uncertainties that may impact our Roofing margins include competitive pricing pressure and the cost and availability of raw materials, particularly asphalt.

In our Insulation business, we believe the geographic, product, and channel mix of our portfolio may continue to moderate the impact of sustained demand-driven weakness associated with United States new construction. Should the recovery of new construction be sooner and faster than anticipated, we are prepared to respond to increased demand by bringing additional production capacity back on-line.

Corporate, Other and Eliminations

The table below provides a summary of EBIT and depreciation and amortization expense for the Corporate, Other and Eliminations category (in millions):

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Charges related to cost reduction actions and related items	\$ -	\$ (16)	\$ (17)	\$ (33)
Acquisition, integration, transaction and other costs	-	(4)	-	(6)
Net precious metal lease expense	-	(1)	-	(1)
Gain on sale of Capivari, Brazil facility	-	-	16	-
General corporate expense and other	(16)	(20)	(55)	(71)
EBIT	\$ (16)	\$ (41)	\$ (56)	\$ (111)
Depreciation and amortization	\$ 7	\$ 8	\$ 26	\$ 28

EBIT

In Corporate, Other and Eliminations, EBIT losses reduced for the third quarter 2011 primarily because there were no charges related to cost reduction actions and integration costs in 2011 compared to the charges which incurred in the third quarter 2010. General corporate expenses decreased in the third quarter 2011 as compared to 2010 due to lower stock-based compensation expense and reduced foreign currency losses partially offset by increases in other corporate expenses. A portion of stock based compensation is dependent upon our stock price, which decreased significantly during the third quarter 2011 which resulted in lower stock based compensation expense.

In Corporate, Other and Eliminations, EBIT losses reduced for the nine months ended September 30, 2011 primarily as a result of lower charges related to cost reduction actions and integration costs in 2011 compared to 2010. The 2011 charges related to actions we took as a result of evaluating ongoing market conditions in our Insulation business. The 2010 charges were related to actions we took to balance our global Composites capacity. In addition, the nine month period of 2011 was impacted by a \$16 million gain on sale of our glass reinforcements facility in Capivari, Brazil in May 2011. General corporate expense and other for the nine months ended September 30, 2011 as compared to 2010 benefited from gains from the sale of precious metal used in production tooling in the first half 2011, reduced foreign currency losses and lower stock-based compensation expense. These impacts were offset by increases in other corporate expenses. The decrease in stock based compensation expense was driven by the significant decrease in our stock price during the third quarter of 2010.

Table of Contents

- 38 -

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**LIQUIDITY, CAPITAL RESOURCES AND OTHER RELATED MATTERS****Liquidity**

We have an \$800 million senior revolving credit facility and a \$250 million receivables securitization facility, which serve as our primary sources of liquidity. We amended the credit facility on July 27, 2011, to mature in July 2016 and reduce pricing. The receivables securitization facility was established on March 31, 2011, and will mature on March 29, 2012. We have no other significant debt maturities before 2016. As of September 30, 2011, we had \$5 million available on the securitization facility and we had \$612 million available on the senior revolving credit facility. As of September 30, 2011, we had \$2.1 billion of total debt and cash-on-hand of \$50 million.

We expect that our cash on hand, coupled with future cash flows from operations and other available sources of liquidity, including our senior revolving credit facility, will provide ample liquidity to allow us to meet our cash requirements. Our anticipated uses of cash include capital expenditures, working capital needs, pension contributions, meeting financial obligations and reducing outstanding amounts under the senior revolving credit facility and receivables securitization facility. We have an outstanding share repurchase authorization and will evaluate and consider repurchasing shares of our common stock as well as strategic acquisitions, divestitures, joint ventures and other transactions to create stockholder value and enhance financial performance. Such transactions may require cash expenditures beyond current sources of liquidity or generate proceeds.

While the general economic environment has improved, we are closely monitoring the potential impact of changes in the operating conditions of our customers on our operating results. To date, changes in the operating conditions of our customers have not had a material adverse impact on our operating results; however, it is possible that we could experience material losses in the future if current economic conditions continue or worsen.

The credit agreement applicable to our senior revolving credit facility and the receivables securitization facility contain various covenants that we believe are usual and customary for agreements of these types. The senior revolving credit facility includes a maximum allowed leverage ratio and a minimum required interest expense coverage ratio. We were well within compliance with these covenants as of September 30, 2011.

Cash Flows

The following table presents a summary of our cash balance and cash flows (in millions):

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
Cash balance	\$ 50	\$ 35	\$ 50	\$ 35
Cash provided by operating activities	\$ 193	\$ 147	\$ 59	\$ 281
Cash used for investing activities	\$ (171)	\$ (76)	\$ (306)	\$ (183)
Cash provided by (used for) financing activities	\$ -	\$ (68)	\$ 265	\$ (622)
Unused committed credit available under the senior revolving credit facility	\$ 612	\$ 658	\$ 612	\$ 658

Operating activities: In the first nine months of 2011, we generated \$59 million of cash from operations compared to \$281 million in the same period in 2010. Nearly all of this decrease in cash from operations was due to increases in working capital primarily related to higher demand for our roofing shingles and higher inventory in our Composites business. In addition, during the first nine months of 2011, we contributed \$75 million more to our pension plans than we did in the same period in 2010.

