

Edgar Filing: Owens Corning - Form 10-Q

Owens Corning
Form 10-Q
October 26, 2016
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, 2016

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)

(419) 248-8000

(Registrant's telephone number, including area code)

43659

(Zip 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 one):

Large accelerated filer

Non-accelerated filer (Do not check if a 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

As of October 17, 2016, 113,323,477 shares of registrant's common stock, par value \$0.01 per share, were outstanding.

Table of Contents

	Contents
<u>Cover Page</u>	<u>1</u>
<u>PART I – FINANCIAL INFORMATION (unaudited)</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Earnings</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Earnings</u>	<u>4</u>
<u>Consolidated Balance Sheets</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	
<u>1. General</u>	<u>7</u>
<u>2. Segment Information</u>	<u>7</u>
<u>3. Inventories</u>	<u>9</u>
<u>4. Derivative Financial Instruments</u>	<u>10</u>
<u>5. Goodwill and Other Intangible Assets</u>	<u>14</u>
<u>6. Property, Plant and Equipment</u>	<u>15</u>
<u>7. Acquisitions</u>	<u>16</u>
<u>8. Warranties</u>	<u>16</u>
<u>9. Restructuring, Acquisition and Integration-Related Costs</u>	<u>17</u>
<u>10. Debt</u>	<u>18</u>
<u>11. Pension Plans and Other Postretirement Benefits</u>	<u>20</u>
<u>12. Contingent Liabilities and Other Matters</u>	<u>22</u>
<u>13. Stock Compensation</u>	<u>24</u>
<u>14. Earnings per Share</u>	<u>27</u>
<u>15. Fair Value Measurement</u>	<u>27</u>
<u>16. Income Taxes</u>	<u>29</u>
<u>17. Changes in Accumulated Other Comprehensive Deficit</u>	<u>30</u>
<u>18. Accounting Pronouncements</u>	<u>31</u>
<u>19. Condensed Consolidating Financial Statements</u>	<u>32</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>44</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>56</u>
Item 4. <u>Controls and Procedures</u>	<u>56</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>57</u>
Item 1A. <u>Risk Factors</u>	<u>57</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>57</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>57</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>57</u>

Item 5. <u>Other Information</u>	<u>58</u>
Item 6. <u>Exhibits</u>	<u>58</u>
<u>Signatures</u>	<u>59</u>
<u>Exhibit Index</u>	<u>60</u>

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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
NET SALES	\$1,518	\$1,447	\$4,294	\$4,053
COST OF SALES	1,144	1,107	3,232	3,196
Gross margin	374	340	1,062	857
OPERATING EXPENSES				
Marketing and administrative expenses	141	130	426	389
Science and technology expenses	20	18	60	53
Other expenses (income), net	6	(4)	13	5
Total operating expenses	167	144	499	447
EARNINGS BEFORE INTEREST AND TAXES	207	196	563	410
Interest expense, net	28	28	80	80
Loss (gain) on extinguishment of debt	1	—	1	(5)
EARNINGS BEFORE TAXES	178	168	482	335
Income tax expense	65	55	172	112
Equity in net earnings of affiliates	—	—	1	1
NET EARNINGS	113	113	311	224
Net earnings attributable to noncontrolling interests	1	1	4	3
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$112	\$112	\$307	\$221
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO OWENS CORNING COMMON STOCKHOLDERS				
Basic	\$0.98	\$0.96	\$2.67	\$1.88
Diluted	\$0.97	\$0.95	\$2.65	\$1.87
Dividend	\$0.18	\$0.17	\$0.54	\$0.51
WEIGHTED AVERAGE COMMON SHARES				
Basic	114.1	117.2	114.9	117.5
Diluted	115.4	118.3	116.0	118.4

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

Table of Contents

- 4 -

OWENS CORNING AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
 (unaudited)
 (in millions)

	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
NET EARNINGS	\$113	\$113	\$311	\$224
Currency translation adjustment (net of tax of \$2 and \$(2) for the three months ended September 30, 2016 and 2015, respectively, and \$3 and \$(4) for the nine months ended September 30, 2016 and 2015, respectively)	(2)	(38)	19	(81)
Pension and other postretirement adjustment (net of tax of \$(1) and \$(1) for the three months ended September 30, 2016 and 2015, respectively, and \$2 and \$(4) for the nine months ended September 30, 2016 and 2015, respectively)	4	6	14	12
Deferred gain on hedging (net of tax of \$0 and \$1 for the three months ended September 30, 2016 and 2015, respectively, and \$(2) and \$(1) for the nine months ended September 30, 2016 and 2015, respectively)	1	(1)	5	2
COMPREHENSIVE EARNINGS	116	80	349	157
Comprehensive earnings attributable to noncontrolling interests	1	1	4	3
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$115	\$79	\$345	\$154

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

Table of Contents

- 5 -

OWENS CORNING AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions, except per share amounts)

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 110	\$ 96
Receivables, less allowances of \$10 at September 30, 2016 and \$8 at December 31, 2015	796	709
Inventories	729	644
Assets held for sale	13	12
Other current assets	54	47
Total current assets	1,702	1,508
Property, plant and equipment, net	3,090	2,956
Goodwill	1,338	1,167
Intangible assets, net	1,146	999
Deferred income taxes	369	492
Other non-current assets	231	222
TOTAL ASSETS	\$ 7,876	\$ 7,344
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 999	\$ 912
Short-term debt	1	6
Long-term debt – current portion	3	163
Total current liabilities	1,003	1,081
Long-term debt, net of current portion	2,160	1,702
Pension plan liability	321	397
Other employee benefits liability	237	240
Deferred income taxes	36	8
Other liabilities	182	137
Redeemable equity	2	—
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	3,973	3,965
Accumulated earnings	1,299	1,055
Accumulated other comprehensive deficit	(632)	(670)
Cost of common stock in treasury (c)	(748)	(612)
Total Owens Corning stockholders' equity	3,893	3,739
Noncontrolling interests	42	40
Total equity	3,935	3,779
TOTAL LIABILITIES AND EQUITY	\$ 7,876	\$ 7,344

(a) 10 shares authorized; none issued or outstanding at September 30, 2016 and December 31, 2015

(b) 400 shares authorized; 135.5 issued and 113.6 outstanding at September 30, 2016; 135.5 issued and 115.9 outstanding at December 31, 2015

Edgar Filing: Owens Corning - Form 10-Q

(c) 21.9 shares at September 30, 2016, and 19.6 shares at December 31,
2015

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

Table of Contents

- 6 -

OWENS CORNING AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in millions)

	Nine Months Ended September 30, 2016 2015	
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Net earnings	\$311	\$224
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	242	224
Gain on sale of fixed assets	—	(1)
Deferred income taxes	127	75
Provision for pension and other employee benefits liabilities	6	10
Stock-based compensation expense	25	22
Other non-cash	(7)	(6)
Loss/(gain) on extinguishment of debt	1	(5)
Changes in operating assets and liabilities	27	(76)
Pension fund contribution	(60)	(59)
Payments for other employee benefits liabilities	(14)	(16)
Other	21	18
Net cash flow provided by operating activities	679	410
NET CASH FLOW USED FOR INVESTING ACTIVITIES		
Cash paid for property, plant and equipment	(281)	(266)
Proceeds from the sale of assets or affiliates	—	3
Investment in subsidiaries and affiliates, net of cash acquired	(450)	—
Purchases of alloy	—	(8)
Proceeds from sale of alloy	—	8
Other	2	—
Net cash flow used for investing activities	(729)	(263)
NET CASH FLOW PROVIDED BY (USED FOR) FINANCING ACTIVITIES		
Proceeds from long-term debt	395	—
Proceeds from senior revolving credit and receivables securitization facilities	574	1,079
Proceeds from term loan borrowing	300	—
Payments on term loan borrowing	(300)	—
Payments on senior revolving credit and receivables securitization facilities	(514)	(1,082)
Payments on long-term debt	(160)	(8)
Net decrease in short-term debt	(5)	(10)
Cash dividends paid	(61)	(58)
Purchases of treasury stock	(176)	(86)
Other	10	18
Net cash flow provided by (used for) financing activities	63	(147)
Effect of exchange rate changes on cash	1	(5)
Net increase (decrease) in cash and cash equivalents	14	(5)
Cash and cash equivalents at beginning of period	96	67

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$110 \$62
--	------------

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

Table of Contents

- 7 -

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, normal recurring 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, 2015 balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States (U.S.). In connection with the Consolidated Financial Statements and Notes included in this report, reference is made to the Consolidated Financial Statements and Notes contained in the Company’s Form 10-K for the year ended December 31, 2015. Certain reclassifications have been made to the periods presented for 2015 to conform to the classifications used in the periods presented for 2016.

During the first quarter of 2016, the Company discovered an error in which certain Value Added Tax (“VAT”) balances were inappropriately reported gross versus net in the Consolidated and Condensed Consolidating (Non-Guarantor Subsidiaries) Balance Sheets. We revised the December 31, 2015 balance sheet in these financial statements to correctly report the related VAT balances as a net liability. As of December 31, 2015, this resulted in a decrease to the previously reported Other current assets of \$30 million, Other non-current assets of \$6 million and Accounts payable and accrued liabilities of \$36 million. As of December 31, 2014, this resulted in a decrease to the previously reported Other current assets of \$34 million, Other non-current assets of \$7 million and Accounts payable and accrued liabilities of \$41 million. These revisions were deemed immaterial to the current and prior periods and had no impact on the Consolidated and Condensed Consolidating Statements of Earnings or the Consolidated and Condensed Consolidating Statements of Cash Flows.

During the fourth quarter of 2015, the Company revised the Consolidated and Condensed Consolidating Statements of Cash Flows to correct an error for the presentation of non-cash capital expenditures which impacted the operating activities section and investing activities section. Please refer to Note 1 of the Notes to Consolidated Financial Statements in our Form 10-K for the year ended December 31, 2015 for additional information about this revision. The classification error impacted the unaudited Consolidated and Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2015. For the nine months ended September 30, 2015, the impact of this revision increased cash used for Cash paid for property, plant and equipment and decreased cash used for Changes in operating assets and liabilities by \$26 million. The effects of this revision did not impact the ending cash balance for any period and were not material to any previously issued financial statements.

2. SEGMENT INFORMATION

The Company has three reportable segments: Composites, Insulation and Roofing. Accounting policies for the segments are the same as those for the Company. The Company’s three reportable segments are defined as follows: Composites – The Composites segment is 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, non-wovens, veil and other specialized products.

Insulation – Within our 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

Edgar Filing: Owens Corning - Form 10-Q

glass fiber pipe insulation, energy efficient flexible duct media, bonded and granulated mineral wool insulation and foam insulation used in above- and below-grade construction applications.

Roofing – Within our Roofing business, the Company manufactures and sells residential roofing shingles and oxidized asphalt materials, roofing accessories used in residential and commercial construction and specialty applications, and synthetic packaging materials.

Table of Contents

- 8 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. SEGMENT INFORMATION (continued)

NET SALES

During the fourth quarter of 2015, the Company discovered an error between Net sales and Cost of sales due to incorrect eliminations in its Composites segment. Please refer to Note 1 of the Notes to Consolidated Financial Statements in our Form 10-K for the year ended December 31, 2015 for additional information about this revision. For the three and nine months ended September 30, 2015, the previously reported Net sales and Cost of sales were overstated by \$14 million and \$29 million, respectively. The effect of correcting these errors was not material to any previously issued financial statements and have been revised in the table below.

The following table summarizes our net sales by segment and geographic region (in millions). Corporate eliminations (shown below) largely reflect intercompany sales from Composites to Roofing. External customer sales are attributed to geographic region based upon the location from which the product is shipped to the external customer.

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Reportable Segments				
Composites	\$496	\$486	\$1,486	\$1,457
Insulation	476	502	1,275	1,332
Roofing	603	502	1,711	1,398
Total reportable segments	1,575	1,490	4,472	4,187
Corporate eliminations	(57)	(43)	(178)	(134)
NET SALES	\$1,518	\$1,447	\$4,294	\$4,053

External Customer Sales by Geographic Region

United States			\$1,068	\$1,020	\$3,010	\$2,810
Europe			136	128	422	393
Asia Pacific			174	178	493	492
Other			140	121	369	358
NET SALES			\$1,518	\$1,447	\$4,294	\$4,053

Table of Contents

- 9 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. SEGMENT INFORMATION (continued)

EARNINGS BEFORE INTEREST AND TAXES

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

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Reportable Segments				
Composites	\$61	\$61	\$199	\$188
Insulation	38	58	83	90
Roofing	146	103	388	213
Total reportable segments	245	222	670	491
Restructuring costs	(5)	(2)	(8)	(4)
Acquisition-related costs for InterWrap and Ahlstrom transactions	(4)	—	(8)	—
Recognition of InterWrap inventory fair value step-up	(2)	—	(10)	—
General corporate expense and other	(27)	(24)	(81)	(77)
EBIT	\$207	\$196	\$563	\$410

3. INVENTORIES

Inventories consist of the following (in millions):

	September 30, 2016	December 31, 2015
Finished goods	\$ 495	\$ 436
Materials and supplies	234	208
Total inventories	\$ 729	\$ 644

Table of Contents

- 10 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

4. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company generally does not require collateral or other security with counterparties to these financial instruments and is therefore subject to credit risk in the event of nonperformance; however, the Company monitors credit risk and currently does not anticipate nonperformance by other parties. Contracts with counterparties generally contain right of offset provisions. These provisions effectively reduce the Company's exposure to credit risk in situations where the Company has gain and loss positions outstanding with a single counterparty. It is the Company's policy to offset on the Consolidated Balance Sheets the amounts recognized for derivative instruments with any cash collateral arising from derivative instruments executed with the same counterparty under a master netting agreement. As of September 30, 2016, and December 31, 2015, 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.

Table of Contents

- 11 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Location	Fair Value at	
		September 30, 2016	December 31, 2015
Derivative assets designated as hedging instruments:			
Net investment hedges			
Cross currency swaps	Other current assets	\$ 4	\$ 4
Cross currency swaps	Other non-current assets	\$ —	\$ 6
Amount of gain recognized in OCI (effective portion)	OCI	\$ 5	\$ 14
Fair value hedges			
Interest rate swaps	Other non-current assets	\$ —	\$ 4
Cash flow hedges:			
Natural gas forward swaps			
Amount of gain recognized in OCI (effective portion)	Other current assets	\$ 2	\$ —
	OCI	\$ 1	\$ —
Derivative liabilities designated as hedging instruments:			
Net investment hedges			
Cross currency swaps	Other liabilities	\$ 4	\$ —
Cash flow hedges:			
Natural gas forward swaps			
Amount of loss recognized in OCI related to natural gas forward swaps (effective portion)	Accounts payable and accrued liabilities	\$ —	\$ 5
	OCI	\$ —	\$ 5
Amount of loss recognized in OCI related to foreign exchange contracts (effective portion)	OCI	\$ —	\$ 1
Amount of loss recognized in OCI related to treasury interest rate lock	OCI	\$ 1	\$ —
Derivative assets not designated as hedging instruments:			
Foreign exchange contracts	Other current assets	\$ 1	\$ —
Derivative liabilities not designated as hedging instruments:			
Natural gas forward swaps			
	Accounts payable and accrued liabilities	\$ —	\$ 1
Foreign exchange contracts	Accounts payable and accrued liabilities	\$ 1	\$ —

Table of Contents

- 12 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table presents the notional amount of derivatives and hedging instruments on the Consolidated Balance Sheet (in millions):

	Unit of Measure	Notional Amount September 30, 2016
Net investment hedges		
Cross currency swaps	U.S. Dollars	\$ 250
Cash flow hedges:		
Natural gas forward swaps U.S. indices	MMBtu	7
Natural gas forward swaps European indices	MMBtu (equivalent)	1

The Company had notional amounts for derivative hedging instruments related to non-designated foreign currency exposure in U.S. Dollars primarily related to Brazilian Real, Chinese Yuan, Indian Rupee, and South Korean Won for \$98 million. In addition, the Company had notional amounts for derivative hedging instruments related to non-designated foreign currency exposure in European Euro primarily related to British Pounds, Russian Rubles, and U.S. Dollars for \$38 million.

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

	Location	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Derivative activity designated as hedging instruments:			
Natural gas and electricity:			
Amount of loss reclassified from OCI into earnings (effective portion)	Cost of sales	\$ 1	\$ 2
Foreign Currency		\$ 7	\$ 8
Amount of loss reclassified from OCI into earnings (effective portion)			
Interest rate swaps:	Other expenses (income), net	\$ —	\$ —
Amount of loss recognized in earnings	Interest expense, net	\$ 1	\$ —
Derivative activity not designated as hedging instruments:			
Natural gas and electricity:			
Amount of (gain) recognized in earnings	Other expenses (income), net	\$ (1)	\$ —
Foreign currency exchange contract:			
Amount of (gain)/loss recognized in earnings (a)	Other expenses (income), net	\$ (1)	\$ (3)
		\$ 5	\$ (3)

Edgar Filing: Owens Corning - Form 10-Q

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

Table of Contents

- 13 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash Flow Hedges

The Company uses forward and swap contracts, which qualify as cash flow hedges, to manage forecasted exposure to natural gas and electricity prices. The effective portion of the change in the fair value of cash flow hedges is deferred in accumulated OCI and is subsequently recognized in Cost of Sales on the Consolidated Statements of Earnings for commodity hedges, when the hedged item impacts earnings. Changes in the fair value of derivative assets and liabilities designated as hedging instruments are shown in Other within operating activities on the Consolidated Statements of Cash Flows. Any portion of the change in fair value of derivatives designated as hedging instruments that is determined to be ineffective is recorded in Other expenses (income), net 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 for natural gas exposures is to hedge up to 75% of its total forecasted exposures for the next two months, up to 60% of its total forecasted exposures for the following four months, and lesser amounts for the remaining periods. The Company's policy for electricity exposures is to hedge up to 75% of its total forecasted exposures for the current calendar year and up to 65% of its total forecasted exposures for the first calendar year forward. Based on market conditions, approved variation from the standard policy may occur. The Company performs an analysis for effectiveness of its derivatives designated as hedging instruments at the end of each quarter based on the terms of the contract and the underlying item being hedged.

In June 2016, the Company entered into a \$200 million forward U.S. Treasury rate lock agreement to manage the U.S. Treasury portion of its interest rate risk associated with the anticipated issuance of 10-year fixed rate senior notes in 2016. The locked fixed rate of this agreement was 1.633%. In July 2016, the Company entered into a similar forward U.S. Treasury rate lock agreement for \$100 million at a locked fixed rate of 1.490%. The Company designated these outstanding forward U.S. Treasury rate lock agreements, which would have expired on September 15, 2016, as cash flow hedges. The Company paid \$1 million to settle these agreements in August 2016 upon issuance of its 2026 senior notes, effectively locking in the U.S. Treasury fixed interest rate in effect at the time the agreements were initiated. The \$1 million fair value of these agreements will be amortized over the remaining life of the senior notes as a component of interest expense. Hedge ineffectiveness for these agreements was less than \$1 million. Please refer to Note 10 of the Consolidated Financial Statements for further information on the issuance of the 2026 senior notes. As of September 30, 2016, \$1 million of gains included in accumulated OCI on the Consolidated Balance Sheets relate to natural gas contracts that are expected to 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

In the first quarter of 2016, the Company terminated the interest rate swaps designated to hedge a portion of its 4.20% senior notes due 2022 and received net settlement proceeds totaling \$8 million. The swaps were carried at fair value and recorded as other assets or liabilities, with the offset to long-term debt on the Consolidated Balance Sheets. Changes in the fair value of these swaps and that of the related debt were recorded in Interest expense, net on the Consolidated Statements of Earnings. These proceeds were classified as cash provided by operating activities in the Consolidated Statements of Cash Flows. The \$8 million fair value adjustment to debt will be amortized through 2022 as a reduction to interest expense in conjunction with the maturity date of the Company's 4.20% senior notes due 2022.

Net Investment Hedges

Edgar Filing: Owens Corning - Form 10-Q

The Company uses cross currency forward contracts to hedge a portion of the net investment in foreign subsidiaries against fluctuations in foreign exchange rates. For derivative instruments that are designated and qualify as hedges of net investments in foreign operations, settlements and changes in fair values of the derivative instruments are recognized in Currency translation adjustment, a component of Accumulated OCI, to offset the changes in the values of the net investments being hedged. Any portion of net investment hedges that is determined to be ineffective is recorded in Other expenses (income), net on the Consolidated Statements of Earnings.

Table of Contents

- 14 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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 expenses (income), net on the Consolidated Statements of Earnings.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

September 30, 2016	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	22	\$ 253	\$ (91)	\$ 162
Technology	19	216	(100)	116
Franchise and other agreements	9	46	(23)	23
Indefinite-lived intangible assets:				
Trademarks		845	—	845
Total intangible assets		\$ 1,360	\$ (214)	\$ 1,146
Goodwill		\$ 1,338		

December 31, 2015	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	18	\$ 172	\$ (82)	\$ 90
Technology	21	193	(93)	100
Franchise and other agreements	10	43	(20)	23
Indefinite-lived intangible assets:				
Trademarks		786	—	786
Total intangible assets		\$ 1,194	\$ (195)	\$ 999
Goodwill		\$ 1,167		

Other Intangible Assets

The Company expects the ongoing amortization expense for amortizable intangible assets to be approximately \$27 million in each of the next five fiscal years. The changes in the gross carrying amount of intangible assets by asset group are as follows (in millions):

	Customer Relationships	Technology	Franchise and Other Agreements	Trademarks	Total
Balance at December 31, 2015	\$ 172	\$ 193	\$ 43	\$ 786	\$ 1,194
Acquisitions (see Note 7)	81	23	—	59	163
Additional Franchises and Agreements	—	—	3	—	3
Balance at September 30, 2016	\$ 253	\$ 216	\$ 46	\$ 845	\$ 1,360

Table of Contents

- 15 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

5. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Goodwill

During the first nine months of 2016, goodwill increased by \$171 million as a result of the acquisition of InterWrap Holdings, Inc. ("InterWrap"); see Note 7 for more details of this acquisition. The Company tests goodwill and indefinite-lived intangible assets for impairment during the fourth quarter of each year, or more frequently should circumstances change or events occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount. No testing was deemed necessary in the first nine months of 2016. The changes in the net carrying amount of goodwill by segment are as follows (in millions):

	Composites	Insulation	Roofing	Total
Balance at December 31, 2015	\$ 56	\$ 888	\$ 223	\$1,167
Acquisitions (see Note 7)	—	—	171	171
Balance at September 30, 2016	\$ 56	\$ 888	\$ 394	\$1,338

6. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2016	December 31, 2015
Land	\$ 192	\$ 186
Buildings and leasehold improvements	872	788
Machinery and equipment	3,739	3,478
Construction in progress	265	359
	5,068	4,811
Accumulated depreciation	(1,978	) (1,855
Property, plant and equipment, net	\$ 3,090	\$ 2,956

Machinery and equipment includes certain precious metals used in our production tooling, which comprise approximately 14% and 15% of total machinery and equipment as of September 30, 2016 and December 31, 2015, 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.

Table of Contents

- 16 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

7. ACQUISITIONS

On April 21, 2016, the Company acquired all outstanding shares of InterWrap, a leading manufacturer of roofing underlayment and packaging materials, for approximately \$450 million, net of cash acquired. This acquisition expands the Company's position in roofing components, strengthens the Company's capabilities to support the conversion from organic to synthetic underlayment and accelerates its growth in the roofing components market. Interwrap's operating results and a preliminary purchase price allocation have been included in the Roofing segment of the Company's Consolidated Financial Statements since the date of the acquisition. The Company is continuing to obtain information to complete its valuation of certain assets and liabilities including intangible assets and tax assets. During the quarter ended September 30, 2016, the Company recorded certain immaterial measurement period adjustments to the purchase price allocation, in addition to correcting a \$9 million classification error on the Consolidated Balance Sheet that reduced both Goodwill and Accounts payable and accrued liabilities. The effect of this error was not material to any previously issued financial statements. Both of these adjustments are reflected in the value of goodwill noted below.

The Company's acquisition of InterWrap included intangible assets preliminarily valued at \$163 million. These assets consist of indefinite-lived trademarks of \$59 million, customer relationships of \$81 million with an estimated weighted average life of 25 years, and technology, including patented technology, of \$23 million with an estimated weighted average useful life of 14 years. Goodwill is preliminarily valued at approximately \$171 million with \$20 million expected to be tax-deductible. The factors contributing to the recognition of the amount of goodwill are based on several strategic and synergistic benefits that are expected to be realized from the InterWrap acquisition and will support continued market growth through conversion from organic to synthetic underlayment, as well as provide growth opportunities in lumber and metal packaging. Please refer to Note 5 for further information on these intangible assets. The acquisition also included inventory valued at \$72 million. During the the first nine months of 2016, the Consolidated Statements of Earnings included \$121 million in Net sales attributable to the acquisition and a \$10 million charge related to inventory fair value step-up in Cost of sales. The pro forma effect of this acquisition on earnings and revenue was not material.

On July 26, 2016, the Company and Ahlstrom agreed to terminate the previously announced purchase agreement of the non-wovens and fabrics business of Ahlstrom due to challenges associated with obtaining regulatory clearance in Germany. In connection with the termination of the purchase agreement, the Company paid Ahlstrom a termination fee of approximately \$3 million. The expense was included within Other expenses (income), net in the Consolidated Statements of Earnings in the third quarter of 2016.

8. 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 September 30, 2016
Beginning balance	\$ 43
Amounts accrued for current year	17
Settlements of warranty claims	(10)
Ending balance	\$ 50

Table of Contents

- 17 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

9. RESTRUCTURING AND ACQUISITION-RELATED COSTS

The Company may incur restructuring, transaction and integration costs related to acquisitions, and may incur restructuring costs in connection with its global cost reduction and productivity initiatives.

Acquisition-Related Costs

During the first nine months of 2016, the Company incurred \$8 million of transaction and integration costs related to its announced acquisitions, including a \$3 million termination fee paid in the third quarter of 2016 to terminate the Ahlstrom purchase agreement. Please refer to Note 7 of the Consolidated Financial Statements for further information on these acquisitions. These costs are recorded in the Corporate, Other and Eliminations category. See Restructuring Costs section below for detail on additional costs related to the InterWrap acquisition. The following table presents the impact and respective location of acquisition-related costs for the first nine months of 2016 on the Consolidated Statements of Earnings (in millions):

Location	Ahlstrom Acquisition	InterWrap Acquisition	Total
Marketing and administrative expenses	\$ 1	\$ 4	\$ 5
Other expenses (income), net	3	—	3
Total acquisition-related costs	\$ 4	\$ 4	\$ 8

Restructuring Costs

2014 Cost Reduction Actions

During 2014, the Company took actions to reduce costs throughout its global Composites network, mainly through the decision to close a facility in Japan and optimize a facility in Canada, in addition to other cost reduction actions. The Company also took actions in 2014 to streamline its management structure and reduce costs, resulting in the elimination of the Building Materials Group organizational structure. In the first nine months of 2016, the Company incurred \$6 million of charges for this restructuring, comprised of facility optimization costs, revision of estimated severance costs and a pension-related charge.

InterWrap Acquisition-Related Restructuring Costs

Following the acquisition of InterWrap into the Company's Roofing segment, the Company took actions to realize expected synergies from the newly acquired operations. In the first nine months of 2016, the Company incurred \$2 million of accelerated depreciation charges for this restructuring.

The following table summarizes the status of the unpaid liabilities from the Company's restructuring activity (in millions):

	InterWrap Acquisition-Related Restructuring	2014 Cost Reduction Actions	Total
Balance at December 31, 2015	\$ —	\$ 7	\$ 7
Restructuring costs	2	6	8
Payments	—	(7)	(7)
Non-cash items and reclassifications to other accounts	(2)	(2)	(4)

Edgar Filing: Owens Corning - Form 10-Q

Balance at September 30, 2016	\$	—	\$ 4	\$4
Cumulative charges incurred	\$	2	\$ 44	\$46

The Company expects the unpaid balance of these restructuring costs to be paid over the next year. As of September 30, 2016, the remaining liability balance is comprised of \$3 million of severance and \$1 million of contract termination.

Table of Contents

- 18 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

10. DEBT

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

	September	December
	30, 2016	31, 2015
6.50% senior notes, net of discount and financing fees, due 2016	\$ —	\$ 158
9.00% senior notes, net of discount and financing fees, due 2019	143	143
4.20% senior notes, net of discount and financing fees, due 2022	596	596
4.20% senior notes, net of discount and financing fees, due 2024	391	390
3.40% senior notes, net of discount and financing fees, due 2026	395	—
7.00% senior notes, net of discount and financing fees, due 2036	536	536
Accounts receivable securitization facility, maturing in 2018	60	—
Various capital leases, due through and beyond 2050	34	36
Fair value adjustment to debt	8	6
Total long-term debt	2,163	1,865
Less – current portion	3	163
Long-term debt, net of current portion	\$ 2,160	\$ 1,702

Senior Notes

The Company issued \$400 million of 2026 senior notes on August 8, 2016 subject to \$5 million of discounts and issuance costs. Interest on the notes is payable semiannually in arrears on February 15 and August 15 each year, beginning on February 15, 2017. A portion of the proceeds from these notes were used to redeem \$158 million of our 2016 senior notes, together with a \$2 million make whole call payment and \$3 million of accrued interest. In connection with the redemption, the Company recognized a \$1 million loss on extinguishment of debt, inclusive of the remaining unamortized financing fees, discount, and interest rate swap fair value adjustment. The remaining proceeds were used to pay down portions of our Receivables Securitization Facility and for general corporate purposes.

The Company issued \$400 million of 2024 senior notes on November 12, 2014. Interest on the notes is payable semiannually in arrears on June 1 and December 1 each year, beginning on June 1, 2015. A portion of the proceeds from these notes were used to repay \$242 million of our 2016 senior notes and \$105 million of our 2019 senior notes. The remaining proceeds were used to pay down our Senior Revolving Credit Facility (as defined below), finance general working capital needs, and for general corporate purposes.

The Company issued \$600 million of 2022 senior notes on October 17, 2012. Interest on the notes is payable semiannually in arrears on June 15 and December 15 each year, beginning on June 15, 2013. The proceeds of these notes were used to refinance \$250 million of our 2016 senior notes and \$100 million of our 2019 senior notes and pay down our Senior Revolving Credit Facility.

The Company issued \$350 million of 2019 senior notes on June 3, 2009. On October 31, 2006, the Company issued \$650 million of 2016 senior notes and \$540 million of 2036 senior notes. The proceeds of these notes were used to pay certain unsecured and administrative claims, finance general working capital needs and for general corporate purposes.

As of December 31, 2015, the \$158 million in outstanding principal related to our 2016 senior notes was recorded in Long-term debt - current portion on the Consolidated Balance Sheets, along with \$2 million net in associated unamortized financing fees, discount, and interest rate swap basis adjustment. These senior notes were fully repaid in third quarter of 2016 in connection with the issuance of our 2026 senior notes.

Collectively, the senior notes above are referred to as the "Senior Notes." The Senior Notes are general unsecured obligations of the Company and rank pari passu with all existing and future senior unsecured indebtedness of the

Company.

The Senior Notes are fully and unconditionally guaranteed by certain of the Company's current and future domestic subsidiaries that are a borrower or guarantor under the Company's credit agreement ("Credit Agreement"). The guarantees are unsecured

Table of Contents

- 19 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

10. DEBT (continued)

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, 2016.

In the fourth quarter of 2011, the Company terminated the interest rate swaps designated to hedge a portion of the 6.50% senior notes due 2016. The swaps were carried at fair value and recorded as other assets or liabilities, with a fair value adjustment to long-term debt on the Consolidated Balance Sheets. The fair value adjustment to debt was fully amortized in the third quarter of 2016 as a reduction to interest expense in conjunction with the extinguishment of the 2016 senior notes in the same quarter.

In the first quarter of 2016, the Company terminated the existing interest rate swaps designated to hedge a portion of the 4.20% senior notes due 2022 and received net settlement proceeds totaling \$8 million. The swaps were carried at fair value and recorded as other assets or liabilities, with a fair value adjustment to long-term debt on the Consolidated Balance Sheets. The proceeds are classified as cash provided by operating activities in the Consolidated Statements of Cash Flows. The \$8 million fair value adjustment to debt will be amortized through 2022 as a reduction to interest expense in conjunction with the maturity date of the 2022 senior notes.

Senior Revolving Credit Facility

The Company has an \$800 million multi-currency senior revolving credit facility that has been amended from time to time (the "Senior Revolving Credit Facility") with a maturity date in November 2020 and uncommitted incremental loans permitted under the facility of \$600 million. The Company obtained commitments for \$300 million of the \$600 million of permitted incremental term loans in March 2016. As discussed further below, the Company subsequently borrowed \$300 million on this commitment in April 2016 and fully repaid the \$300 million of borrowings in September 2016. The Company may obtain new commitments for incremental term loans up to \$600 million as permitted under the facility. No subsequent amendments had an impact on current liquidity terms. The Company removed certain subsidiaries from the list of named guarantors in May 2016. As of September 30, 2016, the Company added additional subsidiaries to the list of named guarantors. The Senior Revolving Credit Facility includes both borrowings and letters of credit. Borrowings under the Senior Revolving Credit Facility may be used for general corporate purposes and working capital. The Company has the discretion to borrow under multiple options, which provide for varying terms and interest rates including the United States prime rate or LIBOR plus a spread.

The Senior Revolving Credit Facility contains various covenants, including a maximum allowed leverage ratio and a minimum required interest expense coverage ratio, that the Company believes are usual and customary for a senior unsecured credit agreement. The Company was in compliance with these covenants as of September 30, 2016.

As of September 30, 2016, the Company had no borrowings on its Senior Revolving Credit Facility, \$9 million of outstanding letters of credit, and \$791 million available on this facility.

Term Loan

During the first quarter of 2016, the Company obtained a Term Loan commitment for \$300 million (the "Term Loan"), as allowed under its existing Senior Revolving Credit Facility. The Term Loan was a partially amortizing loan that required quarterly principal repayments, with a balloon repayment due in November 2020 for any outstanding borrowings. The Term Loan contains various covenants, including a maximum allowed leverage ratio and a minimum required interest expense coverage ratio, that the Company believes are usual and customary for a senior unsecured credit agreement. The Company was in compliance with these covenants during the third quarter of 2016.

Edgar Filing: Owens Corning - Form 10-Q

On April 20, 2016, the Company borrowed the \$300 million available on the Term Loan at LIBOR plus a spread. These borrowings were used, in addition to borrowings on the Receivables Securitization Facility, to fund the acquisition of InterWrap. Please see Note 7 of the Notes to Consolidated Financial Statements for more information on this acquisition. In the third quarter of 2016, the Company repaid all outstanding borrowings on this Term Loan.

Table of Contents

- 20 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

10. DEBT (continued)

Receivables Securitization Facility

Included in long-term debt on the Consolidated Balance Sheets are amounts outstanding under a Receivables Purchase Agreement (the "RPA") that are accounted for as secured borrowings in accordance with Accounting Standards Codification ("ASC") 860, Accounting for Transfers and Servicing. Owens Corning Sales, LLC and Owens Corning Receivables LLC, each a subsidiary of the Company, have a \$250 million RPA with certain financial institutions. The securitization facility (the "Receivables Securitization Facility") matures in January 2018. The Company has the ability to borrow at the lenders' cost of funds, which approximates A-1/P-1 commercial paper rates, plus a fixed spread.

As of September 30, 2016, the Company utilized the Receivables Securitization Facility for \$60 million in borrowings and \$2 million of outstanding letters of credit, and had \$188 million available on this facility.

The Receivables Securitization Facility contains various covenants, including a maximum allowed leverage ratio and a minimum required interest expense coverage ratio that the Company believes are usual and customary for a securitization facility. The Company was in compliance with these covenants as of September 30, 2016.

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

Short-Term Debt

At September 30, 2016 and December 31, 2015, short-term borrowings were \$1 million and \$6 million, respectively. The short-term borrowings 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 6.1% for September 30, 2016 and 4.5% for December 31, 2015.

11. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Pension Plans

The Company sponsors defined benefit pension plans. Under the plans, pension benefits are based on an employee's years of service and, for certain categories of employees, qualifying compensation. Company contributions to these pension plans are determined by an independent actuary to meet or exceed minimum funding requirements. In our non-U.S. plans, the unrecognized cost of any retroactive amendments and actuarial gains and losses are amortized over the average future service period of plan participants expected to receive benefits. In our U.S. plans, the unrecognized cost of any retroactive amendments and actuarial gains and losses are amortized over the average remaining life expectancy of the inactive participants as substantially all of the plan participants are inactive. During the second quarter of 2016, the Company recorded a \$6 million pension curtailment gain related to 2015. This benefit was recorded in Cost of sales on the Consolidated Statements of Earnings and reduced General corporate expense and other in our Corporate, Other and Eliminations category. The effect of this error was not material to the current or any previously issued financial statements.

Table of Contents

- 21 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

11. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (continued)

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

	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015		
	U.S.	Non-U.S.	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost					
Service cost	\$2	\$ —	\$ 2	\$ 1	\$ 3
Interest cost	11	4	15	3	14
Expected return on plan assets	(14)	(5)	(19)	(5)	(20)
Amortization of actuarial loss	3	—	3	4	5
Settlement gain	—	—	—	(1)	(1)
Curtailement gain	—	—	—	(1)	(1)
Net periodic pension cost	\$2	\$ (1)	\$ 1	\$ (2)	\$ —

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015		
	U.S.	Non-U.S.	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost					
Service cost	\$5	\$ 2	\$ 7	\$ 3	\$ 9
Interest cost	33	13	46	13	46
Expected return on plan assets	(43)	(17)	(60)	(18)	(62)
Amortization of actuarial loss	10	2	12	3	14
Curtailement gain	—	(6)	(6)	(1)	(1)
Settlement Gain	—	—	—	(2)	(2)
Contractual termination benefit	—	2	2	—	—
Net periodic pension cost	\$5	\$ (4)	\$ 1	\$ (2)	\$ 4

The Company expects to contribute approximately \$50 million in cash to the U.S. pension plans and another \$13 million to non-U.S. plans during 2016. The Company made cash contributions of \$60 million to the plans during the nine months ended September 30, 2016.

Table of Contents

- 22 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

11. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (continued)

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.

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

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Components of Net Periodic Benefit Cost				
Service cost	\$ —	\$ 1	\$ 1	\$ 2
Interest cost	3	3	7	7
Amortization of prior service cost	(1)	(1)	(3)	(3)
Net periodic benefit cost	\$ 2	\$ 3	\$ 5	\$ 6

12. CONTINGENT LIABILITIES AND OTHER MATTERS

The Company may be involved in various legal and regulatory proceedings relating to employment, antitrust, tax, product liability, environmental and other matters (collectively, "Proceedings"). The Company regularly reviews the status of such Proceedings along with legal counsel. Liabilities for such Proceedings are recorded when it is probable that the liability has been incurred and when the amount of the liability can be reasonably estimated. Liabilities are adjusted when additional information becomes available. Management believes that the amount of any reasonably possible losses in excess of any amounts accrued, if any, with respect to such Proceedings or any other known claim, including the matters described below under the caption Environmental Matters (the "Environmental Matters") are not material to the Company's financial statements. Management believes that the ultimate disposition of the Proceedings and the Environmental Matters will not have a material adverse effect on the Company's financial condition. While the likelihood is remote, the disposition of the Proceedings and Environmental Matters could have a material impact on the results of operations, cash flows or liquidity in any given reporting period.

Litigation and Regulatory Proceedings

The Company is involved in litigation and regulatory Proceedings from time to time in the regular course of its business. The Company believes that adequate provisions for resolution of all contingencies, claims and pending matters have been made for probable losses that are reasonably estimable.

Environmental Matters

The Company has established policies and procedures designed to ensure that its operations are conducted in compliance with all relevant laws and regulations and that enable the Company to meet its high standards for

corporate sustainability and environmental stewardship. Our manufacturing facilities are subject to numerous foreign, federal, state and local laws and regulations relating to the presence of hazardous materials, pollution and protection of the environment, including emissions to air, discharges to water, management of hazardous materials, handling and disposal of solid wastes, and remediation of contaminated sites. All Company manufacturing facilities operate using an ISO 14001 or equivalent environmental management system. The Company's 2020 Sustainability Goals require significant global reductions in energy use, water consumption, waste to landfill, and emissions of greenhouse gases, fine particulate matter and toxic air emissions.

Table of Contents

- 23 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

12. CONTINGENT LIABILITIES AND OTHER MATTERS (continued)

Owens Corning is involved in remedial response activities and is responsible for environmental remediation at a number of sites, including certain of its currently owned or formerly owned plants. These responsibilities arise under a number of laws, including, but not limited to, the Federal Resource Conservation and Recovery Act ("RCRA"), and similar state or local laws pertaining to the management and remediation of hazardous materials and petroleum. The Company has also been named a potentially responsible party under the U.S. Federal Superfund law, or state equivalents, at a number of disposal sites. The Company became involved in these sites as a result of government action or in connection with business acquisitions. As of September 30, 2016, the Company was involved with a total of 19 sites worldwide, including 7 Superfund sites and 12 owned or formerly owned sites. None of the liabilities for these sites are individually significant to the Company.

Remediation activities generally involve a potential range of activities and costs related to soil and groundwater contamination. This can include pre-cleanup activities such as fact finding and investigation, risk assessment, feasibility studies, remedial action design and implementation (where actions may range from monitoring to removal of contaminants, to installation of longer-term remediation systems). A number of factors affect the cost of environmental remediation, including the number of parties involved in a particular site, the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations, variability in clean-up standards, the need for legal action, and changes in remediation technology. Taking these factors into account, Owens Corning has predicted the costs of remediation reasonably estimated to be paid over a period of years. The Company accrues an amount on an undiscounted basis, consistent with the reasonable estimates of these costs when it is probable that a liability has been incurred. Actual cost may differ from these estimates for the reasons mentioned above. At September 30, 2016, the Company had an accrual totaling \$2 million, for these costs. Changes in required remediation procedures or timing of those procedures, or discovery of contamination at additional sites, could result in material increases to the Company's environmental obligations.

Table of Contents

- 24 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

13. STOCK COMPENSATION

Stock Plans

2016 Stock Plan

On April 21, 2016, the Company's stockholders approved the Owens Corning 2016 Stock Plan (the "2016 Stock Plan") which replaced the Owens Corning 2013 Stock Plan (the "2013 Stock Plan"). The 2016 Stock Plan authorizes grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units, bonus stock awards and performance stock awards. Under the 2016 Stock Plan, 2.5 million shares of common stock may be granted in addition to the 1.4 million shares of Company common stock that rolled over from the 2013 Stock Plan as of April 21, 2016. Such shares of common stock include shares that were available but not granted, or which were granted but were not issued or delivered due to expiration, termination, cancellation or forfeiture of such awards. There will be no future grants made under the 2013 Stock Plan. At September 30, 2016, the number of shares remaining available under the 2016 Stock Plan for all stock awards was 3.9 million.

Stock Options

The Company did not grant any stock options during the nine months ended September 30, 2016. 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.

During the three and nine months ended September 30, 2016, the Company recognized expense of less than \$1 million and \$2 million, respectively, related to the Company's stock options. During the three and nine months ended September 30, 2015 the Company recognized expense of \$1 million and \$3 million respectively, related to the Company's stock options. As of September 30, 2016, there was \$2 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 1.24 years. The total aggregate intrinsic value of options outstanding as of September 30, 2016 was \$29 million.

The following table summarizes the Company's stock option activity:

	Nine Months Ended September 30, 2016	
	Number of Options	Weighted- Average Exercise Price
Beginning Balance	1,953,320	\$ 31.09
Exercised	(660,270)	31.08
Forfeited	(11,350)	38.50
Ending Balance	1,281,700	\$ 31.03

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

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

Edgar Filing: Owens Corning - Form 10-Q

	Contractual Life Price	at	Contractual Life Price	
		September		
		30, 2016		
\$13.89-\$42.16	1,281,7004.63	\$ 31.03	1,080,7254.18	\$ 29.56

Table of Contents

- 25 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

13. STOCK COMPENSATION (continued)

Restricted Stock Awards and Restricted Stock Units

The Company has granted restricted stock awards and restricted stock units (collectively referred to as “restricted stock”) as a part of its long-term incentive plan. Compensation expense for restricted stock is measured based on the market price of the stock at date of grant and is recognized on a straight-line basis over the four-year vesting period. Stock restrictions are subject to alternate vesting plans for death, disability, approved early retirement and involuntary termination, over various periods ending in 2020.

During the three and nine months ended September 30, 2016, the Company recognized expense of \$5 million and \$14 million related to the Company's restricted stock. During the three and nine months ended September 30, 2015, the Company recognized expense of \$5 million and \$13 million, respectively, related to the Company's restricted stock. As of September 30, 2016, there was \$33 million of total unrecognized compensation cost related to restricted stock. That cost is expected to be recognized over a weighted-average period of 2.69 years. The total fair value of shares vested during the nine months ended September 30, 2016 and 2015 was \$15 million and \$17 million, respectively. The following table summarizes the Company's restricted stock activity:

	Nine Months Ended September 30, 2016	
	Number of Shares	Weighted-Average Grant Date Fair Value
Beginning Balance	1,707,490	\$ 35.37
Granted	526,345	45.41
Vested	(388,892)	) 37.60
Forfeited	(45,134)	) 39.70
Ending Balance	1,799,809	\$ 37.66

Performance Stock Awards and Performance Stock Units

The Company has granted performance stock awards and performance stock units (collectively referred to as “PSUs”) as a part of its long-term incentive plan. All outstanding performance grants will fully settle in stock. The amount of stock ultimately distributed from all performance shares issued after the 2014 grants is contingent on meeting internal company-based metrics or an external-based stock performance metric. The amount of stock ultimately distributed from the 2014 grant is contingent on meeting an external based stock performance metric.

In the nine months ended September 30, 2016, the Company granted both internal company-based and external-based metric PSUs.

Internal based metrics

The internal company-based metrics vest after a three-year period and are based on various Company metrics. The amount of stock distributed will vary from 0% to 300% of PSUs awarded depending on performance versus the internal Company-based metrics.

The initial fair value for all internal Company-based metric PSUs assumes that the performance goals will be achieved and is based on the grant date stock price. This assumption is monitored quarterly and if it becomes probable that such goals will not be achieved or will be exceeded, compensation expense recognized will be adjusted and previous surplus compensation expense recognized will be reversed or additional expense will be recognized. The expected term represents the period from the grant date to the end of the three-year performance period. Pro-rata vesting may be utilized in the case of death, disability or approved retirement and awards if earned will be paid at the end of the three-year period.

External-based metrics

Edgar Filing: Owens Corning - Form 10-Q

The external-based metrics vest after a three-year period. Outstanding grants issued in 2015 and thereafter are based on the Company's total stockholder return relative to the performance of the S&P Building & Construction Industry Index. Outstanding

Table of Contents

- 26 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

13. STOCK COMPENSATION (continued)

grants issued prior to 2015 are based on the Company's total stockholder return relative to the performance of the companies in the S&P 500 Index. The amount of stock distributed will vary from 0% to 200% of PSUs awarded depending on the relative stockholder return performance.

The Company estimated the fair value of the external-based metric performance stock grants using a Monte Carlo simulation. The external-based metric performance stock granted in 2016 uses various assumptions that include expected volatility of 26.6%, and a risk free interest rate of 0.8% , both of which were based on an expected term of 2.91 years. Expected volatility was based on a benchmark study of our peers. The risk-free interest rate was based on zero coupon U.S. Treasury bills at the time of grant. The expected term represents the period from the grant date to the end of the three-year performance period. Compensation expense for external-based metric PSUs is measured based on the grant date fair value and is recognized on a straight-line basis over the vesting period. Pro-rata vesting may be utilized in the case of death, disability or approved retirement, and awards if earned will be paid at the end of the three-year period.

During the three and nine months ended September 30, 2016, the Company recognized expense of \$2 million and \$7 million, respectively, related to PSUs. During the three and nine months ended September 30, 2015, the Company recognized expense of \$2 million and \$5 million, respectively, related to the Company's PSUs. As of September 30, 2016, there was \$14 million of total unrecognized compensation cost related to PSUs. That cost is expected to be recognized over a weighted-average period of 1.87 years.

The following table summarizes the Company's PSU activity:

	Nine Months Ended September 30, 2016	
	Number of PSUs	Weighted-Average Grant-Date Fair Value
Beginning Balance	431,400	\$ 44.52
Granted	244,250	48.74
Forfeited	(14,500)	44.49
Ending Balance	661,150	\$ 46.08

Employee Stock Purchase Plan

On April 18, 2013, the Company's stockholders approved the Owens Corning Employee Stock Purchase Plan ("ESPP"). The ESPP is a tax-qualified plan under Section 423 of the Internal Revenue Code. The purchase price of shares purchased under the ESPP is equal to 85% of the lower of the fair market value of shares of Owens Corning common stock at the beginning or ending of the offering period, which is a six-month period ending on May 31 and November 30 of each year. At the approval date, 2 million shares were available for purchase under the ESPP. As of September 30, 2016, 1.4 million shares remain available for purchase.

During the three and nine months ended September 30, 2016, the Company recognized expense of \$1 million and \$2 million, respectively, related to the Company's ESPP. During the three and nine months ended September 30, 2015, the Company recognized expense of less than \$1 million, and \$1 million respectively, related to the Company's ESPP. As of September 30, 2016, there was \$1 million of total unrecognized compensation cost related to the ESPP.

Table of Contents

- 27 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

14. EARNINGS PER SHARE

The following table is a reconciliation of weighted-average shares for calculating basic and diluted earnings per-share (in millions, except per share amounts):

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net earnings attributable to Owens Corning	\$112	\$112	\$307	\$221
Weighted-average number of shares outstanding used for basic earnings per share	114.1	117.2	114.9	117.5
Non-vested restricted and performance shares	0.9	0.7	0.8	0.5
Options to purchase common stock	0.4	0.4	0.3	0.4
Weighted-average number of shares outstanding and common equivalent shares used for diluted earnings per share	115.4	118.3	116.0	118.4
Earnings per common share attributable to Owens Corning common stockholders:				
Basic	\$0.98	\$0.96	\$2.67	\$1.88
Diluted	\$0.97	\$0.95	\$2.65	\$1.87

In 2012, the Board approved a share buy-back authorization under which the Company could repurchase up to 10 million shares of the Company's outstanding common stock (the "2012 Repurchase Authorization"). The 2012 Repurchase authorization enabled the Company to repurchase shares through the open market, privately negotiated transactions or other transactions. The actual number of shares repurchased depends on timing, market conditions and other factors and is at the Company's discretion. The Company repurchased 3.4 million shares of its common stock for \$171 million during the nine months ended September 30, 2016 under the 2012 Repurchase authorization. As of September 30, 2016, 1.2 million shares remain available for repurchase under the 2012 Repurchase authorization. On October 24, 2016, the Board approved a new share buy-back authorization under which the Company is enabled to repurchase up to 10 million shares of the Company's outstanding common stock (the "2016 Repurchase Authorization"). The 2016 Repurchase Authorization is in addition to the share 2012 Repurchase Authorization, (the 2012 Repurchase Authorization and collectively with the 2016 Repurchase Authorization, the "Repurchase Authorization"). The Repurchase Authorization enables 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.

For the three and nine months ended September 30, 2016, the number of shares used in the calculation of diluted earnings per share did not include 0.1 million non-vested performance shares due to their anti-dilutive effect.

For the three months ended September 30, 2015, the number of shares used in the calculation of diluted earnings per share did not include 0.6 million of options to purchase common stock, due to their anti-dilutive effect. For the nine months ended September 30, 2015, the number of shares used in the calculation of diluted earnings per share did not include 0.1 million non-vested restricted stock and PSU's, and 0.6 million of options to purchase common stock, due to their anti-dilutive effect.

15. FAIR VALUE MEASUREMENT

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.

Table of Contents

- 28 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

15. FAIR VALUE MEASUREMENT (continued)

Items Measured at Fair Value

The carrying value of cash and cash equivalents, accounts receivable and short-term debt approximate fair value because of the short-term maturity of the instruments.

Derivatives

The Company executes financial derivative contracts for the purpose of mitigating risk exposure that is generated from our normal operations. These derivatives consist of natural gas swaps, interest rate swaps, cross currency swaps, and foreign exchange forward contracts, all of which are over-the-counter and not traded through an exchange. The Company uses widely accepted valuation tools to determine fair value, such as discounting cash flows to calculate a present value for the derivatives. The models use Level 2 inputs, such as forward curves and other commonly quoted observable transactions and prices.

The following table summarizes the fair values and levels within the fair value hierarchy in which the fair value measurements fall as of September 30, 2016 (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	\$ 7	\$	—\$ 7	\$ —
Liabilities:				
Derivative liabilities	\$ 5	\$	—\$ 5	\$ —

The following table summarizes the fair values and levels within the fair value hierarchy in which the fair value measurements fall as of December 31, 2015 (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	\$ 14	\$	—\$ 14	\$ —
Liabilities:				
Derivative liabilities	\$ 6	\$	—\$ 6	\$ —

Table of Contents

- 29 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

15. FAIR VALUE MEASUREMENT (continued)

Items Disclosed at Fair Value

Long-term debt

The following table shows the fair value of the Company's long-term debt as calculated based on quoted market prices for the same or similar issues (Level 2 input), or on the current rates offered to the Company for debt of the same remaining maturities:

	September		December	
	30, 2016		31, 2015	
6.50% senior notes, net of discount, due 2016	—	%	103	%
9.00% senior notes, net of discount, due 2019	118	%	116	%
4.20% senior notes, net of discount, due 2022	108	%	99	%
4.20% senior notes, net of discount, due 2024	106	%	100	%
3.40% senior notes, net of discount, due 2026	103	%	—	%
7.00% senior notes, net of discount, due 2036	128	%	105	%

The Company determined that the book value of the remaining long-term debt instruments approximates market value.

16. INCOME TAXES

The following table provides the Income tax expense (in millions) and effective tax rate for the periods indicated:

	Three		Nine Months	
	Months		Months	
	Ended		Ended	
	September		September 30,	
	30,		30,	
	2016	2015	2016	2015
Income tax expense	\$65	\$55	\$172	\$112
Effective tax rate	37 %	33 %	36 %	33 %

The difference between the effective tax rate and the U.S. federal statutory tax rate of 35% for the three and nine months ended September 30, 2016 is primarily due to an increase in unrecognized tax benefit reserves, U.S. state and local income tax expense, the benefit of lower foreign tax rates and other discrete adjustments.

Realization of deferred tax assets depends on achieving a certain minimum level of future taxable income.

Management currently believes that it is at least reasonably possible that the minimum level of taxable income will be met within the next 12 months to reduce the valuation allowance of certain foreign jurisdictions by a range of \$0 million to \$12 million.

The difference between the effective tax rate and the U.S. federal statutory tax rate of 35% for the three and nine months ended September 30, 2015 is primarily attributable to the tax accounting treatment of various locations which are currently in a loss position, reversal of valuation allowances, the benefit of lower foreign tax rates, and other discrete tax adjustments.

Table of Contents

- 30 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

17. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE DEFICIT

The following table summarizes the changes in accumulated other comprehensive income (deficit) ("AOCI") (in millions):

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Currency Translation Adjustment				
Beginning balance	\$(226)	\$(176)	\$(247)	\$(133)
Net investment hedge amounts classified into AOCI, net of tax	(3)	2	(5)	5
Gain/(loss) on foreign currency translation	1	(40)	24	(86)
Other comprehensive income/(loss), net of tax	(2)	(38)	19	(81)
Ending balance	\$(228)	\$(214)	\$(228)	\$(214)
Pension and Other Postretirement Adjustment				
Beginning balance	\$(409)	\$(406)	\$(419)	\$(412)
Amounts reclassified from AOCI to net earnings, net of tax (a)	3	2	3	6
Amounts classified into AOCI, net of tax	1	4	11	6
Other comprehensive income, net of tax	4	6	14	12
Ending balance	\$(405)	\$(400)	\$(405)	\$(400)
Deferred Gain (Loss) on Hedging				
Beginning balance	\$—	\$(2)	\$(4)	\$(5)
Amounts reclassified from AOCI to net earnings, net of tax (b)	1	1	5	5
Amounts classified into AOCI, net of tax	—	(2)	—	(3)
Other comprehensive income/(loss), net of tax	1	(1)	5	2
Ending balance	\$1	\$(3)	\$1	\$(3)
Total AOCI ending balance	\$(632)	\$(617)	\$(632)	\$(617)

(a) These AOCI components are included in the computation of total Pension and OPEB expense and are recorded in Cost of sales and Marketing and administrative expenses. See Note 11 for additional information.

(b) Amounts reclassified from gain/(loss) on cash flow hedges are reclassified from AOCI to income when the hedged item affects earnings and are recognized in Cost of sales. See Note 4 for additional information.

Table of Contents

- 31 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

18. ACCOUNTING PRONOUNCEMENTS

The following table summarizes recent accounting standard updates ("ASU") issued by the Financial Accounting Standards Board (the "FASB") that could have an impact on the Company's Consolidated Financial Statements:

Standard	Description	Effective Date for Company	Effect on the Consolidated Financial Statements
Recently issued standards:			
ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)," as amended by ASU's 2015-14, 2016-08, 2016-10, 2016-11 and 2016-12	This standard outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Entities can adopt this standard either through a retrospective or modified-retrospective approach.	January 1, 2018	We are currently assessing the impact this standard will have on our Consolidated Financial Statements.
ASU 2016-01 "Financial Instruments - Overall (Subtopic 825-10)"	This standard modifies certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The update simplifies the impairment assessment of equity investments, requires that disclosure of financial instruments be based on an exit price notion, and requires separate presentation of financial assets and liabilities by measurement category and form of financial asset.	January 1, 2018	We are currently assessing the impact this standard will have on our Consolidated Financial Statements.
ASU 2016-02 "Leases (Topic 842)"	The standard requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. The recognition and presentation of expenses will depend on classification as a finance or operating lease. Entities will adopt this standard through a retrospective approach.	January 1, 2019	We are currently assessing the impact this standard will have on our Consolidated Financial Statements.
ASU 2016-09 "Compensation - Stock Compensation (Topic 718)"	This standard simplifies several aspects of the accounting for share-based payment transactions, but may increase volatility in income tax expense. All excess tax benefits and tax deficiencies will be recognized as income tax expense or benefit in the income statement. An entity will recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period, subject to normal valuation allowance considerations.	January 1, 2017	We are currently assessing the impact this standard will have on our Consolidated Financial Statements.
ASU 2016-13 "Financial Instruments -	This standard replaces the incurred loss methodology for recognizing credit losses with a	January 1, 2020	We are currently assessing the impact this standard will have

Edgar Filing: Owens Corning - Form 10-Q

Credit Losses (Topic 326)"	current expected credit losses model and applies to all financial assets, including trade receivables. Entities will adopt the standard using a modified-retrospective approach.		on our Consolidated Financial Statements.
ASU 2016-15 "Statement of Cash Flows (Topic 230)"	This standard addresses the presentation and classification of eight specific cash flow issues, including debt prepayment and extinguishment costs. Entities will adopt the standard using a retrospective method.	January 1, 2018	We do not expect the update to have a material impact on the Company's Consolidated Financial Statements.
Recently adopted standards:			The adoption of this standard did not have a material impact on our Consolidated Financial Statements. This standard permits us to separately present certain assets in the plan assets table of the Pension Plans Note to the Consolidated Financial Statements in future Form 10-K filings.
ASU 2015-07 "Fair Value Measurement (Topic 820)"	This standard removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient.	January 1, 2016	The adoption of this standard did not have a material impact on our Consolidated Financial Statements.
ASU 2015-16 "Business Combinations (Topic 805)"	This standard requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined.	January 1, 2016	The adoption of this standard did not have a material impact on our Consolidated Financial Statements.

Table of Contents

- 32 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

In May 2016, the Company entered into an Acknowledgment and Agreement and Second Amendment to its Credit Agreement which, among other things, removed certain subsidiaries from the list of named guarantors. This amendment had no impact on the composition of the Company's consolidated group and had no effect on the Consolidated Financial Statements including total stockholders' equity in Guarantor Subsidiaries. The Condensed Consolidating Balance Sheet was revised to present the financial statements of the Guarantor Subsidiaries and Nonguarantor Subsidiaries for December 31, 2015, based on their composition at June 30, 2016. The related increases (decreases) from the revisions are shown in the table below (in millions):

Description	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Due from affiliates - current	\$	-\$ (287)	\$ —	\$ 287	\$ —
Investment in subsidiaries	—	(452)	—	452	—
Due from affiliates	—	—	(739)	739	—
TOTAL ASSETS	\$	-\$ (739)	\$ (739)	\$ 1,478	\$ —
Due to affiliates - current	\$	-\$ —	\$ (287)	\$ 287	\$ —
Due to affiliates	—	(739)	—	739	—
Total equity	—	—	(452)	452	—
TOTAL LIABILITIES AND EQUITY	\$	-\$ (739)	\$ (739)	\$ 1,478	\$ —

During the second quarter of 2016, the Company discovered classification errors in the December 31, 2015 Condensed Consolidating Balance Sheet related to intercompany activity recorded in the Due from and Due to affiliates, Investment in subsidiary and Equity line items between and among the Parent, Guarantor Subsidiaries and Non-Guarantor Subsidiaries. These classifications errors had no effect on the Consolidated Financial Statements. The effect of correcting these classification errors was not material to the 2015 Condensed Consolidating Balance Sheet, and the related amounts presented as of December 31, 2015 have been revised. The related increases (decreases) from the revisions are shown in the table below (in millions):

Description	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Due from affiliates - current	\$—	\$ (474)	\$ —	\$ 474	\$ —
Investment in subsidiaries	(484)	(569)	(559)	1,612	—
TOTAL ASSETS	\$(484)	\$(1,043)	\$(559)	\$ 2,086	\$ —
Due to affiliates - current	\$(484)	\$ —	\$ 10	\$ 474	\$ —
Total equity	—	(1,043)	(569)	1,612	—
TOTAL LIABILITIES AND EQUITY	\$(484)	\$(1,043)	\$(559)	\$ 2,086	\$ —

The combined impact of the changes to the guarantor list and the classification errors resulted in overstatements of Total assets and Total liabilities and equity of the Parent, Guarantor Subsidiaries and Non-Guarantor subsidiaries in

Edgar Filing: Owens Corning - Form 10-Q

the amounts of \$484 million, \$1,889 million and \$1,354 million, respectively, at March 31, 2016 and \$484 million, \$1,923 million and \$1,439 million, respectively, at December 31, 2014. The combined impact of these changes on the Due from and Due to affiliates, Investment in subsidiaries and Total equity between and among the Parent, Guarantor Subsidiaries and Non-Guarantor Subsidiaries at March 31, 2016 and December 31, 2014 is similar to the impact to these accounts at December 31, 2015 illustrated in the tables above. The effect of correcting the classification errors described above was not material to the March 31, 2016 and December 31, 2014 Condensed Consolidating Balance Sheets.

Table of Contents

- 33 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

Guarantor and Nonguarantor Financial Statements

The Senior Notes and the Senior Revolving Credit Facility are guaranteed, fully, unconditionally and jointly and severally, by certain of Owens Corning's current and future wholly-owned material domestic subsidiaries that are borrowers or guarantors under the 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").

Additional domestic subsidiaries were added to the Credit Agreement as Guarantor Subsidiaries as of September 30, 2016. As a result, the Condensed Consolidating Financial Statements presented for previous periods were retrospectively revised based on the guarantor structure that existed as of September 30, 2016. The impact of these revisions was not material to the periods presented.

Table of Contents

- 34 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF EARNINGS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	\$—	\$ 1,106	\$ 545	\$ (133)	\$ 1,518
COST OF SALES	—	856	421	(133)	1,144
Gross margin	—	250	124	—	374
OPERATING EXPENSES					
Marketing and administrative expenses	35	76	30	—	141
Science and technology expenses	—	17	3	—	20
Other expenses (income), net	(5)	(6)	17	—	6
Total operating expenses	30	87	50	—	167
EARNINGS BEFORE INTEREST AND TAXES	(30)	163	74	—	207
Interest expense, net	28	—	—	—	28
Loss (gain) on extinguishment of debt	1	—	—	—	1
EARNINGS BEFORE TAXES	(59)	163	74	—	178
Income tax expense	(35)	93	7	—	65
Equity in net earnings of subsidiaries	136	66	—	(202)	—
Equity in net earnings of affiliates	—	—	—	—	—
NET EARNINGS	112	136	67	(202)	113
Net earnings attributable to noncontrolling interests	—	—	1	—	1
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$ 112	\$ 136	\$ 66	\$ (202)	\$ 112



Table of Contents

- 35 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF EARNINGS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	\$—	\$ 1,050	\$ 494	\$ (97)	\$ 1,447
COST OF SALES	(1)	829	376	(97)	1,107
Gross margin	1	221	118	—	340
OPERATING EXPENSES					
Marketing and administrative expenses	30	71	29	—	130
Science and technology expenses	—	15	3	—	18
Other expenses (income), net	(24)	6	14	—	(4)
Total operating expenses	6	92	46	—	144
EARNINGS BEFORE INTEREST AND TAXES	(5)	129	72	—	196
Interest expense, net	25	—	3	—	28
Loss (gain) on extinguishment of debt	—	—	—	—	—
EARNINGS BEFORE TAXES	(30)	129	69	—	168
Income tax expense	(10)	51	14	—	55
Equity in net earnings of subsidiaries	132	54	—	(186)	—
Equity in net earnings of affiliates	—	—	—	—	—
NET EARNINGS	112	132	55	(186)	113
Net earnings attributable to noncontrolling interests	—	—	1	—	1
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$ 112	\$ 132	\$ 54	\$ (186)	\$ 112

Table of Contents

- 36 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF EARNINGS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	\$—	\$ 3,123	\$ 1,539	\$ (368)	\$ 4,294
COST OF SALES	2	2,439	1,159	(368)	3,232
Gross margin	(2)	684	380	—	1,062
OPERATING EXPENSES					
Marketing and administrative expenses	103	233	90	—	426
Science and technology expenses	—	50	10	—	60
Other expenses (income), net	(8)	31	(10)	—	13
Total operating expenses	95	314	90	—	499
EARNINGS BEFORE INTEREST AND TAXES	(97)	370	290	—	563
Interest expense, net	74	(1)	7	—	80
Loss (gain) on extinguishment of debt	1	—	—	—	1
EARNINGS BEFORE TAXES	(172)	371	283	—	482
Income tax expense	(85)	188	69	—	172
Equity in net earnings of subsidiaries	394	211	—	(605)	—
Equity in net earnings of affiliates	—	—	1	—	1
NET EARNINGS	307	394	215	(605)	311
Net earnings attributable to noncontrolling interests	—	—	4	—	4
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$307	\$ 394	\$ 211	\$ (605)	\$ 307

Table of Contents

- 37 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF EARNINGS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	\$—	\$ 2,909	\$ 1,430	\$ (286)	\$ 4,053
COST OF SALES	—	2,366	1,116	(286)	3,196
Gross margin	—	543	314	—	857
OPERATING EXPENSES					
Marketing and administrative expenses	92	212	85	—	389
Science and technology expenses	—	44	9	—	53
Other expenses (income), net	(41)	24	22	—	5
Total operating expenses	51	280	116	—	447
EARNINGS BEFORE INTEREST AND TAXES	(51)	263	198	—	410
Interest expense, net	73	2	5	—	80
Loss (gain) on extinguishment of debt	(5)	—	—	—	(5)
EARNINGS BEFORE TAXES	(119)	261	193	—	335
Income tax expense	(39)	97	54	—	112
Equity in net earnings of subsidiaries	301	137	—	(438)	—
Equity in net earnings of affiliates	—	—	1	—	1
NET EARNINGS	221	301	140	(438)	224
Net earnings attributable to noncontrolling interests	—	—	3	—	3
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$221	\$ 301	\$ 137	\$ (438)	\$ 221

Table of Contents

- 38 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE EARNINGS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
NET EARNINGS	\$ 112	\$ 136	\$ 67	\$ (202)	\$ 113
Currency translation adjustment (net of tax)	(2)	—	2	(2)	(2)
Pension and other postretirement adjustment (net of tax)	4	(1)	3	(2)	4
Deferred gain on hedging (net of tax)	1	—	—	—	1
COMPREHENSIVE EARNINGS	115	135	72	(206)	116
Comprehensive earnings attributable to noncontrolling interests	—	—	1	—	1
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$ 115	\$ 135	\$ 71	\$ (206)	\$ 115

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE EARNINGS

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
NET EARNINGS	\$ 112	\$ 132	\$ 55	\$ (186)	\$ 113
Currency translation adjustment (net of tax)	(38)	(1)	(40)	41	(38)
Pension and other postretirement adjustment (net of tax)	6	(1)	6	(5)	6
Deferred gain on hedging (net of tax)	(1)	—	(1)	1	(1)
COMPREHENSIVE EARNINGS	79	130	20	(149)	80
Comprehensive earnings attributable to noncontrolling interests	—	—	1	—	1
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$ 79	\$ 130	\$ 19	\$ (149)	\$ 79

Table of Contents

- 39 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE EARNINGS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
NET EARNINGS	\$ 307	\$ 394	\$ 215	\$ (605)	\$ 311
Currency translation adjustment (net of tax)	19	(3)	28	(25)	19
Pension and other postretirement adjustment (net of tax)	14	22	4	(26)	14
Deferred gain on hedging (net of tax)	5	1	1	(2)	5
COMPREHENSIVE EARNINGS	345	414	248	(658)	349
Comprehensive earnings attributable to noncontrolling interests	—	—	4	—	4
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$ 345	\$ 414	\$ 244	\$ (658)	\$ 345

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF COMPREHENSIVE EARNINGS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
NET EARNINGS	\$221	\$ 301	\$ 140	\$ (438)	\$ 224
Currency translation adjustment (net of tax)	(81)	(1)	(86)	87	(81)
Pension and other postretirement adjustment (net of tax)	12	(3)	8	(5)	12
Deferred gain on hedging (net of tax)	2	4	—	(4)	2
COMPREHENSIVE EARNINGS	154	301	62	(360)	157
Comprehensive earnings attributable to noncontrolling interests	—	—	3	—	3
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$154	\$ 301	\$ 59	\$ (360)	\$ 154

Table of Contents

- 40 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2016

(in millions)

ASSETS	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	\$35	\$ 2	\$ 73	\$ —	\$ 110
Receivables, less allowances	—	—	796	—	796
Due from affiliates	—	2,530	—	(2,530)	—
Inventories	—	425	304	—	729
Assets held for sale	—	3	10	—	13
Other current assets	11	21	22	—	54
Total current assets	46	2,981	1,205	(2,530)	1,702
Investment in subsidiaries	7,666	1,744	—	(9,410)	—
Due from affiliates	—	—	—	—	—
Property, plant and equipment, net	467	1,533	1,090	—	3,090
Goodwill	—	1,159	179	—	1,338
Intangible assets, net	—	1,043	223	(120)	1,146
Deferred income taxes	(23)	341	51	—	369
Other non-current assets	13	68	150	—	231
TOTAL ASSETS	\$8,169	\$ 8,869	\$ 2,898	\$ (12,060)	\$ 7,876
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$83	\$ 776	\$ 140	\$ —	\$ 999
Due to affiliates	1,849	—	681	(2,530)	—
Short-term debt	—	—	1	—	1
Long-term debt – current portion	—	2	1	—	3
Total current liabilities	1,932	778	823	(2,530)	1,003
Long-term debt, net of current portion	2,069	12	79	—	2,160
Due to affiliates	—	—	—	—	—
Pension plan liability	230	—	91	—	321
Other employee benefits liability	—	223	14	—	237
Deferred income taxes	—	—	36	—	36
Other liabilities	45	190	67	(120)	182
Redeemable equity	—	—	2	—	2
OWENS CORNING STOCKHOLDERS' EQUITY					
Total Owens Corning stockholders' equity	3,893	7,666	1,744	(9,410)	3,893
Noncontrolling interests	—	—	42	—	42
Total equity	3,893	7,666	1,786	(9,410)	3,935
TOTAL LIABILITIES AND EQUITY	\$8,169	\$ 8,869	\$ 2,898	\$ (12,060)	\$ 7,876

Table of Contents

- 41 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2015

(in millions)

ASSETS	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
CURRENT ASSETS					
Cash and cash equivalents	\$—	\$ 48	\$ 48	\$ —	\$ 96
Receivables, less allowances	—	—	709	—	709
Due from affiliates	—	2,382	—	(2,382))—
Inventories	—	392	252	—	644
Assets held for sale	—	—	12	—	12
Other current assets	11	21	15	—	47
Total current assets	11	2,843	1,036	(2,382)	)1,508
Investment in subsidiaries	7,220	1,423	—	(8,643))—
Due from affiliates	—	—	—	—	—
Property, plant and equipment, net	463	1,451	1,042	—	2,956
Goodwill	—	1,149	18	—	1,167
Intangible assets, net	—	986	144	(131)	)999
Deferred income taxes	—	430	62	—	492
Other non-current assets	25	61	136	—	222
TOTAL ASSETS	\$7,719	\$ 8,343	\$ 2,438	\$ (11,156)	)\$ 7,344
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$56	\$ 703	\$ 153	\$ —	\$ 912
Due to affiliates	1,760	—	622	(2,382))—
Short-term debt	—	—	6	—	6
Long-term debt – current portion	160	2	1	—	163
Total current liabilities	1,976	705	782	(2,382)	)1,081
Long-term debt, net of current portion	1,668	14	20	—	1,702
Due to affiliates	—	—	—	—	—
Pension plan liability	286	—	111	—	397
Other employee benefits liability	—	227	13	—	240
Deferred income taxes	—	—	8	—	8
Other liabilities	50	177	41	(131)	)137
Redeemable equity	—	—	—	—	—
OWENS CORNING STOCKHOLDERS' EQUITY					
Total Owens Corning stockholders' equity	3,739	7,220	1,423	(8,643)	)3,739
Noncontrolling interests	—	—	40	—	40
Total equity	3,739	7,220	1,463	(8,643)	)3,779
TOTAL LIABILITIES AND EQUITY	\$7,719	\$ 8,343	\$ 2,438	\$ (11,156)	)\$ 7,344

Table of Contents

- 42 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimination	Consolidated
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES	\$(67)	\$ 621	\$ 136	\$ (11)	\$ 679
NET CASH FLOW USED FOR INVESTING ACTIVITIES					
Cash paid for property, plant and equipment	(11)	(216)	(54)	—	(281)
Proceeds from the sale of assets or affiliates	—	—	—	—	—
Investment in subsidiaries and affiliates, net of cash acquired	—	—	(450)	—	(450)
Purchases of alloy	—	—	—	—	—
Proceeds from sale of alloy	—	—	—	—	—
Other	2	—	—	—	2
Net cash flow used for investing activities	(9)	(216)	(504)	—	(729)
NET CASH FLOW PROVIDED BY (USED FOR) FINANCING ACTIVITIES					
Proceeds from long-term debt	395	—	—	—	395
Proceeds from senior revolving credit and receivables securitization facilities	—	—	574	—	574
Proceeds from term loan borrowing	300	—	—	—	300
Payments on term loan borrowing	(300)	—	—	—	(300)
Payments on senior revolving credit and receivables securitization facilities	—	—	(514)	—	(514)
Payments on long-term debt	(160)	—	—	—	(160)
Net decrease in short-term debt	—	—	(5)	—	(5)
Cash dividends paid	(61)	—	—	—	(61)
Purchases of treasury stock	(176)	—	—	—	(176)
Intercompany dividends paid	—	—	(11)	11	—
Other intercompany loans	103	(451)	348	—	—
Other	10	—	—	—	10
Net cash flow provided by (used for) financing activities	111	(451)	392	11	63
Effect of exchange rate changes on cash	—	—	1	—	1
Net increase (decrease) in cash and cash equivalents	35	(46)	25	—	14
Cash and cash equivalents at beginning of period	—	48	48	—	96
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 35	\$ 2	\$ 73	\$ —	\$ 110

Table of Contents

- 43 -

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015

(in millions)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES	\$(54)	\$ 248	\$ 216	\$	—\$ 410
NET CASH FLOW USED FOR INVESTING ACTIVITIES					
Cash paid for property, plant and equipment	(10)	(203)	(53)	—	(266)
Proceeds from the sale of assets or affiliates	—	—	3	—	3
Investment in subsidiaries and affiliates, net of cash acquired	—	—	—	—	—
Purchases of alloy	—	—	(8)	—	(8)
Proceeds from sale of alloy	—	—	8	—	8
Other	—	—	—	—	—
Net cash flow used for investing activities	(10)	(203)	(50)	—	(263)
NET CASH FLOW PROVIDED BY (USED FOR) FINANCING ACTIVITIES					
Proceeds from long-term debt	—	—	—	—	—
Proceeds from senior revolving credit and receivables securitization facilities	943	—	136	—	1,079
Proceeds from term loan borrowing	—	—	—	—	—
Payments on term loan borrowing	—	—	—	—	—
Payments on senior revolving credit and receivables securitization facilities	(942)	—	(140)	—	(1,082)
Payments on long-term debt	(5)	(1)	(2)	—	(8)
Net decrease in short-term debt	—	(13)	3	—	(10)
Cash dividends paid	(58)	—	—	—	(58)
Purchase of treasury stock	(86)	—	—	—	(86)
Intercompany dividends paid	—	—	—	—	—
Other intercompany loans	194	(30)	(164)	—	—
Other	18	—	—	—	18
Net cash flow provided by (used for) financing activities	64	(44)	(167)	—	(147)
Effect of exchange rate changes on cash	—	—	(5)	—	(5)
Net increase (decrease) in cash and cash equivalents	—	1	(6)	—	(5)
Cash and cash equivalents at beginning of period	—	1	66	—	67
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$—	\$ 2	\$ 60	\$	—\$ 62

Table of Contents

- 44 -

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 investors 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 and its subsidiaries.

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 has three reportable segments: Composites, Insulation and Roofing. 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

Net earnings attributable to Owens Corning were \$112 million in the third quarter of 2016 and 2015. The Company reported \$207 million in earnings before interest and taxes ("EBIT") for the third quarter of 2016 compared to \$196 million in the same period of 2015. The Company generated \$218 million in adjusted earnings before interest and taxes ("Adjusted EBIT") for the third quarter of 2016 compared to \$198 million in the same period of 2015. See the Adjusted Earnings Before Interest and Taxes paragraph of the MD&A for further information regarding EBIT and Adjusted EBIT, including the reconciliation to net earnings attributable to Owens Corning. Segment EBIT performance compared to the same period of 2015 increased \$43 million in our Roofing segment, was flat in our Composites segment and decreased \$20 million in our Insulation segment. Within our Corporate, Other and Eliminations category, General corporate expense and other increased by \$3 million.

In our Roofing segment, EBIT in the third quarter of 2016 was \$146 million compared to \$103 million in the same period in 2015 driven primarily by higher sales volumes and asphalt cost deflation. In our Composites segment, EBIT was \$61 million in the third quarter of 2016 and 2015, as higher furnace rebuild and startup costs were offset by higher selling prices and higher sales volumes. In our Insulation segment, EBIT in the third quarter of 2016 was \$38 million compared to \$58 million in the same period in 2015 primarily due to the negative impact of lower production volumes.

In the nine months ended September 30, 2016, the Company's operating activities provided \$679 million in cash flow, compared to \$410 million in the same period in 2015. This increase in cash provided by operating activities was primarily driven by increased earnings and increased cash provided by changes in operating assets and liabilities, mainly lower receivables.

On April 21, 2016, the Company acquired all outstanding shares of InterWrap, a leading manufacturer of roofing underlayment and packaging materials, for approximately \$450 million, net of cash acquired. This acquisition will expand the Company's position in roofing components, strengthen the Company's capabilities to support the conversion from organic to synthetic underlayment and accelerate its growth in the roofing components market. InterWrap's operating results and a preliminary purchase price allocation have been included in the Company's Roofing segment in the Consolidated Financial Statements since the date of the acquisition.

The Company issued \$400 million of 2026 senior notes on August 8, 2016 at 3.40%. The proceeds of these notes were used for general corporate purposes, to fully repay outstanding debt on our Receivables Securitization Facility and to repay all \$158 million of outstanding 2016 senior notes through a make whole call redemption. In connection with this redemption, the Company recognized a \$1 million loss on extinguishment of debt. During the third quarter of 2016, the remaining proceeds were used, in addition to borrowings on the Receivables Securitization Facility, to repay the Term Loan, which was drawn in the second quarter of 2016. The Term Loan was used, in addition to borrowings on the Receivables Securitization Facility, to fund the acquisition of InterWrap.

The Company repurchased 1.6 million shares of the Company's common stock for \$86 million in the third quarter of 2016 under a previously announced repurchase authorization. As of September 30, 2016, 1.2 million shares remained available for repurchase under the previously announced repurchase authorization. On October 24, 2016, the

Edgar Filing: Owens Corning - Form 10-Q

Company's Board of Directors approved an additional 10 million share repurchase authorization.

On July 26, 2016, the Company and Ahlstrom agreed to terminate the previously announced purchase agreement of the non-wovens and fabrics business of Ahlstrom due to challenges associated with obtaining regulatory clearance in Germany. In connection with the termination of the purchase agreement, the Company paid Ahlstrom a termination fee of approximately \$3 million in the third quarter of 2016.

Table of Contents

- 45 -

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

RESULTS OF OPERATIONS

Consolidated Results (in millions)

	Three Months		Nine Months		
	Ended		Ended		
	September 30,		September 30,		
	2016	2015	2016	2015	
Net sales	\$1,518	\$1,447	\$4,294	\$4,053	
Gross margin	\$374	\$340	\$1,062	\$857	
% of net sales	25	%23	%25	%21	%
Marketing and administrative expenses	\$141	\$130	\$426	\$389	
Earnings before interest and taxes	\$207	\$196	\$563	\$410	
Interest expense, net	\$28	\$28	\$80	\$80	
Loss (gain) on extinguishment of debt	\$1	\$—	\$1	\$(5)	
Income tax expense	\$65	\$55	\$172	\$112	
Net earnings attributable to Owens Corning	\$112	\$112	\$307	\$221	

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 2016 net sales increased \$71 million and \$241 million, respectively, compared to the same periods in 2015. The increase in net sales was driven by higher sales volumes in our Roofing and Composites segments, which more than offset lower sales volumes in our Insulation segment. Net sales in our Roofing segment also increased due to the acquisition of InterWrap. For the year-to-date comparison, the increase in net sales was driven by higher sales volumes in our Roofing and Composites segments and the impact of the InterWrap acquisition. This increase was partially offset by lower sales volumes in our Insulation segment and the negative impact of translating sales denominated in foreign currencies into U.S. dollars, primarily in our Composites and Insulation segments.

GROSS MARGIN

In both the third quarter and year-to-date of 2016, gross margin increased \$34 million and \$205 million, respectively, compared to the same periods in 2015. The improvement for both comparisons was driven by higher sales volumes and the benefit of lower input costs, primarily asphalt costs, in our Roofing segment. For both the third quarter and year-to-date, the gross margin contribution from the InterWrap acquisition was largely offset by the negative impact of production curtailments in our Insulation segment and restructuring and acquisition-related costs discussed in the section below.

RESTRUCTURING AND ACQUISITION-RELATED COSTS

The Company has incurred restructuring, transaction and integration costs related to acquisitions, along with restructuring costs in connection with its global cost reduction and productivity initiatives. These costs are recorded in the Corporate, Other and Eliminations category. Please refer to Notes 7 and 9 of the Consolidated Financial Statements for further information on the nature of these costs.

Table of Contents

- 46 -

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

The following table presents the impact and respective location of these income (expense) items on the Consolidated Statements of Earnings (in millions):

	Location	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015	2016	2015
Restructuring costs	Cost of sales	\$(3)	\$(6)	\$(6)	\$(9)
Restructuring costs	Other expenses (income), net	(2)	4	(2)	5
Acquisition-related costs for InterWrap and Ahlstrom transactions	Marketing and administrative expenses	(1)	—	(5)	—
Acquisition-related costs for Ahlstrom transaction	Other expenses (income), net	(3)	—	(3)	—
Recognition of InterWrap inventory fair value step-up	Cost of sales	(2)	—	(10)	—
Total restructuring, acquisition and integration-related costs		\$(11)	\$(2)	\$(26)	\$(4)

MARKETING AND ADMINISTRATIVE EXPENSES

Marketing and administrative expenses for the third quarter and year-to-date of 2016 increased \$11 million and \$37 million, respectively, compared to the same periods in 2015. For the third quarter, the increase was primarily due to higher selling, general and administrative expenses in our Roofing segment and the impact of our InterWrap acquisition. For the year-to-date, the increase was primarily due to higher selling, general and administrative expenses in our Roofing segment, acquisition-related costs and higher performance-based compensation.

EARNINGS BEFORE INTEREST AND TAXES

EBIT increased by \$11 million for the third quarter of 2016 compared to the same period in 2015. Third quarter EBIT in our Composites segment was flat. In our Insulation segment, third quarter EBIT decreased by \$20 million. In our Roofing segment, third quarter EBIT increased by \$43 million. Corporate, Other and Eliminations EBIT costs were \$12 million higher quarter-over-quarter mainly due to restructuring and acquisition-related expenses.

For the year-to-date 2016, EBIT increased by \$153 million compared to the same period in 2015. Year-to-date EBIT in our Composites segment increased by \$11 million. In our Insulation segment, year-to-date EBIT decreased by \$7 million. In our Roofing segment, year-to-date EBIT increased by \$175 million. Corporate, Other and Eliminations EBIT costs were \$26 million higher year-over-year mainly due to restructuring and acquisition-related expenses.

INTEREST EXPENSE, NET

Third quarter and year-to-date interest expense, net was flat compared to the same periods in 2015.

LOSS (GAIN) ON EXTINGUISHMENT OF DEBT

During the third quarter of 2016, the Company recorded a \$1 million loss on extinguishment of debt in connection with the redemption of its 2016 senior notes. During the second quarter of 2015, the Company recorded a \$5 million gain on extinguishment of debt as a result of purchasing its World Headquarters facility, which had previously been classified as a capital lease.

INCOME TAX EXPENSE

Income tax expense for the three and nine months ended September 30, 2016 was \$65 million and \$172 million, respectively. For the third quarter and year-to date 2016, the Company's effective tax rate was 37% and 36%, respectively. The difference between the effective tax rate and the U.S. federal statutory tax rate of 35% for the three

and nine months ended September 30, 2016 is primarily due to an increase in unrecognized tax benefit reserves, U.S. state and local income tax expense, the benefit of lower foreign tax rates and other discrete adjustments.

Table of Contents

- 47 -

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

Realization of deferred tax assets depends on achieving a certain minimum level of future taxable income.

Management currently believes that it is at least reasonably possible that the minimum level of taxable income will be met within the next 12 months to reduce the valuation allowance of certain foreign jurisdictions by a range of \$0 million to \$12 million.

Income tax expense for the three and nine months ended September 30, 2015 was \$55 million and \$112 million, respectively. For the third quarter and year-to-date 2015, the Company's effective tax rate was 33%. The difference between the effective tax rate and the U.S. federal statutory tax rate of 35% for the three and nine months ended September 30, 2015 is primarily attributable to the tax accounting treatment related to various locations which are currently in a loss position, reversal of valuation allowances, the benefit of lower foreign tax rates, and other discrete tax adjustments.

Adjusted Earnings Before Interest and Taxes ("Adjusted EBIT")

Adjusted EBIT is a non-GAAP measure that excludes certain items that management does not allocate to our segment results because it believes they are not representative of the Company's ongoing 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 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.

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

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Restructuring costs	\$(5)	\$(2)	\$(8)	\$(4)
Acquisition-related costs for InterWrap and Ahlstrom transactions	(4)	—	(8)	—
Recognition of InterWrap inventory fair value step-up	(2)	—	(10)	—
Total adjusting items	\$(11)	\$(2)	\$(26)	\$(4)

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

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$112	\$112	\$307	\$221
Less: Net earnings attributable to noncontrolling interests	1	1	4	3

Edgar Filing: Owens Corning - Form 10-Q

NET EARNINGS	113	113	311	224
Equity in net earnings of affiliates	—	—	1	1
Income tax expense	65	55	172	112
EARNINGS BEFORE TAXES	178	168	482	335
Interest expense, net	28	28	80	80
Loss (gain) on extinguishment of debt	1	—	1	(5)
EARNINGS BEFORE INTEREST AND TAXES	207	196	563	410
Less: adjusting items from above	(11)	(2)	(26)	(4)
ADJUSTED EBIT	\$218	\$198	\$589	\$414

Table of Contents

- 48 -

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

Segment Results

EBIT by segment consists of net sales less related costs and expenses and is 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):

	Three Months		Nine Months		
	Ended		Ended		
	September 30,		September 30,		
	2016	2015	2016	2015	
Net sales	\$496	\$486	\$1,486	\$1,457	
% change from prior year	2	%-1	%2	%-1	%
EBIT	\$61	\$61	\$199	\$188	
EBIT as a % of net sales	12	%13	%13	%13	%
Depreciation and amortization expense	\$36	\$29	\$103	\$92	

NET SALES

In our Composites segment, net sales in the third quarter of 2016 increased \$10 million compared to the same period in 2015. For the third quarter, the increase was driven by higher sales volumes of about 3% and higher selling prices of \$3 million. These benefits were partially offset by \$6 million of unfavorable product mix related to higher sales volumes into the roofing market.

For the year-to-date, net sales in our Composites segment increased \$29 million compared to the same period in 2015. The increase was driven by higher sales volumes of about 5% and higher selling prices of \$21 million. These benefits were partially offset by \$37 million of unfavorable product mix mainly related to the prior year's specialty glass sales and the negative impact of translating sales denominated in foreign currencies into United States dollars.

EBIT

In our Composites segment, EBIT in the third quarter of 2016 was flat compared to the same period in 2015. Higher furnace rebuild and plant startup costs of \$9 million were offset about equally by higher selling prices, higher sales volumes and input cost deflation.

For the year-to-date 2016, EBIT in our Composites segment was \$11 million higher compared to the same period in 2015. Higher furnace rebuild and startup costs of \$25 million were partially offset by higher selling prices. Higher sales volumes were largely offset by unfavorable product mix of \$16 million related to the comparison against the prior year's specialty glass sales. The remaining change was driven by input cost deflation. One-time benefits from our third-party supply agreements were offset by slightly higher selling, general and administrative expenses.

OUTLOOK

Global glass reinforcements market demand has historically grown on average with global industrial production and we believe this relationship will continue. In 2016, we expect moderate global industrial production growth.

Table of Contents

- 49 -

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

Insulation

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015		
Net sales	\$476	\$502	\$1,275	\$1,332	
% change from prior year	-5	% 11	% -4	% 6	%
EBIT	\$38	\$58	\$83	\$90	
EBIT as a % of net sales	8	% 12	% 7	% 7	%
Depreciation and amortization expense	\$26	\$25	\$78	\$75	

NET SALES

In our Insulation segment, net sales in the third quarter of 2016 decreased \$26 million compared to the same period in 2015. Sales volumes were lower by approximately 4%, primarily due to the expiration of contract manufacturing agreements at the beginning of 2016 and a commercial dispute with a large residential insulation installer. Selling prices were \$12 million lower across the segment, but were largely offset by \$10 million of favorable customer mix. The remaining decrease was driven by the negative impact of translating sales denominated in foreign currencies into United States dollars.

For the year-to-date 2016, net sales in our Insulation segment decreased \$57 million compared to the same period in 2015. The decrease was primarily driven by lower sales volumes of about 4%, primarily due to the expiration of contract manufacturing agreements at the beginning of 2016 and a commercial dispute with a large residential insulation installer. Favorable customer mix of \$24 million was partially offset by lower selling prices of \$16 million. The remaining decrease of \$19 million was due to negative foreign currency translation.

EBIT

In our Insulation segment, EBIT in the third quarter of 2016 decreased by \$20 million compared to the same period in 2015. For the third quarter, EBIT was negatively impacted by \$14 million of unfavorable manufacturing performance from production curtailments. Lower selling prices of \$12 million were partially offset by \$9 million of favorable customer mix. The remaining change was driven by lower sales volumes.

For the year-to-date, the EBIT in our Insulation segment decreased by \$7 million compared to the same period in 2015. For the year-to-date, favorable customer mix of \$18 million was largely offset by lower selling prices.

Unfavorable manufacturing performance of \$12 million, mainly due to production curtailments, was largely offset by the \$10 million benefit on input cost deflation. The remaining change was driven about equally by the impact of lower sales volumes and negative foreign currency translation.

OUTLOOK

During the third quarter of 2016, the average Seasonally Adjusted Annual Rate ("SAAR") of U.S. housing starts was approximately 1.140 million, down slightly from an annual average of approximately 1.155 million starts in the third quarter of 2015. While the trend in U.S. housing starts has generally been positive over the past couple of years, the timing and pace of recovery of the United States housing market remains uncertain.

The changes to our market share from a commercial dispute with a large residential insulation installer (which represented approximately 7% of 2015 Insulation segment sales) and the related production curtailments will impact revenue growth and EBIT for the remainder of 2016. We now expect that our Insulation segment net sales could be down by about 5% and EBIT margins down about 1 percentage point in 2016 compared to 2015.

Edgar Filing: Owens Corning - Form 10-Q

In the mid-term beyond 2016, the Company expects its Insulation segment to continue to benefit from an overall strengthening of the U.S. housing market, higher capacity utilization and improved pricing. We believe the geographic, product and channel mix

Table of Contents

- 50 -

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

of our portfolio may continue to moderate the impact of any demand-driven variability associated with United States new construction.

Roofing

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

	Three Months		Nine Months		
	Ended		Ended		
	September 30,		September 30,		
	2016	2015	2016	2015	
Net sales	\$603	\$502	\$1,711	\$1,398	
% change from prior year	20	%6	%22	%-1	%
EBIT	\$146	\$103	\$388	\$213	
EBIT as a % of net sales	24	%21	%23	%15	%
Depreciation and amortization expense	\$13	\$10	\$34	\$29	

NET SALES

In our Roofing segment, net sales in the third quarter of 2016 increased by \$101 million compared to the same period in 2015. For the third quarter, sales volumes increased by about 10%, as higher re-roof demand, driven largely by storm activity, and increased demand from new construction contributed to the growth of the U.S. asphalt shingle market. Our second quarter 2016 acquisition of InterWrap contributed \$65 million of net sales. The remaining change was driven by \$9 million of lower third-party asphalt sales and slightly lower selling prices.

For the year-to-date, net sales in our Roofing segment increased \$313 million compared to the same period in 2015. The increase was driven primarily by higher sales volumes of approximately 20% and the \$121 million impact of our second quarter 2016 acquisition of InterWrap. The remaining change was driven by \$50 million of lower selling prices and \$43 million of lower third-party asphalt sales. Third-party asphalt sales represent approximately 9% of our year-to-date 2016 Roofing segment sales and are largely a cost-plus business. Asphalt input costs and third party asphalt sales prices are correlated to crude oil prices.

EBIT

In our Roofing segment, EBIT in the third quarter of 2016 increased by \$43 million compared to the same period in 2015. The improvement was driven about equally by higher sales volumes and the favorable impact of asphalt cost deflation. The \$14 million favorable impact of our second quarter 2016 acquisition was offset by higher selling, general and administrative expenses and slightly lower selling prices.

For the year-to-date 2016, EBIT in our Roofing segment was \$175 million higher compared to the same period in 2015. The increase was primarily driven by higher sales volumes. The asphalt cost deflation benefit of \$94 million was partially offset by lower selling prices. The \$26 million favorable impact of our second quarter 2016 acquisition was partially offset by higher selling, general and administrative expenses, primarily driven by increased sales and marketing costs associated with higher sales volumes.

OUTLOOK

In our Roofing segment, we expect the factors that have driven strong margins in recent years will continue to deliver profitability. The overall market size will impact our financial outlook for this year. Other uncertainties that may impact our Roofing margins include competitive pricing pressure and the cost and availability of raw materials, particularly asphalt.

Table of Contents

- 51 -

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

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Restructuring costs	\$(5)	\$(2)	\$(8)	\$(4)
Acquisition-related costs for InterWrap and Ahlstrom transactions	(4)	—	(8)	—
Recognition of InterWrap inventory fair value step-up	(2)	—	(10)	—
General corporate expense and other	(27)	(24)	(81)	(77)
EBIT	\$(38)	\$(26)	\$(107)	\$(81)
Depreciation and amortization	\$9	\$9	\$27	\$28

EBIT

In Corporate, Other and Eliminations, EBIT losses for the third quarter and year-to-date of 2016 were higher by \$12 million and \$26 million, respectively, compared to the same periods in 2015, primarily due to costs related to our previously announced acquisitions for both comparisons. See details of these costs in the table above and further explained in the Adjusted Earnings Before Interest and Taxes paragraph of MD&A. General corporate expense and other in the third quarter of 2016 was \$3 million higher compared to the same period in 2015, due to increased general corporate expenses. For the year-to-date, general corporate expense and other was \$4 million higher compared to the same period in 2015, as higher performance-based compensation and increased general corporate expenses were largely offset by a pension-related gain.

OUTLOOK

In 2016, we expect general corporate expenses to be approximately \$120 million to \$130 million.

LIQUIDITY, CAPITAL RESOURCES AND OTHER RELATED MATTERS

Liquidity

The Company's primary external sources of liquidity are its Senior Revolving Credit Facility and its Receivables Securitization Facility.

The Company has an \$800 million Senior Revolving Credit Facility that has been amended from time to time, which matures in November 2020 and permits incremental term loans under the facility of up to \$600 million. In March 2016, the Company obtained commitments for \$300 million of the \$600 million of permitted incremental term loans under the Senior Revolving Credit Facility. As discussed further below, the Company subsequently borrowed \$300 million on this commitment in April 2016 and fully repaid the \$300 million of borrowings in September 2016. The Company may obtain new commitments for incremental term loans up to \$600 million as permitted under the facility. Subsequent amendments did not impact liquidity terms.

During the first quarter of 2016, the Company obtained a \$300 million Term Loan commitment, as allowed under its existing Senior Revolving Credit Facility. During the second quarter of 2016, the Company borrowed the \$300 million available on its Term Loan commitment. The Term Loan was a partially amortizing loan that required quarterly principal repayments, with a balloon repayment due in November 2020 for any outstanding borrowings. These borrowings were used, in addition to borrowings on the Receivables Securitization Facility, to fund the acquisition of InterWrap. Please see Note 7 of the Notes to Consolidated Financial Statements for more information

Edgar Filing: Owens Corning - Form 10-Q

on this acquisition. In the third quarter of 2016, the Company repaid all outstanding borrowings on this Term Loan. The Company has a \$250 million receivables securitization facility which matures in January 2018. As of September 30, 2016, the Company utilized its Receivables Securitization Facility for \$60 million of borrowings and \$2 million of outstanding letters of credit, and had \$188 million available on this facility. As of September 30, 2016, the Company had no borrowings on its Senior Revolving Credit Facility, \$9 million of outstanding letters of credit, and \$791 million available on this facility.

Table of Contents

- 52 -

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

The Company issued \$400 million of 2026 senior notes on August 8, 2016 subject to \$5 million of discounts and issuance costs. Interest on the notes is payable semiannually in arrears on February 15 and August 15 each year, beginning on February 15, 2017. A portion of the proceeds from these notes were used to redeem \$158 million of our 2016 senior notes, together with a \$2 million make whole call payment and \$3 million of accrued interest. In connection with the redemption, the Company recognized a \$1 million loss on extinguishment of debt, inclusive of the remaining unamortized financing fees, discount, and interest rate swap fair value adjustment. The remaining proceeds were used to pay down portions of our Receivables Securitization Facility and for general corporate purposes. The Company has no significant debt maturities before 2018. As of September 30, 2016, the Company had \$2.2 billion of total debt and cash-on-hand of \$110 million.

Cash and cash equivalents held by foreign subsidiaries may be subject to U.S. income tax and foreign withholding taxes upon repatriation to the U.S. As of September 30, 2016, and December 31, 2015, the Company had \$72 million and \$43 million, respectively, in cash and cash equivalents in certain of our foreign subsidiaries. The Company does not provide for U.S. income taxes on the undistributed earnings of its foreign subsidiaries as earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely outside of the U.S.

As a holding company, we have no operations of our own and most of our assets are held by our direct and indirect subsidiaries. Dividends and other payments or distributions from our subsidiaries will be used to meet our debt service and other obligations and to enable us to pay dividends to our stockholders. Please refer to page 12 of the Risk Factors disclosed in Item 1A of the Company's Form 10-K for the year ended December 31, 2015 for details on the factors that could inhibit our subsidiaries' abilities to pay dividends or make other distributions to the parent company.

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 and Receivables Securitization Facility, will provide ample liquidity to enable us to meet our cash requirements. Our anticipated uses of cash include capital expenditures, working capital needs, pension contributions, meeting financial obligations, payments of quarterly dividends as authorized by our Board of Directors, acquisitions and reducing outstanding amounts under the Senior Revolving Credit Facility and Receivables Securitization Facility.

We have outstanding share repurchase authorizations 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.

The credit agreements applicable to our Senior Revolving Credit Facility and the Receivables Securitization Facility contain various covenants that we believe are usual and customary. The Senior Revolving Credit Facility and the Receivables Securitization Facility each include a maximum allowed leverage ratio and a minimum required interest expense coverage ratio. We were in compliance with these covenants as of September 30, 2016.

Cash Flows

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

	Nine Months Ended September 30,	
	2016	2015
Cash balance	\$110	\$62
Net cash flow provided by operating activities	\$679	\$410
Net cash flow used for investing activities	\$(729)	\$(263)
Net cash flow provided by (used for) financing activities	\$63	\$(147)

Edgar Filing: Owens Corning - Form 10-Q

Availability on the senior revolving credit facility \$791 \$791

Availability on the receivables securitization facility \$188 \$146

Operating activities: For the nine months ended September 30, 2016, the Company's operating activities provided \$679 million of cash compared to \$410 million in the same period in 2015. The increase of \$269 million was primarily driven by increased earnings and working capital improvement. The improvement in working capital was driven by a lower increase in receivables

Table of Contents

- 53 -

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

compared to the same period in 2015, partially offset by slight growth in inventories as compared to a large inventory reduction in the prior year.

Investing activities: Net cash flow used for investing activities increased \$466 million for the nine months ended September 30, 2016 compared to the same period of 2015, driven by our acquisition of InterWrap for approximately \$450 million.

Financing activities: Net cash provided by financing activities was \$63 million for the nine months ended September 30, 2016, compared to \$147 million used in the same period in 2015. The change of \$210 million was due primarily to borrowings used to finance a portion of our InterWrap acquisition. During the third quarter, we obtained \$395 million of proceeds from the issuance of 2026 senior notes and paid \$160 million to redeem our 2016 senior notes. Higher treasury stock repurchases were partially offset by higher net borrowings on our Senior Revolving Credit Facility and Receivables Securitization Facility.

2016 Investments

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 in 2016 are expected to be approximately \$385 million, which is roughly \$65 million greater than expected depreciation and amortization. Capital spending in excess of depreciation and amortization is primarily due to the construction of our mineral fiber insulation plant in Joplin, Missouri. The Company previously announced its plan to invest \$110 million in the expansion of its composites operations in India. This investment is not expected to significantly impact our capital expenditures until 2017. 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.

Tax Net Operating Losses

There have been no material changes to the disclosure in the Company's Form 10-K for the year ended December 31, 2015.

Pension Contributions

Please refer to Note 11 of the Consolidated Financial Statements. The Company expects to contribute \$63 million in cash to its global pension plans during 2016. Actual contributions to the plans may change as a result of several 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.

Derivatives

Please refer to Note 4 of the Consolidated Financial Statements.

Fair Value Measurement

Please refer to Note 15 of the Consolidated Financial Statements.

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, 2016, there were no material changes to such contractual obligations outside the ordinary course of our business.

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

Edgar Filing: Owens Corning - Form 10-Q

Labor, Bureau of Labor Statistics. For the three months ended September 30, 2016, our RIR was 0.47 as compared to 0.42 in the same period a year ago. For the nine months ended September 30, 2016, our RIR was 0.52 as compared to 0.49 in the same period a year ago.

ACCOUNTING PRONOUNCEMENTS

Please refer to Note 18 of the Consolidated Financial Statements.

ENVIRONMENTAL MATTERS

Please refer to Note 12 of the Consolidated Financial Statements.

Table of Contents

- 55 -

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

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," "appear," "assume," "believe," "estimate," "expect," "forecast," "intend," "likely," "may," "plan," "project," "seek," "should," "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 and actual results may differ materially from those results projected in the statements. These risks, uncertainties and other factors include, without limitation:

- relationships with key customers;
 - levels of residential and commercial construction activity;
 - competitive and pricing factors;
 - levels of global industrial production;
 - demand for our products;
 - industry and economic conditions that affect the market and operating conditions of our customers, suppliers or lenders;
 - domestic and international economic and political conditions, including new legislation or other governmental actions;
 - foreign exchange and commodity price fluctuations;
 - our level of indebtedness;
 - weather conditions;
 - availability and cost of credit;
 - availability and cost of energy and raw materials;
 - issues involving implementation and protection of information technology systems;
 - labor disputes;
 - legal and regulatory proceedings, including litigation and environmental actions;
 - our ability to utilize our net operating loss carryforwards;
 - research and development activities and intellectual property protection;
 - interest rate movements;
 - uninsured losses;
 - issues related to acquisitions, divestitures and joint ventures;
 - achievement of expected synergies, cost reductions and/or productivity improvements; and
 - defined benefit plan funding obligations.
-

Table of Contents

- 56 -

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

All forward-looking statements in this report should be considered in the context of the risks and other factors described above and in Item 1A - Risk factors in Part I of our Form 10-K for the year ended December 31, 2015. 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, except as required by federal securities laws. 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 may 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in our exposure to market risk during the nine months ended September 30, 2016. Please refer to "Quantitative and Qualitative Disclosures about Market Risk" contained in Part II, Item 7A of our Form 10-K for the year ended December 31, 2015 for a discussion of our exposure to 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 has been no change in the Company's internal control over financial reporting during the quarter ended September 30, 2016 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

- 57 -

PART II

ITEM 1. LEGAL PROCEEDINGS

The information required by this item is incorporated by reference to Note 12, Contingent Liabilities and Other Matters.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A of the Company's Form 10-K for the year ended December 31, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

None.

Issuer Purchases of Equity Securities

The following table provides information about Owens Corning's purchases of its common stock for 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, 2016	252,935	\$ 54.02	251,601	2,542,565	
August 1-31, 2016	1,000,404	53.84	1,000,000	1,542,565	
September 1-30, 2016	361,533	52.60	360,000	1,182,565	
Total	1,614,872	* \$ 53.59	1,611,601	1,182,565	***

* The Company retained 3,271 shares surrendered to satisfy tax withholding obligations in connection with the vesting of restricted shares granted to our employees.

On April 25, 2012, the Company announced a share buy-back authorization under which the Company could repurchase up to 10 million shares of Owens Corning's outstanding common stock. Under the buy-back

** authorization, shares could be repurchased through open market, privately negotiated, or other transactions. The timing and actual number of shares repurchased depends on market conditions and other factors and is at the Company's discretion.

The shares remaining for repurchase as of September 30, 2016 do not include a new share repurchase authorization approved on October 24, 2016, under which the Company is authorized to repurchase up to 10 million shares of the Company's outstanding common stock (the "2016 Repurchase Authorization"). The 2016 Repurchase Authorization is in addition to the share buy-back authorization announced April 25, 2012, under

*** which approximately 1.2 million shares remain available for repurchase as of September 30, 2016 (the "2012 Repurchase Authorization" and collectively with the 2016 Repurchase Authorization, the "Repurchase Authorizations"). The Repurchase Authorizations enable 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

- 58 -

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Table of Contents

- 59 -

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, 2016 By: /s/ Michael C. McMurray
Michael C. McMurray
Senior Vice President and
Chief Financial Officer

Date: October 26, 2016 By: /s/ Kelly J. Schmidt
Kelly J. Schmidt
Vice President and
Controller

Table of Contents

- 60 -

EXHIBIT INDEX

Exhibit Number	Description
4.1	Fifth Supplemental Indenture, dated as of August 8, 2016, by and among the Company, the guarantors party thereto and Wells Fargo Bank, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to Owens Corning's Current Report on Form 8-K (File No. 001-33100), filed August 8, 2016).
4.2	Form of 3.400% Senior Note due 2026 (incorporated by reference to Exhibit 4.2 to Owens Corning's Current Report on Form 8-K (File No. 001-33100), filed August 8, 2016).
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).
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