

Edgar Filing: Owens Corning - Form 10-Q

Owens Corning  
Form 10-Q  
April 23, 2014  
**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 March 31, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-33100

**Owens Corning**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**43-2109021**

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

**One Owens Corning Parkway, Toledo, OH**

*(Address of principal executive offices)*

**43659**

*(Zip Code)*

**(419) 248-8000**

*(Registrant's telephone number, including area code)*

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

Yes  No

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

Yes  No

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

## Edgar Filing: Owens Corning - Form 10-Q

one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes  No

As of April 15, 2014, 117,752,374 shares of registrant's common stock, par value \$0.01 per share, were outstanding.

**Table of Contents****Contents**

<u>Cover Page</u>	1
<b><u>PART I FINANCIAL INFORMATION (unaudited)</u></b>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Statements of Earnings</u>	3
<u>Consolidated Statements of Comprehensive Earnings</u>	4
<u>Consolidated Balance Sheets</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Consolidated Financial Statements</u>	
<u>1. General</u>	7
<u>2. Segment Information</u>	7
<u>3. Inventories</u>	9
<u>4. Derivative Financial Instruments</u>	10
<u>5. Goodwill and Other Intangible Assets</u>	12
<u>6. Property, Plant and Equipment</u>	13
<u>7. Divestitures</u>	13
<u>8. Assets Held for Sale</u>	13
<u>9. Warranties</u>	14
<u>10. Cost Reduction Actions</u>	14
<u>11. Debt</u>	15
<u>12. Pension Plans and Other Postretirement Benefits</u>	17
<u>13. Contingent Liabilities and Other Matters</u>	18
<u>14. Stock Compensation</u>	19
<u>15. Earnings per Share</u>	22
<u>16. Fair Value Measurement</u>	23
<u>17. Income Taxes</u>	25
<u>18. Changes in Accumulated Other Comprehensive Income</u>	26
<u>19. Accounting Pronouncements</u>	26
<u>20. Condensed Consolidating Financial Statements</u>	27
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	48
<u>Item 4. Controls and Procedures</u>	48
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	49
<u>Item 1A. Risk Factors</u>	49
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
<u>Item 3. Defaults Upon Senior Securities</u>	49
<u>Item 4. Mine Safety Disclosures</u>	49
<u>Item 5. Other Information</u>	50
<u>Item 6. Exhibits</u>	50
<u>Signatures</u>	51
<u>Exhibit Index</u>	52

**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)**

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>NET SALES</b>	\$ 1,278	\$ 1,350
<b>COST OF SALES</b>	1,044	1,137
Gross margin	234	213
<b>OPERATING EXPENSES</b>		
Marketing and administrative expenses	132	133
Science and technology expenses	19	18
Charges related to cost reduction actions	12	1
Other (income) expenses, net	(37)	4
Total operating expenses	126	156
<b>EARNINGS BEFORE INTEREST AND TAXES</b>	108	57
Interest expense, net	27	29
<b>EARNINGS BEFORE TAXES</b>	81	28
Less: Income tax expense (benefit)	(39)	6
Equity in net earnings of affiliates	-	-
<b>NET EARNINGS</b>	120	22
Less: Net earnings attributable to noncontrolling interests	-	-
<b>NET EARNINGS ATTRIBUTABLE TO OWENS CORNING</b>	\$ 120	\$ 22
<b>EARNINGS AND DIVIDEND PER COMMON SHARE ATTRIBUTABLE TO OWENS CORNING COMMON STOCKHOLDERS</b>		
Basic	\$ 1.02	\$ 0.19
Diluted	\$ 1.01	\$ 0.18
Dividend	\$ 0.16	\$ -
<b>WEIGHTED AVERAGE COMMON SHARES</b>		
Basic	117.8	118.5
Diluted	118.7	119.6

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)**

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>NET EARNINGS</b>	\$ 120	\$ 22
Currency translation adjustment	(16)	(21)
Pension and other postretirement adjustment (net of tax of \$(1) and \$0 for the three months ended March 31, 2014 and 2013, respectively)	3	2
Deferred income on hedging (net of tax of \$0 and \$1 for the three months ended March 31, 2014 and 2013, respectively)	-	2
<b>COMPREHENSIVE EARNINGS</b>	<b>107</b>	<b>5</b>
Less: Comprehensive earnings attributable to noncontrolling interests	-	-
<b>COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING</b>	<b>\$ 107</b>	<b>\$ 5</b>

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)**

	<b>Mar. 31, 2014</b>	<b>Dec. 31, 2013</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 65	\$ 57
Receivables, less allowances of \$14 at Mar. 31, 2014, and \$14 at Dec. 31, 2013	942	683
Inventories	910	810
Assets held for sale - current	8	29
Other current assets	298	269
<b>Total current assets</b>	<b>2,223</b>	<b>1,848</b>
Property, plant and equipment, net	2,898	2,932
Goodwill	1,166	1,166
Intangible assets	1,039	1,040
Deferred income taxes	420	436
Other non-current assets	220	225
<b>TOTAL ASSETS</b>	<b>\$ 7,966</b>	<b>\$ 7,647</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 957	\$ 988
Short-term debt	25	1
Long-term debt - current portion	4	3
<b>Total current liabilities</b>	<b>986</b>	<b>992</b>
Long-term debt, net of current portion	2,358	2,024
Pension plan liability	324	336
Other employee benefits liability	238	242
Deferred income taxes	27	23
Other liabilities	134	200
<b>OWENS CORNING STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$0.01 per share (a)	-	-
Common stock, par value \$0.01 per share (b)	1	1
Additional paid in capital	3,936	3,938
Accumulated earnings	756	655
Accumulated other comprehensive deficit	(310)	(297)
Cost of common stock in treasury (c)	(521)	(504)
<b>Total Owens Corning stockholders' equity</b>	<b>3,862</b>	<b>3,793</b>
Noncontrolling interests	37	37

## Edgar Filing: Owens Corning - Form 10-Q

Total equity	3,899	3,830
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 7,966</b>	<b>\$ 7,647</b>

- (a) 10 shares authorized; none issued or outstanding at Mar. 31, 2014, and Dec. 31, 2013
- (b) 400 shares authorized; 135.5 issued and 117.7 outstanding at Mar. 31, 2014; 135.5 issued and 117.8 outstanding at Dec. 31, 2013
- (c) 17.8 shares at Mar. 31, 2014, and 17.7 shares at Dec. 31, 2013

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)

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>NET CASH FLOW USED FOR OPERATING ACTIVITIES</b>		
Net earnings	\$ 120	\$ 22
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	76	78
Gain on sale of fixed assets	(45)	-
Deferred income taxes	(45)	-
Provision for pension and other employee benefits liabilities	5	6
Stock-based compensation expense	8	7
Other non-cash	(1)	(2)
Change in working capital	(377)	(271)
Pension fund contribution	(14)	(12)
Payments for other employee benefits liabilities	(6)	(5)
Other	7	(2)
Net cash flow used for operating activities	(272)	(179)
<b>NET CASH FLOW USED FOR INVESTING ACTIVITIES</b>		
Additions to plant and equipment (including alloy)	(51)	(45)
Closing costs related to sale of Hangzhou, China facility	(3)	-
Net cash flow used for investing activities	(54)	(45)
<b>NET CASH FLOW PROVIDED BY FINANCING ACTIVITIES</b>		
Proceeds from senior revolving credit and receivables securitization facilities	484	558
Payments on senior revolving credit and receivables securitization facilities	(149)	(331)
Net increase in short-term debt	24	5
Purchases of treasury stock	(29)	(8)
Other	5	8
Net cash flow provided by financing activities	335	232
Effect of exchange rate changes on cash	(1)	(1)
Net increase in cash and cash equivalents	8	7
Cash and cash equivalents at beginning of period	57	55
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 65</b>	<b>\$ 62</b>

## Edgar Filing: Owens Corning - Form 10-Q

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, 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, 2013, 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 2013 annual report on Form 10-K. Certain reclassifications have been made to the periods presented for 2013 to conform to the classifications used in the periods presented for 2014.

**2. SEGMENT INFORMATION**

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

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

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

Table of Contents

- 8 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****2. SEGMENT INFORMATION (continued)****NET SALES**

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

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
<b><u>Reportable Segments</u></b>		
Composites	\$ 477	\$ 459
Building Materials	852	937
Total reportable segments	1,329	1,396
Corporate eliminations	(51)	(46)
<b>NET SALES</b>	<b>\$ 1,278</b>	<b>\$ 1,350</b>
<b><u>External Customer Sales by Geographic Region</u></b>		
United States	\$ 889	\$ 964
Europe	149	138
Asia Pacific	137	138
Other	103	110
<b>NET SALES</b>	<b>\$ 1,278</b>	<b>\$ 1,350</b>
<b><u>Sales by Product Group</u></b>		
Composites	\$ 477	\$ 459
Insulation	355	330
Roofing	497	607
Corporate eliminations	(51)	(46)
<b>NET SALES</b>	<b>\$ 1,278</b>	<b>\$ 1,350</b>

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):

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
<b><u>Reportable Segments</u></b>		
Composites	\$ 27	\$ 9
Building Materials	81	98
Total reportable segments	\$ 108	\$ 107
<b><u>Corporate, Other and Eliminations</u></b>		
Gain on sale of Hangzhou manufacturing facility	\$ 45	\$ -
Charges related to cost reduction actions and related items (a)	(12)	(9)
Net loss related to Hurricane Sandy	(2)	(11)
General corporate expense and other	(31)	(30)
<b>EBIT</b>	<b>\$ 108</b>	<b>\$ 57</b>

(a) For the three months ended March 31, 2014 and 2013, includes \$12 million and \$1 million, respectively, of charges related to cost reduction actions. The three month period ended March 31, 2013 also includes \$8 million of other related items.

**3. INVENTORIES**

Inventories consist of the following (in millions):

Edgar Filing: Owens Corning - Form 10-Q

	<b>Mar. 31, 2014</b>	<b>Dec. 31, 2013</b>
Finished goods	\$ 659	\$ 580
Materials and supplies	251	230
<b>Total inventories</b>	<b>\$ 910</b>	<b>\$ 810</b>

**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 March 31, 2014, and December 31, 2013, the Company did not have any amounts on deposit with any of its counterparties, nor did any of its counterparties have any amounts on deposit with the Company.

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

	Location	Fair Value at	
		Mar. 31, 2014	Dec. 31, 2013
<b><u>Derivative assets designated as hedging instruments:</u></b>			
<b><u>Cash flow hedges:</u></b>			
Natural gas, electricity, and foreign exchange contracts	Other current assets	\$ 2	\$ 1
Amount of gain recognized in OCI (effective portion)	OCI	\$ 1	\$ 1
<b><u>Derivative liabilities designated as hedging instruments:</u></b>			
<b><u>Cash flow hedges:</u></b>			
Natural gas and electricity	Accounts payable and accrued liabilities	\$ 1	\$ -
<b><u>Fair value hedges:</u></b>			
Interest rate swaps	Accounts payable and accrued liabilities	\$ 1	\$ 3
<b><u>Derivative assets not designated as hedging instruments:</u></b>			
Foreign exchange contracts	Other current assets	\$ 1	\$ -
<b><u>Derivative liabilities not designated as hedging instruments:</u></b>			
Foreign exchange contracts	Accounts payable and accrued liabilities	\$ 1	\$ 1

**Table of Contents**

- 11 -

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

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

	Location	Three Months Ended Mar. 31,	
		2014	2013
<b><u>Derivative activity designated as hedging instruments:</u></b>			
<b><u>Natural gas and electricity:</u></b>			
Amount of loss reclassified from OCI into earnings (effective portion)	Cost of Sales	\$ (1)	\$ -
<b><u>Interest rate swaps:</u></b>			
Amount of loss recognized in earnings	Interest expense	\$ -	\$ -
<b><u>Derivative activity not designated as hedging instruments:</u></b>			
<b><u>Natural gas and electricity:</u></b>			
Amount of (gain) recognized in earnings	Other (income) expenses, net	\$ -	\$ (1)
<b><u>Foreign currency exchange contract:</u></b>			
Amount of (gain) loss recognized in earnings (a)	Other (income) expenses, net	\$ (1)	\$ 8

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

**Cash Flow Hedges**

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

The Company currently has natural gas commodity derivatives designated as hedging instruments that mature within 15 months. The Company's policy for natural gas exposures is to hedge up to 75 percent of its total forecasted exposures for the next two months, up to 50 percent of its total forecasted exposures for the following four months, and lesser amounts for the remaining periods. Based on market conditions, approved variation from the standard policy may occur. The Company performs an analysis for effectiveness of its derivatives designated as hedging

## Edgar Filing: Owens Corning - Form 10-Q

instruments at the end of each quarter based on the terms of the contract and the underlying item being hedged.

As of March 31, 2014, \$1 million of gains included in accumulated OCI on the Consolidated Balance Sheets relate to contracts that will impact earnings during the next 12 months. Transactions and events that are expected to occur over the next 12 months that will necessitate recognizing these deferred amounts include the recognition of the hedged item through earnings.

**Table of Contents**

- 12 -

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

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

**Other Derivatives**

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

**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

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

	<b>Weighted Average Useful Life</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
<b>Mar. 31, 2014</b>				
Amortizable intangible assets:				
Customer relationships	19	\$ 181	\$ (70)	\$ 111
Technology	20	194	(76)	118
Franchise and other agreements	12	41	(17)	24
Indefinite-lived intangible assets:				
Trademarks		786	-	786
<b>Total intangible assets</b>		<b>\$ 1,202</b>	<b>\$ (163)</b>	<b>\$ 1,039</b>
Goodwill		\$ 1,166		
<b>Dec. 31, 2013</b>				
	<b>Weighted Average Useful Life</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>

## Edgar Filing: Owens Corning - Form 10-Q

<b>Amortizable intangible assets:</b>				
Customer relationships	19	\$ 181	\$ (68)	\$ 113
Technology	20	194	(74)	120
Franchise and other agreements	14	37	(16)	21
<b>Indefinite-lived intangible assets:</b>				
Trademarks		786	-	786
<b>Total intangible assets</b>		<b>\$ 1,198</b>	<b>\$ (158)</b>	<b>\$ 1,040</b>
Goodwill		\$ 1,166		

### **Other Intangible Assets**

The Company expects the ongoing amortization expense for amortizable intangible assets to be approximately \$23 million in each of the next five fiscal years. The Company's future cash flows are not materially impacted by its ability to extend or renew agreements related to our amortizable intangible assets.

**Table of Contents**

- 13 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****5. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)****Goodwill**

The Company tests goodwill and indefinite-lived intangible assets for impairment during the fourth quarter of each year, or more frequently should circumstances change or events occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount. No testing was deemed necessary in the first quarter of 2014.

**6. PROPERTY, PLANT AND EQUIPMENT**

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

	<b>Mar. 31, 2014</b>	<b>Dec. 31, 2013</b>
Land	\$ 209	\$ 210
Buildings and leasehold improvements	818	811
Machinery and equipment	3,400	3,353
Construction in progress	137	173
	4,564	4,547
Accumulated depreciation	(1,666)	(1,615)
Property, plant and equipment, net	\$ 2,898	\$ 2,932

Machinery and equipment includes certain precious metals used in our production tooling, which comprise approximately 17 percent and 17 percent of total machinery and equipment as of March 31, 2014, and December 31, 2013, 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 percent of the outstanding carrying value.

**7. DIVESTITURES**

On September 13, 2013, the Company signed an agreement to sell its Composites glass reinforcements facility in Hangzhou, People's Republic of China for total compensation of approximately \$70 million to the Hangzhou Municipal Land Reservation Center and the Development and Construction Management Office of Taoyuan New Zone of Gongshu District in Hangzhou ( Hangzhou Government ), both of which are unrelated third party government entities. As of March 31, 2014, the Company returned the land to the Hangzhou Government and recorded a net gain of \$45 million, which is recorded in Other (income) expenses, net on the Consolidated Statements of Earnings. The balance of the compensation, approximately \$35 million has been recorded in Other current assets on the Consolidated Balance Sheets. In accordance with the terms of the

## Edgar Filing: Owens Corning - Form 10-Q

contract, the Company received its third payment of \$21 million on April 9, 2014. The final \$14 million payment is due upon the Hanzhou government's completion of demolition activities, currently forecast for the second half of 2014.

### **8. ASSETS HELD FOR SALE**

During 2013, the Company closed its Vado, Italy facility. The assets held for sale consisted of \$8 million of Property, Plant and Equipment. There were no other assets or liabilities held for sale related to these facilities as of March 31, 2014.

**Table of Contents**

- 14 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****9. WARRANTIES**

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

	<b>Three Months Ended Mar. 31, 2014</b>	
Beginning balance	\$	41
Amounts accrued for current year		7
Settlements of warranty claims		(5)
Ending balance	\$	43

**10. COST REDUCTION ACTIONS****2014 Cost Reduction Actions**

We took actions in 2014 to reduce costs in our Composites segment. These actions related to global workforce reductions and the termination of a contract with a utility services provider. In conjunction with these actions, the Company recorded \$14 million in charges related to cost reduction actions for the three months ended March 31, 2014, of which \$11 million is related to severance and \$3 million is related to contract termination charges. Both items have been reported in charges related to cost reduction actions on the Consolidated Statements of Earnings.

The following table summarizes the status of the unpaid liabilities from the Company's 2014 cost reduction actions (in millions):

	<b>Beginning Balance Dec. 31, 2013</b>	<b>Costs Incurred</b>	<b>Payments</b>	<b>Ending Balance Mar. 31, 2014</b>	<b>Cumulative Charges Incurred</b>
Severance	\$ -	\$ 11	\$ 1	\$ 10	\$ 11
Contract termination	-	3	3	0	3
Total	\$ -	\$ 14	\$ 4	\$ 10	\$ 14

**2013 Cost Reduction Actions**

As a result of the Company's decision to divest its Composites glass reinforcements facility in Hangzhou, Peoples Republic of China discussed in Note 7 above to the Consolidated Financial Statements, we recorded \$6 million in charges related to cost reduction actions on the Consolidated Statements of Earnings for the year ended December 31, 2013. In the first quarter of 2014, the Company revised its estimated total severance

costs of this action by \$2 million.

Table of Contents

- 15 -

## OWENS CORNING AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

**10. COST REDUCTION ACTIONS (continued)**

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

	Beginning Balance Dec. 31, 2013	Costs Incurred	Payments	Ending Balance Mar. 31, 2014	Cumulative Charges Incurred
Severance	\$ 6	\$ (2)	\$ 4	\$ -	\$ 4
Total	\$ 6	\$ (2)	\$ 4	\$ -	\$ 4

**2012 Cost Reduction Actions**

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

	Beginning Balance Dec. 31, 2013	Costs Incurred	Payments	Ending Balance Mar. 31, 2014	Cumulative Charges Incurred
Severance	\$ 26	\$ -	\$ 2	\$ 24	\$ 53
Total	\$ 26	\$ -	\$ 2	\$ 24	\$ 53

**11. DEBT**

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

	Mar. 31, 2014	Dec. 31, 2013
6.50% senior notes, net of discount, due 2016	\$ 400	\$ 400
9.00% senior notes, net of discount, due 2019	248	248
4.20% senior notes, net of discount, due 2022	599	599

## Edgar Filing: Owens Corning - Form 10-Q

7.00% senior notes, net of discount, due 2036	540	540
Accounts receivable securitization facility, maturing in 2016	213	162
Senior revolving credit facility, maturing in 2018	296	12
Various capital leases, due through and beyond 2050	49	49
Various floating rate debt, maturing through 2017	1	1
Fair value adjustment to debt	16	16
Total long-term debt	2,362	2,027
Less current portion	4	3
Long-term debt, net of current portion	\$ 2,358	\$ 2,024

### **Senior Notes**

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

---

**Table of Contents**

- 16 -

**OWENS CORNING AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(unaudited)**

**11. DEBT (continued)**

The Company issued \$350 million of 2019 senior notes on June 3, 2009. On October 31, 2006, we 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.

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

The Company has the option to redeem all or part of the Senior Notes at any time at a make whole redemption price. The Company is subject to certain covenants in connection with the issuance of the Senior Notes that it believes are usual and customary. The Company was in compliance with these covenants as of March 31, 2014.

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

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

**Senior Credit Facilities**

In November 2013, the Company amended the credit agreement (the Credit Agreement) for the \$800 million multi-currency senior revolving credit facility (the Senior Revolving Credit Facility) to extend the maturity to November 2018 and reduce the letters of credit sublimit to \$100 million. 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 March 31, 2014.

The Company had \$4 million of letters of credit outstanding under the Senior Revolving Credit Facility at March 31, 2014.

**Receivables Securitization Facility**

## Edgar Filing: Owens Corning - Form 10-Q

Included in long-term debt on the Consolidated Balance Sheets are amounts outstanding under a Receivables Purchase Agreement (the RPA ) that are accounted for as secured borrowings in accordance with ASC 860, Accounting for Transfers

**Table of Contents**

- 17 -

**OWENS CORNING AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(unaudited)**

**11. DEBT (continued)**

and Servicing. Owens Corning Sales, LLC and Owens Corning Receivables LLC, each a subsidiary of the Company, have a \$250 million RPA with certain financial institutions. The securitization facility was amended in the third quarter of 2013 to extend maturity to July 2016 and to reduce the size of the facility to \$200 million during the months of November, December, and January each year. At March 31, 2014, the Company utilized the full amount permitted under the terms of the receivables securitization facility. The Company had \$38 million of letters of credit outstanding under the receivables securitization facility at March 31, 2014.

The RPA contains various covenants, including a maximum allowed leverage ratio and a minimum required interest expense coverage ratio that the Company believes are usual and customary for a securitization facility. The Company was in compliance with these covenants as of March 31, 2014.

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 March 31, 2014 and December 31, 2013, short-term borrowings were \$25 million and \$1 million, respectively. The short-term borrowings for both periods consisted of various operating lines of credit and working capital facilities. The weighted average interest rate on all short-term borrowings was approximately 6.0 percent for March 31, 2014 and 2.2 percent for December 31, 2013.

**12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS**

**Pension Plans**

The Company sponsors defined benefit pension plans. Under the plans, pension benefits are based on an employee's years of service and, for certain categories of employees, qualifying compensation. Company contributions to these pension plans are determined by an independent actuary to meet or exceed minimum funding requirements. In our 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 US 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.

**Table of Contents**

- 18 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (continued)**

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

	Three Months Ended Mar. 31, 2014			Three Months Ended Mar. 31, 2013		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
<b>Components of Net Periodic Pension Cost</b>						
Service cost	\$ 2	\$ 1	\$ 3	\$ 2	\$ 2	\$ 4
Interest cost	12	6	18	11	5	16
Expected return on plan assets	(14)	(7)	(21)	(15)	(6)	(21)
Amortization of actuarial loss	2	1	3	4	1	5
Net periodic pension cost	\$ 2	\$ 1	\$ 3	\$ 2	\$ 2	\$ 4

The Company expects to contribute approximately \$35 million in cash to the United States Pension Plans and another \$20 million to non-United States plans during 2014. The Company made cash contributions of approximately \$14 million to the plans during the three months ended March 31, 2014.

**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 United States and non-United States Plans for the periods indicated (in millions):

	Three Months Ended Mar. 31,	
	2014	2013
<b>Components of Net Periodic Benefit Cost</b>		
Service cost	\$ 1	\$ 1
Interest cost	3	2
Amortization of prior service cost	(1)	(1)
Amortization of actuarial gain	(1)	-

Net periodic benefit cost

\$ 2 \$ 2

**13. CONTINGENT LIABILITIES AND OTHER MATTERS**

The Company is involved in various legal proceedings relating to employment, product liability and other matters (collectively, Proceedings ). The Company regularly reviews the status of such Proceedings along with legal counsel. Liabilities for such Proceedings are recorded when it is probable that the liability has been incurred and when the amount of the liability can be reasonably estimated. Liabilities are adjusted when additional information becomes available. Management believes that the amount of any reasonably possible losses in excess of any amounts accrued, if any, with

**Table of Contents**

- 19 -

**OWENS CORNING AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(unaudited)**

**13. CONTINGENT LIABILITIES AND OTHER MATTERS (continued)**

respect to such Proceedings or any other known claim, including the matters described below under the caption Environmental Matters (the Environmental Matters ) will not be material to the Company's financial statements. Management believes that the ultimate disposition of the Proceedings and the Environmental Matters will not have a material adverse effect on the Company's operations or financial condition taken as a whole.

**Environmental Matters**

We have been deemed by the Environmental Protection Agency ( EPA ) to be a Potentially Responsible Party ( PRP ) with respect to certain sites under the Comprehensive Environmental Response Compensation and Liability Act. We have also been deemed a PRP under similar state or local laws and in other instances other PRPs have brought suits against us as a PRP for contribution under such federal, state, or local laws. At March 31, 2014, we had environmental remediation liabilities as a PRP at 21 sites where we have a continuing legal obligation to either complete remedial actions or contribute to the completion of remedial actions as part of a group of PRPs. For these sites we estimate a reserve to reflect environmental liabilities that have been asserted or are probable of assertion, in which liabilities are probable and reasonably estimable. At March 31, 2014, our reserve for such liabilities was \$4 million.

**Kearny, New Jersey Manufacturing Facility**

During the week of October 29, 2012, the Company experienced a flood at its Kearny, New Jersey manufacturing facility as a result of Hurricane Sandy. Our Roofing facility returned to full operating capacity in the third quarter of 2013 and we settled our insurance claims in December of 2013.

In the first quarter of 2014, the Company incurred an additional \$2 million in losses related to clean-up activities which are reported in Other (income) expenses, net on the Consolidated Statements of Earnings. The Company anticipates an additional \$5 million in charges to be taken in the remainder of 2014 related to final repairs at our Asphalt facility. In the first quarter of 2013, the Company incurred \$11 million in losses related to clean-up activities and business interruption losses which were reported in cost of sales on the Consolidated Statement of Earnings.

**14. STOCK COMPENSATION**

**2013 Stock Plan**

On April 18, 2013, the Company's stockholders approved the Owens Corning 2013 Stock Plan (the 2013 Stock Plan ) which replaced the 2010 Stock Plan. The 2013 Stock Plan authorizes grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units, bonus stock awards and performance stock awards. Under the 2013 Stock Plan, 1.5 million shares of common stock may be granted in addition to the shares of Company common stock that rolled over from the 2010 Stock Plan as of April 18, 2013. Such shares of common stock include shares that were available but not granted, or which were granted but were not issued or delivered due to expiration, termination, cancellation or forfeiture of such awards. There will be no future grants made under the 2010 Stock Plan. At March 31, 2014 the number of shares remaining available under the 2013 Stock Plan for all stock awards was 2.4 million.

**Stock Options**

## Edgar Filing: Owens Corning - Form 10-Q

The Company has granted stock options under its stockholder approved stock plans. The Company calculates a weighted-average grant-date fair value using a Black-Scholes valuation model for options granted. Compensation expense for options

**Table of Contents**

- 20 -

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

is measured based on the fair market value of the option on the date of grant, and is recognized on a straight-line basis over a four year vesting period. In general, the exercise price of each option awarded was equal to the market price of the Company's common stock on the date of grant and an option's maximum term is 10 years. The volatility assumption was based on a benchmark study of our peers prior to 2014. Starting with the options granted in 2014 the volatility assumption was based on the company's historic volatility.

During the three months ended March 31, 2014, 374,500 stock options were granted with a weighted-average grant date fair value of \$19.05. Assumptions used in the Company's Black-Scholes valuation model to estimate the grant date fair value were expected volatility of 50.85 percent, expected dividends of 0 percent, expected term of 6.25 years and a risk-free interest rate of 1.9 percent.

During the three months ended March 31, 2014 and 2013, the Company recognized expense of \$1 million related to the Company's stock options. As of March 31, 2014, there was \$13 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 3.08 years. The total aggregate intrinsic value of options outstanding as of March 31, 2014 and 2013 was \$36 million and \$31 million, respectively.

The following table summarizes the Company's stock option activity for the three months ended Mar. 31, 2014:

	<b>Three Months Ended Mar. 31, 2014</b>	
	<b>Number of Options</b>	<b>Weighted- Average Exercise Price</b>
Beginning Balance	2,748,720	\$ 29.55
Granted	374,500	37.65
Exercised	(212,725)	27.84
Forfeited	(2,925)	36.52
Ending Balance	2,907,570	\$ 30.70

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

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Options Outstanding	Remaining Contractual Life	Exercise Price	Number Exercisable at Mar. 31, 2014	Weighted-Average Remaining Contractual Life	Exercise Price

## Edgar Filing: Owens Corning - Form 10-Q

\$13.89-\$42.16	2,907,570	5.81	\$ 30.70	2,052,570	4.51	\$ 27.75
-----------------	-----------	------	----------	-----------	------	----------

### Restricted Stock Awards and Restricted Stock Units

The Company has granted restricted stock awards and restricted stock units (collectively referred to as restricted stock ) under its stockholder approved stock plans. Compensation expense for restricted stock is measured based on the market price of the stock at date of grant and is recognized on a straight-line basis over the four-year vesting period. Stock restrictions are subject to alternate vesting plans for death, disability, approved early retirement and involuntary termination, over various periods ending in 2019.

Table of Contents

- 21 -

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

During the three months ended March 31, 2014 and 2013, the Company recognized expense of \$4 million related to the Company's restricted stock. As of March 31, 2014, there was \$36 million of total unrecognized compensation cost related to restricted stock. That cost is expected to be recognized over a weighted-average period of 3.01 years. The total fair value of shares vested during the three months ended March 31, 2014 and 2013 was \$13 million, respectively.

A summary of the status of the Company's plans that had restricted stock issued as of March 31, 2014, and changes during the three months ended March 31, 2014, are presented below:

	<b>Three Months Ended Mar. 31, 2014</b>	
	<b>Weighted-Average Grant-Date</b>	
	<b>Number of Shares</b>	<b>Fair Value</b>
Beginning Balance	1,735,824	\$ 32.49
Granted	455,518	37.78
Vested	(388,629)	33.39
Forfeited	(11,863)	36.28
Ending Balance	1,790,850	\$ 33.61

Performance Stock Awards and Performance Stock Units

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

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

In the first three months of 2014, the Company granted PSUs. The 2014 grants vest after a three-year period based on the Company's total stockholder return relative to the performance of the companies in the S&P 500 Index for the respective three-year period. The amount of stock distributed will vary from 0 percent to 200 percent of PSUs awarded depending on the relative stockholder return performance.

## Edgar Filing: Owens Corning - Form 10-Q

For all PSUs, during the three months ended March 31, 2014 and 2013, the Company recognized an expense of \$2 million and \$4 million, respectively. As of March 31, 2014, there was \$17 million of total unrecognized compensation cost related to PSUs. That cost is expected to be recognized over a weighted-average period of 2.15 years.

Table of Contents

- 22 -

## OWENS CORNING AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

**14. STOCK COMPENSATION (continued)**

A summary of the status of the Company's plans that had PSUs issued as of March 31, 2014, and changes during the three months ended March 31, 2014, are presented below:

	Three Months Ended	
	Mar. 31, 2014	
	Number of PSUs	Weighted-Average Grant-Date Fair Value
Beginning Balance	410,500	\$ 53.04
Granted	248,950	44.43
Forfeited	(6,750)	46.69
Ending Balance	652,700	\$ 49.82

**2013 Employee Stock Purchase Plan**

Owens Corning Employee Stock Purchase Plan ( 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 percent of the lower of the fair market value of shares of Owens Corning common stock at the beginning or ending of the offering period, which is a six-month period ending on May 31 and November 30 of each year. There are 1.9 million shares available for purchase under the ESPP as of its approval date. During the three months ended March 31, 2014, the Company had expense of \$0.4 million. As of March 31, 2014, there was \$1 million of total unrecognized compensation cost related to the ESPP.

**15. EARNINGS PER SHARE**

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

	Three Months Ended Mar. 31,	
	2014	2013
Net earnings attributable to Owens Corning	\$ 120	\$ 22

## Edgar Filing: Owens Corning - Form 10-Q

Weighted average number of shares outstanding used for basic earnings per share	117.8	118.5
Non-vested restricted and performance shares	0.4	0.6
Options to purchase common stock	0.5	0.5

Weighted average number of shares outstanding and common equivalent shares used for diluted earnings per share	118.7	119.6
----------------------------------------------------------------------------------------------------------------	-------	-------

Earnings per common share attributable to Owens Corning common stockholders:

Basic	\$ 1.02	\$ 0.19
Diluted	\$ 1.01	\$ 0.18

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

---

**Table of Contents**

- 23 -

**OWENS CORNING AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(unaudited)**

**15. EARNINGS PER SHARE (continued)**

On April 25, 2012, the Company announced a new share buy-back program under which the Company is authorized to repurchase up to 10 million shares of the Company's outstanding common stock (the 2012 Repurchase Program). The 2012 Repurchase Program is in addition to the share buy-back program announced August 4, 2010, (the 2010 Repurchase Program and collectively with the 2012 Repurchase Program, the Repurchase Programs). The Repurchase Programs authorize the Company to repurchase shares through the open market, privately negotiated, or other transactions. The actual number of shares repurchased will depend on timing, market conditions and other factors and will be at the Company's discretion. We repurchased 600 thousand shares of the Company's common stock for \$26 million during the first quarter of 2014 under previously announced repurchase programs. As of March 31, 2014, 8 million shares remain available for repurchase under the authorized programs.

For the three months ended March 31, 2014, the number of shares used in the calculation of diluted earnings per share did not include 0.5 million non-vested Restricted and Performance shares, and .7 million of options to purchase common stock due to their anti-dilutive effect.

For the three months ended March 31, 2013, the number of shares used in the calculation of diluted earnings per share did not include 0.2 million non-vested restricted shares, 0.2 million options to purchase common stock, 17.5 million common equivalent shares from Series A Warrants or 7.8 million common equivalent shares from Series B Warrants due to their anti-dilutive effect.

**16. FAIR VALUE MEASUREMENT**

**Items Measured at Fair Value**

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

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

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

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

**Table of Contents**

- 24 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****16. FAIR VALUE MEASUREMENT (continued)**

The following table summarizes the fair values, and levels within the fair value hierarchy in which the fair value measurements fall, for assets and liabilities measured on a recurring basis as of March 31, 2014 (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)
<b>Assets:</b>				
Cash equivalents	\$ 25	\$ 25	\$ -	\$ -
Term deposits	6	6	-	-
Derivative assets	3	-	3	-
Total assets	\$ 34	\$ 31	\$ 3	\$ -
<b>Liabilities:</b>				
Derivative liabilities	\$ (3)	\$ -	\$ (3)	\$ -
Total liabilities	\$ (3)	\$ -	\$ (3)	\$ -

The following table summarizes the fair values, and levels within the fair value hierarchy in which the fair value measurements fall, for assets and liabilities measured on a recurring basis as of December 31, 2013 (in millions):

	Total Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Cash equivalents	\$ 20	\$ 20	\$ -	\$ -
Term deposits	2	2	-	-
Derivative assets	1	-	1	-

## Edgar Filing: Owens Corning - Form 10-Q

Total assets	\$ 23	\$ 22	\$ 1	\$ -
<b><u>Liabilities:</u></b>				
Derivative liabilities	\$ (4)	\$ -	\$ (4)	\$ -
Total liabilities	\$ (4)	\$ -	\$ (4)	\$ -

Cash equivalents and term deposits are included in cash and cash equivalents on the Consolidated Balance Sheets. The Company measures the value of its natural gas hedge contracts and foreign currency forward contracts using Level 2 inputs. The fair value of the Company's natural gas hedges is determined by a mark to market valuation based on forward curves using observable market prices and the fair value of its foreign currency forward contracts is determined using observable market transactions in over-the-counter markets.

**Table of Contents**

- 25 -

**OWENS CORNING AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(unaudited)**

**16. FAIR VALUE MEASUREMENT (continued)**

**Items Disclosed at Fair Value**

Long-term notes receivable

The fair value of the Company's long-term notes receivable has been calculated using the expected future cash flows discounted at market interest rates. The Company believes that the carrying amounts reasonably approximate the fair values of long-term notes receivable. Long-term notes receivable were \$2 million and \$6 million as of March 31, 2014, and December 31, 2013, respectively.

Long-term debt

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

As of March 31, 2014, the Company's 6.50 percent senior notes due 2016 were trading at approximately 112 percent of par value, the 7.00 percent senior notes due 2036 were trading at approximately 113 percent of par value, the 9.00 percent senior notes due 2019 were trading at approximately 126 percent of par value and the 4.20 percent senior notes due 2022 were trading at approximately 101 percent of par value. The Company determined that the book value of the remaining long-term debt instruments approximates market value. This approach, using level 1 inputs and utilizing indicative market rates for a new debt issuance, approximated the fair value of the remaining long-term debt at \$558 million.

As of December 31, 2013, the Company's 6.50 percent senior notes due 2016 were trading at approximately 111 percent of par value, the 7.00 percent senior notes due 2036 were trading at approximately 107 percent of par value, the 9.00 percent senior notes due 2019 were trading at approximately 125 percent of par value and the 4.20 percent senior notes due 2022 were trading at approximately 96 percent of par value. The Company determined that the book value of the remaining long-term debt instruments approximates market value. This approach, using level 1 inputs and utilizing indicative market rates for a new debt issuance, approximated the fair value of the remaining long-term debt at \$224 million.

**17. INCOME TAXES**

Income tax expense for the three months ended March 31, 2014, was a benefit of \$39 million. For the first quarter 2014, the Company's effective tax rate was (48) percent. The difference between the effective tax rate and the statutory rate of 35 percent is primarily attributable to the resolution of an uncertain tax position upon receiving final notification from the IRS that it had completed its audit examination for the taxable years 2008 through 2010 and the reversal of a valuation allowance recorded in prior years against certain European net deferred tax assets which cumulatively totaled \$78 million. The remaining differences relate to other discrete adjustments in the quarter and the accounting treatment of various locations which are currently in a loss position in the first quarter 2014.

Income tax expense for the three months ended March 31, 2013 was \$6 million. The Company's effective tax rate was 21 percent. The difference between the first quarter effective tax rate and the statutory rate of 35 percent is primarily attributable to the American Taxpayer Relief Act of 2012 (the Act) which was signed into law on January 2, 2013. The Act retroactively restored the research and experimentation credit and the Subpart F controlled foreign corporation look-through exception for 2012 and extends these provisions through the end of 2013. The retroactive effect of the Act on the Company's U.S. federal taxes for 2012 of approximately \$8 million was recognized in the quarter. The remaining

## Edgar Filing: Owens Corning - Form 10-Q

differences relate to the accounting treatment of various locations which are currently in a loss position in the first quarter 2013.

**Table of Contents**

- 26 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****18. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table summarizes the changes in accumulated other comprehensive income ( AOCI ) for the three months ended March 31, 2014 (in millions):

	<b>Cash Flow Hedge Activity</b>	<b>Defined Benefit Pension Plan Activity</b>	<b>OCI Valuation Allowance activity</b>	<b>Foreign Currency Translation Adjustment</b>	<b>Total</b>
Balance as of December 31, 2013, net of tax	\$ -	\$ (184)	\$ (115)	\$ 2	\$ (297)
Amounts classified into AOCI, net of tax	-	4	-	(16)	(12)
Amounts reclassified from AOCI, net of tax	-	(1)	-	-	(1)
Change in AOCI, net of tax	-	3	-	(16)	(13)
Balance as of March 31, 2014, net of tax	\$ -	\$ (181)	\$ (115)	\$ (14)	\$ (310)

The following table summarizes the changes in accumulated other comprehensive income ( AOCI ) for the three months ended March 31, 2013 (in millions):

	<b>Cash Flow Hedge Activity</b>	<b>Defined Benefit Pension Plan Activity</b>	<b>OCI Valuation Allowance activity</b>	<b>Foreign Currency Translation Adjustment</b>	<b>Total</b>
Balance as of December 31, 2012, net of tax	\$ (1)	\$ (279)	\$ (114)	\$ 30	\$ (364)
Amounts classified into AOCI, net of tax	3	7	1	(21)	(10)
Amounts reclassified from AOCI, net of tax	-	(1)	-	-	(1)
Change in AOCI, net of tax	3	6	1	(21)	(11)
Balance as of March 31, 2013, net of tax	\$ 2	\$ (273)	\$ (113)	\$ 9	\$ (375)

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

**Three Months  
Ended**

Edgar Filing: Owens Corning - Form 10-Q

		<b>Mar. 31,</b>	
		<b>2014</b>	<b>2013</b>
<b>Location</b>			
Defined benefit pension plan activity	Cost of sales	\$ (1)	\$ (1)
Total reclassifications from AOCI		\$ (1)	\$ (1)

**19. ACCOUNTING PRONOUNCEMENTS**

In July 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a

**Table of Contents**

- 27 -

**OWENS CORNING AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**(unaudited)**

**19. ACCOUNTING PRONOUNCEMENTS (continued)**

Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance is effective for fiscal year and interim periods beginning after December 15, 2013. The update does not have a material impact on the Company's Consolidated Condensed Financial Statements and we have prospectively adopted the standard in fiscal year 2014.

In April 2014, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity . ASU No. 2014-08 changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU No. 2014-08 is effective prospectively for fiscal years beginning after December 15, 2014. The Company does not expect this update to have a material impact on our Consolidated Financial Statements.

In March 2013, the FASB issued ASU No. 2013-05, Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU No. 2013-05 clarifies when companies should release the cumulative translation adjustment (CTA) into net income when a parent either sells a part of or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. ASU No. 2013-05 is effective prospectively for fiscal years beginning after December 15, 2013. The Company does not expect this update to have a material impact on our Consolidated Financial Statements.

**20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

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

**Guarantor and Nonguarantor Financial Statements**

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

Table of Contents

- 28 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF EARNINGS****FOR THE THREE MONTHS ENDED MARCH 31, 2014****(in millions)**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
NET SALES	\$ -	\$ 911	\$ 456	\$ (89)	\$ 1,278
COST OF SALES	-	751	382	(89)	1,044
Gross margin	-	160	74	-	234
OPERATING EXPENSES					
Marketing and administrative expenses	32	66	34	-	132
Science and technology expenses	-	15	4	-	19
Charges related to cost reduction actions	-	1	11	-	12
Other (income) expenses, net	(10)	2	(29)	-	(37)
Total operating expenses	22	84	20	-	126
<b>EARNINGS BEFORE INTEREST AND TAXES</b>	(22)	76	54	-	108
Interest expense, net	26	1	-	-	27
<b>EARNINGS BEFORE TAXES</b>	(48)	75	54	-	81
Less: Income tax expense (benefit)	(18)	(13)	(8)	-	(39)
Equity in net earnings of subsidiaries	150	62	-	(212)	-
Equity in net earnings of affiliates	-	-	-	-	-
<b>NET EARNINGS</b>	120	150	62	(212)	120
Less: Net earnings attributable to noncontrolling interests	-	-	-	-	-
<b>NET EARNINGS ATTRIBUTABLE TO OWENS CORNING</b>	\$ 120	\$ 150	\$ 62	\$ (212)	\$ 120



**Table of Contents**

- 29 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF EARNINGS****FOR THE THREE MONTHS ENDED MARCH 31, 2013****(in millions)**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
NET SALES	\$ -	\$ 994	\$ 453	\$ (97)	\$ 1,350
COST OF SALES	(2)	833	403	(97)	1,137
Gross margin	2	161	50	-	213
OPERATING EXPENSES					
Marketing and administrative expenses	33	67	33	-	133
Science and technology expenses	-	14	4	-	18
Charges related to cost reduction actions	-	-	1	-	1
Other (income) expenses, net	(1)	4	1	-	4
Total operating expenses	32	85	39	-	156
<b>EARNINGS BEFORE INTEREST AND TAXES</b>	(30)	76	11	-	57
Interest expense, net	27	-	2	-	29
<b>EARNINGS BEFORE TAXES</b>	(57)	76	9	-	28
Less: Income tax expense (benefit)	(22)	19	9	-	6
Equity in net earnings of subsidiaries	57	-	-	(57)	-
Equity in net earnings of affiliates	-	-	-	-	-
<b>NET EARNINGS</b>	22	57	-	(57)	22
Less: Net earnings attributable to noncontrolling interests	-	-	-	-	-
<b>NET EARNINGS ATTRIBUTABLE TO OWENS CORNING</b>	\$ 22	\$ 57	\$ -	\$ (57)	\$ 22



Table of Contents

- 30 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF COMPREHENSIVE EARNINGS****FOR THE THREE MONTHS ENDED MARCH 31, 2014****(in millions)**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>NET EARNINGS</b>	\$ 120	\$ 150	\$ 62	\$ (212)	\$ 120
Currency translation adjustment	(16)	-	-	-	(16)
Pension and other postretirement adjustment (net of tax)	3	-	-	-	3
Deferred income on hedging (net of tax)	-	-	-	-	-
<b>COMPREHENSIVE EARNINGS</b>	107	150	62	(212)	107
Less: Comprehensive earnings attributable to noncontrolling interests	-	-	-	-	-
<b>COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING</b>	\$ 107	\$ 150	\$ 62	\$ (212)	\$ 107

Table of Contents

- 31 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONSOLIDATING STATEMENT OF COMPREHENSIVE EARNINGS****FOR THE THREE MONTHS ENDED MARCH 31, 2013****(in millions)**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>NET EARNINGS</b>	\$ 22	\$ 57	\$ -	\$ (57)	\$ 22
Currency translation adjustment	(21)	-	-	-	(21)
Pension and other postretirement adjustment (net of tax)	2	-	-	-	2
Deferred income on hedging (net of tax)	2	-	-	-	2
<b>COMPREHENSIVE EARNINGS</b>	<b>5</b>	<b>57</b>	<b>-</b>	<b>(57)</b>	<b>5</b>
Less: Comprehensive earnings attributable to noncontrolling interests	-	-	-	-	-
<b>COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING</b>	<b>\$ 5</b>	<b>\$ 57</b>	<b>\$ -</b>	<b>\$ (57)</b>	<b>\$ 5</b>

**Table of Contents**

- 32 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF MARCH 31, 2014****(in millions)**

<b>ASSETS</b>	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 3	\$ 62	\$ -	\$ 65
Receivables, less allowances	-	-	942	-	942
Due from affiliates	-	2,615	-	(2,615)	-
Inventories	-	561	349	-	910
Assets held for sale - current	-	-	8	-	8
Other current assets	42	140	116	-	298
<b>Total current assets</b>	<b>42</b>	<b>3,319</b>	<b>1,477</b>	<b>(2,615)</b>	<b>2,223</b>
Investment in subsidiaries	7,366	2,536	558	(10,460)	-
Due from affiliates	-	67	941	(1,008)	-
Property, plant and equipment, net	362	1,303	1,233	-	2,898
Goodwill	-	1,127	39	-	1,166
Intangible assets	-	1,007	265	(233)	1,039
Deferred income taxes	14	371	35	-	420
Other non-current assets	27	61	132	-	220
<b>TOTAL ASSETS</b>	<b>\$ 7,811</b>	<b>\$ 9,791</b>	<b>\$ 4,680</b>	<b>\$ (14,316)</b>	<b>\$ 7,966</b>
<b>LIABILITIES AND EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 69	\$ 498	\$ 390	\$ -	\$ 957
Due to affiliates	1,425	-	1,190	(2,615)	-
Short-term debt	-	1	24	-	25
Long-term debt - current portion	-	2	2	-	4

Edgar Filing: Owens Corning - Form 10-Q

Total current liabilities	1,494	501	1,606	(2,615)	986
Long-term debt, net of current portion	2,098	28	232	-	2,358
Due to affiliates	-	941	67	(1,008)	-
Pension plan liability	209	-	115	-	324
Other employee benefits liability	-	222	16	-	238
Deferred income taxes	-	-	27	-	27
Other liabilities	148	175	44	(233)	134
<b>OWENS CORNING STOCKHOLDERS EQUITY</b>					
Preferred stock	-	-	-	-	-
Common stock	1	-	-	-	1
Additional paid in capital	3,936	6,559	1,962	(8,521)	3,936
Accumulated earnings	756	1,365	574	(1,939)	756
Accumulated other comprehensive deficit	(310)	-	-	-	(310)
Cost of common stock in treasury	(521)	-	-	-	(521)
Total Owens Corning stockholders equity	3,862	7,924	2,536	(10,460)	3,862
Noncontrolling interests	-	-	37	-	37
Total equity	3,862	7,924	2,573	(10,460)	3,899
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 7,811</b>	<b>\$ 9,791</b>	<b>\$ 4,680</b>	<b>\$ (14,316)</b>	<b>\$ 7,966</b>

**Table of Contents**

- 33 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING BALANCE SHEET****AS OF DECEMBER 31, 2013****(in millions)**

<b>ASSETS</b>	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 3	\$ 54	\$ -	\$ 57
Receivables, less allowances	-	-	683	-	683
Due from affiliates	-	2,664	-	(2,664)	-
Inventories	-	487	323	-	810
Assets held for sale - current	-	-	29	-	29
Other current assets	45	140	84	-	269
<b>Total current assets</b>	<b>45</b>	<b>3,294</b>	<b>1,173</b>	<b>(2,664)</b>	<b>1,848</b>
Investment in subsidiaries	7,229	2,558	558	(10,345)	-
Due from affiliates	-	67	959	(1,026)	-
Property, plant and equipment, net	362	1,313	1,257	-	2,932
Goodwill	-	1,127	39	-	1,166
Intangible assets	-	1,015	271	(246)	1,040
Deferred income taxes	14	416	6	-	436
Other non-current assets	31	64	130	-	225
<b>TOTAL ASSETS</b>	<b>\$ 7,681</b>	<b>\$ 9,854</b>	<b>\$ 4,393</b>	<b>\$ (14,281)</b>	<b>\$ 7,647</b>
<b>LIABILITIES AND EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 15	\$ 608	\$ 365	\$ -	\$ 988
Due to affiliates	1,688	-	976	(2,664)	-
Short-term debt	-	-	1	-	1
Long-term debt - current portion	-	2	1	-	3

Edgar Filing: Owens Corning - Form 10-Q

Total current liabilities	1,703	610	1,343	(2,664)	992
Long-term debt, net of current portion	1,814	26	184	-	2,024
Due to affiliates	-	959	67	(1,026)	-
Pension plan liability	213	-	123	-	336
Other employee benefits liability	-	226	16	-	242
Deferred income taxes	-	-	23	-	23
Other liabilities	158	246	42	(246)	200
<b>OWENS CORNING STOCKHOLDERS EQUITY</b>	-	-	-	-	-
Preferred stock	-	-	-	-	-
Common stock	1	-	-	-	1
Additional paid in capital	3,938	6,572	2,045	(8,617)	3,938
Accumulated earnings	655	1,215	513	(1,728)	655
Accumulated other comprehensive deficit	(297)	-	-	-	(297)
Cost of common stock in treasury	(504)	-	-	-	(504)
<b>Total Owens Corning stockholders equity</b>	<b>3,793</b>	<b>7,787</b>	<b>2,558</b>	<b>(10,345)</b>	<b>3,793</b>
Noncontrolling interests	-	-	37	-	37
<b>Total equity</b>	<b>3,793</b>	<b>7,787</b>	<b>2,595</b>	<b>(10,345)</b>	<b>3,830</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 7,681</b>	<b>\$ 9,854</b>	<b>\$ 4,393</b>	<b>\$ (14,281)</b>	<b>\$ 7,647</b>

**Table of Contents**

- 34 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2014****(in millions)**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>NET CASH FLOW USED FOR OPERATING ACTIVITIES</b>	\$ -	\$ (222)	\$ (50)	\$ -	\$ (272)
<b>NET CASH FLOW USED FOR INVESTING ACTIVITIES</b>					
Additions to plant and equipment (including alloy)	(3)	(26)	(22)	-	(51)
Closing costs related to sale of Hangzhou, China facility	-	-	(3)	-	(3)
<b>Net cash flow used for investing activities</b>	<b>(3)</b>	<b>(26)</b>	<b>(25)</b>	<b>-</b>	<b>(54)</b>
<b>NET CASH FLOW PROVIDED BY FINANCING ACTIVITIES</b>					
Proceeds from senior revolving credit and receivables securitization facilities	433	-	51	-	484
Payments on senior revolving credit and receivables securitization facilities	(149)	-	-	-	(149)
Net increase in short-term debt	-	1	23	-	24
Purchases of treasury stock	(29)	-	-	-	(29)
Other intercompany loans	(257)	247	10	-	-
Other	5	-	-	-	5
<b>Net cash flow provided by financing activities</b>	<b>3</b>	<b>248</b>	<b>84</b>	<b>-</b>	<b>335</b>
Effect of exchange rate changes on cash	-	-	(1)	-	(1)
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>8</b>
Cash and cash equivalents at beginning of period	-	3	54	-	57

Edgar Filing: Owens Corning - Form 10-Q

<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$	-	\$	3	\$	62	\$	-	\$	65
---------------------------------------------------	----	---	----	---	----	----	----	---	----	----

**Table of Contents**

- 35 -

**OWENS CORNING AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****(unaudited)****20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)****OWENS CORNING AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2013****(in millions)**

	<b>Parent</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>NET CASH FLOW USED FOR OPERATING ACTIVITIES</b>	\$ (1)	\$ (199)	\$ 21	\$ -	\$ (179)
<b>NET CASH FLOW USED FOR INVESTING ACTIVITIES</b>					
Additions to plant and equipment	(2)	(26)	(17)	-	(45)
Closing costs related to sale of Hangzhou, China facility	-	-	-	-	-
<b>Net cash flow used for investing activities</b>	<b>(2)</b>	<b>(26)</b>	<b>(17)</b>	<b>-</b>	<b>(45)</b>
<b>NET CASH FLOW PROVIDED BY FINANCING ACTIVITIES</b>					
Proceeds from senior revolving credit and receivables securitization facilities	485	-	73	-	558
Payments on senior revolving credit and receivables securitization facilities	(304)	-	(27)	-	(331)
Net increase in short-term debt	-	-	5	-	5
Purchase of treasury stock	(8)	-	-	-	(8)
Other intercompany loans	(178)	224	(46)	-	-
Other	8	-	-	-	8
<b>Net cash flow provided by financing activities</b>	<b>3</b>	<b>224</b>	<b>5</b>	<b>-</b>	<b>232</b>
Effect of exchange rate changes on cash	-	-	(1)	-	(1)
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>(1)</b>	<b>8</b>	<b>-</b>	<b>7</b>
Cash and cash equivalents at beginning of period	-	3	52	-	55

Edgar Filing: Owens Corning - Form 10-Q

<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$	-	\$	2	\$	60	\$	-	\$	62
---------------------------------------------------	----	---	----	---	----	----	----	---	----	----

---

**Table of Contents**

- 36 -

**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's business operations fall within two reportable segments, Composites and Building Materials. Composites includes our Reinforcements and Downstream businesses. Building Materials includes our Insulation and Roofing businesses. Through these lines of business, we manufacture and sell products worldwide. We maintain leading market positions in many of our major product categories.

**EXECUTIVE OVERVIEW**

We reported \$108 million in earnings before interest and taxes ( EBIT ) for the first quarter 2014. We generated \$77 million in adjusted earnings before interest and taxes ( Adjusted EBIT ) for the first quarter 2014. First quarter EBIT in our Building Materials segment decreased by \$17 million and EBIT in our Composites segment increased by \$18 million compared to the same period in 2013.

In the first quarter of 2014, we have adjusted \$31 million of net gains out of reported EBIT to arrive at adjusted EBIT. The closure of the previously announced sale of our Hangzhou, China Composites glass reinforcements facility resulted in a gain of \$45 million (see further discussion of this action in Note 7 of the Consolidated Financial Statements). This gain was partially offset by \$14 million of charges; \$12 million of which related to cost reduction actions in our Composites segment and \$2 million related to final clean up costs associated with the repair of our Kearny, New Jersey manufacturing facility that was damaged by the October 2012 Hurricane Sandy (see further discussion of these items in Note 10 and 13 of the Consolidated Financial Statements). See below for further information regarding adjusted EBIT, including the reconciliation to net earnings attributable to Owens Corning.

In our Composites segment, EBIT in the first quarter 2014 was \$27 million compared to \$9 million in the same period in 2013. The increase was primarily driven by higher selling prices and improved operating performance.

In our Building Materials segment, EBIT in the first quarter 2014 was \$81 million, compared to \$98 million in the same period in 2013. In the first quarter, our insulation business reported its 11<sup>th</sup> consecutive quarter of EBIT improvement despite challenging weather conditions in North America. In our Roofing business, EBIT decreased \$39 million compared to the same period in 2013 due to lower than expected sales volumes. Our Insulation business increased EBIT \$22 million compared to the same period in 2013 primarily on higher selling prices.

We maintain a strong balance sheet with ample liquidity. We have access to an \$800 million senior revolving credit facility with a November 2018 maturity date and a \$250 million receivables securitization facility with a July 2016 maturity date. We have no significant debt maturities before 2016.

Due to the normal seasonality of our business, we typically have negative cash flow from operations in the first half of the year. During the first quarter 2014, we used \$272 million in cash flow from operating activities compared to \$179 million over the same period of 2013. The increase in cash used for operating activities was driven by an increase in working capital.

We repurchased 0.6 million shares of the Company's common stock for \$26 million during the first quarter of 2014 under previously announced repurchase programs. As of March 31, 2014, 8 million shares remain available for repurchase under the authorized programs.

**Table of Contents**

- 37 -

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(continued)****RESULTS OF OPERATIONS****Consolidated Results (in millions)**

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
Net sales	\$ 1,278	\$ 1,350
Gross margin	\$ 234	\$ 213
<i>% of net sales</i>	<i>18%</i>	<i>16%</i>
Charges related to cost reduction actions	\$ 12	\$ 1
Earnings before interest and taxes	\$ 108	\$ 57
Interest expense, net	\$ 27	\$ 29
Income tax expense	\$ (39)	\$ 6
Net earnings attributable to Owens Corning	\$ 120	\$ 22

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**

Net sales were \$72 million lower in the first quarter 2014 compared to the first quarter 2013 driven primarily by lower sales volumes in our Roofing business partially offset by higher selling prices in our Composites and Insulation businesses.

**GROSS MARGIN**

Gross margin as a percentage of sales was higher in the first quarter 2014 as compared to the first quarter 2013 due to higher contribution margins in our Composites and Insulation businesses. In addition, first quarter 2013 gross margin included \$11 million of charges resulting from net losses related to Hurricane Sandy and \$8 million of charges related to our 2012 restructuring actions. No charges related to Hurricane Sandy or our 2012 restructuring actions were included in gross margin in the first quarter 2014.

**CHARGES RELATED TO COST REDUCTION ACTIONS**

In the first quarter of 2014, we took actions to reduce costs throughout our global Composites network. As a result of these actions, we recognized \$11 million in severance charges and \$3 million in contract termination charges for the first quarter 2014. These charges were partially offset by a \$2 million decrease in severance related to the divestiture of our Hangzhou, China Composites facility. The net charges related to cost reduction actions in the first quarter of 2014 were \$12 million.

During 2012, we took actions to improve the competitive position of our global Composites manufacturing network through the closure or optimization of certain facilities, with our most significant actions taking place in France, Spain and Italy. These actions were primarily due to market conditions that led to lower capacity requirements within the European region. As a result of these actions, in addition to the charges recorded in cost of sales discussed above, we recognized \$1 million in severance charges for the first quarter 2013. The total charges related to cost reduction actions and related items in the first quarter of 2013 were \$9 million.

**EARNINGS BEFORE INTEREST AND TAXES**

## Edgar Filing: Owens Corning - Form 10-Q

EBIT increased by \$51 million for the first quarter 2014 compared to the same period in 2013. First quarter EBIT in our Building Materials segment decreased by \$17 million and first quarter EBIT in our Composites segment increased by \$18 million compared to the same period in 2013. Corporate EBIT in the first quarter increased by \$50 million, due primarily to the gain on the sale of our Hangzhou, China Composites glass reinforcements facility.

**Table of Contents**

- 38 -

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(continued)****INTEREST EXPENSE, NET**

Net interest expense for the first quarter 2014 was \$2 million lower than in 2013 due to lower variable interest rates and higher interest income.

**INCOME TAX EXPENSE (BENEFIT)**

Income tax expense for the three months ended March 31, 2014, was a benefit of \$39 million. The effective tax rate for the three months ended March 31, 2014 was (48) percent. The difference between the effective tax rate and the statutory rate of 35 percent is primarily attributable to the Company recording a tax benefit of \$78 million relating to the resolution of an uncertain tax position and a valuation allowance recorded in prior years against certain European net deferred tax assets. The resolution of an uncertain tax position was the result of the Company receiving final notification from the IRS in the first quarter that it had completed its audit examination for the taxable years 2008 through 2010. The valuation allowance was reversed during the first quarter based on the weight of the first quarter earnings resulting in positive cumulative earnings in recent years and the Company's forecast which indicates that the positive earnings trend will continue. The remaining differences relate to other discrete adjustments in the quarter and the accounting treatment of various locations which are currently in a loss position in the first quarter 2014.

We estimate that the effective tax rate on adjusted earnings for the full year 2014 will be in the range of 28 to 30 percent excluding the resolution of a significant uncertain tax position and the reversal of a valuation allowance recorded in prior years against certain European net deferred tax assets. The difference between the effective tax rate range of 28 to 30 percent and the statutory rate of 35 percent is primarily attributable to lower foreign tax rates and various tax planning initiatives.

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

Adjusted EBIT excludes certain items that management does not allocate to our segment results because it believes they are not a result of the Company's current operations. Adjusted EBIT is used internally by the Company for various purposes, including reporting results of operations to the Board of Directors of the Company, analysis of performance and related employee compensation measures. Although management believes that these adjustments result in a measure that provides 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):

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
Gain on sale of Hangzhou, China facility	\$ 45	\$ -
Charges related to cost reduction actions and related items	(12)	(9)
Net loss related to Hurricane Sandy	(2)	(11)
Total adjusting items gain (loss)	\$ 31	\$ (20)

**Table of Contents**

- 39 -

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

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

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	\$ 120	\$ 22
Less: Net earnings attributable to noncontrolling interests	-	-
NET EARNINGS	120	22
Income tax expense (benefit)	(39)	6
EARNINGS BEFORE TAXES	81	28
Interest expense, net	27	29
EARNINGS BEFORE INTEREST AND TAXES	108	57
Adjusting items from above gain (loss)	31	(20)
ADJUSTED EBIT	\$ 77	\$ 77

**Segment Results**

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

**Composites**

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

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Net sales</b>	\$ 477	\$ 459
<i>% change from prior year</i>	4%	-4%
<b>EBIT</b>	\$ 27	\$ 9
<i>EBIT as a % of net sales</i>	6%	2%
<b>Depreciation and amortization expense</b>	\$ 34	\$ 32

NET SALES

## Edgar Filing: Owens Corning - Form 10-Q

Net sales in our Composites business increased \$18 million for the three months ended March 31, 2014 compared to the same period in 2013. Favorable customer mix and higher selling prices contributed about equally to the increase in net sales. Slightly higher volumes in our downstream businesses were offset by the impact of translating sales denominated in foreign currencies into United States dollars.

### EBIT

In our Composites business, EBIT increased \$18 million for the first quarter 2014 compared to the same period in 2013. For the quarter, the increase in EBIT was driven about equally by higher selling prices and improved operating performance. Favorable mix and lower selling and administrative expenses were offset by inflation and higher plant rebuild costs.

**Table of Contents**

- 40 -

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

Global glass reinforcements market demand has historically grown on average with global industrial production and we believe this relationship will continue. For the remainder of 2014, we continue to expect moderate global industrial production growth.

***Building Materials***

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

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Net sales</b>		
Insulation	\$ 355	\$ 330
Roofing	497	607
<b>Total Building Materials</b>	<b>\$ 852</b>	<b>\$ 937</b>
<i>% change from prior year</i>	<i>-9%</i>	<i>2%</i>
<b>EBIT</b>		
Insulation	\$ 1	\$ (21)
Roofing	80	119
<b>Total Building Materials</b>	<b>\$ 81</b>	<b>\$ 98</b>
<i>EBIT as a % of net sales</i>	<i>10%</i>	<i>10%</i>
<b>Depreciation and amortization expense</b>		
Insulation	\$ 25	\$ 26
Roofing	9	10
<b>Total Building Materials</b>	<b>\$ 34</b>	<b>\$ 36</b>

**NET SALES**

Net sales in our Building Materials segment were \$85 million lower in the first quarter 2014 compared to the same period in 2013. For the quarter, net sales decreased due primarily to lower sales volumes in our Roofing business partially offset by higher selling prices in our Insulation business.

In our Roofing business, net sales in the first quarter of 2014 were \$110 million lower for the three months ended March 31, 2014 compared to the same period in 2013. The decline in sales was driven by lower sales volumes.

In our Insulation business, net sales were \$25 million higher for the three months ended March 31, 2014 compared to the same period in 2013. Higher selling prices contributed approximately \$17 million in the first quarter and the remaining increase was primarily driven by \$13 million of increased sales related to our second quarter 2013 acquisition of Thermafiber Inc. partially offset by slightly lower sales volumes.

## Edgar Filing: Owens Corning - Form 10-Q

### EBIT

EBIT for our Building Materials segment was \$17 million lower in the first quarter 2014, compared to the same period in 2013.

In our Roofing business, EBIT was \$39 million lower for the three months ended March 31, 2014 compared to the same period in 2013. For the quarter, lower sales volumes drove the majority of the decrease with the remaining decrease being driven by inflation.

**Table of Contents**

- 41 -

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

In our Insulation business, EBIT increased by \$22 million for the three months ended March 31, 2014 compared to the same period in 2013. The increase was driven primarily by higher selling prices, including their impact on our ability to fully capitalize manufacturing costs in inventory. The benefit of higher capacity utilization was offset primarily by inflation related to energy costs.

**OUTLOOK**

The average Seasonally Adjusted Annual Rate ( SAAR ) of United States housing starts was approximately 925 thousand starts, down slightly from a first quarter average of approximately 957 thousand starts in the first quarter of 2013. While the information on United States housing starts has been trending positively over the past couple of years, the timing and pace of recovery of the United States housing market remains uncertain.

In our roofing business, we expect the factors that have driven strong margins in recent years will continue to deliver profitability. Our weaker than expected first quarter volumes add some additional risk to our financial outlook. Other uncertainties that may impact our Roofing margins include competitive pricing pressure and the cost and availability of raw materials, particularly asphalt.

The Company expects our Insulation business to continue to benefit from an overall strengthening of the U.S. housing market, improved pricing, and higher capacity utilization. We believe the geographic, product and channel mix of our portfolio may continue to moderate the impact of any demand-driven variability associated with United States new construction.

**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):

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
Gain on sale of Hangzhou manufacturing facility	\$ 45	\$ -
Charges related to cost reduction actions and related items	(12)	(9)
Net loss related to Hurricane Sandy	(2)	(11)
General corporate expense and other	(31)	(30)
<b>EBIT</b>	<b>\$ -</b>	<b>\$ (50)</b>
Depreciation and amortization	\$ 8	\$ 10

**EBIT**

In Corporate, Other and Eliminations, EBIT for the three months ended March 31, 2014 was \$50 million higher compared to the same period in 2013. In the first quarter, we recorded a \$45 million gain related to the sale of our Hangzhou, China facility and an additional \$2 million in property damage and related charges as a result of Hurricane Sandy's impact on our Roofing facility in Kearny, New Jersey. We also incurred a net \$12 million in charges related to cost reduction actions, primarily related to reducing costs throughout our global Composites network. These charges consist primarily of severance and contract termination charges.

Depreciation and amortization for the first quarter 2014 was \$8 million compared to \$10 million in the first quarter of 2013.

**Table of Contents**

- 42 -

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

We have an \$800 million senior revolving credit facility and a \$250 million receivables securitization facility, which serve as our primary sources of liquidity. Our senior revolving credit facility matures in November 2018 and our receivables securitization facility matures in July 2016. In November 2013, we amended the \$800 million senior revolving credit facility to extend its maturity to November 2018 and reduce the letters of credit sublimit to \$100 million. In July 2013, we amended the receivables securitization facility to extend its maturity to July 2016 and to reduce the size of the facility to \$200 million during the months of November, December, and January each year. We have no significant debt maturities before 2016. As of March 31, 2014, the receivables securitization facility was fully utilized and we had \$500 million available on the senior revolving credit facility. As of March 31, 2014, we had \$2.4 billion of total debt and cash-on-hand of \$65 million.

Cash and cash equivalents held by foreign subsidiaries may be subject to U.S. income taxation upon repatriation to the U.S. We do not provide for U.S. income taxes on the undistributed earnings of these subsidiaries as earnings are reinvested and, in the opinion of management, will continue to be reinvested indefinitely outside of the U.S. As of March 31, 2014, we had approximately \$57 million in cash and cash equivalents in certain of our foreign subsidiaries where we consider undistributed earnings for these foreign subsidiaries to be permanently reinvested.

We expect our cash on hand, coupled with future cash flows from operations and other available sources of liquidity, including our senior revolving credit facility, will provide ample liquidity to allow us to meet our cash requirements. Our anticipated uses of cash include capital expenditures, working capital needs, pension contributions, meeting financial obligations, payments of quarterly dividends as authorized by our Board of Directors, and reducing outstanding amounts under the senior credit facility and the securitization facility.

We have an outstanding share repurchase authorization and will evaluate and consider repurchasing shares of our common stock as well as strategic acquisitions, divestitures, joint ventures and other transactions to create stockholder value and enhance financial performance. Such transactions may require cash expenditures beyond current sources of liquidity or generated proceeds.

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

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 for agreements of these types. The senior revolving credit facility and the 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 March 31, 2014.

**Cash Flows**

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

	<b>Three Months Ended Mar. 31,</b>	
	<b>2014</b>	<b>2013</b>
Cash balance	\$ 65	\$ 62
Cash used for operating activities	\$ (272)	\$ (179)
Cash used for investing activities	\$ (54)	\$ (45)

## Edgar Filing: Owens Corning - Form 10-Q

Cash provided by financing activities	\$	335	\$	232
Unused committed credit available under the senior revolving credit facility	\$	500	\$	542

**Table of Contents**

- 43 -

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

*Operating activities:* For the first quarter 2014, we used \$272 million of cash from operations compared to \$179 million in the same period in 2013. The increased in cash used for operating activities was primarily driven by an increase in working capital.

*Investing activities:* Cash used for investing activities was \$9 million higher for the three months ended March 31, 2014 compared to the first three months in 2013. Capital spending was slightly higher than the prior year and we had \$3 million closing costs related to the sale of our Hangzhou, China Composites facility.

*Financing activities:* Cash provided by financing activities was \$103 million higher for the three months ended March 31, 2014 compared to the first three months of 2013 due primarily to our cash needs for working capital and investing activities.

**2014 Investments**

*Capital Expenditures:* The Company will continue a balanced approach to the use of its cash flow. Operational cash flow will be used to fund the Company's growth and innovation. Capital expenditures in 2014 are expected to be approximately \$400 million, including an estimated \$65 million for the start of construction of a previously announced non-woven facility. 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**

Upon emergence and subsequent to the distribution of contingent stock and cash in January 2007, we generated a significant United States federal tax net operating loss of approximately \$3.0 billion. As of March 31, 2014 and December 31, 2013, our federal tax net operating losses remaining were \$2.1 billion and \$2.2 billion respectively. The federal net operating losses decreased from prior year based on our estimate of 2014 YTD taxable income. Our net operating losses are subject to the limitations imposed under section 382 of the Internal Revenue Code. These limits are triggered when a change in control occurs, and are computed based upon several variable factors including the share price of the Company's common stock on the date of the change in control. A change in control is generally defined as a cumulative change of 50 percent or more in the ownership positions of certain stockholders during a rolling three year period. Our initial three year period for measuring an ownership change started at October 31, 2006.

In addition to the United States net operating losses described above, we have net operating losses in various state and foreign jurisdictions which totaled \$2.4 billion and \$0.9 billion as of March 31, 2014, respectively and \$2.5 billion and \$0.9 billion as of December 31, 2013, respectively. The state net operating losses decreased from prior year based on our estimate of 2014 YTD taxable income. The evaluation of the amount of net operating losses expected to be realized necessarily involves forecasting the amount of taxable income that will be generated in future years. In assessing the realizability of our deferred tax assets, we have not relied on any material future tax planning strategies. We have forecasted future results using estimates management believes to be reasonable, which are based on independent evidence such as expected trends resulting from certain leading economic indicators such as global industrial production and new U.S. residential housing starts. In order to fully utilize our net operating losses, we estimate that the Company will need to generate future federal, state and foreign earnings before taxes of approximately \$2.7 billion, \$2.8 billion and \$0.9 billion, respectively. Management believes the Company will generate sufficient future taxable income within the statutory limitations in order to fully realize the carrying value of its U.S. federal net operating losses. As of March 31, 2014, a valuation allowance exists for certain state and foreign jurisdictions' net operating loss carryforwards.

The realization of deferred income tax assets is dependent on future events. Actual results inevitably will vary from management's forecasts. Should we determine that it is likely that our deferred income tax assets are not realizable, we would be required to reduce our deferred tax assets reflected on our Consolidated Financial Statements to the net realizable amount by establishing an accounting valuation allowance and recording a corresponding charge to current earnings. Such adjustments could be material to the financial statements. To date, we have recorded valuation allowances against certain of these deferred tax assets totaling \$239 million as of March 31, 2014. In assessing the realizability of our deferred tax assets, we have not relied on any material future tax planning strategies.

---

**Table of Contents**

- 44 -

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

**Pension Contributions**

The Company has several defined benefit pension plans. The Company made cash contributions of approximately \$14 million and \$12 million to the plans during the three months ended March 31, 2014 and 2013, respectively. The Company expects to contribute \$55 million in cash to its global pension plans during 2014. Actual contributions to the plans may change as a result of a variety of factors, including changes in laws that impact funding requirements. The ultimate cash flow impact to the Company, if any, of the pension plan liability and the timing of any such impact will depend on numerous variables, including future changes in actuarial assumptions, legislative changes to pension funding laws, and market conditions.

**Derivatives**

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. To mitigate some of the near-term volatility in our earnings and cash flows, we use financial and derivative instruments to hedge certain exposures, principally currency and energy-related. The Company does not enter into such transactions for trading purposes. Our current hedging practice is to hedge a variable percentage of certain energy and energy-related exposures. Going forward, the results of our hedging practice could be positive, neutral or negative in any period depending on price changes in the hedged exposures, and will tend to mitigate near-term volatility in the exposures hedged. The practice is neither intended nor expected to mitigate longer term exposures. See Note 4 to the Consolidated Financial Statements for further discussion.

Our current practice is to manage our interest rate exposure by balancing the mixture of our fixed and variable rate instruments. We utilize, among other strategies, interest rate swaps to achieve this balance in interest rate exposures.

**Fair Value Measurement**

**Items Measured at Fair Value**

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

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

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

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

**Off Balance Sheet Arrangements**

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

**Contractual Obligations**

In the normal course of business, we enter into contractual obligations to make payments to third parties. During the three months ended March 31, 2014, there were no material changes to such contractual obligations outside the ordinary course of our business.

---

**Table of Contents**

- 45 -

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

**SAFETY**

Working safely is a condition of employment at Owens Corning. We believe this organization-wide expectation provides for a safer work environment for employees, improves our manufacturing processes, reduces our costs and enhances our reputation. Furthermore, striving to be a world-class leader in safety provides a platform for all employees to understand and apply the resolve necessary to be a high-performing, global organization. We measure our progress on safety based on Recordable Incidence Rate ( RIR ) as defined by the United States Department of Labor, Bureau of Labor Statistics. For the three months ended March 31, 2014 our RIR was 0.49 as compared to 0.64 in the same period a year ago.

**ACCOUNTING PRONOUNCEMENTS**

In July 2013, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance is effective for fiscal year and interim periods beginning after December 15, 2013. The update does not have a material impact on the Company's Consolidated Condensed Financial Statements and we have prospectively adopted the standard in fiscal year 2014.

In April 2014, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity . ASU No. 2014-08 changes the definition of a discontinued operation to include only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU No. 2014-08 is effective prospectively for fiscal years beginning after December 15, 2014. The Company does not expect this update to have a material impact on our Consolidated Financial Statements.

In March 2013, the FASB issued ASU No. 2013-05, Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU No. 2013-05 clarifies when companies should release the cumulative translation adjustment (CTA) into net income when a parent either sells a part of or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. ASU No. 2013-05 is effective prospectively for fiscal years beginning after December 15, 2013. The Company does not expect this update to have a material impact on our Consolidated Financial Statements.

**ENVIRONMENTAL MATTERS**

We have been deemed by the Environmental Protection Agency ( EPA ) to be a Potentially Responsible Party ( PRP ) with respect to certain sites under the Comprehensive Environmental Response Compensation and Liability Act. We have also been deemed a PRP under similar state or local laws and in other instances other PRPs have brought suits against us as a PRP for contribution under such federal, state, or local laws. At March 31, 2014, we had environmental remediation liabilities as a PRP at 21 sites where we have a continuing legal obligation to either complete remedial actions or contribute to the completion of remedial actions as part of a group of PRPs. For these sites we estimate a reserve to reflect environmental liabilities that have been asserted or are probable of assertion, in which liabilities are probable and reasonably estimable. At March 31, 2014, our reserve for such liabilities was \$4 million.

**Table of Contents**

- 46 -

**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, as amended. Forward-looking statements present our current forecasts and estimates of future events. These statements do not strictly relate to historical or current results and can be identified by words such as anticipate, believe, estimate, expect, intend, likely, project, strategy, will and other terms of similar meaning or import in connection with any discussion of future operating, financial or other performance. These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected in the statements. These risks, uncertainties and other factors include, without limitation:

levels of residential and commercial construction activity;

competitive factors;

levels of global industrial production;

relationships with key customers;

difficulties in managing production capacity;

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

availability and cost of credit;

our level of indebtedness;

weather conditions;

pricing factors;

availability and cost of raw materials;

issues involving implementation and protection of information technology systems;

## Edgar Filing: Owens Corning - Form 10-Q

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

our ability to utilize our net operating loss carryforwards;

research and development activities;

foreign exchange and commodity price fluctuations;

interest rate movements;

labor disputes;

issues related to acquisitions, divestitures and joint ventures;

uninsured losses;

**Table of Contents**

- 47 -

**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS (continued)**

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

defined benefit plan funding obligations.

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

**Table of Contents**

- 48 -

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Please refer to the Company's 2013 annual report on Form 10-K for the Company's quantitative and qualitative disclosures about market risk.

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

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

**Table of Contents**

- 49 -

**PART II****ITEM 1. LEGAL PROCEEDINGS**

None.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2013.

**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 during each month during the quarterly period covered by this report:

<b>Period</b>	<b>Total Number of Shares (or Units) Purchased</b>	<b>Average Price Paid per Share (or Unit)</b>	<b>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs**</b>
January 1-31, 2014	-	\$ -	-	8,600,000
February 1-28, 2014	277,946	41.31	135,000	8,465,000
March 1-31, 2014	465,149	43.47	465,000	8,000,000
Total	743,095*	\$ 42.66	600,000	8,000,000

\* The Company retained 143,095 shares surrendered to satisfy tax withholding obligations in connection with the vesting of restricted shares granted to our employees.

## Edgar Filing: Owens Corning - Form 10-Q

\*\* On April 25, 2012, the Company announced a share buy-back program under which the Company is authorized to repurchase up to 10 million shares of Owens Corning's outstanding common stock. Under the buy-back program, shares may be repurchased through open market, privately negotiated, or other transactions. The timing and actual number of shares repurchased will depend on market conditions and other factors and will be at the Company's discretion.

### **ITEM 3.      DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4.      MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents**

- 50 -

**ITEM 5. OTHER INFORMATION****Submission of Matters to a Vote of Security Holders.**

At the 2014 Annual Meeting of Stockholders of the Company held on April 17, 2014, Company stockholders cast their votes as described below on four proposals described in the Company's definitive proxy statement filed with the U.S. Securities and Exchange Commission on March 13, 2014.

**Proposal 1**

The following directors were elected to serve until the 2017 Annual Meeting of Stockholders and until their successors are elected and qualified pursuant to the following vote:

<b>Name</b>	<b>For</b>	<b>Withheld</b>	<b>Broker Non-Votes</b>
Ann Iverson	95,615,657	3,385,919	8,627,802
Edward F. Lonergan	95,199,747	3,801,829	8,627,802
John D. Williams	98,790,485	211,091	8,627,802

**Proposal 2**

Company stockholders ratified the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2014 pursuant to the following vote:

<b>Votes For</b>	<b>Votes Against</b>	<b>Abstentions</b>	<b>Broker Non-Votes</b>
107,157,626	366,426	105,326	0

**Proposal 3**

Company stockholders approved amendments to the Company's Bylaws and Certificate of Incorporation to declassify the Board of Directors pursuant to the following vote:

<b>Votes For</b>	<b>Votes Against</b>	<b>Abstentions</b>	<b>Broker Non-Votes</b>
98,640,194	159,600	201,782	8,627,802

**Proposal 4**

Company stockholders approved, on an advisory basis, the 2013 compensation paid to the Company's named executive officers pursuant to the following vote:

<b>Votes For</b>	<b>Votes Against</b>	<b>Abstentions</b>	<b>Broker Non-Votes</b>
66,443,610	32,063,506	494,460	8,627,802

**ITEM 6. EXHIBITS**

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

**Table of Contents**

- 51 -

**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: April 23, 2014

By: /s/ Michael C. McMurray  
Michael C. McMurray  
Senior Vice President and  
Chief Financial Officer  
(as duly authorized officer)

Date: April 23, 2014

By: /s/ Kelly J. Schmidt  
Kelly J. Schmidt  
Vice President and  
Controller

**Table of Contents**

- 52 -

**EXHIBIT INDEX**

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation (filed herewith).
3.2	Amended and Restated Bylaws (filed herewith).
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