Edgar Filing: Owens Corning - Form 10-Q

Investing activities: The increase in cash flow used for investing activities in the nine months ended September 30, 2011, compared to the first nine months in 2010 was primarily the result of greater additions to plant and equipment, particularly in our Composites business, and the acquisitions of two FiberTEK facilities for \$84 million. Offsetting this use of cash were \$55 million of proceeds from the sale of the Company's Composites glass reinforcements facility in Capivari, Brazil.

Financing activities: Cash used for financing activities for the nine months ended September 30, 2010 was primarily due to the repayment of our \$600 million senior term loan. The 2011 increase in cash provided by financing is due to borrowings to support our increased working capital and our investing activities. Offsetting this increase in cash provided by financing activities were share repurchases during the nine months ended September 30, 2011.

Table of Contents

- 39 -

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2011 Investments

Capital Expenditures: The Company will continue a balanced approach to the use of its cash flow. Operational cash flow will be used to fund the Company's growth and innovation. Capital expenditures, excluding purchases of precious metals, in 2011 are expected to be greater than those in 2010, and more than depreciation and amortization expense.

The Company will also continue to evaluate projects and acquisitions that provide opportunities for growth in our businesses, and invest in them when they meet our strategic and financial criteria. On July 31, 2011, the Company's subsidiary, Owens Corning Insulating Systems, LLC completed two acquisitions. It acquired FiberTEK Insulation West, LLC, an insulation manufacturing operation located in Nephi, Utah and FiberTEK Insulation, LLC, an insulation manufacturing operation located in Lakeland, Florida from third parties unrelated to the Company, for a total of \$84 million in cash and \$25 million in deferred payments.

Tax Net Operating Losses

Upon emergence and subsequent distribution of contingent stock and cash in January 2007, we generated a significant United States federal tax net operating loss of approximately \$3.0 billion. As of September 30, 2011, our federal tax net operating losses remaining were \$2.3 billion. Our net operating losses are subject to the limitations imposed under section 382 of the Internal Revenue Code. These limits are triggered when a change in control occurs, and are computed based upon several variable factors including the share price of the Company's common stock on the date of the change in control. A change in control is generally defined as a cumulative change of 50% or more in the ownership positions of certain stockholders during a rolling three year period. Our initial three year period for measuring an ownership change started at October 31, 2006.

In addition to the United States net operating losses described above, we have net operating losses in various foreign jurisdictions, which totaled \$552 million as of December 31, 2010. Our ability to utilize these net operating losses may be limited as a result of certain events, such as insufficient future taxable income prior to expiration of the net operating losses. Should we determine that it is likely that our recorded net operating loss benefits are not realizable, we would be required to reduce the net operating loss tax benefits reflected on our Consolidated Financial Statements to the net realizable amount by establishing an accounting valuation allowance and recording a corresponding charge to current earnings. To date, we have recorded valuation allowances against certain of these deferred tax assets.

Pension Contributions

The Company has several defined benefit pension plans. The Company made cash contributions of approximately \$104 million and \$29 million to the plans during the nine months ended September 30, 2011 and 2010, respectively. The Company expects to contribute \$116 million in cash to its global pension plans during 2011. Actual contributions to the plans may change as a result of a variety of factors, including changes in laws that impact funding requirements. The ultimate cash flow impact to the Company, if any, of the pension plan liability and the timing of any such impact will depend on numerous variables, including future changes in actuarial assumptions, legislative changes to pension funding laws, and market conditions.

Table of Contents

- 40 -

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Derivatives

To mitigate some of the near-term volatility in our earnings and cash flows, we use financial and derivative instruments to hedge certain exposures, principally currency- and energy-related. Our current hedging practice is to hedge a variable percentage of certain energy and energy-related exposures. Our policy is to hedge up to 75 percent of our total forecasted natural gas exposures for the next two months, up to 50 percent for the following four months, and lesser amounts for the remaining periods. We currently have hedged a portion of our exposures for the next 15 months. Going forward, the results of our hedging practice could be positive, neutral or negative in any period depending on price changes in the hedged exposures, and will tend to mitigate near-term volatility in the exposures hedged. The practice is neither intended nor expected to mitigate longer term exposures.

Our current practice is to manage our interest rate exposure by balancing the mixture of our fixed and variable rate instruments. We utilize, among other strategies, interest rate swaps to achieve this balance in interest rate exposures. In 2009, we entered into interest rate swaps to convert \$500 million of our fixed rate debt due in 2016 to a variable rate based on LIBOR.

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.

Off Balance Sheet Arrangements

The Company has entered into limited off balance sheet arrangements, as defined under Securities and Exchange Commission rules, in the ordinary course of business. These arrangements include a limited amount of unrecorded contingent payment obligations under acquisition purchase agreements which are not material. The Company does not believe these arrangements will have a material effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

In the normal course of business, we enter into contractual obligations to make payments to third parties. During the nine months ended September 30, 2011, there were no material changes to such contractual obligations outside the ordinary course of our business.

