Owens Corning
Form 10-K
February 27, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2007

Commission file number 1-33100

Owens Corning

(Exact name of registrant as specified in charter)

Delaware	**43-2109021**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

One Owens Corning Parkway	**43659**
Toledo, OH	
(Address of principal executive offices)	**(Zip Code)**

(419) 248-8000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**New York Stock Exchange**
Series A Warrants	
Series B Warrants	

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

On June 30, 2007, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of $0.01 par value common stock (the voting stock of the registrant) held by non-affiliates (assuming for purposes of this computation only that the registrant had no affiliates) was $4,398.5 million.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes x No ¨

As of February 22, 2008, there were outstanding 131,662,806 shares of registrant s $0.01 par value common stock.

(i)

INDEX

PART I

ITEM 1. BUSINESS
OVERVIEW

Owens Corning, a global company incorporated in Delaware, is headquartered in Toledo, Ohio, and is a leading global producer of residential and commercial building materials and glass fiber reinforcements and other similar materials for composite systems. Unless the context indicates otherwise, the terms Owens Corning, Company, Successor, we and our in this report refer to Owens Corning (formerly known as Owens Corning (Reorganized) Inc.) and its subsidiaries. We operate within two general product categories: building materials, which includes our Insulating Systems, Roofing and Asphalt, and Other Building Materials and Services reportable segments, and composites, which includes our Composite Solutions reportable segment. These segments comprised approximately 34%, 27%, 6%, and 33% of our total net sales, respectively, in fiscal 2007. Through our building materials product category, we manufacture and sell products primarily in the United States, Canada, Europe and Latin America, and through our composites product category, we manufacture and sell products worldwide. We maintain leading market positions in both of our major product categories.

On October 5, 2000 (the Petition Date), our Predecessor company, Owens Corning Sales, LLC (formerly known as Owens Corning) (OCD) and certain of its subsidiaries (collectively, the Debtors) filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (USBC) to resolve asbestos claims against OCD and certain of its subsidiaries and protect the long-term value of OCD s business. The Debtors satisfied the conditions of their plan of reorganization (the Plan) and emerged from bankruptcy on October 31, 2006 (the Effective Date), with all asbestos-related liabilities resolved through such plan of reorganization. At such time, the Company became the holding company for the Owens Corning companies.

Owens Corning is the Successor issuer to OCD, which is now a wholly-owned subsidiary as a result of Owens Corning adopting a holding company organizational structure. References in the consolidated financial statements and the notes thereto to the Successor company and the Predecessor company, respectively, refer to the Company on and after November 1, 2006, and to OCD prior to such date. As required by accounting principles generally accepted in the United States, the Company adopted fresh-start accounting effective November 1, 2006. The financial statements for the periods ended October 31, 2006 and December 31, 2005 do not reflect the effect of any changes in the Company s capital structure or changes in fair values of assets and liabilities as a result of fresh-start accounting.

References to fiscal year means the Company s year commencing on January 1 and ending on December 31 of that year (e.g., fiscal 2007 refers to the Successor period beginning January 1, 2007 and ending on December 31, 2007, fiscal 2006 refers to the Predecessor period beginning January 1, 2006 and ending on October 31, 2006 combined with the Successor period beginning November 1, 2006 and ending on December 31, 2006, and fiscal 2005 refers to the Predecessor period beginning January 1, 2005 and ending on December 31, 2005).

SEGMENT OVERVIEW

This section should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations Segment Results .

Note 2 to the Consolidated Financial Statements contains information regarding net sales from external customers and total assets attributable to each of Owens Corning s reportable segments and geographic regions, earnings (loss) from continuing operations before income taxes for each of Owens Corning s reportable segments, and information concerning the dependence of our reportable segments on foreign operations, for each of the fiscal years 2007, 2006 and 2005.

ITEM 1. BUSINESS (continued)

Building Materials

Insulating Systems

According to various industry reports and Company estimates, Owens Corning is North America s largest producer of residential, commercial and industrial insulation, and the second-largest producer of extruded polystyrene foam insulation. Our residential insulating systems help customers conserve energy, provide improved acoustical performance and offer convenience of installation and use, making them a preferred insulating product for new home construction and remodeling. We sell our insulation products primarily to insulation installers, home centers, lumberyards, retailers and distributors. Our products are sold under well-recognized brand names and trademarks such as Owens Corning PINK FIBERGLAS® Insulation.

Demand for Owens Corning s insulating products is driven by new residential construction, remodeling and repair activity, commercial and industrial construction activity, product substitution, increasingly stringent building codes and energy efficiency concerns. We focus our science and technology efforts on improving performance characteristics and commercializing new opportunities for thermal and acoustical insulation solutions. Our marketing efforts are designed to create demand for our products by promoting awareness of the benefits of energy efficiency through insulation, supporting enhanced building codes, and encouraging noise-control improvements, product conversions and substitutions.

Roofing and Asphalt

According to various industry reports and Company estimates, Owens Corning s Roofing and Asphalt business is the second largest producer in the United States of asphalt roofing shingles and is the largest producer of industrial, specialty and roofing asphalts. Our products include laminate and strip shingles, as well as oxidized asphalt, which is used in our own manufacturing and sold to third-party customers for use in asphalt shingle manufacturing, commercial roofing, water proofing and industrial and specialty applications. Our flexible production capacity for producing asphalt roofing shingles has allowed us to take advantage of an industry shift toward laminate shingles in recent years. We have been able to meet the growing demand for longer lasting, aesthetically attractive laminate products with modest capital investment.

We operate a network of 14 roofing plants located in close proximity to major roofing markets, which allows us to minimize shipping and distribution costs. We sell laminate and strip roofing shingles and roofing accessories through home centers, lumberyards, retailers, distributors and contractors. We utilize asphalt products internally to manufacture residential roofing products and also sell asphalt in bulk to other roofing manufacturers. The Owens Corning brand is among the best recognized brands in the roofing and asphalt markets. Owens Corning sells packaged asphalt under the Trumbull brand to roofing contractors and distributors for built-up roofing asphalt systems and to manufacturers in a variety of other industries, including automotive, chemical, rubber and construction.

Other Building Materials and Services

Our Other Building Materials and Services segment is primarily made up of our Masonry Products business that manufactures and sells manufactured stone veneer products and our Construction Services business that provides franchised business offerings in the home remodeling market, principally basement finishing and sun room solutions.

Owens Corning is a leading manufacturer of manufactured stone veneer products, which we primarily sell under a number of brand names including Cultured Stone®, ProStone™, Modulo® Stone, ParMur and Langeo Stone™. Manufactured stone veneer replicates the texture and colors of natural stone while offering improved features such as reduced weight, ease of installation and cost efficiency. Demand for manufactured stone veneer is driven

ITEM 1. BUSINESS (continued)

by its increasing use in new residential construction and repair and remodeling activity as a result of changing consumer preferences. Our manufactured stone veneer products are sold through distributors, retailers and home centers.

Owens Corning s Construction Services division provides specialty remodelers and homeowners with innovative service and products in the remodeling and new construction industries. Construction Services offers remodeling solutions for the home, such as Basement Finishing System and SunSuites sunrooms. The franchise model has been employed to enable the business to grow quickly, allow capital investment, and to enable the business to partner with some of the most notable remodelers in the building materials industry. Over the past seven years, the franchise business has grown from offering one product, Basement Finishing System , in two territories to over 32 franchisees selling and installing Basement Finishing System and SunSuites Sunrooms in 107 territories throughout the United States and Canada.

Composites

Composite Solutions

According to various industry reports and Company estimates, our Composite Solutions business is a world leader in the production of glass fiber reinforcement materials used in composites. Our products are sold to customers worldwide. Our Composite Solutions business provides integral solutions to selected strategic markets and end-users, such as the automotive, transportation, industrial, infrastructure, building products and consumer markets.

Within the building and construction market, our Composite Solutions business sells glass fiber and/or glass mat directly to a small number of major shingle manufacturers, including our own roofing business. Our glass fiber is also used in tubs, showers and other related internal building components. Composite Solutions products are also used in automotive applications, including body panels, door modules, integrated front-end systems, instrument panels, chassis and underbody components and systems, pick-up truck beds and heat and noise shields. Non-automotive transportation applications include heavy truck components, rail cars, shipping containers, refrigerated containers, trailers and commercial ships. We also provide materials for use in thousands of applications within the consumer, industrial and infrastructure markets, which include sporting goods and marine applications, and are active in the wind energy market.

On November 1, 2007, the Company completed its acquisition of Saint-Gobain s reinforcements and composite fabrics businesses for $640 million, which included $56 million in acquired cash and the assumption of $51 million of debt, and excluded estimated transaction costs and purchase price adjustments. This acquisition, described more fully in Note 7 to the Consolidated Financial Statements, accelerates the Company s global growth strategy by enhancing its presence in low-cost emerging markets around the world and strengthens its position as a market leader in glass reinforcements and composites.

INDUSTRY OVERVIEW

Building Materials

Demand for our building materials products is affected by the level of new residential and commercial construction, the level of repair and remodeling activity and demand from industrial markets primarily in the United States.

Changes in general economic conditions, interest rates and housing affordability contribute to the cyclicality of the residential construction industry. We believe that residential repair and remodeling and commercial and industrial activity are less cyclical than new residential construction spending. United States commercial construction spending is dependent on general economic conditions, including gross domestic product growth and new job creation.

ITEM 1. **BUSINESS (continued)**

Leading economic indicators and forecasts for 2008 have indicated that the new residential construction market in the United States is continuing to weaken from the historic highs of recent years. For example: (1) according to the United States Census Bureau, privately-owned housing starts for 2007 were at a seasonally adjusted annual rate of 1.354 million, 24.8% below the 2006 rate of 1.801 million; and (2) according to the January 2008 National Association of Home Builders (NAHB) forecast, total housing starts in 2008 are estimated to be 1.07 million.

Demand for certain of our products is affected in part by the level of new residential construction. The decline in housing starts beginning in mid-2006 had a negative impact on our business results. Should the projected decline in 2008 housing starts materialize, we could experience a further decline in demand that could have a material negative impact on our future business results. While the Company does have certain businesses and products that are not as highly correlated with new residential construction, we cannot be certain that the revenue and income from these businesses would eliminate the decline in our results due to the forecasted residential housing construction activity.

Insulating Systems

Demand for our insulating products is mainly driven by new residential and commercial construction and residential repair and remodeling markets. We believe that a consumer s desire to conserve energy in the face of rising energy costs and more stringent building codes will continue to drive demand for our insulating products.

Roofing and Asphalt

United States demand for roofing and asphalt products is generally driven by both residential repair and remodeling activity, and by the new construction markets. As a result, the residential roofing industry tends to be somewhat less cyclical than other building product categories. Each region of the United States has a different average roof life, due to seasonal weather patterns, but on average a roof needs to be replaced approximately every 19 years. Roof damage related to adverse weather, such as hurricanes and hail, can cause significant temporary spikes in demand such as we experienced in portions of 2005 and early 2006. We experienced little storm related demand in the second half of 2006 and through 2007. This lack of storm related demand, combined with general weakness in the markets for residential roofing shingles during the second half of 2006 and through 2007, negatively impacted our results during those periods as compared to the comparable prior year periods.

Other Building Materials and Services

United States demand for products and services offered by our Other Building Materials and Services segment is primarily driven by the residential and commercial construction and residential repair and remodeling markets. Manufactured stone veneer products have experienced solid demand driven by customer preferences, which is expected to continue as manufactured stone veneer increases its penetration into exterior and interior cladding applications. The franchising market is expected to produce opportunities for growth in this segment as homebuilders outsource certain remodeling services.

Composites

Composite Solutions

Demand for composites is driven by general global economic activity and, more specifically, by the increasing replacement of traditional materials such as aluminum, wood and steel with composites that offer lighter weight, improved strength and less corrosion in the automotive, transportation, industrial, infrastructure, building products and consumer markets. We expect growth to continue in all geographic regions where we compete. Demand will continue in the commercial, industrial and infrastructure markets driven in particular by construction and wind-energy requirements.

ITEM 1. BUSINESS (continued)

GENERAL

Seasonality

Sales in the segments aggregated under the building materials product category tend to follow seasonal home improvement, remodeling and renovation and new construction industry patterns, although on a lagged basis for new residential construction. The peak season for home construction and remodeling in our geographic markets generally corresponds with the second and third calendar quarters. Sales levels for those segments, therefore, are typically higher during the second half of the year. Our composites business s presence in emerging markets around the world brings balance to the Company s revenue sources and cyclicality.

Sales and Distribution

Insulating Systems

Owens Corning sells insulating systems primarily through home centers, lumberyards, retailers and distributors, and commercial and industrial insulation through specialty distributors. Foam insulation and related products are sold primarily to distributors and retailers who resell to commercial and residential builders, remodelers and do-it-yourself customers.

Roofing and Asphalt

Owens Corning sells shingles and roofing accessories primarily through home centers, lumberyards, retailers, distributors and contractors and sells other asphalt products internally to manufacture residential roofing products and externally to other roofing manufacturers. Owens Corning also sells asphalt to roofing contractors and distributors for built-up roofing asphalt systems and to manufacturers in a variety of other industries, including automotive, chemical, rubber and construction.

Other Building Materials and Services

Manufactured stone veneer products are sold through distributors, retailers and home centers. The Construction Services division sells to speciality remodelers and homeowners.

Composite Solutions

Glass fiber materials used in composites are sold to customers worldwide. Within the building and construction market, Owens Corning sells glass fiber and/or mat directly to a small number of major shingle manufacturers, including its own roofing business.

Major Customers

Our largest customer comprised approximately 6% of our consolidated net sales and our top 10 customers accounted for approximately 22% of consolidated net sales in fiscal 2007.

With respect to individual segments, major customers were as follows:

Insulating Systems. One customer accounted for approximately 9% of revenues in this segment for fiscal 2007. The remainder of the top 10 customers accounted for an additional 25% of revenues in this segment for fiscal 2007.

ITEM 1. BUSINESS (continued)

Roofing and Asphalt. One customer accounted for approximately 15% of revenues in this segment for fiscal 2007. The remainder of the top 10 customers accounted for an additional 34% of revenues in this segment for fiscal 2007.

Other Building Materials and Services. One customer accounted for 7% of revenues in this segment. The remainder of the top 10 customers accounted for an additional 30% of revenues in this segment for fiscal 2007.

Composite Solutions. No external customer accounted for more than 7% of the segment s revenues in fiscal 2007. The segment s top 10 external customers accounted for a total of approximately 25% of revenues in this segment in fiscal 2007.

Raw Materials

Our business relies heavily on certain commodities and raw materials used in our manufacturing and distribution processes, such as energy-related commodities (including natural gas), asphalt, polystyrene and diesel fuel. We consider the sources and availability of these commodities and raw materials necessary for the conduct of business in each of our segments to be adequate.

Patents and Trademarks

Owens Corning has numerous United States and foreign patents issued and applied for relating to our products and processes in each segment, resulting from research and development efforts.

Through continuous and extensive use of the color PINK since 1956, Owens Corning became the first owner of a single color trademark registration in the United States. For over 25 years, Owens Corning has licensed from Metro-Goldwyn-Mayer Studios Inc. (MGM) (the owner of the Pink Panther character) the exclusive right to use the Pink Panther in all of our major market segments and we make extensive use of the Pink Panther character in the marketing of our products. We believe our PINK trademark and the Pink Panther character are some of the most widely recognized marks in the building products industry.

We have issued royalty-bearing patent licenses to companies in several foreign countries.

Including registered trademarks for the Owens Corning logo and the color PINK, Owens Corning has approximately 300 trademarks registered in the United States and approximately 1,400 trademarks registered in other countries.

We consider our patent and trademark positions to be adequate for the present conduct of business in each of our segments.

Working Capital

Owens Corning s manufacturing operations in each operating segment are generally continuous in nature, and we warehouse much of our production prior to sale since we operate primarily with short delivery cycles.

Backlog

Our customer volume commitments are generally short-term, and we do not have a significant manufacturing backlog.

ITEM 1. **BUSINESS (continued)**

Competition

We compete with manufacturers, both within and outside the United States, in the sale of glass fibers and glass fiber products, including insulation products. We also compete with other manufacturers in the sale of roofing materials, industrial asphalts and other products. Principal methods of competition include quality of products, service, location, pricing, compatibility of systems, range of products and product design features.

In the Insulating Systems segment, major competitors include CertainTeed Corporation and Johns Manville. For the Roofing and Asphalt segment, major competitors include GAF-ELK, CertainTeed Corporation and TAMKO. Our primary competitor in the Other Buildings Materials and Services segment is Eldorado Stone, LLC. Significant competitors in the Composite Solutions segment include Johns Manville and PPG Industries as well as significant global competitors based in China.

Research and Development

During the Successor s fiscal year 2007 and two months ended December 31, 2006, and the Predecessor s ten months ended October 31, 2006 and fiscal year 2005, Owens Corning spent approximately $63 million, $30 million, $48 million, and $56 million, respectively, for science and technology activities related to research and development. Of the amount spent by the Successor during the two months ended December 31, 2006, $21 million was a write-off of in process research and development resulting from our adoption of fresh-start accounting. Customer-sponsored research and development was not material in any of the last three fiscal years.

Environmental Control

Owens Corning is committed to complying with all environmental laws and regulations that are applicable to our operations. We are dedicated to continuous improvement in our environmental, health and safety performance.

We have not experienced a material adverse effect upon our capital expenditures or competitive position as a result of environmental control legislation and regulations. Operating costs associated with environmental compliance were approximately $42 million in fiscal 2007. We continue to invest in equipment and process modifications to remain in compliance with applicable environmental laws and regulations worldwide.

Our manufacturing facilities are subject to numerous national, state and local environmental protection laws and regulations. Regulatory activities of particular importance to our operations include those addressing air pollution, water pollution, waste disposal and chemical control. We expect passage and implementation of new laws and regulations specifically addressing climate change, toxic air emissions, ozone forming emissions and fine particulate during the next two to five years. However, based on information known to the Company, including the nature of our manufacturing operations and associated air emissions, at this time we do not expect any of these new laws or regulations to have a materially adverse effect on our results of operations, financial condition or long-term liquidity.

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 December 31, 2007, we had environmental remediation liabilities as a PRP at 43 sites. Our environmental liabilities at 22 of these sites will be resolved pursuant to the terms of the Plan and will be paid out of the Non-Tax Bankruptcy Reserve described in Note 23 to the Consolidated Financial Statements. At the other 21 sites, we have a continuing legal obligation to either complete remedial actions or contribute to the completion of

ITEM 1. **BUSINESS (continued)**

remedial actions as part of a group of PRPs. For these sites we estimate a reserve in accordance with accounting principles generally accepted in the United States to reflect environmental liabilities that have been asserted or are probable of assertion, in which liabilities are probable and reasonably estimable. At December 31, 2007, our reserve for such liabilities was $9 million, of which $4 million is recorded in the Non-Tax Bankruptcy Reserve. We will continue to review our environmental reserve and make such adjustments as appropriate.

Number of Employees

As of December 31, 2007, Owens Corning had approximately 20,000 employees, including 4,500 from the reinforcements and composite fabrics businesses recently acquired from Saint-Gobain. Approximately 8,800 of such employees are subject to collective bargaining agreements. We believe that our relations with employees are good.

AVAILABILITY OF INFORMATION

Owens Corning s website, located at www.owenscorning.com, provides information on our business and products, and assists our customers in various building projects. Owens Corning also makes available, free of charge, through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS
RISKS RELATED TO OUR BUSINESS AND OUR INDUSTRY

Downturns in residential and commercial construction activity or general business conditions could materially negatively impact our business and results of operations.

Construction activity has historically been cyclical and is influenced by prevailing economic conditions, including, in particular, the level of interest rates. A portion of our products are used in the residential and commercial construction, repair and improvement markets, and demand for certain of our products is affected in part by the level of new residential construction, although typically a number of months after the change in the level of construction. Leading economic indicators and forecasts for 2008 have indicated that the new residential construction market in the United States will continue to weaken from the historic highs of recent years. For example: (1) according to the United States Census Bureau, privately-owned housing starts for 2007 were at a seasonally adjusted annual rate of 1.354 million, 24.8% below the 2006 rate of 1.801 million; and (2) according to the January 2008 National Association of Home Builders (NAHB) forecast, total housing starts in 2008 are estimated to be 1.07 million. While the Company does have certain businesses and products that are not as highly correlated with new residential construction, we cannot be certain that the revenue and income from these businesses would mitigate any decline in our results due to the forecasted residential housing construction activity. Other factors that may affect our business include employment levels, availability of financing, inflation, consumer confidence, demographic shifts, consumer income, and changes in federal, state and local government spending. Downturns in residential and commercial construction activity or general business conditions could materially negatively impact our business and results of operations.

Our cost-reduction projects may not result in anticipated savings in operating costs.

During our annual operations planning for 2008, we evaluated various cost-reduction projects to deliver significant savings in operating and corporate costs. These projects include capacity and headcount reductions, elimination of operating costs and reduced general corporate expenses. The majority of the projects were completed by the end of the fourth quarter 2007. These cost-reduction projects are anticipated to reduce company-wide annualized operating costs at least $100 million. Our ability to achieve the anticipated cost savings and other benefits from this initiative within the expected time frame is subject to many estimates and assumptions. These estimates and assumptions are subject to significant economic, competitive and other uncertainties, some of which are beyond our control. If these estimates and assumptions are incorrect, if we experience delays, or if other unforeseen events occur, our business, financial condition and results of operations could be adversely impacted.

Adverse weather conditions and the level of severe storms could materially negatively impact our results of operations.

Weather conditions and the level of severe storms can have a significant effect on residential and commercial construction activity. Generally, any weather conditions that slow or limit residential or commercial construction activity can negatively impact demand for our products.

Conversely, the repair of damage caused by severe storms can increase demand for certain of our products. In periods with below average levels of severe storms, demand for such products could be reduced.

We cannot predict weather conditions with certainty. Certain weather conditions and events could lower the demand for and impact the pricing of our products and cause our net sales and net earnings to decrease.

ITEM 1A. RISK FACTORS (continued)

We may be exposed to increases in costs of energy, materials and transportation and reductions in availability of materials and transportation, which could reduce our margins and harm our results of operations.

Our business relies heavily on certain commodities and raw materials used in our manufacturing processes including minerals such as borates. Additionally, we spend a significant amount on inputs and services that are influenced by energy prices, such as natural gas, asphalt, a large number of chemicals and resins and transportation costs. Price increases for these inputs could raise costs and reduce our margins if we are not able to offset them either by increasing the prices of our products or by hedging where appropriate. Availability of certain of the raw materials we use has, from time to time, been limited, and our sourcing of some of these raw materials from a limited number of suppliers increases the risk of unavailability. Despite our contractual supply agreements with many of our suppliers, it is still possible that we could experience a lack of certain raw materials which could limit our ability to produce our products, thereby adversely affecting our business, financial condition and results of operations.

Our hedging activities to address energy price fluctuations may not be successful in offsetting future increases in those costs or may reduce or eliminate the benefits of any decreases in those costs.

In order to mitigate short-term variation in our operating results due to commodity price fluctuations, we hedge a portion of our near-term exposure to the cost of energy, primarily natural gas. The results of our hedging practice could be positive, neutral or negative in any period depending on price changes in the hedged exposures.

Our hedging activities are not designed to mitigate long-term commodity price fluctuations and, therefore, will not protect us from long-term commodity price increases. In addition, in the future our hedging positions may not correlate to our actual energy costs, which would cause acceleration in the recognition of unrealized gains and losses on our hedging positions in our operating results.

Our efforts to mitigate our exposure to metals lease cost risk may be unsuccessful.

The Company uses certain precious metals in its production tooling. A portion of the precious metals utilized in the reinforcements and composite fabrics businesses acquired from Saint-Gobain on November 1, 2007 is leased. Metal leases typically have terms varying from one month to two years and, accordingly, the financial costs of leasing are a function of the contracted financial cost at the time leases are renewed and the term of the leases. The spot and forward prices of precious metals can vary significantly, sometimes over short periods of time, and can have a significant impact on lease rates. As a result, financial lease costs can be subject to significant volatility. As an example, prices for one of the precious metals that we use increased by over 150% during the five year period ended December 31, 2007 and by a further 34% in the first seven weeks of 2008.

We attempt to mitigate this financial lease cost risk by staggering the renewals of leases over time and by managing operations to maintain flexibility in usage requirements. The Company also retains the ability to purchase precious metals and to utilize forward financial contracts or options to further mitigate this risk. If our efforts to mitigate this risk are unsuccessful, our metals lease costs could increase and our business, results of operations and financial condition could be adversely impacted.

We face significant competition in the markets we serve and we may not be able to compete successfully.

All of the markets we serve are highly competitive. We compete with manufacturers and distributors, both within and outside the United States, in the sale of insulating products and glass fiber products. We also compete with other manufacturers and distributors in the sale of roofing materials, industrial asphalts, manufactured stone veneer and other products. Principal methods of competition include quality of products, service, location, price, compatibility of systems, range of products and product design features. In some cases, we face competition from manufacturers in countries able to produce similar products at lower costs and we also face competition from the

ITEM 1A. RISK FACTORS (continued)

introduction by competitors of new products or technologies that may address our customers needs in a better manner, whether based on considerations of cost, usability or effectiveness. To achieve and/or maintain leadership positions in key product categories, we must continue to develop brand recognition and loyalty, enhance product quality and performance and customer service and develop our manufacturing and distribution capabilities. Market competition, new entrants or overcapacity may limit our ability to raise prices for our products when necessary, may force us to reduce prices and may also result in reduced levels of demand for our products. Our inability to compete in any of these categories and the loss of customers and pricing pressures caused by such competition, overcapacity or other reasons could reduce the sales of our products, thereby adversely affecting our business, financial condition and results of operations.

The seasonal nature of our building materials business may lead to variations in our quarterly earnings and cash flow, which could have a negative impact on the price of our stock.

Sales of building materials tend to follow seasonal home improvement, remodeling and renovation and new construction patterns, although on a lagged basis for new residential construction. The peak season for home construction and remodeling in our geographic markets generally corresponds with the second and third fiscal quarters. Sales levels for our building materials products, therefore, are typically higher in the second half of the year. These seasonal variations could lead to variations in our quarterly earnings and cash flow, which in turn could have a negative impact on the price of our common stock.

Our sales may fall rapidly in response to declines in demand because we do not operate under long-term volume agreements to supply our customers and because of customer concentration in certain segments.

The majority of our customer volume commitments are short-term, therefore, we do not have a significant manufacturing backlog. As a result, we do not have the hedge provided by long-term volume contracts against downturns in customer demand and sales. Further, our costs are not susceptible to immediate adjustment in response to changes in sales. In addition, although no single customer represents more than 10% of our annual sales, sales of some of the products in our building materials product category are dependent on a limited number of customers, who account for a significant portion of such sales. The loss of key customers for these products, or a significant reduction in sales to those customers, could significantly reduce our revenues in these products. In addition, if demand for our products is reduced and we are unable to operate our manufacturing facilities at high capacity levels, the fixed costs associated with these facilities may not be fully absorbed and productivity will be reduced, resulting in higher average unit costs and lower gross margins if we are not able to offset this higher unit cost with price increases.

Our operations require substantial capital, leading to high levels of fixed costs that will be incurred regardless of our level of business activity.

Our businesses are capital intensive, and regularly require capital expenditures to expand operations, maintain equipment, increase operating efficiency and comply with environmental laws, leading to high fixed costs, including depreciation expense. We are limited in our ability to reduce fixed costs quickly in response to reduced demand for our products and these fixed costs may not be fully absorbed, resulting in higher average unit costs and lower gross margins if we are not able to offset this higher unit cost with price increases.

We may be subject to liability and may make substantial future expenditures to comply with environmental laws and regulations.

Our manufacturing facilities are subject to numerous foreign, federal, state and local laws and regulations relating to the presence of hazardous materials, pollution and the protection of the environment, including those governing emissions to air, discharges to water, use, storage and transport of hazardous materials, storage, treatment and disposal of waste, remediation of contaminated sites and protection of worker health and safety.

ITEM 1A. RISK FACTORS (continued)

Liability under these laws involves inherent uncertainties. Violations of environmental, health and safety laws are subject to civil, and, in some cases, criminal sanctions. As a result of these uncertainties, we may incur unexpected interruptions to operations, fines, penalties or other reductions in income which could negatively impact our business, financial condition and results of operations. Continued government and public emphasis on environmental issues is expected to result in increased future investments for environmental controls at ongoing operations, which will be charged against income from future operations. Present and future environmental laws and regulations applicable to our operations, and changes in their interpretation, may require substantial capital expenditures or may require or cause us to modify or curtail our operations, which may have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks associated with our international operations.

We sell products and operate plants throughout the world. Our international sales and operations are subject to risks and uncertainties, including:

- possible government legislation;
- difficulties and costs associated with complying with a wide variety of complex laws, treaties and regulations;
- unexpected changes in regulatory environments;
- economic and political conditions;
- tax rates that may exceed those in the United States;
- tax inefficiencies and currency exchange controls that may adversely affect our ability to repatriate cash from non-United States subsidiaries;
- the imposition of tariffs or other import or export restrictions;
- costs and availability of shipping and transportation;
- nationalization of properties by foreign governments; and
- currency exchange rate fluctuations between the United States dollar and foreign currencies.

As we continue to expand our business globally, we may have difficulty anticipating and effectively managing these and other risks that our international operations may face, which may adversely affect our business outside the United States and our financial condition and results of operations.

We may not be able to successfully integrate newly acquired businesses, joint ventures and other partnerships into our operations or achieve expected profitability from our acquisitions.

We have recently completed our acquisition of Saint-Gobain s reinforcements and composite fabrics businesses, and may explore additional acquisitions in the future. If we cannot successfully integrate this or future acquisitions, joint ventures and other partnerships on a timely basis, we may be unable to generate sufficient revenue to offset acquisition costs, we may incur costs in excess of what we anticipate, and our expectations of future results of operations, including certain cost savings and synergies, may not be achieved. Acquisitions involve substantial risks, including:

- unforeseen difficulties in integrating operations, technologies, services, accounting and personnel;

- diversion of financial and management resources from existing operations;

ITEM 1A. RISK FACTORS (continued)

unforeseen difficulties related to entering geographic regions where we do not have prior experience;

risks relating to obtaining sufficient equity or debt financing;

potential loss of key employees; and

potential loss of customers.

In addition, if we finance acquisitions by issuing equity securities or securities convertible into equity securities, our existing stockholders interests would be diluted, which, in turn, could adversely affect the market price of our stock. Moreover, we could finance an acquisition with debt, resulting in higher leverage and interest costs.

Our intellectual property rights may not provide meaningful commercial protection for our products or brands, which could adversely affect our business.

Owens Corning relies on its proprietary intellectual property, including numerous registered trademarks, as well as its licensed intellectual property. We monitor and protect against activities that might infringe, dilute, or otherwise harm our patents, trademarks and other intellectual property and rely on the patent, trademark and other laws of the United States and other countries. However, we may be unable to prevent third parties from using our intellectual property without our authorization. To the extent we cannot protect our intellectual property, unauthorized use and misuse of our intellectual property could harm our competitive position and have a material adverse effect on our business, financial condition and results of operations. In addition, the laws of some non-United States jurisdictions provide less protection for our proprietary rights than the laws of the United States. If we are unable to maintain certain exclusive licenses, our brand recognition could be adversely affected.

We could face potential product liability claims, we may not accurately estimate costs related to such claims, and we may not have sufficient insurance coverage available to cover product liability claims.

Our products are used in a wide variety of residential and commercial applications. We face an inherent business risk of exposure to product liability or other claims in the event our products are alleged to be defective or that the use of our products is alleged to have resulted in harm to others or to property. We may in the future incur liability if product liability lawsuits against us are successful. Moreover, any such lawsuits, whether or not successful, could result in adverse publicity to us, which could cause our sales to decline.

In addition, consistent with industry practice, we provide warranties on many of our products and we may experience costs of warranty or breach of contract claims if our products have defects in manufacture or design or they do not meet contractual specifications. We estimate our future warranty costs based on historical trends and product sales, but we may fail to accurately estimate those costs and thereby fail to establish adequate warranty reserves for them. We maintain insurance coverage to protect us against product liability claims, but that coverage may not be adequate to cover all claims that may arise or we may not be able to maintain adequate insurance coverage in the future at an acceptable cost. Any liability not covered by insurance or that exceeds our established reserves could materially and adversely affect our results of operations and financial condition.

We are subject to litigation in the ordinary course of business.

We are, from time to time, subject to various legal proceedings and claims. Any such claims, whether with or without merit, could be time-consuming and expensive to defend and could divert management s attention and resources. While management believes the Company has reasonable and prudent insurance coverage and accrues loss contingencies for all known matters that are probable and can be reasonably estimated, we cannot assure that the outcome of all current or future litigation will not have a material adverse effect on the Company and its results of operations.

ITEM 1A. RISK FACTORS (continued)

We depend on our senior management team and other skilled and experienced personnel to operate our business effectively, and the loss of any of these individuals could adversely affect our business and our future financial condition or results of operations.

We are highly dependent on the skills and experience of our senior management team and other skilled and experienced personnel. These individuals possess sales, marketing, manufacturing, logistical, financial and administrative skills that are important to the operation of our business. The loss of any of these individuals or an inability to attract, retain and maintain additional personnel could prevent us from implementing our business strategy and could adversely affect our business and our future financial condition or results of operations. We cannot assure you that we will be able to retain all of our existing senior management personnel or to attract additional qualified personnel when needed.

Increases in the cost of labor, union organizing activity, labor disputes and work stoppages at our facilities could delay or impede our production, reduce sales of our products and increase our costs.

The costs of labor are generally increasing, including the costs of employee benefit plans. We are subject to the risk that strikes or other types of conflicts with personnel may arise or that we may become the subject of union organizing activity at additional facilities. In particular, renewal of collective bargaining agreements typically involves negotiation, with the potential for work stoppages at affected facilities. Currently, all of our union employees are covered by collective bargaining agreements. Any interruption in the production of our products could reduce sales of our products and increase our costs. We also may not be able to renew our collective bargaining agreements on terms that are favorable to us, which could result in increased labor costs and adversely affect our business, results of operations and financial condition.

Uninsured judgments or a rise in insurance premiums may adversely impact our results of operations.

In the ordinary course of business, we are subject to various claims and litigation. In accordance with customary practice, we maintain insurance against some, but not all, of these potential claims. We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. The levels of insurance we maintain are in amounts that management believes to be prudent, but they may not be adequate to fully cover any and all losses or liabilities. Further, we may not be able to maintain insurance at commercially acceptable premium levels or at all. If any significant accident, judgment, claim or other event is not fully insured or indemnified against, it could have a material adverse effect on our business, financial condition and results of operations.

Our level of indebtedness could adversely affect our ability to raise additional capital to fund our operations and limit our ability to react to changes in the economy or our industry.

Our degree of leverage could have important consequences, including the following:

- it may limit our ability to obtain additional debt or equity financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;

- a substantial portion of our cash flows from operations could be dedicated to the payment of principal and interest on our indebtedness and may not be available for other business purposes;

- certain of our borrowings, including borrowings under our senior credit facility, are at variable rates of interest, exposing us to the risk of increased interest rates;

- if due to liquidity needs we must replace any borrowings upon maturity, we will be exposed to the risk that we will be unable to do so as the result of market, operational or other factor.

ITEM 1A. RISK FACTORS (continued)

it may limit our ability to adjust to changing market conditions and place us at a competitive disadvantage compared to our competitors that have less debt; and

we may be vulnerable in a downturn in general economic conditions or in our business, or we may be unable to carry out capital spending that is important to our growth.

In addition, the credit agreement governing our Credit Facilities and the indenture governing our Senior Notes contain various covenants that impose significant operating and financial restrictions on us and/or our subsidiaries. Please see Note 14 to the Consolidated Financial Statements for a description of the Credit Facilities and the Senior Notes.

Downgrades of our credit ratings could adversely affect us.

In February 2008, Moody s Investors Service downgraded our debt rating. Any further downgrade in our debt rating will result in increased interest and other expenses on our existing variable interest rate debt, and could result in increased interest and other financing expenses on future borrowings. Further downgrades in our debt rating could also restrict our ability to obtain additional financing on satisfactory terms. Additionally, such a downgrade could affect the value and marketability of our outstanding notes.

We will not be insured against all potential losses and could be seriously harmed by natural disasters, catastrophes or sabotage.

Many of our business activities involve substantial investments in manufacturing facilities and many products are produced at a limited number of locations. These facilities could be materially damaged by natural disasters such as floods, tornados, hurricanes and earthquakes or by sabotage. We could incur uninsured losses and liabilities arising from such events, including damage to our reputation, and/or suffer material losses in operational capacity, which could have a material adverse effect on our business, results of operations and financial condition.

RISKS RELATED TO OWNERSHIP OF OUR COMMON STOCK

The market price of our common stock is subject to volatility.

The market price of our common stock could be subject to wide fluctuations in response to numerous factors, many of which are beyond our control. These factors include actual or anticipated variations in our operational results and cash flow, our earnings relative to our competition, changes in financial estimates by securities analysts, trading volume, short selling, market conditions within the industries in which we operate, the general state of the securities markets and the market for stocks of companies in our industry, governmental legislation or regulation and currency and exchange rate fluctuations, as well as general economic and market conditions, such as recessions.

We may pay little or no dividends on our common stock.

The payment of any future dividends to our stockholders will depend on decisions that will be made by our Board of Directors and will depend on then existing conditions, including our operating results, financial conditions, contractual restrictions, corporate law restrictions, capital agreements, the applicable laws of the State of Delaware and business prospects. We may pay little or no dividends for the foreseeable future.

ITEM 1A. RISK FACTORS (continued)

We are a holding company with no operations of our own and depend on our subsidiaries for cash.

We are a holding company and most of our assets are held by our direct and indirect subsidiaries and we will primarily rely on dividends and other payments or distributions from our subsidiaries to meet our debt service and other obligations and to enable us to pay dividends. The ability of our subsidiaries to pay dividends or make other payments or distributions to us will depend on their respective operating results and may be restricted by, among other things, the laws of their jurisdiction of organization (which may limit the amount of funds available for the payment of dividends or other payments), agreements of those subsidiaries, agreements with any co-investors in non-wholly-owned subsidiaries, the terms of our Credit Facilities and Senior Notes and the covenants of any future outstanding indebtedness we or our subsidiaries may incur.

A small number of our stockholders could be able to significantly influence our business and affairs.

A few financial institutions own substantial amounts of our outstanding common stock. In addition, the Asbestos Trust formed as part of the Debtors emergence from bankruptcy (the 524(g) Trust) now holds approximately 21.4% of our common stock. Large holders, such as these parties, may be able to affect matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions. In addition, our bylaws confer upon each of the 524(g) Trust directors designated by holders of our pre-petition bonds and the directors of OCD serving immediately prior to emergence certain rights to fill certain vacancies in our Board of Directors. Our bylaws also give the 524(g) Trust the right to nominate two directors for as long as the 524(g) Trust holds shares representing at least 1% of our common stock. Please see Item 10 Directors, Executive Officers and Corporate Governance Information Concerning Directors for a more detailed description of the rights granted to certain holders of our common stock with respect to our Board of Directors.

Provisions in our amended and restated certificate of incorporation and bylaws or Delaware law might discourage, delay or prevent a change in control of our company or changes in our management and therefore depress the trading price of our common stock.

Our amended and restated certificate of incorporation and bylaws contain provisions that could depress the trading price of our common stock through provisions that may discourage, delay or prevent a change in control of our company or changes in our management that our stockholders may deem advantageous. These provisions:

- require a 75% super-majority vote to amend some provisions in our amended and restated certificate of incorporation and bylaws;

- require approval of the 524(g) Trust with respect to the amendment of certain provisions in our amended and restated certificate of incorporation and bylaws, if the amendment could adversely effect certain rights granted to the 524(g) Trust;

- authorize the issuance of blank check preferred stock that our Board of Directors has a restricted right to issue to increase the number of outstanding shares to discourage a takeover attempt;

- create a staggered Board of Directors;

- prohibit stockholder action by written consent, and require that all stockholder actions be taken at a meeting of our stockholders;

- provide that the Board of Directors is expressly authorized to make, amend or repeal our bylaws except in limited circumstances; and

ITEM 1A. RISK FACTORS (continued)

establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder and which may discourage, delay or prevent a change in control of our company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Owens Corning has nothing to report under this Item.

ITEM 2. PROPERTIES

Our Insulating Systems segment operates out of approximately 33 manufacturing facilities. Principal manufacturing facilities for our Insulating Systems segment, all of which are owned by us except for the majority of the Tallmadge facility, which we lease, include the following:

Newark, Ohio	Delmar, New York
Kansas City, Kansas	Tallmadge, Ohio
Waxahachie, Texas	Mexico City, Mexico
Fairburn, Georgia	Guangzhou, Guandong, China
Santa Clara, California	Toronto, Ontario, Canada

Our Roofing and Asphalt segment operates out of approximately 33 manufacturing facilities. Principal manufacturing facilities for our Roofing and Asphalt segment, all of which are owned by us, include the following:

Irving, Texas (R)	Compton, California (R)
Savannah, Georgia (R)	Medina, Ohio (R)
Summit, Illinois (R) and (A)	Kearny, New Jersey (R)
Atlanta, Georgia (R) and (A)	Denver, Colorado (R)
Jacksonville, Florida (R)	Portland, Oregon (R)

(R) Roofing plant; (A) Asphalt plant

Our Other Building Materials and Services segment operates out of approximately 7 manufacturing facilities. Principal manufacturing facilities for our Other Building Materials and Services segment, all of which are owned by us except two facilities, which are leased, include the following:

Chester, South Carolina	Bray-sur-Seine, France
Napa, California	

Our Composite Solutions segment operates out of approximately 51 manufacturing facilities. Principal manufacturing facilities for our Composite Solutions segment, all of which are owned by us except two facilities, which are leased, include the following:

Chambery, France	Jackson, Tennessee
Anderson, South Carolina	Amarillo, Texas
Gous, Russia	Battice, Belguim*
Besana, Italy	Kimchon, Korea
Ibaraki, Japan	Birkeland, Norway*

* Property held for sale at December 31, 2007.

We believe that these properties are in good condition and well maintained, and are suitable and adequate to carry on our business. The capacity of each plant varies depending upon product mix.

Our principal executive offices are located in the Owens Corning World Headquarters, Toledo, Ohio, a leased facility of approximately 400,000 square feet.

Our research and development activities are primarily conducted at our Science and Technology Center, located on approximately 500 acres of land owned by us outside of Granville, Ohio. It consists of more than 20 structures totaling more than 600,000 square feet. In addition, we have application development and other product and market focused research and development centers in various locations.

ITEM 3. LEGAL PROCEEDINGS

Securities and Certain Other Litigation

On or about September 2, 2003, certain of the directors and officers of Owens Corning Sales, LLC (formerly known as Owens Corning) (OCD) were named as defendants in a lawsuit captioned Kensington International Limited, et al. v. Glen Hiner, et al. in the Supreme Court of the State of New York, County of New York. OCD was not named in the lawsuit. The suit, which was brought by Kensington International Limited and Springfield Associates, LLC, two assignees of lenders under OCD s pre-petition credit facility, alleged causes of action (1) against all defendants for breach of fiduciary duty and (2) against certain defendants for fraud in connection with certain loans made under the pre-petition credit facility. The complaint sought an unspecified amount of damages. On February 7, 2005, all defendants filed a joint motion to dismiss. A hearing on the motion to dismiss was held on May 2, 2005 and the motion to dismiss was granted by the United States Bankruptcy Court for the District of Delaware on August 22, 2006. On October 20, 2006, the New York court entered an order and judgment dismissing the New York complaint in its entirety and on November 22, 2006, the plaintiffs filed an appeal of the order and judgment with the First Department of the New York Supreme Court, Appellate Division. On May 31, 2007, the Supreme Court, Appellate Division, dismissed plaintiffs appeal. The Court ruled that as a result of distributions made under OCD s plan of reorganization, the plaintiffs no longer have a claim for damages and, accordingly, their claim is moot. On July 11, 2007, plaintiffs filed a Notice of Motion For Permission To Appeal to the Court of Appeals of the State of New York. On October 11, 2007, the Court of Appeals of the State of New York denied the plaintiffs motion.

On September 1, 2006, various current and former members of OCD s Investment Review Committee were named as defendants in a lawsuit captioned Brown v. Owens Corning Investment Review Committee, et al., in the United States District Court for the Northern District of Ohio (Western Division). OCD is not named in the lawsuit but such individuals would have a contingent indemnification claim against OCD. The suit, brought by former employees of OCD, was brought under ERISA alleging that the defendants breached their fiduciary duties to certain pension benefit plans and to class members in connection with investments in an OCD company common stock fund. A motion to dismiss was filed on behalf on the defendants on March 5, 2007. Subsequently, the court converted the Motion to Dismiss to a Motion for Summary Judgment. The court ordered limited discovery, the parties filed written argument and a hearing on the Motion was held on January 18, 2008.

Certain of the defendants in the two lawsuits described above are officers or directors of the Company.

Environmental Proceedings Involving Potential Monetary Sanctions

Securities and Exchange Commission rules require us to describe certain governmental proceedings arising under federal, state or local environmental provisions unless we conclude that the proceeding will result in monetary sanctions of less than $100,000. The following proceeding is reported in response to this requirement.

On July 20, 2007, the Company was informally notified by the New Jersey Department of Environmental Protection (the NJDEP) that the NJDEP intended to assert that Owens Corning s Kearny, New Jersey asphalt manufacturing plant periodically violated the New Jersey Air Pollution Control Act during the period of 2002 2006. During the fourth quarter of 2007, the Company reached a settlement with the NJDEP and paid the state $440,000 to resolve all alleged violations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company s 2007 Annual Meeting of Stockholders held on December 6, 2007, the following actions were taken:

The following directors were elected to serve until the 2010 Annual Meeting of Stockholders and until their successors are elected and qualified:

Name	For	Withheld
Ralph F. Hake	95,264,830	8,253,881
F. Philip Handy	95,119,692	8,399,019
Marc Sole	100,682,194	2,836,517
Michael H. Thaman	103,268,197	250,514
Daniel K. K. Tseung	94,986,301	8,532,410

Proposal 2 to approve the Amended and Restated Owens Corning 2006 Stock Plan was approved by stockholders with 68,599,582 shares voting in favor of the proposal, 22,004,499 shares voting against the proposal, 7,324,613 shares abstaining and 5,590,017 broker non-votes.

Proposal 3 to ratify the selection of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the 2008 fiscal year was approved by stockholders with 103,373,583 shares voting in favor of the proposal, 82,553 shares voting against the proposal and 62,575 shares abstaining.

EXECUTIVE OFFICERS OF OWENS CORNING

(as of February 26, 2008)

The name, age and business experience during the past five years of Owens Corning s executive officers as of February 26, 2008 are set forth below. Each executive officer holds office until his or her successor is elected and qualified or until his or her earlier resignation, retirement or removal. All those listed have been employees of Owens Corning or OCD during the past five years except as indicated. Unless otherwise noted, all positions provided below refer to positions held with OCD for periods through October 31, 2006, and with Owens Corning for periods thereafter.

Name and Age	Position*
Sheree L. Bargabos (52)	Vice President and President, Roofing and Asphalt Business since October 2005; formerly Vice President and President, Exterior Systems Business.
Charles E. Dana (52)	Vice President and President, Composite Solutions Business since February 2004; formerly Vice President Corporate Controller and Global Sourcing.
Roy D. Dean (48)	Vice President and President, Insulating Systems Business since March 2006; formerly Vice President and Corporate Controller (2004), and Vice President and Controller, Insulating Systems Business.
Scott Deitz (52)	Vice President, Investor Relations and Corporate Communications since June 2006; formerly Director, Public Relations and Business Communications (2005), and Vice President, Investor Relations for Stora Enso Oyj.
Joseph C. High (53)	Senior Vice President, Human Resources since January 2004; formerly Vice President, Human Resources for ConocoPhillips.
David L. Johns (49)	Senior Vice President and Chief Supply Chain and Information Technology Officer since April 2001.
Stephen K. Krull (43)	Senior Vice President, General Counsel and Secretary since February 2003.
William E. LeBaron (51)	Vice President and President, Owens Corning Construction Services since September 2006; formerly President and Managing Director of Landscape and Theme Park Services at OneSource (2005), and President of All American Property Service.
Mark W. Mayer (50)	Vice President and Chief Accounting Officer since December 2007; formerly Vice President, Corporate Accounting and Financial Reporting.
Frank C. O Brien-Bernini (51)	Vice President, Science and Technology and Chief Sustainability Officer since December 2007; formerly Vice President, Science and Technology.
Duncan Palmer (42)	Senior Vice President and Chief Financial Officer since September 2007; formerly Vice-President, Upstream Commercial Finance for Shell International Exploration and Production BV (2007), Vice-President Finance Global Lubricants for Shell Oil Company (2004), and Vice President Finance US Lubricants for Shell Oil Company (2002).
Charles W. Stein, Jr. (43)	Vice President and President, OC Masonry Products and Chief Marketing Officer, Building Materials since November 2007; formerly Vice President and President, Cultured Stone Business (2005), Vice President and General Manager, OC Construction Services (2005), Vice President and General Manager, HOMExperts (2003), and Vice President, Residential Services and Solutions.

Name and Age	Position*
Michael H. Thaman (43)	President and Chief Executive Officer since December 2007 and also Chairman of the Board since April 2002; formerly also Chief Financial Officer until September 2007. Director since 2006; formerly Director of OCD since January 2002.

* Information in parentheses indicates year during the past five years in which service in position began.

ITEM 5. MARKET FOR OWENS CORNING COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Owens Corning s common stock trades on the New York Stock Exchange under the symbol OC. The stock began trading on such exchange on November 1, 2006, in conjunction with the Debtors emergence from Chapter 11 proceedings.

Prior to December 19, 2002, OCD s common stock traded on the New York Stock Exchange under the symbol OWC. From December 19, 2002 through October 31, 2006, OCD s common stock was traded on the Over The Counter Bulletin Board under the symbol OWENQ. When the Debtors emerged from Chapter 11 proceedings on October 31, 2006, all of OCD s previously existing common stock was cancelled in accordance with the Plan.

Because the value of one share of OCD s old common stock bears no relation to the value of one share of our common stock, only the trading prices of our common stock following its listing on the New York Stock Exchange are set forth below. The following table sets forth the high and low sales prices per share of Owens Corning common stock for each quarter from November 1, 2006 through December 31, 2007.

	Successor	
Period	**High**	**Low**
Fourth Quarter 2006 (November 1, 2006 through December 31, 2006)	$31.85	$25.60
First Quarter 2007	33.75	26.60
Second Quarter 2007	36.93	30.00
Third Quarter 2007	33.73	22.74
Fourth Quarter 2007	27.15	19.73

Holders of Common Stock

The number of stockholders of record of Owens Corning s Successor common stock on January 31, 2008 was 15,051.

Dividends

Neither Owens Corning nor OCD paid dividends on its common stock during the two most recent fiscal years. The payment of any future dividends to our stockholders will depend on decisions that will be made by our Board of Directors and will depend on then existing conditions, including our operating results, financial condition, contractual restrictions, corporate law restrictions, capital requirements, the applicable laws of the State of Delaware and business prospects. Although our Board of Directors is expected to consider the payment of quarterly dividends, there can be no assurance we will pay any dividend, or if declared, the amount of such dividend. Additionally, the terms of our Credit Facilities restrict our ability to declare or pay dividends.

As a consequence of certain provisions of the Company s Senior Notes and senior financing facilities, the Company and its subsidiaries are subject to certain restrictions on their ability to pay dividends and to transfer cash and other assets to each other and to their affiliates.

ITEM 5. MARKET FOR OWENS CORNING COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (continued)

Securities Authorized for Issuance Under Equity Compensation Plans

In conjunction with the Debtors emergence from Chapter 11, and as approved by the Plan, during 2006 the Company adopted a stock-based compensation plan applicable to employees, management and directors. In December 2007, the stockholders approved the Amended and Restated Owens Corning 2006 Stock Plan (the Amended and Restated 2006 Stock Plan) which provides for grants of stock options, stock appreciation rights (SARs), stock awards, restricted stock awards, restricted stock units, bonus stock awards and performance stock awards. Information regarding Owens Corning s equity compensation plans as of December 31, 2007, is as follows:

Plan Category	(a) Number of Securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	2,163,170(1)	$ 29.90(1)	6,942,886(1)
Equity compensation plans not approved by security holders			
Total	2,163,170	$ 29.90	6,942,886

(1) Relates to the Amended and Restated Owens Corning 2006 Stock Plan.

For additional information concerning these plans, including the number of securities available for future issuance, please see Note 18 to the Consolidated Financial Statements.

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

Owens Corning has nothing to report under this Item.

Issuer Purchases of Equity Securities

The following table provides information about Owens Corning s purchases of its common stock during each month within the fourth quarter of the fiscal year covered by the report:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs*	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs*

October 1-31, 2007		$	6,537,292
November 1-30, 2007	283	24.61	6,537,292
December 1-31, 2007	152	20.64	6,537,292
Total	435	$ 23.22	

* The Company retained 435 shares surrendered to satisfy tax withholding obligations in connection with the vesting of restricted shares granted to our employees.

ITEM 5. MARKET FOR OWENS CORNING COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (continued)

** On February 21, 2007, the Company announced a share buy-back program under which the Company is authorized to repurchase up to 5% of the Company s outstanding common stock. The share buy-back program authorizes the Company to repurchase shares 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 6. SELECTED FINANCIAL DATA

	Successor		Predecessor			
	Twelve Months Ended December 31, 2007 (a)	Two Months Ended December 31, 2006 (b)	Ten Months Ended October 31, 2006 (c)	Twelve Months Ended December 31, 2005 (d)	2004 (e)	2003 (f)
	(in millions, except per share data)					
Statement of Earnings (Loss)						
Net sales	$ 4,978	$ 772	$ 4,627	$ 5,177	$ 4,626	$ 4,061
Cost of sales	4,201	656	3,741	4,107	3,698	3,304
Gross margin	777	116	886	1,070	928	757
Marketing, administrative and other expenses	498	86	408	521	490	422
Science and technology expenses	63	30	48	56	44	41
Restructure costs	28	20	12			(2)
Chapter 11 related reorganization items		10	45	45	54	85
Provision (credit) for asbestos litigation claims (recoveries)			(13)	4,267	(24)	(5)
Earnings (loss) from continuing operations before interest and taxes	145	(44)	451	(3,801)	366	229
Interest expense, net	122	29	241	740	(12)	8
Gain on settlement of liabilities subject to compromise			(5,864)			
Fresh-start accounting adjustments			(2,919)			
Earnings (loss) from continuing operations before taxes	23	(73)	8,993	(4,541)	378	221
Income tax expense (benefit)	(8)	(23)	980	(411)	202	131
Earnings (loss) from continuing operations	27	(54)	8,013	(4,134)	168	91
Discontinued operations (g)						
Earnings (loss) from discontinued operations, net of tax of $5, $(5), $45, $24, $25, and $14, respectively	9	(11)	127	35	36	24
Gain on sale of discontinued operations, net of taxes of $40, $0, $0, $0, $0 and $0, respectively	60					
Net earnings (loss)	96	(65)	8,140	(4,099)	204	115
BASIC EARNINGS (LOSS) PER COMMON SHARE						
Earnings (loss) from continuing operations	0.21	(0.42)	144.90	(74.73)	3.03	1.65
Earnings (loss) from discontinued operations	0.54	(0.09)	2.30	0.65	0.65	0.43
DILUTED EARNINGS (LOSS) PER COMMON SHARE						
Earnings (loss) from continuing operations	0.21	(0.42)	133.77	(74.73)	2.80	1.52
Earnings (loss) from discontinued operations	0.54	(0.09)	2.12	0.65	0.60	0.40
Weighted-average common shares outstanding						
Basic	128.1	128.1	55.3	55.3	55.3	55.2
Diluted	128.8	128.1	59.9	55.3	59.9	59.9
Statement of Cash Flows						
Net cash flow from operations	182	15	(1,903)	746	449	295
Additions to plant and equipment	247	77	284	288	232	208
Balance Sheet Data (end of period)						
Total assets	7,872	8,470	8,714	8,735	7,639	7,358
Long-term debt	1,993	1,296	1,300	36	38	73
Liabilities subject to compromise				13,520	9,171	9,258
Stockholders equity (deficit)	3,988	3,686	3,728	(8,147)	(4,080)	(4,328)

ITEM 6. SELECTED FINANCIAL DATA (continued)

No dividends were declared or paid for any of the periods presented above.

(a) During 2007, the Successor recorded charges of $54 million for restructuring and other charges (comprised of $28 million of restructuring charges and $26 million of other costs, which is inclusive of $21 million of accelerated depreciation), charges of $60 million related to certain asset impairments, $28 million of transaction costs related to the acquisition of Saint-Gobain s reinforcements and composite fabrics businesses, charges of $12 million related to the impact of inventory write-up due to the acquisition of Saint-Gobain s reinforcements and composite fabrics businesses, $1 million related to the write-off of in-process research and development due to the acquisition of Saint-Gobain s reinforcements and composite fabrics businesses, losses related to the exit of our HOMExperts service line of $7 million and charges of $37 million of expense related to our employee emergence equity program.

(b) During the two months ended December 31, 2006, the Successor recorded charges of $32 million for restructuring and other charges (comprised of $20 million of restructuring charges and $12 million of other costs), $6 million of transaction costs related to the acquisition of Saint-Gobain s reinforcements and composite fabrics businesses, charges of $10 million for Chapter 11-related reorganization expenses, charges of $63 million related to the impact of fresh-start accounting (comprised of $42 million related to the impact of inventory write-up and $21 million related to the write-off of in-process research and development) and charges of $6 million of expense related to our employee emergence equity program.

(c) During the ten months ended October 31, 2006, the Predecessor recorded income of $34 million for restructuring and other credits (comprised of $12 million of restructuring charges, $45 million of gains on the sale of metal, and $1 million of other gains), $7 million of transaction costs related to the acquisition transaction, charges of $45 million for Chapter 11-related reorganization expenses, income of $13 million for asbestos-related insurance recoveries and $247 million for accrued post petition interest.

(d) During 2005, the Predecessor recorded charges of $4,267 million for additional provision for asbestos liability claims net of asbestos-related insurance recoveries, charges of $735 million for accrued post petition interest for the period from the Petition Date through December 31, 2005 on the Predecessor s primary pre-petition bank credit facility, charges of $45 million for Chapter 11 related reorganization expenses, income of $13 million due to changes in the Ohio tax law during 2005, $7 million of gains from the sale of metal and gains of $5 million on the early extinguishment of Asian debt.

(e) During 2004, the Predecessor recorded income of $5 million for restructuring and other charges, charges of $54 million for Chapter 11 related reorganization expenses, and income of $24 million for asbestos-related insurance recoveries.

(f) During 2003, the Predecessor recorded income of $1 million for restructuring and other charges and $85 million for Chapter 11 related reorganization expenses, and income of $5 million for asbestos-related insurance recoveries

(g) Discontinued operations consist of the Company s Siding Solutions business and Fabwel unit which were both sold during the third quarter of 2007.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
All per share information discussed below is on a diluted basis. References in this Report to the Consolidated Financial Statements refer to the Consolidated Financial Statements included 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. As a result of the application of fresh-start accounting on October 31, 2006, and in accordance with SoP 90-7, the post-emergence financial results of the Company (for all periods ending after October 31, 2006) are presented as the Successor and the pre-emergence financial results of the Company (for all periods ending through October 31, 2006) are presented as the Predecessor. GAAP financial statements do not straddle the Effective Date because in effect the Successor represents a new entity. For the readers convenience, the Successor two months ended December 31, 2006 and the Predecessor ten months ended October 31, 2006 have been combined for certain purposes and are collectively referred to as fiscal 2006 .

GENERAL BUSINESS OVERVIEW

Headquartered in Toledo, Ohio, Owens Corning is a leading global producer of residential and commercial building materials and glass fiber reinforcements and other materials for composite systems. We operate within two general product categories: building materials, which includes our Insulating Systems, Roofing and Asphalt, and Other Building Materials and Services reportable segments, and composites systems, which includes our Composite Solutions reportable segment. Through these lines of business, we manufacture and sell products worldwide. We maintain leading market positions in all of our major product categories. In 2007, building materials net sales represented 67% of Owens Corning s total reportable segment net sales, while composites systems totaled 33%. Building materials represented 65% of Owens Corning s total reportable segment earnings from continuing operations before interest and taxes in 2007, while composite systems totaled 35%. The Company estimates that net sales by end market in 2007 were: 25% U.S. and Canada new residential construction; 27% U.S. and Canada residential repair and remodeling; 23% U.S. and Canada commercial and industrial; and 25% international.

The market decline in new residential construction in the United States began in mid-2006 and accelerated through 2007, significantly impacting demand for our residential insulation, residential roofing, and manufactured stone veneer products. The U.S. Census Bureau reported that annualized total housing starts, including single and multifamily starts, peaked at 2.068 million in 2005 and declined 34.5% to 1.354 million in 2007. We currently anticipate that weakness in new residential construction will continue in 2008, and possibly beyond. The National Association of Home Builders (NAHB) forecasted in January, 2008 housing starts to total 1.07 million in 2008, down 48.3% from its peak in 2005.

In the fourth quarter of 2007, in response to continued weakness in the building materials markets, we commenced various cost savings projects to reduce headcount, close certain facilities and curtail production; which resulted in restructuring and other charges of $57 million; $28 million of which are reported as restructuring on our Consolidated Statement of Earnings (Loss). We anticipate additional charges of $7 million in conjunction with these actions throughout 2008 and once complete we anticipate annualized savings of at least $100 million. Additionally in the fourth quarter of 2007, Owens Corning recorded an impairment charge of approximately $50 million related to the sale of the Company s composite manufacturing facilities located in Battice, Belgium and Birkeland, Norway. Owens Corning previously announced that it planned to sell the two facilities to address regulatory concerns associated with Owens Corning s acquisition of Saint-Gobain s reinforcement and composite fabrics business.

During the third quarter of 2007, we completed two divestitures that will allow us to focus more on our core businesses and reduce our Company s reliance on the North American housing market. On August 31, 2007 we

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

sold our Siding Solutions business, the largest business in our Other Building Materials and Services segment, to the Saint-Gobain Group for net proceeds of approximately $368 million. In addition, we sold our Fabwel unit, a component of our Composite Solutions segment, for net proceeds of approximately $57 million. The financial results for these businesses have been segregated and are reported as discontinued operations in the Consolidated Statement of Earnings (Loss) for all periods presented. Business segment results and the discussion thereof have been adjusted to exclude the results of Siding Solutions and Fabwel. The prior period Consolidated Balance Sheet and Consolidated Statements of Cash Flow have not been recast.

On November 1, 2007, the Company completed its acquisition of Saint-Gobain s reinforcements and composite fabrics businesses for $640 million, which included $56 million in acquired cash and the assumption of $51 million of debt, and excluded estimated transaction costs and purchase price adjustments. Operating results of these businesses are included in our Composite Solutions segment and our Consolidated Financial Statements beginning November 1, 2007. The composites acquisition will increase our international net sales.

Our Insulating Systems segment includes those of our products which are most impacted by fluctuations in new home construction, including thermal and acoustical batts and loose fill insulation for wall and attic, foam sheathing and accessory products such as house wrap, construction and window flashing tape. Foam accessory products include attic rafter vents and attic stair insulators. During 2007, our residential insulation businesses experienced net sales declines of 15.3% compared to 2006, and demand weakness put pressure on prices that also declined compared to 2006. Our commercial and industrial insulation businesses also experienced a decline in sales in 2007, primarily in HVAC-related products.

In response to the decline in demand in this segment we have curtailed production at multiple locations, primarily through extended curtailments of certain production lines or by extending downtime for furnace repairs or rebuilds. If new residential construction in the United States continues to decline, additional production curtailments may be necessary. The Company estimates that sources of net sales in the Insulating Systems segment in 2007 were: 40% U.S. and Canada new residential construction; 20% U.S. and Canada repair and remodeling; 29% U.S. and Canada commercial and industrial; and 11% international. In 2007, Insulating Systems represented 54% of Owens Corning s total reportable segment earnings from continuing operations before interest and taxes.

In 2008, estimates by the NAHB point to further weakness in housing starts in the United States, and commercial and industrial demand for insulation is likely to further weaken. The Company will continue efforts to stimulate insulation demand through new products and customer promotions that will communicate the value of adding additional insulation to existing and new homes and commercial buildings to promote lower energy bills, improved energy efficiency and the reduction in green house gas emissions. Continued growth in insulation demand is anticipated in 2008 in the Latin America and Asia Pacific regions, but such amounts are not anticipated to have a material impact on the Company s financial results in 2008.

Our Roofing and Asphalt segment includes the production and sale of asphalt composite shingles, roofing accessories and processed asphalt used in shingle coating, commercial roofing and other industrial and specialty applications. During 2007, the segment was impacted by the decline in the United States of housing construction, the slowdown of existing home sales, and a slow down of home repair and remodeling activities. Although demand for our Roofing and Asphalt products is primarily driven by the repair of residential roofs, repair activity varies somewhat with housing turnover, which is heavily influenced by new home sales. Demand for our residential roofing products was negatively impacted by a lack of significant storm-related demand in North America. Roofing and Asphalt segment performance was lifted by sales of our new Duration Series Shingles with SureNail® technology. The innovative shingles are now available across the United States, six months ahead of the original roll-out schedule.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The Company estimates that sources of net sales in the Roofing and Asphalt segment in 2007 were: 25% U.S. and Canada new residential construction; 64% U.S. and Canada repair and remodeling; and 11% U.S. and Canada commercial and industrial. In 2007, Roofing and Asphalt represented 8% of Owens Corning s total reportable segment earnings from continuing operations before interest and taxes.

In 2008, due to the anticipated continued weakness in new housing starts and repair and remodel construction in the United States, demand for roofing shingles is estimated to be weaker compared with 2007. Given increases in the market price of crude oil, asphalt prices are expected to be higher in 2008. However, Owens Corning s improved product mix, price actions and further production optimization throughout the Company s manufacturing plants are expected to partially offset the anticipated market weakness and raw material inflation.

Our Other Building Materials and Services segment is now comprised of our Masonry Products business (previously known as Cultured Stone) and our Construction Services business. Our Siding Solutions Business, which included three vinyl siding manufacturing facilities and a related distribution business, was sold in August of 2007.

Masonry Products includes the production and sale of manufactured stone and brick veneers used in residential and commercial new construction and repair and remodeling. In this business, sales volume in North America declined in 2007 compared to 2006. Consolidated sales in this business in 2007 now include those of a European manufactured stone business that was acquired late in 2006. The lower volume in North America was partially offset by the acquired European business. We achieved significant manufacturing productivity improvements in this business in 2007 but have been unable to take full advantage of these actions because of weakened demand associated with the downturn in the United States new home construction and residential repair and remodeling. We have periodically curtailed production at our facilities, including the closure of the Navarre, Ohio facility in the fourth quarter of 2007.

Our Construction Services business includes Owens Corning s Basement Finishing System , Room Finishing System and SunSuites sunrooms. Net sales in our Construction Services business were down significantly in 2007 compared to 2006 due to the closure of the HOMExperts portion of this business during the fourth quarter of 2006. We continue to experience growth in our Basement Finishing System franchises and have been increasing franchises for our SunSuites and other outdoor living designs.

Our Composite Solutions segment includes the production and sale of glass reinforcement fibers that are used around the world in automotive, consumer, infrastructure, electronics, transportation, construction, marine, and aerospace and defense applications. This segment continued to experience sales growth during 2007. Volume increased in most of our markets with the exception of glass mat for residential roofing in North America and our North American automotive markets. We experienced growth in our European automotive markets, our infrastructure markets including wind energy and pipe, and our non-woven glass mat markets. Our mold resistant fiberglass facing for wall board enjoyed significant growth during the year in spite of the decline in the new residential construction market in the United States. Selling prices for some products in this segment increased somewhat compared to 2006, primarily as the result of increases in geographic areas where demand is very strong.

We have curtailed some production of mat products in the United States due to the weakness in the market for roofing shingles and expect that this curtailment will be maintained during 2008.

Our acquisition of the reinforcements and composite fabrics businesses from the Saint-Gobain Group will increase our share in the global composites market. We anticipate worldwide demand for composite products overall will continue to increase during 2008. However, other producers of these products, especially in China, are expected to continue to exert significant competitive pressures in this global business.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

In 2007, Composite Solutions represented 35% of Owens Corning s total reportable segment earnings from continuing operations before interest and taxes. Based on 2007 performance and including the acquisition of the reinforcement and composite fabrics businesses for the two months ended December 31, 2007, the Company estimates that sources of revenue in the composites segment in 2007 were: 10% U.S. and Canada residential construction; 29% U.S. and Canada commercial and industrial; and 61% international.

RESULTS OF OPERATIONS

Fresh-Start Accounting

Our emergence from bankruptcy in October 2006 affected earnings from continuing operations before interest and taxes in fiscal 2007 and fiscal 2006 due to the impact of fresh-start accounting. The effect of fresh-start accounting increased earnings from continuing operations before interest and taxes by approximately $11 million in 2007 and decreased earnings from continuing operations before interest and taxes by $61 million in fiscal 2006. The increase in 2007 was primarily due to reduced pension expense, partially offset by increased depreciation and amortization, and other post-employment benefits expense. The decrease in fiscal 2006 was primarily due to the write-off of $21 million of in-process research and development and approximately $42 million resulting from the sale of inventory that was written up to market value at emergence from bankruptcy. Compared to pre-emergence results, fresh-start accounting also resulted in reduced pension expense, partially offset by increased depreciation and amortization, and other post-employment benefits expense.

Consolidated Results (in millions)

	Successor	COMBINED	Successor	Predecessor	
	Twelve Months Ended December 31, 2007	Twelve Months Ended December 31, 2006	Two Months Ended December 31, 2006	Ten Months Ended October 31, 2006	Twelve Months Ended December 31, 2005
Net sales	$ 4,978	$ 5,399	$ 772	$ 4,627	$ 5,177
Gross margin	$ 777	$ 1,002	$ 116	$ 886	$ 1,070
As a percent of sales	15.6%	18.6%	15.0%	19.1%	20.7%
Marketing and administrative	$ 498	$ 494	$ 86	$ 408	$ 521
As a percent of sales	10.0%	9.1%	11.1%	8.8%	10.1%
Science and technology	$ 63	$ 78	$ 30	$ 48	$ 56
As a percent of sales	1.3%	1.4%	3.9%	1.0%	1.1%
Provision (credit) for asbestos litigation claims (recoveries)	$	$ (13)	$	$ (13)	$ 4,267
Employee emergence equity program	$ 37	$ 6	$ 6	$	$
Earnings (loss) from continuing operations before interest and taxes	$ 145	$ 407	$ (44)	$ 451	$ (3,801)
Interest expense, net	$ 122		$ 29	$ 241	$ 740
Gain on settlement of liabilities subject to compromise	$		$	$ (5,864)	$
Fresh-start accounting adjustments	$		$	$ (2,919)	$
Income tax expense (benefit)	$ (8)		$ (23)	$ 980	$ (411)
Earnings (loss) from continuing operations	$ 27		$ (54)	$ 8,013	$ (4,134)
Earnings (loss) from discontinued operations, net of tax of $45, $(5), $45 and $24, respectively	$ 69		$ (11)	$ 127	$ 35
Net earnings (loss)	$ 96		$ (65)	$ 8,140	$ (4,099)

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Items Affecting Comparability

Because of the nature of certain items related to our prior Chapter 11 proceedings, restructuring activities, business acquisitions and dispositions, and the employee emergence equity program, management does not find reported earnings from continuing operations before interest and taxes to be the most useful and transparent financial measure of the Company s year-over-year operational performance. These items are not the result of current operations of the Company.

Our management measures operating performance by excluding the items referenced in the preceding paragraph for various purposes, including reporting results of operations to the Board of Directors of the Company, and for analysis of performance and related employee compensation measures. Although management believes that these adjustments to earnings from continuing operations before interest and taxes provide a more meaningful representation of the Company s operational performance, our operating performance excluding these items should not be considered in isolation or as a substitute for earnings from continuing operations before interest and taxes prepared in accordance with accounting principles generally accepted in the United States.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The reconciliation of significant items impacting the year-over-year comparability of reported earnings from continuing operations before interest and taxes are noted in the table below (in millions):

	Successor Twelve Months Ended December 31, 2007	COMBINED Twelve Months Ended December 31, 2006	Successor Two Months Ended December 31, 2006	Predecessor Ten Months Ended October 31, 2006	Predecessor Twelve Months Ended December 31, 2005
NET EARNINGS (LOSS)	$ 96		$ (65)	$ 8,140	$ (4,099)
Discontinued operations					
Earnings (loss) from discontinued operations, net of tax of $5, $(5), $45 and $24, respectively	9		(11)	127	35
Gain on sale of discontinued operations, net of tax of $40, $0, $0, and $0, respectively	60				
Total earnings (loss) from discontinued operations	69		(11)	127	35
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	27		(54)	8,013	(4,134)
Minority interest and equity in net loss of affiliates	(4)		(4)		(4)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST AND EQUITY IN NET LOSS OF AFFILIATES	31		(50)	8,013	(4,130)
Income tax expense (benefit)	(8)		(23)	980	(411)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	23		(73)	8993	(4,541)
Fresh-start accounting adjustments				(2,919)	
Gain on settlement of liabilities subject to compromise				(5,864)	
Interest expense, net	122		29	241	740
EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INTEREST AND TAXES	145	407	(44)	451	(3,801)
Adjustments to remove items impacting comparability:					
Chapter 11-related reorganization items		(55)	(10)	(45)	(45)

Asbestos litigation (claims) recoveries		13		13	(4,267)
Restructuring and other (costs) credits	(54)(a)	2(b)	(32)(c)	34(d)	25(e)
Fresh-start accounting impact		(63)(f)	(63)(f)		
Acquisition transaction costs	(28)	(13)	(6)	(7)	
Impact of acquisition accounting	(13)(g)				
Loss related to the exit of our HOMExperts service line	(7)				
Asset impairments	(60)				
Employee emergence equity program	(37)	(6)	(6)		
Total adjustments to remove comparability items:	(199)	(122)	(117)	(5)	(4,287)
ADJUSTED EARNINGS FROM CONTINUING OPERATIONS BEFORE INTEREST AND TAXES	$ 344	$ 529	$ 73	$ 456	$ 486

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

(a) Includes $28 million of restructuring cost and $26 million of other cost, which is inclusive of $21 million of accelerated depreciation.
(b) Includes $32 million of restructuring cost, $11 million of other cost and $45 million of gains on the sale of metal used in certain production tooling.
(c) Includes $20 million of restructuring cost and $12 million of other cost.
(d) Includes $12 million of restructuring cost, $1 million of other gains and $45 million of gains on the sale of metal used in certain production tooling.
(e) Includes income of $13 million due to changes in the Ohio tax law during 2005, $7 million of gains from the sale of metal and income of $5 million in gains on the early extinguishment of Asian debt.
(f) Includes $42 million related to the impact of inventory write-up and $21 million related to the write-off of in-process research and development.
(g) Includes $12 million related to the impact of inventory write-up and $1 million related to the write-off of in-process research and development.

Adjusted earnings from continuing operations before interest and taxes in fiscal 2007 decreased $185 million, or 35%, compared to fiscal 2006. This decrease was primarily due to lower sales and an increase in idle facility costs, as the decline in the North American new residential construction market impacted demand for building materials products, offset partially by lower selling, general and administrative costs.

Adjusted earnings from continuing operations before interest and taxes in fiscal 2006 increased $43 million, or 9%, compared to fiscal 2005. This increase was primarily due to strong demand in the first half of 2006 for our building materials products, particularly in our Insulating Systems Segment, and our roofing products, which was driven by the 2005 hurricanes in the southeastern United States. Offsetting this increase were declines in the volume for our building materials products as the new residential construction market in the United States began to weaken in the third quarter of 2006 and there was no significant storm-related demand for our roofing products in the second half of 2006.

NET SALES

Net sales in fiscal 2007 decreased 7.8% compared to fiscal 2006. Volumes in our building products category declined in response to significant decreases in new residential construction, weaker demand in residential repair and remodeling, and somewhat weaker commercial and industrial demand in the United States. The decline in volume also impacted prices for certain products in our building materials businesses. Additionally our exit from our HOMExperts service line during the fourth quarter of 2006 contributed to the sales decline. Partially offsetting this decline were incremental sales resulting from the acquisition of Saint-Gobain s reinforcements and composite fabrics businesses on November 1, 2007, additional sales related to our acquisition of a European manufactured stone producer in September 2006, and increases related to favorable foreign currency exchange rates.

Sales outside the United States represented 31% of total sales for fiscal 2007 compared to 22% for fiscal 2006, an increase of 41%. The increase is due to lower sales of building materials products in the United States in 2007 combined with incremental sales outside the United States related to the acquisition of Saint-Gobain s reinforcements and composite fabrics businesses, increased European sales of manufactured stone veneer products, and increases related to favorable foreign exchange rates.

Net sales for fiscal 2006 increased 4.3% compared to fiscal 2005. This increase was primarily the result of favorable pricing actions early in 2006 in the Insulating Systems and Roofing and Asphalt segments, increased sales in the Composite Solutions segment resulting from the May 2006 acquisition of a manufacturing facility in Japan from Asahi Glass Co. Ltd, volume growth in North American manufactured stone veneer products, and additional sales related to our acquisition of a European manufactured stone veneer producer in September 2006. Partially offsetting these factors were lower volumes in the Roofing and Asphalt segment. Sales outside the United States represented 22% of total sales for fiscal 2006, compared to 19% during 2005.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

GROSS MARGIN

Gross margin as a percent of sales for fiscal 2007 decreased to 15.6% from 18.6% in fiscal 2006. Gross margin in fiscal 2007 was negatively impacted by charges of approximately $36 million related to actions taken in the third and fourth quarters, to reduce headcount, close certain facilities and curtail production; primarily asset impairments and acceleration of depreciation associated with plant closures and capacity reductions. Additionally, fiscal 2007 gross margin was negatively impacted by an asset impairment charge of approximately $50 million related to the previously announced sale of the Company s composite manufacturing facilities located in Battice, Belgium and Birkeland, Norway and by approximately $12 million in additional expenses resulting from the sale of inventories whose value was written up to market value as part of the acquisition of Saint-Gobain s reinforcements and composite fabrics businesses.

The effect of fresh-start accounting increased gross margin by approximately $7 million in 2007, primarily due to reduced pension expense, partially offset by increased depreciation and amortization, and other post-employment benefits expense. The effect of fresh-start accounting decreased gross margin by approximately $43 million in fiscal 2006, primarily due to the sale of inventory that was written up to market value at emergence from bankruptcy.

Gross margin as a percent of sales was also negatively impacted by volume and price declines in the Insulating Systems and Roofing and Asphalt segments, and increased material, energy, labor and idle facility costs. Partially offsetting these cost increases was a decline in the expense of valuing inventory using the last-in-first-out method of $29 million in 2007 compared to fiscal 2006.

Gross margin as a percent of sales for fiscal 2006 decreased to 18.6% from 20.7% in fiscal 2005. Fiscal 2006 gross margin was negatively impacted by approximately $43 million primarily due to the sale of inventory that was written up to market value at emergence from bankruptcy as the result of the adoption of fresh-start accounting, and other charges of approximately $15 million as the result of closing facilities, exiting certain product lines and reducing operating cost as part of our fourth quarter actions to align production capacity with projected demand.

The Insulating Systems segment fiscal 2006 gross margin as a percent of sales improved primarily as a result of higher pricing and manufacturing productivity stemming from strong demand in the United States housing and remodeling markets through the first nine months of the year as well as strong demand in the commercial and industrial markets during the entire year. Gross margins declined on a comparative basis during the second half of fiscal 2006, as the residential construction market declined from the very high levels of 2005 and the first half of fiscal 2006.

Gross margin was lower in the Composite Solutions segment due to the negative impact of increased costs associated with the Taloja, India manufacturing facility being shutdown in conjunction with a capacity expansion during the first half of fiscal 2006 and higher material, energy and transportation costs. Gross margin also declined in the Roofing and Asphalt segment due to lower demand and the inability to achieve sufficient price increases in the second half of fiscal 2006 to offset significantly increased asphalt coating cost.

MARKETING AND ADMINISTRATIVE EXPENSES

Marketing and administrative expenses increased 0.8% in fiscal 2007 compared to fiscal 2006. The increase was due primarily to the inclusion of Saint-Gobain s reinforcements and composites fabrics businesses for the two months ending December 31, 2007 and a $15 million increase in transaction costs related to the

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

acquisition of such businesses. Offsetting these increases were reductions in performance-based compensation expense of approximately $30 million compared to fiscal 2006, as adverse market conditions negatively impacted our ability to achieve performance goals. In addition, the adoption of fresh-start accounting decreased marketing and administrative expenses by approximately $12 million in fiscal 2007, primarily due to lower pension and depreciation expense compared to a decrease of approximately $4 million in fiscal 2006.

Marketing and administrative expenses decreased 5.2% in fiscal 2006 compared to fiscal 2005. The decrease is primarily due to lower performance-based compensation expense in fiscal 2006 and approximately $4 million in lower pension cost and depreciation expense related to the adoption of fresh-start accounting upon emergence from bankruptcy, offset in part by approximately $13 million in transaction costs related to the acquisition of the Saint-Gobain s reinforcements and composite fabrics businesses.

SCIENCE AND TECHNOLOGY EXPENSES

Science and technology expenses for fiscal 2007 were $63 million, a 19.2% decrease from $78 million in fiscal 2006. The decrease is primarily due to the write-off of in-process research and development totaling $21 million in conjunction with our emergence from bankruptcy and adoption of fresh-start accounting recorded in fiscal 2006 compared to approximately $1 million in 2007 associated with the acquisition of Saint-Gobain s reinforcements and composite fabrics businesses.

Science and technology expenses for fiscal 2006 were $78 million, a 39.3% increase from $56 million in fiscal 2005. The increase is primarily due to the write-off of in-process research and development totaling $21 million in conjunction with our emergence from bankruptcy and adoption of fresh-start accounting.

EMPLOYEE EMERGENCE EQUITY PROGRAM

Our plan of reorganization established a one time employee emergence equity program. The cost of this program is being amortized over the vesting period of three years beginning in November 2006. Compensation expense related to the employee emergence equity program reduced earnings from continuing operations before interest and taxes by $37 million in fiscal 2007, compared to $6 million in fiscal 2006.

EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INTEREST AND TAXES

The decrease in earnings (loss) from continuing operations before interest and taxes for fiscal 2007 compared to fiscal 2006 was primarily due to charges related to actions taken to align production capacity with projected demand, asset impairment charges related to the sale of the Company s composite manufacturing facilities located in Battice, Belgium and Birkeland, Norway, and lower sales volumes and selling prices, combined with higher raw materials, energy, labor, and idle facility costs that combined to create margin compression in our building materials businesses. In addition, earnings from continuing operations before interest and taxes for fiscal 2007 as compared to fiscal 2006 were impacted by:

The adoption of fresh-start accounting improved earnings from continuing operations before interest and taxes in fiscal 2007 compared to fiscal 2006 by approximately $72 million. Fiscal 2006 results included charges resulting from the sale of inventories whose value was written up as part of fresh-start accounting and the write-off of in-process research and development. The 2007 results included the full year benefit of reduced pension expense, partially offset by increased depreciation and amortization, and other post-employment benefits expense.

A decrease in Chapter 11-related reorganization items of $55 million compared to a year ago because of emergence from bankruptcy on October 31, 2006.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

In fiscal 2007, no gain was recorded on the sale of certain metals used in production tooling as compared to a gain in fiscal 2006 of approximately $45 million, which is included under the caption gain on sale of fixed assets and other in the Consolidated Statements of Earnings (Loss).

During fiscal 2006, we finalized our recoveries of insurance proceeds related to the July 2005 flood of our Taloja, India manufacturing facility. As a result, we recorded in the Consolidated Statement of Earnings (Loss), under the caption gain on sale of fixed assets and other, $2 million in gains on the replacement of equipment and $18 million related to business interruption losses and other expenses (primarily attributable to the last half of 2005 and the first quarter of 2006).

As a result of evaluating market conditions in the fourth quarter of 2007, actions were taken to close facilities and reduce operating costs. These actions resulted in a $31 million restructuring charge, primarily related to work force reductions. In the third and fourth quarters of fiscal 2006, actions were taken to realign production capacity to projected demand, exit non-core business areas, and reduce operating costs. The restructuring charges totaled approximately $32 million, primarily related to work force reductions and termination of supply contracts.

In the third quarter of fiscal 2006, the Company resolved a matter related to Fibreboard asbestos personal injury claims and insurance assets and recorded a net credit for asbestos litigation totaling $13 million.

The increase in earnings (loss) from continuing operations in fiscal 2006 compared to fiscal 2005 was primarily due to the impact of the $4.267 billion provision for asbestos litigation claims during the earlier period. In addition to the above item, earnings from continuing operations before interest and taxes in fiscal 2006 were impacted by:

We realized gains on the sale of certain metals used in production tooling of approximately $45 million in fiscal 2006 and $7 million in fiscal 2005. These gains are included under the caption gain on sale of fixed assets and other in the Consolidated Statements of Earnings (Loss).

During fiscal 2006, we finalized our recoveries of insurance proceeds related to the July 2005 flood of our Taloja, India manufacturing facility. As a result, we recorded in the Consolidated Statements of Earnings (Loss), under the caption gain on sale of fixed assets and other, $2 million in gains on the replacement of equipment and $18 million related to business interruption losses and other expenses (primarily attributable to the last half of 2005 and the first quarter of fiscal 2006).

Partially offsetting these gains were $9 million in losses related to a mark to market adjustment on energy related derivative instruments in the first quarter of fiscal 2006, which is included in the Consolidated Statements of Earnings (Loss) under the caption gain on sale of fixed assets and other.

In the third and fourth quarters of fiscal 2006, actions were taken to realign production capacity to projected demand, exit non-core business areas, and reduce operating cost. The restructuring charges totaled approximately $32 million, primarily related to work force reductions and termination of supply contracts.

Earnings from continuing operations before interest and taxes were unfavorably impacted during fiscal 2006 by an increase in Chapter 11-related reorganization items of $10 million, primarily resulting from increased professional fees, partially offset by higher investment income.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

INTEREST EXPENSE

The net interest expense for fiscal 2007 of $122 million reflects the cost of financing obtained following our emergence from bankruptcy, primarily interest on $1.2 billion of Senior Notes, the borrowing under a delayed-draw senior term loan facility, and borrowings under our revolving credit facility.

On October 31, 2006 as part of our Plan, we issued $1.2 billion of new Senior Notes in a private placement; $650 million at an interest rate of 6.5% due in 2016, and $550 million at an interest rate of 7% due in 2036 (the Senior Notes). Interest on these notes is payable semi-annually beginning June 1, 2007.

The fiscal 2006 results also include expenses of $247 million with respect to OCD s pre-petition credit facility and certain unsecured trade claims against Debtors other than OCD relating to post-petition interest and certain other fees.

The 2005 results included expenses of $735 million with respect to OCD s pre-petition credit facility for the period from the Petition Date through December 31, 2005 relating to post-petition interest and certain other fees.

GAIN ON SETTLEMENT OF LIABILITIES SUBJECT TO COMPROMISE

Pursuant to SoP 90-7, the Consolidated Statements of Earnings (Loss) for the ten months ended October 31, 2006 includes a gain of approximately $5.9 billion related to OCD s emergence from bankruptcy. This gain resulted from the discharge of liabilities subject to compromise and the cancellation of the Predecessor s monthly income preferred stock under the Plan.

FRESH-START ACCOUNTING ADJUSTMENTS

Included in the Consolidated Statements of Earnings for the ten months ended October 31, 2006 is a gain of approximately $2.9 billion resulting from the adoption of fresh-start accounting. This amount is the result of the aggregate of changes to the net carrying value of pre-emergence assets and liabilities to reflect the fair values under fresh-start accounting in accordance with SoP 90-7. Also included within the gain from fresh-start accounting adjustment is the cancellation of Predecessor common stock and close out of remaining equity balances of the Predecessor.

INCOME TAX EXPENSE (BENEFIT)

Income tax benefit for fiscal 2007 was $8 million, which represents a 35% negative effective tax rate. The difference between the 35% negative effective rate and the Federal statutory tax rate of 35% was primarily due to the effect of tax savings resulting from various initiatives implemented in 2006 and 2007 and global legislative changes.

The Successor s income tax benefit for the two months ended December 31, 2006 was $23 million, which represents a 32% effective tax rate. The difference between the 32% effective rate and the Federal statutory tax rate of 35% was primarily the result of additional tax benefit associated with state and local income taxes, offset by no tax benefit associated with expensing approximately $21 million of in-process research and development cost in conjunction with our emergence from bankruptcy and the adoption of fresh-start accounting.

The Predecessor s income tax expense for the ten months ended October 31, 2006 was $980 million, which represents an 11% effective tax rate. The difference between the 11% effective rate and the Federal statutory tax rate of 35% was primarily the result of no tax expense associated with the gain on the settlement of asbestos-related liabilities subject to compromise due to the impact of a previously established tax valuation allowance to adjust the income tax benefit associated with prior charges taken for asbestos-related liabilities to amounts expected to be realized.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The Predecessor s income tax benefit for the twelve months ended December 31, 2005 was $411 million, which represents a 9% effective tax rate. The difference between the 9% effective rate and the Federal statutory tax rate of 35% was primarily the result of establishing a $1.363 billion valuation allowance against the approximately $1.672 billion in additional deferred tax assets generated from an aggregate charge of $4.267 billion for asbestos-related liabilities. Income tax expense during 2005 also included approximately $12 million of additional taxes related to our decision under the American Jobs Creation Act to repatriate approximately $220 million of earnings previously considered permanently invested outside of the U.S.

DISCONTINUED OPERATIONS

In August 2007, the Company completed the sale of its Siding Solutions business, a component of its Other Building Materials and Services segment, for net proceeds of approximately $368 million. The Company recognized a pretax gain of $115 million on the sale. This gain is included in the gain on sale of discontinued operations on the Consolidated Statement of Earnings (Loss). The divested business included the Norandex/Reynolds distribution business and three siding manufacturing facilities. The results of operations for the Siding Solutions business are reported within discontinued operations in the accompanying Consolidated Statements of Earnings (Loss), and prior period Consolidated Statements of Earnings (Loss) have been recast.

In September 2007, the Company completed the sale of its Fabwel unit, a component of its Composite Solutions segment for approximately $57 million in net proceeds. The Company recognized a pretax loss of $15 million on the sale, which is included in the gain on the sale of discontinued operations on the Consolidated Statement of Earnings (Loss). The results of operations for Fabwel are reported within discontinued operations in the accompanying Consolidated Statements of Earnings (Loss), and prior period Consolidated Statements of Earnings (Loss) have been recast.

Earnings from discontinued operations for 2007 were $69 million, compared to a loss of $11 million and earnings of $127 million for the Successor two months ended December 31, 2006 and the Predecessor ten months ended October 31, 2006, respectively. The earnings from discontinued operations for the Predecessor ten months ended October 31, 2006 included a gain of approximately $130 million resulting from the adoption of fresh-start accounting.

NET EARNINGS

Due to the items discussed above, net earnings (loss) for fiscal 2007 were $96 million, compared to a loss of $65 million and earnings of $8.140 billion for the Successor two months ended December 31, 2006 and the Predecessor ten months ended October 31, 2006, respectively. Net earnings for the ten months ended October 31, 2006 include gains of $5.864 billion on the settlement of subject to compromise liabilities and $2.919 billion from fresh-start accounting adjustments.

For the Successor two months ended December 31, 2006 and the Predecessor ten months ended October 31, 2006, reported net earnings (loss) were a loss of $65 million and earnings of $8.140 billion, respectively, compared to a net loss of $4.099 billion for the Predecessor year ended December 31, 2005. Net earnings for the ten months ended October 31, 2006 include gains of $5.864 billion on the settlement of subject to compromise liabilities and $2.919 billion from fresh start accounting adjustments. The net loss in 2005 reflected a $4.267 billion provision for asbestos litigation claims.

Segment Results

The Company s business operations fall within two general product categories, building materials and composites. The Company has determined (a) that the operating segments comprising the building materials

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

product category be aggregated into three reportable segments: (1) Insulating Systems; (2) Roofing and Asphalt; and (3) Other Building Materials and Services, and (b) that the operating segments comprising the composites product category are in a single reportable segment: Composite Solutions.

Earnings (loss) from continuing operations before interest and taxes by segment consists of net sales less related costs and expenses and is presented on a basis that is used internally for evaluating segment performance. Certain categories of expenses 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 earnings (loss) from continuing operations before interest and taxes for the Company s reportable segments and are included in the Corporate, Other and Eliminations category, which is presented following the discussion of our reportable segments.

Insulating Systems

The table below provides a summary of sales, earnings from continuing operations before interest and taxes, and depreciation and amortization expense for the Insulating Systems segment (in millions).

	Successor	**COMBINED**	**Successor**	**Predecessor**	
	Twelve Months Ended December 31, 2007	**Twelve Months Ended December 31, 2006**	**Two Months Ended December 31, 2006**	**Ten Months Ended October 31, 2006**	**Twelve Months Ended December 31, 2005**
Net sales	$ 1,776	$ 2,097	$ 331	$ 1,766	$ 1,976
% change from prior year	(15.3)%	6.1%			8.7%
% of total reportable segment	34.5%	37.6%	42.2%	36.8%	36.9%
Earnings from continuing operations before interest and taxes	$ 192	$ 467	$ 59	$ 408	$ 424
EBIT as a % of sales	10.8%	22.3%	17.8%	23.1%	21.5%
% of total reportable segment	53.5%	67.3%	81.9%	65.6%	61.7%
Depreciation and amortization	$ 125	$ 85	$ 20	$ 65	$ 68

NET SALES

Net sales for fiscal 2007 were $1.776 billion, a 15.3% decrease from fiscal 2006. The lower demand in new residential construction and repair and remodeling in the United States has had a significant impact on demand for our residential insulation products. During the third and fourth quarters of 2007, we also experienced some quarter-over-quarter weakness in our commercial and industrial markets. Approximately three-fourths of this segment s decline in sales was due to unfavorable volume and product mix, and the remainder of the decline was due to price erosion on certain products due to competitive pressure.

In response to weakening demand during the year, the Company curtailed production at multiple locations in the United States and Canada through extending curtailments, slowing certain production lines or extending downtime for furnace repairs or rebuilds. Throughout 2007 insulation inventories were adjusted to seasonal sales levels.

Net sales for fiscal 2006 were $2.097 billion, a 6.1% increase from the 2005 level of $1.976 billion. This increase was the result of favorable pricing in major product categories, as the continued strong demand in the United States housing and remodeling markets during the first nine months of fiscal 2006 and robust demand in the

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

commercial and industrial market allowed us to recover energy, material and transportation cost increases. Beginning in the third quarter of fiscal 2006, we saw some slowing in demand in our residential construction markets. The decrease in net sales is primarily the result of the decline in demand in the fourth quarter of 2006 reflecting weaker housing activity compared to the fourth quarter of 2005 during which residential construction was very strong.

EARNINGS FROM CONTINUING OPERATIONS BEFORE INTEREST AND TAXES

For fiscal 2007, earnings from continuing operations before interest and taxes decreased $275 million from fiscal 2006. Approximately one-third of the decline is due to lower selling price and approximately one-third is due to decreased sales volumes. The adoption of fresh-start accounting upon our emergence from bankruptcy decreased 2007 year-over-year earnings from continuing operations before interest and taxes by approximately $37 million, related primarily to increased depreciation and amortization costs. The remainder of the decrease is due to idle facility cost, inflation in raw materials, energy and labor.

Earnings from continuing operations before interest and taxes for fiscal 2006 were $467 million, a 10.1% increase from the 2005 level of $424 million. The increase was the result of favorable pricing due to continued strong demand in the United States housing and remodeling markets, which more than offset approximately $70 million of inflation in raw materials, energy, labor and transportation, and approximately $6 million of additional cost, primarily depreciation and amortization, resulting from the impact of adopting fresh-start accounting.

Roofing and Asphalt

The table below provides a summary of sales, earnings (loss) from continuing operations before interest and taxes, and depreciation and amortization expense for the Roofing and Asphalt segment (in millions).

	Successor		Successor	Predecessor	
	Twelve Months Ended December 31, 2007	COMBINED Twelve Months Ended December 31, 2006	Two Months Ended December 31, 2006	Ten Months Ended October 31, 2006	Twelve Months Ended December 31, 2005
Net sales	$ 1,375	$ 1,723	$ 167	$ 1,556	$ 1,806
% change from prior year	(20.2)%	(4.6)%			15.9%
% of total reportable segment	26.7%	30.9%	21.3%	32.5%	33.7%
Earnings (loss) from continuing operations before interest and taxes	$ 27	$ 72	$ (23)	$ 95	$ 139
EBIT as a % of sales	2.0%	4.2%	(13.8)%	6.1%	7.7%
% of total reportable segment	7.5%	10.4%	(31.9)%	15.3%	20.2%
Depreciation and amortization	$ 40	$ 33	$ 7	$ 26	$ 35

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NET SALES

For fiscal 2007, net sales declined 20.2% from the same period last year due to a decrease in volume. The decline in existing home sales and related roofing repair and remodeling activities, the lower demand in new residential construction in the United States and lower than average storm-related demand in the United States significantly impacted the demand for our products. Sales were lifted by the introduction of the Company s newest laminate product Duration Series Shingles with SureNail® technology. The innovative shingles are now available across the United States, six months earlier than originally planned.

Net sales for fiscal 2006 were $1.723 billion, a 4.6% decrease from the 2005 level of $1.806 billion. This decrease was the result of a decline in volume related to both lower new residential construction activity and a lower level of storm-related demand, particularly in the second half of 2006. These factors were only partially offset by price increases, which reflect pass through of higher energy, material, and transportation costs.

EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INTEREST AND TAXES

For fiscal 2007, earnings from continuing operations before interest and taxes were $27 million, a decrease of 62.5% from fiscal 2006. Volume reductions, resulting from a decline in residential repair and remodeling activities, storm-related demand, and lower demand in new residential construction, drove the reduction in earnings from continuing operations before interest and taxes compared to fiscal 2006. Improved asphalt purchasing and storage practices, lower year-over-year asphalt prices, improved productivity and price increases moderated the impact of inflation on energy and raw materials. The adoption of fresh-start accounting upon our emergence from bankruptcy decreased 2007 year-over-year earnings from continuing operations before interest and taxes by approximately $3 million, related primarily to increased depreciation and amortization costs.

Earnings from continuing operations before interest and taxes for fiscal 2006 were $72 million, a 48.2% decrease from the 2005 level of $139 million. Approximately two-thirds of the decrease was because of lower volume resulting from declines in new construction activity and storm-related demand. In addition the inability to achieve sufficient price increases in the second half of the year to offset significant increases in asphalt coating cost negatively impacted year-over-year performance. In addition earnings from continuing operations before interest and taxes for fiscal 2006 were negatively impacted by approximately $1 million of expense resulting from the impact of adopting fresh-start accounting.

Other Building Materials and Services

The financial results and discussion for this segment have been revised due to the August 2007 sale of the Siding Solutions business, which included three vinyl siding manufacturing facilities and a related distribution business. This segment is now comprised of our Masonry Products business (previously known as Cultured Stone) and our Construction Services business.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The table below provides a summary of sales, earnings (loss) from continuing operations before interest and taxes, and depreciation and amortization expense for the Other Building Materials and Services segment (in millions).

	Successor	COMBINED	Successor	Predecessor	
	Twelve Months Ended December 31, 2007	Twelve Months Ended December 31, 2006	Two Months Ended December 31, 2006	Ten Months Ended October 31, 2006	Twelve Months Ended December 31, 2005
Net sales	$ 301	$ 377	$ 60	$ 317	$ 318
% change from prior year	(20.2)%	18.6%			17.0%
% of total reportable segment	5.8%	6.8%	7.6%	6.6%	5.9%
Earnings (loss) from continuing operations before interest and taxes	$ 14	$ 1	$ (1)	$ 2	$ 3
EBIT as a % of sales	4.7%	0.3%	(1.7)%	0.6%	0.9%
% of total reportable segment	3.9%	0.1%	(1.4)%	0.3%	0.4%
Depreciation and amortization	$ 10	$ 12	$ 2	$ 10	$ 5

NET SALES

For fiscal 2007, net sales were $301 million, a decrease of 20.2% from 2006. The closure of our HOMExperts service line in the fourth quarter of 2006 reduced 2007 sales by $76 million. Sales in 2007 of our Masonry Products business were increased by the inclusion of approximately $24 million in sales from our acquisition of the Modulo /ParMur Group during the third quarter of 2006. This increase was partially offset by declines in volume in the remainder of our Masonry Products business due to continued weakness in new construction and repair and remodeling markets in the United States.

Net sales for fiscal 2006 were $377 million, an 18.6% increase from the 2005 level of $318 million. This increase was primarily the result of volume growth in North American manufactured stone veneer products, and approximately $9 million related to the impact of our European manufactured stone veneer products acquisition in the third quarter of 2006.

EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INTEREST AND TAXES

For fiscal 2007, earnings from continuing operations before interest and taxes were $14 million, an increase of $13 million from 2006. The impact of closing our HOMExperts service line in 2006 was the primary reason for the improved performance. In addition, manufacturing productivity improvements at our Masonry Products facilities offset the impact of declines in volumes related to the continued weakness in new construction and repair and remodeling markets in the United States.

Earnings from continuing operations before interest and taxes for fiscal 2006 was $1 million, a decrease from the 2005 level of earnings from continuing operations before interest and taxes of $2 million. The decrease was due primarily to losses in the HOMExperts portion of our construction services business, from which we announced our exit in the fourth quarter of fiscal 2006 partially offset by increased volume and production efficiencies in manufactured stone veneer products.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Composite Solutions

Financial results and the discussion thereof for this segment have been revised due to the sale of our Fabwel unit, which produced and fabricated components and sidewalls for recreational vehicles and cargo trailers, during the third quarter of 2007.

The table below provides a summary of sales, earnings from continuing operations before interest and taxes, and depreciation and amortization expense for the Composite Solutions segment (in millions).

	Successor	COMBINED	Successor	Predecessor	
	Twelve Months Ended December 31, 2007	Twelve Months Ended December 31, 2006	Two Months Ended December 31, 2006	Ten Months Ended October 31, 2006	Twelve Months Ended December 31, 2005
Net sales	$ 1,695	$ 1,382	$ 227	$ 1,155	$ 1,265
% change from prior year	22.6%	9.2%			9.0%
% of total reportable segment	32.9%	24.8%	28.9%	24.1%	23.6%
Earnings from continuing operations before interest and taxes	$ 126	$ 154	$ 37	$ 117	$ 121
EBIT as a % of sales	7.4%	11.1%	16.3%	10.1%	9.6%
% of total reportable segment	35.1%	22.1%	51.4%	18.8%	17.6%
Depreciation and amortization	$ 104	$ 90	$ 16	$ 74	$ 83

NET SALES

Net sales for fiscal 2007 were $1.695 billion, an increase of 22.6% from the same period of fiscal 2006. The acquisition of the reinforcements and composite fabrics businesses from the Saint-Gobain Group increased sales by approximately $160 million. Year-over-year improvements in volume increased sales by approximately $70 million compared to 2006. The effect of translating sales denominated in foreign currencies into U.S. dollars increased sales by approximately $50 million. The remainder of the increase in sales was due to increased prices.

Net sales for fiscal 2006 were $1.382 billion, a 9.2% increase from the 2005 level of $1.265 billion. The increase in sales was primarily attributable to the acquisition of a manufacturing facility in Japan from Asahi Glass Co. Ltd. during the second quarter of 2006.

EARNINGS FROM CONTINUING OPERATIONS BEFORE INTEREST AND TAXES

For fiscal 2007, earnings from continuing operations before interest and taxes were $126 million, a 18.2% decrease from fiscal 2006. However, affecting comparability were gains in earnings from continuing operations before interest and taxes in fiscal 2006 related to the sale of metal used in certain production tooling for approximately $45 million and insurance recoveries related to the flood at our Taloja, India production facility resulting in a gain of approximately $20 million. Fiscal 2006 also included $8 million of expense associated with downtime at our Taloja, India facility for repair of flood damage and expansion.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

After considering these items, 2007 earnings from continuing operations before interest and taxes increased primarily due to the impact of improved selling prices, productivity gains, incremental earnings from the acquisition of the reinforcements and composite fabrics business from the Saint-Gobain Group and the effect of translating earnings denominated in foreign currencies into U.S. dollars. Offsetting these gains was the inability to fully offset higher costs through higher selling prices. The adoption of fresh-start accounting upon our emergence from bankruptcy decreased 2007 year-over-year earnings from continuing operations before interest and taxes by approximately $4 million, related primarily to increased post-employment benefit expenses.

Earnings from continuing operations before interest and taxes in fiscal 2006 were $154 million, a 27.3% increase from the 2005 level of $121 million. Gains on the sale of metal accounted for $38 million of the improvement.

Earnings from continuing operations before interest and taxes for fiscal 2006 also included $20 million of gain related to the insurance recoveries associated with the July 2005 flood of the Taloja, India manufacturing facility, partially offset by $8 million of cost related to downtime at this facility while it was being repaired and its capacity was expanded.

The decrease in earnings from continuing operations before interest and taxes, after excluding the effect of the gains on the sale of metal, the insurance recovery and the downtime costs, was due to cost inflation in raw materials and transportation. Earnings from continuing operations for fiscal 2006 were negatively impacted by approximately $2 million of expense resulting from the impact of adopting fresh-start accounting.

Corporate, Other and Eliminations

Financial results and the discussion thereof for corporate, other and eliminations have been revised due to the sale of the Siding Solutions business and our Fabwel unit during the third quarter of 2007. The loss from continuing operations has been recast for the Successor periods ended December 31, 2007 and December 31, 2006, and the Predecessor periods ended October 31, 2006 and December 31, 2005 to include corporate expenses that were previously allocated to Siding Solutions and Fabwel. These expenses totaled approximately $16 million for the year ended December 31, 2007, approximately $4 million for the two months ended December 31, 2006, approximately $19 million for the ten months ended October 31, 2006, and approximately $26 million for the year ended December 31, 2005.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The table below provides a summary of loss from continuing operations before interest and taxes and depreciation and amortization expense for the Corporate, Other and Eliminations category (in millions).

	Successor		Successor	Predecessor	
	Twelve Months Ended December 31, 2007	COMBINED Twelve Months Ended December 31, 2006	Two Months Ended December 31, 2006	Ten Months Ended October 31, 2006	Twelve Months Ended December 31, 2005
Chapter 11-related reorganization items	$	$ (55)	$ (10)	$ (45)	$ (45)
Asbestos litigation recoveries (claims)		13		13	(4,267)
Restructuring and other (costs) credits	(54)	(43)	(32)	(11)	18
Acquisition transaction costs	(28)	(13)	(6)	(7)	
Impact of acquisition accounting	(13)				
Loss related to the exit of our HOMExperts service line	(7)				
Asset impairments	(60)				
Employee emergence equity program	(37)	(6)	(6)		
Fresh-start accounting impact		(63)	(63)		
General corporate (expense) income	(15)	(120)	1	(121)	(194)
Loss from continuing operations before interest and taxes	$ (214)	$ (287)	$ (116)	$ (171)	$ (4,488)
Depreciation and amortization	$ 54 (a)	$ 48	$ 22	$ 26	$ 33

(a) Includes $21 million in accelerated depreciation related to fourth quarter 2007 actions to close facilities and reduce operating costs.

LOSS FROM CONTINUING OPERATIONS BEFORE INTEREST AND TAXES

The impact of adopting fresh-start accounting on general corporate expense was a reduction in loss from continuing operations before interest and taxes for 2007 totaling approximately $54 million compared to 2006, primarily due to reduced charges for pension expense. Excluding the impact of adopting fresh-start accounting as described above, general corporate expense for 2007 decreased by $51 million from corresponding period in fiscal 2006. This decline was the result of a decrease of approximately $29 million in the charge for valuing inventories using the LIFO accounting method and decreased performance-based compensation expense totaling approximately $30 million.

The impact of adopting fresh-start accounting on general corporate expense was a reduction in the loss from continuing operations before interest and taxes for fiscal 2006 totaling approximately $11 million, primarily due

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

to reduced charges for pension expense. Excluding the impact of adopting fresh-start accounting as described above, general corporate expense for fiscal 2006 decreased by $63 million from the corresponding period in 2005. This decline was primarily the result of a decrease in performance-based compensation expense.

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 as defined by OSHA, which we refer to as RIR. In fiscal 2007 our RIR improved 28% from the prior year, and our annual 2006 RIR improved 13% over our annual 2005 performance.

RECENT DEVELOPMENTS

In February 2008, Moody s Investors Service downgraded our debt rating. This downgrade is not expected to have a material impact on our 2008 results, or our ability to obtain additional debt financing.

In the fourth quarter of 2007, we commenced various cost savings projects to reduce headcount, close certain facilities and curtail production; which resulted in restructuring and other charges of $57 million; $28 million of which are reported as restructuring on our Consolidated Statement of Earnings (Loss). We anticipate additional charges of $7 million in conjunction with these actions throughout 2008 and once complete we anticipate annualized savings of at least $100 million. These actions affected all business segments as well as our Corporate, Other, and Eliminations category.

The Company announced its plans to divest its facilities in Battice, Belgium; Birkeland, Norway; and assets located in Huntingdon, Pennsylvania to address regulatory concerns associated with the acquisition of Saint-Gobain s reinforcement and composite fabrics businesses. The sale of assets located in Huntingdon, Pennsylvania was completed during October 2007. The Battice and Birkeland divestitures is expected to close in the first quarter of 2008.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We expect that our cash on hand, coupled with future cash flows from operations and other available sources of liquidity, including our Revolving Credit Facility, will provide sufficient liquidity to allow our Company to meet our cash requirements over both the short and long term. Our anticipated uses of cash include capital expenditures, working capital needs and contractual obligations. On an ongoing basis, the Company will evaluate and consider repurchasing shares of the Company s equity as well as strategic acquisitions, divestitures, joint ventures and other transactions to create value and enhance financial performance. Such transactions may require cash expenditures or generate proceeds.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Cash flows

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

	Successor		Predecessor	
	Twelve Months Ended Dec. 31, 2007	Two Months Ended Dec. 31, 2006	Ten Months Ended Oct. 31, 2006	Twelve Months Ended Dec. 31, 2005
Cash balance	$ 135	$ 1,089	$ 1,205	$ 1,559
Cash flow from (used in) operations	182	15	(1,903)	746
Cash flow used in investing activities	(430)	(77)	(249)	(283)
Cash flow from (used in) financing activities	(731)	(54)	1,792	(30)

Cash balance: The reduction in our cash balance at December 31, 2007 compared to December 31, 2006 reflects the use of a majority of the cash on hand at December 31, 2006 to fund the contingent payment to the 524(g) Trust in January of 2007.

Cash flow from operations: The improvement in 2007 cash flow from operations was primarily the result of fiscal 2006 being significantly impacted by $2.441 billion in cash paid or restricted to satisfy payments to our creditors under the Debtors emergence from Chapter 11 proceedings. After considering the cash payments in fiscal 2006 related to satisfying our creditors under the Debtors emergence from Chapter 11 proceedings, cash flow decreased in 2007 as compared to fiscal 2006 primarily due to negative impact to earnings from continuing operations related to the decline in North American new residential construction market on building materials products. Additionally cash flow from operations in 2007 as compared to fiscal 2006 was negatively impacted by an increase in working capital requirements primarily related to incentive compensation payments of approximately $36 million in excess of amounts expensed in 2007 and interest payments of approximately $27 million in excess of amounts expensed in 2007. Additionally 2007 cash flow from operations was negatively impacted by an increase in pension fund contributions of approximately $72 million.

After considering the cash payments in fiscal 2006 related to satisfying our creditors under the Debtors emergence from Chapter 11 proceedings cash flow decreased in fiscal 2006 as compared to 2005 primarily due to additional Chapter 11-related reorganization cash costs and higher working capital requirements.

Investing activities: The increase in our cash used for investing activities in fiscal 2007 compared to fiscal 2006 was primarily due to acquisition of the Saint-Gobain s reinforcement and composite fabrics businesses for approximately $640 million, which included $56 million in acquired cash and the assumption of $51 million of debt and excluded estimated transaction costs and purchase price adjustments, and increasing our ownership interest in Owens Corning India Limited for approximately $28 million, offset by approximately $437 million in net proceeds from the sale of our Siding Solutions business, our Fabwel business unit and our interest in Owens-Corning South Africa (Pty) Ltd in 2007 compared to acquisitions in fiscal 2006 of approximately $40 million. Offsetting this increase was a reduction in capital spending for plant and equipment proceeds, net of asset sales, due to reduced capital spending in order to align with the decline in demand for building material products in the North America.

The increase in our cash used for investing activities in fiscal 2006 compared to fiscal 2005 was primarily due to spending $40 million related to the acquisitions of a composites manufacturing facility in Japan from Asahi Glass Co. Ltd., and Modulo /ParMur Group, a producer and distributor of manufactured stone veneer in Europe. In

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

fiscal 2006, both the additions to plant and equipment and the proceeds from the sale of assets were increased by approximately $56 million due to the sale of metal used in our composites manufacturing process and the purchase of a substitute metal for the same amount.

Financing activities: The $731 million cash used in financing activities 2007 was primarily the result of the payment of the $1.390 billion short term note payable to the 524(g) Trust in January of 2007, offset by $600 million borrowed under the delayed-draw Senior Term Facility. The cash used in financing activities in fiscal 2007 compares to cash provided by of $1.738 billion in fiscal 2006. Cash provided by financing activities in fiscal 2006 was primarily the result of generating cash of $3.240 billion, from the combination of the rights offering of the Company s common stock and Senior Notes issued in connection with our emergence from bankruptcy, offset by $1.516 billion in payments to pre-petition lenders.

2008 Investments

Capital Expenditures: The Company will continue a balanced approach to the use of free cash flow. Operational cash flow will be used to fund the Company s growth and innovation. Capital expenditures will be about $325 million in 2008. 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.

Share Repurchase Program: On February 21, 2007, the Company announced that its Board of Directors had approved a share buy-back program under which the Company is authorized to repurchase up to 5% of the Company s outstanding common stock. 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. During the year ended December 31, 2007, there were no repurchases of stock under the share repurchase program.

United States Federal Tax Net Operating Losses

Upon emergence and subsequent distribution of contingent stock and cash to the 524(g) Trust in January 2007, Owens Corning generated a significant U.S. Federal tax net operating loss of approximately $3.0 billion. We project that our U.S. cash tax rate will be less than 2% for at least the next five to seven years. The 2007 cash tax rate on international operations was approximately 18% in 2007, and we anticipate the cash tax rate on international operations will be lower in future periods.

Pension contributions

The Company has several defined benefit pension plans. The Company made cash contributions of approximately $122 million and $49 million to the plans during fiscal 2007 and fiscal 2006, respectively. The Company expects to contribute approximately $73 million in cash to its pension plans during 2008. 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

To mitigate some of the near-term volatility in our earnings and cash flows, we use financial and derivative financial instruments to hedge certain exposures, principally currency and energy related. Our current hedging practice has been to hedge a variable percentage of certain energy and energy related exposures on a rolling

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

forward basis up to 36 months out. During fiscal 2007 and fiscal 2006, declining natural gas costs were unfavorable to our hedging portfolio, resulting in recognizing approximately $8 million and $11 million in pretax losses respectively. 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.

OFF BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS

In the ordinary course of business, the Company enters into contractual obligations to make cash payments to third parties. The Company s known contractual obligations as of December 31, 2007 are as follows (in millions):

	Payments due by period						
	2008	2009	2010	2011	2012	2013 and Beyond	Total
Short-term debt obligations	$ 47	$	$	$	$	$	$ 47
Long-term debt obligations	4	6	12	741	1	1,192	1,956
Interest on fixed rate debt	84	83	83	83	83	1,106	1,522
Interest on variable rate debt	31	27	33	32			123
Capital lease obligations	6	4	3	2	2	30	47
Operating lease obligations	66	42	29	21	18	100	276
Purchase obligations (1)	192	77	38	37	32	127	503
Pension contributions (2)	73	53	53	50	48		277
Total (3)	$ 503	$ 292	$ 251	$ 966	$ 184	$ 2,555	$ 4,751

(1) Purchase obligations are commitments to suppliers to purchase goods or service, and include take-or-pay arrangements, capital expenditures, and contractual commitments to purchase equipment. We did not include ordinary course of business purchase orders in this amount as the majority of such purchase orders may be canceled and are reflected in historical operating cash flow trends. We do not believe such purchase orders will adversely affect our liquidity position.

(2) The Pension contributions are based on what the Company currently projects contributions to our pension plans will be throughout 2012.

(3) The Company has not included its FIN 48 liability in the contractual obligation table as the timing of payment, if any, cannot be reasonably estimated.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

CRITICAL ACCOUNTING POLICIES

The Company s discussion and analysis of its financial condition and results of operations is based upon its financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments related to these assets, liabilities, revenues and expenses. Management bases its estimates and judgments on historical experience, expected future outcomes, and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its Consolidated Financial Statements.

Bankruptcy Related. The Consolidated Financial Statements related to the Predecessor have been prepared in accordance with SoP 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, and on a going concern basis. Although our plan of reorganization has been affirmed, several assumptions have been made to record amounts related to our bankruptcy. Changes in facts or additional information regarding these assumptions could result in a material change to the amounts and classifications reported in the historical Consolidated Financial Statements.

Fresh-Start Accounting. In connection with emergence from Chapter 11, we adopted the fresh-start accounting provisions of SoP 90-7 for Owens Corning. Under SoP 90-7, reorganization value represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization. In implementing fresh-start accounting, Owens Corning allocated the reorganization value to the fair value of assets in conformity with procedures specified by SFAS No. 141 and stated liabilities, other than deferred taxes, at a present value of amounts expected to be paid. In addition, all prospective changes in accounting principles required to be adopted within 12 months of the date of emergence were adopted in conjunction with fresh-start accounting. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets is reflected as goodwill, subject to periodic evaluation for impairment. The effects of the allocation of the reorganization value to tangible and intangible assets and recording liabilities at present values expected to be paid will result in increased income from operations due to lower pension costs, partially offset by higher depreciation and amortization, and higher post-employment and post-retirement costs. However, additional compensation expenses related to restricted stock and options to be issued as part of the Plan will offset this net increase in income from operations. Earnings from continuing operations before interest, income taxes and depreciation and amortization will improve due to lower pension costs, partially offset by higher post-employment and post-retirement costs. In addition, under fresh-start accounting the stockholders deficit was eliminated and recorded at the reorganization value.

Purchase Accounting. The Company s acquisition of Saint-Gobain s reinforcement and composite fabrics businesses was accounted for in accordance with SFAS No. 141: Business Combinations (FAS 141). FAS 141 requires companies to allocate the purchase price to assets acquired and liabilities assumed based on the relative fair values of the assets and liabilities. The determination of the fair values of the assets acquired and liabilities assumed requires management to make estimates regarding the intended use and useful lives of the assets, exit costs for certain acquired facilities, amounts of contingent liabilities and potential working capital adjustments.

Revenue Recognition. The Company recognizes revenue when title and risk of loss passes to the customer, generally when goods are shipped. The Company estimates provisions for discounts and rebates to customers, returns, warranties and other adjustments based on its history of such items, and records them in the same period that the related sales are recorded.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Inventory Valuation. Inventories are stated at lower of cost or market value. Inventory costs include material, labor and manufacturing overhead. Market value is determined based on estimated selling prices less costs to sell. Approximately half of our inventories are valued using the first-in, first-out method and the balance of inventories is generally valued using the last-in, first-out method.

Impairment of Tangible and Intangible Long-Lived Assets. The Company exercises judgment in evaluating tangible and intangible long-lived assets for impairment. This requires estimating useful lives, future operating cash flows and estimated fair value of the assets under review. Changes in management intentions, market conditions or operating performance could indicate that impairment charges might be necessary that would be material to the Company s consolidated financial statements in any given period.

Pensions and Other Postretirement Benefits. Accounting for pensions and other postretirement benefits involves estimating the cost of benefits to be provided well into the future and attributing that cost over the time period each employee works. To accomplish this, extensive use is made of assumptions, such as inflation, investment returns, mortality, turnover, medical costs and discount rates through a collaborative effort by management and outside advisors such as consultants, lawyers and actuaries. The results of this effort provide management with the necessary information on which to base its judgment and develop the estimates used to prepare the financial statements. Changes in assumptions used could result in a material impact to the Company s Consolidated Financial Statements in any given period.

Two key assumptions that could have a significant impact on the measurement of pension liability and pension expense are the discount rate and expected return on plan assets. For the Company s largest plan, the U.S. plan, the discount rate used for the December 31, 2007 measurement date was derived by matching projected benefit payments to bond yields obtained from the Citigroup Above Median Pension Discount Curve developed at these respective dates. The Citigroup Above Median Pension Discount Curve is a yield curve developed monthly by Citigroup and is based on corporate bonds rated AA+, AA or AA- by Standard & Poor s or Aa1, Aa2 or Aa3 by Moody s. The result supported a discount rate of 6.55% at December 31, 2007 compared to 5.90% at the December 31, 2006 measurement date. A 25 basis point increase in the discount rate would decrease the December 31, 2007 projected benefit obligation for the U.S. pension plans by approximately $25 million and increase 2008 net periodic pension cost by approximately $0.4 million. A 25 basis point decrease in the discount rate would increase the projected benefit obligation by approximately $26 million and decrease 2008 net periodic pension cost by approximately $0.4 million.

The discount rate for the Company s U.S. postretirement plan was selected using the same method as described for the pension plan. The result supported a discount rate of 6.45% at December 31, 2007 compared to 5.80% at December 31, 2006. A 25 basis point increase in the discount rate would decrease the U.S. postretirement benefit obligation by approximately $5 million and increase 2008 net periodic postretirement benefit cost by approximately $0.3 million. A 25 basis point decrease in the discount rate would increase the benefit obligation by approximately $5 million and decrease 2008 net periodic postretirement benefit cost by approximately $0.1 million.

The expected return on plan assets was derived by taking into consideration the current plan asset allocation, historical rates of return on those assets, projected future asset class returns and net outperformance of the market by active investment managers. An asset return model was used to develop an expected range of returns on plan investments over a 20 year period, with the expected rate of return selected from a best estimate range within the total range of projected results. This process resulted in the selection of an expected return of 8.00% at the December 31, 2007 measurement date, which return is used to determine net periodic pension cost for the fiscal year 2008. This assumption is unchanged from the 8.00% return assumption selected at the December 31, 2006

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

measurement date and 7.50% at the October 31, 2005 measurement date. A 25 basis point increase (decrease) in return on plan assets assumption would result in a respective decrease (increase) of 2008 net periodic pension cost by approximately $2 million.

The methods corresponding to those described above are used to determine the discount rate and expected return on assets for non-U.S. pension and postretirement plans, to the extent possible.

Asbestos-Related Estimates. Prior to emergence, the Company estimated a reserve for asbestos-related liabilities that had been asserted or were probable of assertion.

Tax Estimates. The determination of the Company s tax provision is complex due to operations in several tax jurisdictions outside the United States. In addition, realization of certain deferred tax assets is dependent upon our ability to generate future taxable income. The Company records a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. While the Company has considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. In addition, the Company applies a more-likely-than-not recognition threshold for all tax uncertainties in accordance with FIN 48. Such uncertainties include any claims by the Internal Revenue Service for income taxes, interest, and penalties attributable to audits of open tax years.

ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within that fiscal year. The FASB, on February 12, 2008, issued FASB Staff Position (FSP) FAS 157-2. This FSP permits a delay in the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow the Board and constituents additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of SFAS 157. On February 14, 2008, the FASB issued FSP FAS 157-1 to exclude SFAS 13, Accounting for Leases, and its related interpretive accounting pronouncements from the scope of SFAS 157. The Company is in the process of evaluating the impact of adopting this statement.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FAS 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, including interim periods within that fiscal year. The Company is in the process of evaluating the impact of adopting this statement.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations. This statement requires that in a business combination the acquirer recognize all purchased assets and assumed liabilities at fair value, that negative goodwill due to bargain purchases be recognized as a gain in the income statement and that acquisition costs and planned restructuring costs associated with the acquisition be separately recognized. This statement is effective beginning of the first annual reporting period beginning on or after December 15, 2008 and is to be applied prospectively.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB 51. This statement requires minority interests be reported as equity on the balance sheet, changes the reporting of net earnings to include both the amounts attributable to the affiliate s parent and the noncontrolling interest and clarifies the accounting for changes in a parent s interest in an affiliate. This statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, including interim periods within that fiscal year. The provisions of this statement are to be applied prospectively, except that the presentation and disclosure requirements are to be applied retrospectively for all periods presented. The Company is in the process of evaluating the impact of adopting this statement.

ENVIRONMENTAL MATTERS

Owens Corning is committed to complying with all environmental laws and regulations that are applicable to our operations. We are dedicated to continuous improvement in our environmental, health and safety performance.

We have not experienced a material adverse effect upon our capital expenditures or competitive position as a result of environmental control legislation and regulations. Operating costs associated with environmental compliance were approximately $42 million in fiscal 2007. We continue to invest in equipment and process modifications to remain in compliance with applicable environmental laws and regulations worldwide.

Our manufacturing facilities are subject to numerous national, state and local environmental protection laws and regulations. Regulatory activities of particular importance to our operations include those addressing air pollution, water pollution, waste disposal and chemical control. We expect passage and implementation of new laws and regulations specifically addressing climate change, toxic air emissions, ozone forming emissions and fine particulate during the next two to five years. However, based on information known to the Company, including the nature of our manufacturing operations and associated air emissions, at this time we do not expect any of these new laws or regulations to have a materially adverse effect on our results of operations, financial condition or long-term liquidity.

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. In other instances, other PRPs have brought suits against us as a PRP for contribution under such federal, state or local laws. At December 31, 2007, a total of 43 such PRP designations remained unresolved by us. In most cases, we are only one of many PRPs with potential liability for investigation and remediation at the applicable site. We are also involved with environmental investigation or remediation at a number of other sites at which we have not been designated a PRP.

We estimate a reserve in accordance with accounting principles generally accepted in the United States to reflect environmental liabilities that have been asserted or are probable of assertion, in which liabilities are probable and reasonably estimable. At December 31, 2007, our reserve for such liabilities was $9 million, of which $4 million is recorded in the Non-tax Bankruptcy Reserve. We will continue to review our environmental reserve and make such adjustments as appropriate.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this report, including Management s Discussion and Analysis of Financial Condition and Results of Operations, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

present our current forecasts and estimates of future events. These statements do not strictly relate to historical or current results and can be identified by words such as anticipate, believe, estimate, expect, intend, likely, may, plan, project, strategy, will, and other meaning or import in connection with any discussion of future operating, financial or other performance. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the statements. Many important factors could influence possible differences including:

our legal restructuring;

competitive factors;

pricing pressures;

availability and cost of energy and materials;

construction activity;

interest rate movements;

issues involving implementation of new business systems;

issues involving implementation of planned acquisitions/divestitures/ventures;

achievement of expected cost reductions and/or productivity improvements;

general economic and political conditions, including new legislation;

overall global economic environment;

foreign exchange fluctuations;

the success of research and development activities;

- weather conditions;
- difficulties or delays in manufacturing; and
- labor disputes.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the impact of changes in foreign currency exchange rates, interest rates, natural gas prices and transportation costs in the normal course of business. To mitigate some of the near-term volatility in our earnings and cash flows, the Company manages certain of our exposures through the use of certain financial and derivative financial instruments. The Company s objective with these instruments is to reduce exposure to fluctuations in earnings and cash flows. The Company s policy is to use foreign currency, interest rate and commodity derivative financial instruments only to the extent necessary to manage exposures as described above. The Company does not enter into such transactions for trading purposes.

A discussion of the Company s accounting policies for derivative financial instruments is included in the Notes to the Consolidated Financial Statements. Further information on the Company s exposure to market risk is included in the Notes to the Consolidated Financial Statements.

For purposes of disclosing the market risk inherent in its derivative financial instruments the Company uses sensitivity analysis disclosures that express the potential loss in fair values of market rate sensitive instruments resulting from a 10% change in interest rates, foreign currency exchange rates, and commodity prices that assume instantaneous, parallel shifts in exchange rates, interest rate yield curves, and commodity prices. The following analysis provides such quantitative information regarding market risk. For options and instruments with nonlinear returns, models appropriate to the instrument are utilized to determine the impact of market shifts. There are certain shortcomings inherent in the sensitivity analyses presented, primarily due to the assumption that exchange rates change instantaneously and that interest rates change in a parallel fashion. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled.

Foreign Exchange Rate Risk

The Company has foreign currency exposures related to buying, selling, and financing in currencies other than the local currencies in which it operates. The Company enters into various forward and option contracts, which change in value as foreign currency exchange rates change, to preserve the carrying amount of foreign currency-denominated assets, liabilities, commitments, and certain anticipated foreign currency transactions. The net fair value of financial instruments used to limit exposure to foreign currency risk was approximately break-even as of December 31, 2007. The potential loss in fair value for such financial instruments from a 10% adverse change in quoted foreign currency exchange rates would be approximately $13 million.

The Company believes the near-term exposure to foreign exchange rate risk has not changed materially since December 31, 2006.

Interest Rate Risk

The Company is subject to market risk from exposure to changes in interest rates due to its financing, investing, and cash management activities. The Company has a Revolving Credit Facility and a Senior Term Facility both of which are exposed to floating interest rates and may impact cash flow. The balances of the Revolving Credit Facility and the Senior Term Facility were $140 million and $600 million, respectively, at December 31, 2007. At year-end, for the Company s Senior Term Facility, a 10% unfavorable move in interest rates would increase annual interest expense by $3.6 million.

Additionally, the Company is subject to interest rate risk from the change in the fair market value of its Senior Notes. It is estimated that a 10% adverse change in interest rates increases the fair market value of the Notes due in 2016 by 5.1% and the Notes due in 2036 by 10%.

The Company believes the near-term exposure to interest rate risk of its debt obligations has not changed materially since December 31, 2006.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (continued)

Commodity Price Risk

The Company is exposed to changes in prices of commodities used in its operations, primarily associated with energy, such as natural gas, and raw materials, such as asphalt and polystyrene. The Company enters into cash-settled natural gas swap contracts to protect against changes in natural gas prices on a rolling forward basis up to 36 months out; however, no financial instruments are currently used to protect against changes in raw material costs. At December 31, 2007, the net fair value of such swap contracts was a liability of approximately $2 million. The potential loss in fair value resulting from a 10% adverse change in the underlying commodity prices would be approximately $5 million. This amount excludes the offsetting impact of the price risk inherent in the physical purchase of the underlying commodities.

The Company believes the near-term exposure to commodity price risk has not changed materially since December 31, 2006.

Metals Lease Cost Risk

The Company uses certain precious metals in its production tooling. A portion of the precious metals utilized in the reinforcements and composite fabrics businesses acquired from Saint-Gobain on November 1, 2007 is leased (the Acquired Leases). The Company s lease costs in 2007 were approximately $8 million, which included approximately $5 million related to the Acquired Leases for the last two months of 2007.

Metal leases typically have terms varying from one month to two years and, accordingly, the financial costs of leasing are a function of the contracted financial cost at the time leases are renewed and the term of the leases. The spot and forward prices of precious metals can vary significantly, sometimes over short periods of time, and can have a significant impact on lease rates. As a result, financial lease costs can be subject to significant volatility. As an example, prices for one of the precious metals that we use increased by over 150% during the five year period ended December 31, 2007 and by a further 34% in the first seven weeks of 2008.

We attempt to mitigate this financial lease cost risk by staggering the renewals of leases over time and by managing operations to maintain flexibility in usage requirements. The Company also retains the ability to purchase precious metals and to utilize forward financial contracts or options to further mitigate this risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
Pages 98 through 173 of this filing are incorporated here by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
Owens Corning has nothing to report under this Item.

ITEM 9A. 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, as amended (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

ITEM 9A. CONTROLS AND PROCEDURES (continued)

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.

Management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2007 excluded the reinforcements and composite fabrics businesses that the Company recently acquired from Saint-Gobain as permitted by SEC guidelines during the first year of an acquisition. A report of the Company s management on the Company s internal control over financial reporting is contained on page 99 hereof and is incorporated here by reference. PricewaterhouseCoopers LLP s report on the effectiveness of internal control over financial reporting is included in the Report of Independent Registered Public Accounting Firm beginning on page 100 hereof.

There have not been any changes in the Company s internal control over financial reporting during the fourth quarter of 2007 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Owens Corning has nothing to report under this Item.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
INFORMATION CONCERNING DIRECTORS

Directors

Our Board of Directors consists of 15 directors in three classes with five directors in each class. In accordance with our amended and restated bylaws and the plan of reorganization, these directors consist of:

- eleven directors initially selected by the Board of Directors of OCD serving immediately prior to emergence, who we refer to as the OCD Designated Directors;
- two directors, who we refer to as the Bondholder Designated Directors, one of whom was initially designated by the committee representing holders of OCD s pre-petition bonds and one of whom was designated by that director upon the resignation of the other director initially designated by the committee representing holders of OCD s pre-petition bonds;
- one director initially designated by the Asbestos Claimants Committee, who we refer to as the ACC Designated Director; and
- one director initially designated by the Future Claimants Representative, who we refer to as the FCR Designated Director.

On our Board of Directors, David J. Lyon and Daniel K. K. Tseung are the Bondholder Designated Directors, W. Howard Morris is the ACC Designated Director, and James J. McMonagle is the FCR Designated Director. The remaining directors are OCD Designated Directors.

The directors are divided into three classes, whereby:

- the directors currently serving in Class I will hold office for a term expiring at the annual meeting of stockholders in 2010;
- the directors currently serving in Class II will hold office for a term expiring at the second annual meeting of stockholders following the Effective Date; and
- the directors currently serving in Class III will hold office for a term expiring at the third annual meeting of stockholders following the Effective Date.

Our amended and restated bylaws provide certain rights with respect to nominations and vacancies on our Board of Directors:

- the OCD Designated Directors, prior to the second annual meeting of stockholders following the Effective Date, have the right to fill any vacancy in the Board of Directors arising from the resignation, retirement, death, removal or incapacity of any OCD Designated Director;

the Bondholder Designated Directors, prior to the second annual meeting of stockholders following the Effective Date, have the right to fill any vacancy in the Board of Directors arising from the resignation, retirement, death, removal or incapacity of any Bondholder Designated Director; and

until such time as the asbestos trust formed as part of the Debtors emergence from bankruptcy (the 524(g) Trust) no longer holds shares representing at least 1% of our issued and outstanding common stock, (i) the 524(g) Trust has the right to nominate individuals for election as the ACC Designated Director (as designated by the Trustees Advisory Committee) or the FCR Designated Director (as

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE (continued)

designated by the Future Claimants Representative), and (ii) the Trustees Advisory Committee or the Future Claimants Representative has the right to fill any vacancy in the Board of Directors arising from the resignation, retirement, death, removal or incapacity of the ACC Designated Director or the FCR Designated Director, respectively.

Set forth below is information relating to the current members of the Board of Directors as of February 15, 2008.

Class I Class Expiring at the Annual Meeting of Stockholders in 2010

Ralph F. Hake, 59, formerly Chairman and Chief Executive Officer for the Maytag Corporation. Director since 2006. Prior to joining Maytag, Mr. Hake was Executive Vice President and CFO for Fluor Corporation, a $10 billion California-based engineering and construction company. Mr. Hake also served for 12 years, from 1987 to 1999, in executive positions at Whirlpool Corporation. The positions held by Mr. Hake included: Senior