Table of Contents

- 41 -

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SAFETY

Working safely is a condition of employment at Owens Corning. We believe this organization-wide expectation provides for a safer work environment for employees, improves our manufacturing processes, reduces our costs and enhances our reputation. Furthermore, striving to be a world-class leader in safety provides a platform for all employees to understand and apply the resolve necessary to be a high-performing, global organization. We measure our progress on safety based on Recordable Incidence Rate (RIR) as defined by the United States Department of Labor, Bureau of Labor Statistics. In the nine months ended September 30, 2011, our RIR improved approximately 25% over our full year performance throughout 2010.

ADOPTION OF NEW ACCOUNTING STANDARDS

In September 2011, the Financial Accounting Standards Board (FASB) issued updated guidance on the periodic testing of goodwill 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. The amendment is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The updated accounting guidance is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company currently believes there will be no impact on its consolidated financial statements.

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, 2011, we had environmental remediation liabilities as a PRP at 21 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, 2011, our estimated liability for such items was \$9 million.

Table of Contents

- 42 -

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Our disclosures and analysis in this report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements present our current forecasts and estimates of future events. These statements do not strictly relate to historical or current results and can be identified by words such as anticipate, believe, estimate, expect, intend, likely, may, plan, strategy, will and other terms of similar meaning or import in connection with any discussion of future operating, financial or other performance. These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected in the statements. These risks, uncertainties and other factors include, without limitation:

economic and political conditions, including new legislation or other governmental actions;

levels of residential and commercial construction activity;

competitive factors;

pricing factors;

weather conditions;

our level of indebtedness;

industry and economic conditions that affect the market and operating conditions of our customers, suppliers or lenders;

availability and cost of raw materials;

availability and cost of credit;

interest rate movements;

issues related to acquisitions, divestitures and joint ventures;

our ability to utilize our net operating loss carryforwards;

Edgar Filing: Owens Corning - Form 10-Q

achievement of expected synergies, cost reductions and/or productivity improvements;

issues involving implementation of new business systems;

foreign exchange fluctuations;

research and development activities;

difficulties in managing production capacity; and

labor disputes.

All forward-looking statements in this report should be considered in the context of the risk and other factors described above and as detailed from time to time in the Company's Securities and Exchange Commission filings. Any forward-looking statements speak only as of the date the statement is made and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. It is not possible to identify all of the risks, uncertainties and other factors that may affect future results. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. Accordingly, users of this report are cautioned not to place undue reliance on the forward-looking statements.

Table of Contents

- 43 -

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Please refer to the Company's 2010 annual report on Form 10-K for the Company's quantitative and qualitative disclosures about market risk.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains (a) disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, (the "Exchange Act")), and (b) internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

- 44 -

PART II**ITEM 1. LEGAL PROCEEDINGS**

The Company has nothing to report under this Item.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors as disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities**

Owens Corning has nothing to report under this Item.

Issuer Purchases of Equity Securities

The following table provides information about Owens Corning's purchases of its common stock during each month during the quarterly period covered by this report:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs**
July 1-31, 2011	600,000	\$ 36.51	600,000	5,880,497
August 1-31, 2011	2,220,712	28.54	2,219,200	3,661,297
September 1-30, 2011	-	-	-	3,661,297
Total	2,820,712*	\$ 30.24	2,819,200	

* The Company retained 1,512 shares surrendered to satisfy tax withholding obligations in connection with the vesting of restricted shares granted to our employees.

Edgar Filing: Owens Corning - Form 10-Q

** On August 4, 2010, the Company announced a share buy-back program under which the Company is authorized to repurchase up to 10 million shares of Owens Corning's outstanding common stock. Under the buy-back program, shares may be repurchased through open market, privately negotiated, or other transactions. The timing and actual number of shares repurchased will depend on market conditions and other factors and will be at the Company's discretion.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company has nothing to report under this Item.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

The Company has nothing to report under this Item.

ITEM 6. EXHIBITS

See Exhibit Index below, which is incorporated here by reference.

Table of Contents

- 45 -

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Owens Corning has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OWENS CORNING

Registrant

Date: October 26, 2011

By: /s/ Duncan J. Palmer
Duncan J. Palmer
Senior Vice President and
Chief Financial Officer
(as duly authorized officer)

Date: October 26, 2011

By: /s/ Mark W. Mayer
Mark W. Mayer
Vice President and
Chief Accounting Officer

Table of Contents

- 46 -

EXHIBIT INDEX

Exhibit Number	Description
10.1	Second amendment to Credit Agreement, dated as of July 27, 2011 (incorporated by reference to Exhibit 10.1 to Owens Corning's Current Report on Form 8-K (File No. 1-33100), filed July 29, 2011).
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) (filed herewith).
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).
99.1	Subsidiaries of Owens Corning (filed herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase