Owens Corning
Form 10-Q
July 26, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-33100
Owens Corning
(Exact name of registrant as specified in its charter)

Delaware	43-2109021
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Owens Corning Parkway, Toledo, OH	43659
(Address of principal executive offices)	(Zip Code)

(419) 248-8000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
As of July 17, 2017, 111,193,238 shares of registrant's common stock, par value $0.01 per share, were outstanding.

Table of Contents

Contents

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET SALES	$1,597	$1,545	$3,075	$2,776
COST OF SALES	1,188	1,129	2,323	2,088
Gross margin	409	416	752	688
OPERATING EXPENSES				
Marketing and administrative expenses	155	151	297	285
Science and technology expenses	21	21	42	40
Other expenses, net	43	4	53	7
Total operating expenses	219	176	392	332
EARNINGS BEFORE INTEREST AND TAXES	190	240	360	356
Interest expense, net	27	29	53	52
EARNINGS BEFORE TAXES	163	211	307	304
Income tax expense	67	73	110	107
Equity in net earnings of affiliates	—	1	—	1
NET EARNINGS	96	139	197	198
Net earnings attributable to noncontrolling interests	—	1	—	3
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$96	$138	$197	$195
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO OWENS CORNING COMMON STOCKHOLDERS				
Basic	$0.86	$1.20	$1.76	$1.69
Diluted	$0.85	$1.19	$1.74	$1.67
Dividend	$0.20	$0.18	$0.40	$0.36
WEIGHTED AVERAGE COMMON SHARES				
Basic	111.6	115.1	112.0	115.3
Diluted	113.1	116.4	113.5	116.5

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET EARNINGS	$96	$139	$197	$198
Currency translation adjustment (net of tax of $6 and $(4) for the three months ended June 30, 2017 and 2016, respectively, and $6 and $1 for the six months ended June 30, 2017 and 2016, respectively)	29	(13)	65	21
Pension and other postretirement adjustment (net of tax of $(7) and $1 for the three months ended June 30, 2017 and 2016, respectively, and $(8) and $3 for the six months ended June 30, 2017 and 2016, respectively)	14	—	14	10
Hedging adjustment (net of tax of $1 and $(2) for the three months ended June 30, 2017 and 2016, respectively, and $2 and $(2) for the six months ended June 30, 2017 and 2016, respectively)	(1)	3	(3)	4
COMPREHENSIVE EARNINGS	138	129	273	233
Comprehensive earnings attributable to noncontrolling interests	—	1	—	3
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	$138	$128	$273	$230

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

OWENS CORNING AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)
(in millions, except per share amounts)

ASSETS	June 30, 2017	December 31, 2016
CURRENT ASSETS		
Cash and cash equivalents	$199	$ 112
Receivables, less allowances of $12 at June 30, 2017 and $9 at December 31, 2016	915	678
Inventories	792	710
Assets held for sale	10	12
Other current assets	72	74
Total current assets	1,988	1,586
Property, plant and equipment, net	3,336	3,112
Goodwill	1,484	1,336
Intangible assets, net	1,361	1,138
Deferred income taxes	321	375
Other non-current assets	200	194
TOTAL ASSETS	$8,690	$ 7,741
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$1,113	$ 960
Long-term debt – current portion	3	3
Total current liabilities	1,116	963
Long-term debt, net of current portion	2,686	2,099
Pension plan liability	372	367
Other employee benefits liability	240	221
Deferred income taxes	75	36
Other liabilities	186	164
Redeemable equity	—	2
OWENS CORNING STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.01 per share (a)	—	—
Common stock, par value $0.01 per share (b)	1	1
Additional paid in capital	3,988	3,984
Accumulated earnings	1,529	1,377
Accumulated other comprehensive deficit	(634)	(710)
Cost of common stock in treasury (c)	(908)	(803)
Total Owens Corning stockholders' equity	3,976	3,849
Noncontrolling interests	39	40
Total equity	4,015	3,889
TOTAL LIABILITIES AND EQUITY	$8,690	$ 7,741

(a) 10 shares authorized; none issued or outstanding at June 30, 2017 and December 31, 2016
(b) 400 shares authorized; 135.5 issued and 111.3 outstanding at June 30, 2017; 135.5 issued and 112.7 outstanding at December 31, 2016
(c) 24.2 shares at June 30, 2017, and 22.8 shares at December 31, 2016
The accompanying Notes to the Consolidated Financial Statements are an integral part of this Statement.

Table of Contents

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

	Six Months Ended June 30,	
	2017	2016
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Net earnings	$197	$198
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	168	158
Deferred income taxes	73	83
Provision for pension and other employee benefits liabilities	39	3
Stock-based compensation expense	20	17
Other non-cash	2	(5)
Changes in operating assets and liabilities	(74)	(117)
Pension fund contributions	(16)	(9)
Payments for other employee benefits liabilities	(9)	(9)
Other	(8)	7
Net cash flow provided by operating activities	392	326
NET CASH FLOW USED FOR INVESTING ACTIVITIES		
Cash paid for property, plant and equipment	(170)	(187)
Proceeds from the sale of assets or affiliates	3	—
Investment in subsidiaries and affiliates, net of cash acquired	(561)	(450)
Other	3	2
Net cash flow used for investing activities	(725)	(635)
NET CASH FLOW PROVIDED BY FINANCING ACTIVITIES		
Proceeds from long-term debt	588	—
Proceeds from senior revolving credit and receivables securitization facilities	337	434
Proceeds from term loan borrowing	—	300
Payments on senior revolving credit and receivables securitization facilities	(337)	(326)
Net decrease in short-term debt	—	(6)
Dividends paid	(45)	(40)
Purchases of treasury stock	(134)	(87)
Other	3	4
Net cash flow provided by financing activities	412	279
Effect of exchange rate changes on cash	9	1
Net increase (decrease) in cash, cash equivalents and restricted cash	88	(29)
Cash, cash equivalents and restricted cash at beginning of period	118	96
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$206	$67

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

Table of Contents

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. GENERAL

Unless the context requires otherwise, the terms “Owens Corning,” “Company,” “we” and “our” in this report refer to Owens Corning, a Delaware corporation, and its subsidiaries.

The Consolidated Financial Statements included in this report are unaudited, pursuant to certain rules and regulations of the Securities and Exchange Commission, and include, in the opinion of the Company, normal recurring adjustments necessary for a fair statement of the results for the periods indicated, which, however, are not necessarily indicative of results which may be expected for the full year. The December 31, 2016 balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States (U.S.). In connection with the Consolidated Financial Statements and Notes included in this report, reference is made to the Consolidated Financial Statements and Notes contained in the Company’s Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K"). Certain reclassifications have been made to the periods presented for 2016 to conform to the classifications used in the periods presented for 2017.

Cash, Cash Equivalents and Restricted Cash

The Company defines cash and cash equivalents as cash and time deposits with maturities of three months or less when purchased. On the Consolidated Statements of Cash Flows, the total of Cash, cash equivalents and restricted cash includes restricted cash of $7 million and $6 million as of June 30, 2017 and December 31, 2016, respectively. On the Consolidated Balance Sheets, restricted cash is included in Other current assets. There were no restricted cash amounts for the previous time periods presented in the Consolidated Statements of Cash Flows. Restricted cash primarily represents amounts received from a counterparty related to its performance assurance on an executory contract. These amounts are contractually required to be set aside, and the counterparty can exchange the cash for another form of performance assurance at its discretion.

2. SEGMENT INFORMATION

The Company has three reportable segments: Composites, Insulation and Roofing. Accounting policies for the segments are the same as those for the Company. The Company’s three reportable segments are defined as follows:

Composites – The Composites segment includes vertically integrated downstream activities. The Company manufactures, fabricates and sells glass reinforcements in the form of fiber. Glass reinforcement materials are also used downstream by the Composites segment to manufacture and sell glass fiber products in the form of fabrics, non-wovens and other specialized products.

Insulation – Within our Insulation segment, the Company manufactures and sells fiberglass insulation into residential, commercial, industrial and other markets for both thermal and acoustical applications. It also manufactures and sells glass fiber pipe insulation, flexible duct media, bonded and granulated mineral wool insulation, cellular glass and foam insulation used in above- and below-grade construction applications.

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

Table of Contents

2. SEGMENT INFORMATION (continued)

NET SALES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Reportable Segments				
Composites	$537	$517	$1,048	$990
Insulation	439	414	838	799
Roofing	684	679	1,311	1,108
Total reportable segments	1,660	1,610	3,197	2,897
Corporate eliminations	(63)	(65)	(122)	(121)
NET SALES	$1,597	$1,545	$3,075	$2,776
External Customer Sales by Geographic Region				
United States	$1,139	$1,097	$2,190	$1,942
Europe	147	152	287	286
Asia Pacific	185	174	338	319
Other	126	122	260	229
NET SALES	$1,597	$1,545	$3,075	$2,776

Table of Contents

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

2. SEGMENT INFORMATION (continued)

EARNINGS BEFORE INTEREST AND TAXES

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Reportable Segments				
Composites	$84	$74	$155	$138
Insulation	29	32	34	45
Roofing	155	169	280	242
Total reportable segments	268	275	469	425
Restructuring costs	(29)	(3)	(29)	(3)
Acquisition-related costs	(10)	(2)	(11)	(4)
Recognition of InterWrap inventory fair value step-up	—	(8)	—	(8)
Litigation settlement gain, net of legal fees	29	—	29	—
Pension settlement losses	(30)	—	(30)	—
General corporate expense and other	(38)	(22)	(68)	(54)
EBIT	$190	$240	$360	$356

3. INVENTORIES

Inventories consist of the following (in millions):

	June 30, 2017	December 31, 2016
Finished goods	$521	$ 482
Materials and supplies	271	228
Total inventories	$792	$ 710

4. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company generally does not require collateral or other security with counterparties to these financial instruments and is therefore subject to credit risk in the event of nonperformance; however, the Company monitors credit risk and currently does not anticipate nonperformance by other parties. Contracts with counterparties generally contain right of offset provisions. These provisions effectively reduce the Company's exposure to credit risk in situations where the Company has gain and loss positions outstanding with a single counterparty. It is the Company's policy to offset on the Consolidated Balance Sheets the amounts

Table of Contents

4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

recognized for derivative instruments with any cash collateral arising from derivative instruments executed with the same counterparty under a master netting agreement. As of June 30, 2017 and December 31, 2016, the Company did not have any amounts on deposit with any of its counterparties, nor did any of its counterparties have any amounts on deposit with the Company.

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

	Location	Fair Value at June 30, 2017	Fair Value at December 31, 2016
Derivative assets designated as hedging instruments:			
Net investment hedges:			
Cross currency swaps	Other current assets	$ 4	$ 4
Cross currency swaps	Other non-current assets	$ —	$ 6
Amount of gain recognized in OCI (effective portion)	OCI	$ 3	$ 18
Cash flow hedges:			
Natural gas forward swaps	Other current assets	$ —	$ 4
Amount of gain recognized in OCI (effective portion)	OCI	$ —	$ 4
Derivative liabilities designated as hedging instruments:			
Net investment hedges:			
Cross currency swaps	Other liabilities	$ 10	$ —
Cash flow hedges:			
Natural gas forward swaps	Accounts payable and accrued liabilities	$ 1	$ —
Amount of loss recognized in OCI related to natural gas forward swaps (effective portion)	OCI	$ 1	$ —
Amount of loss recognized in OCI related to treasury interest rate lock (effective portion)	OCI	$ 1	$ 1
Derivative assets not designated as hedging instruments:			
Natural gas forward swaps	Other current assets	$ —	$ 1
Foreign exchange contracts	Other current assets	$ —	$ 1
Derivative liabilities not designated as hedging instruments:			
Foreign exchange contracts	Accounts payable and accrued liabilities	$ 2	$ 2

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Unit of Measure	Notional Amount June 30, 2017
Net investment hedges:		
Cross currency swaps	U.S. Dollars	$ 250
Cash flow hedges:		
Natural gas forward swaps U.S. indices	MMBtu	8
Natural gas forward swaps European indices	MMBtu (equivalent)	2

The Company had notional amounts of $81 million for derivative financial instruments related to non-designated foreign currency exposures in U.S. Dollars primarily related to Brazilian Real, Chinese Yuan, Indian Rupee, Japanese Yen, and South Korean Won. In addition, the Company had notional amounts of $36 million for derivative financial instruments related to non-designated foreign currency exposures in European Euro primarily related to Russian Rubles. Please refer to the Other Derivatives section below for more detail on these instruments.

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

	Location	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Derivative activity designated as hedging instruments:					
Natural gas:					
Amount of (gain)/loss reclassified from OCI into earnings (effective portion)	Cost of sales	$ (1)	$ 3	$ (2)	$ 6
Foreign currency:					
Amount of loss reclassified from OCI into earnings (effective portion)	Other expenses, net	$ —	$ —	$ —	$ 1
Interest rate:					
Amount of loss recognized in earnings	Interest expense, net	$ 1	$ —	$ 1	$ 1
Derivative activity not designated as hedging instruments:					
Natural gas:					
Amount of loss/(gain) recognized in earnings	Other expenses, net	$ 1	$ —	$ 1	$ (1)
Foreign currency:					
Amount of loss recognized in earnings (a)	Other expenses, net	$ 4	$ 3	$ 4	$ 6

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

Cash Flow Hedges

The Company uses a combination of derivative financial instruments, which qualify as cash flow hedges, and physical contracts to manage forecasted exposure to electricity and natural gas prices. The Company's policy for electricity exposure is to hedge up to 75% of its total forecasted exposure for the current calendar year and up to 65% of its total forecasted exposure for the first calendar year forward. The Company’s policy for natural gas exposure is to hedge up to 75% of its total forecasted exposure for

4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

the next two months, up to 60% of its total forecasted exposure for the following four months, and lesser amounts for the remaining periods. Based on market conditions, approved variation from these standard policies may occur. Currently, the Company is managing risk associated with electricity prices only through physical contracts and has natural gas derivatives designated as hedging instruments that mature within 15 months.

The Company performs an analysis for effectiveness of its derivatives designated as hedging instruments at the end of each quarter based on the terms of the contracts and the underlying items being hedged. The effective portion of the change in the fair value of cash flow hedges is deferred in accumulated OCI and is subsequently recognized in Cost of sales on the Consolidated Statements of Earnings for commodity hedges, when the hedged item impacts earnings. Changes in the fair value of derivative assets and liabilities designated as hedging instruments are shown in the Other non-cash line within operating activities on the Consolidated Statements of Cash Flows. Any portion of the change in fair value of derivatives designated as hedging instruments that is determined to be ineffective is recorded in Other expenses, net on the Consolidated Statements of Earnings.

In June and July 2016, the Company entered into a total of $300 million of forward U.S. Treasury rate lock agreements to manage the U.S. Treasury portion of its interest rate risk associated with the anticipated issuance of 10-year fixed rate senior notes in 2016. The Company designated these forward U.S. Treasury rate lock agreements as cash flow hedges, and paid $1 million to settle these agreements in August 2016 upon issuance of its 2026 senior notes. The $1 million fair value of these agreements will be amortized over the remaining life of the 2026 senior notes as a component of interest expense. Hedge ineffectiveness for these agreements was less than $1 million. Please refer to Note 10 of the Consolidated Financial Statements for further information on the Company's 2026 senior notes.

As of June 30, 2017, $1 million of losses included in accumulated OCI on the Consolidated Balance Sheets relate to natural gas contracts that are expected to impact earnings during the next 12 months. Transactions and events that are expected to occur over the next 12 months that will necessitate recognizing these deferred amounts include the recognition of the hedged item through earnings.

Net Investment Hedges

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

Other Derivatives

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

Table of Contents

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

June 30, 2017	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	19	$ 374	$ (100)	$ 274
Technology	18	231	(109)	122
Other	9	45	(24)	21
Indefinite-lived intangible assets:				
Trademarks		944	—	944
Total intangible assets		$ 1,594	$ (233)	$ 1,361
Goodwill		$ 1,484		

December 31, 2016	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	22	$ 252	$ (94)	$ 158
Technology	19	216	(103)	113
Other	9	45	(23)	22
Indefinite-lived intangible assets:				
Trademarks		845	—	845
Total intangible assets		$ 1,358	$ (220)	$ 1,138
Goodwill		$ 1,336		

Other Intangible Assets

The Company expects the ongoing amortization expense for amortizable intangible assets to be approximately $37 million in each of the next five fiscal years, which includes approximately $10 million of annual amortization expense from the preliminary purchase price allocation of the acquisition of Pittsburgh Corning Corporation and Pittsburgh Corning Europe NV (collectively "Pittsburgh Corning"); see Note 7 for more details of this acquisition. The Other category below primarily includes franchise agreements and emission rights. The changes in the gross carrying amount of intangible assets by asset group are as follows (in millions):

	Customer Relationships	Technology	Trademarks	Other	Total
Balance at December 31, 2016	$ 252	$ 216	$ 845	$ 45	$ 1,358
Acquisitions (see Note 7)	121	15	99	—	235
Foreign Currency Translation	1	—	—	—	1
Balance at June 30, 2017	$ 374	$ 231	$ 944	$ 45	$ 1,594

Table of Contents

5. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Goodwill

During the second quarter of 2017, goodwill increased by $143 million as a result of the acquisition of Pittsburgh Corning. The Company tests goodwill and indefinite-lived intangible assets for impairment during the fourth quarter of each year, or more frequently should circumstances change or events occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount. No testing was deemed necessary in the first six months of 2017. The changes in the net carrying amount of goodwill by segment are as follows (in millions):

	Composites	Insulation	Roofing	Total
Balance at December 31, 2016	$ 55	$ 888	$ 393	$1,336
Acquisitions (see Note 7)	—	143	—	143
Foreign currency translation	1	—	4	5
Balance at June 30, 2017	$ 56	$ 1,031	$ 397	$1,484

6. PROPERTY, PLANT AND EQUIPMENT

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

	June 30, 2017	December 31, 2016
Land	$201	$ 189
Buildings and leasehold improvements	978	874
Machinery and equipment	4,039	3,818
Construction in progress	285	250
	5,503	5,131
Accumulated depreciation	(2,167)	(2,019)
Property, plant and equipment, net	$3,336	$ 3,112

Machinery and equipment includes certain precious metals used in our production tooling, which comprise approximately 13% and 14% of total machinery and equipment as of June 30, 2017 and December 31, 2016. Precious metals used in our production tooling are depleted as they are consumed during the production process, which typically represents an annual expense of less than 3% of the outstanding carrying value.

7. ACQUISITIONS

Pittsburgh Corning Acquisition

On June 27, 2017, the Company acquired all outstanding equity of Pittsburgh Corning, the world’s leading producer of cellular glass insulation systems for commercial and industrial markets, for approximately $567 million, net of cash acquired. This acquisition expands the Company’s position in commercial and industrial product offerings and grows its presence in Europe and Asia. Because the acquisition was completed close to the end of the second quarter of 2017, all fair values of the identifiable assets acquired and liabilities assumed are preliminary estimates and are based on the information that was available as of the acquisition date. The estimated fair values of intangible assets by type represent preliminary valuations based on management’s estimates, forecasted financial information and reasonable and supportable assumptions.

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

7. ACQUISITIONS (continued)

The following table details the identifiable indefinite and definite-lived intangible assets acquired, their preliminary fair values and estimated weighted average useful lives (in millions):

Type of Intangible Asset	Preliminary Fair Value	Weighted Average Useful Life
Customer relationships	$ 121	15
Technology	15	11
Trademarks	99	indefinite
Total	$ 235	

During the second quarter of 2017, the operating results of the acquired business were immaterial, and a preliminary purchase price allocation, including goodwill, has been included in the Insulation segment of the Company's Consolidated Financial Statements since the date of the acquisition. Goodwill has been initially valued at approximately $143 million, with none of the amount expected to be tax-deductible. The factors contributing to the recognition of the amount of goodwill are based on several strategic and synergistic benefits that are expected to be realized from the Pittsburgh Corning acquisition and will accelerate making the Company the leading provider of insulation solutions by building on core glass technologies. The acquisition also included cash of approximately $50 million. The Company expects to complete its valuations no later than one year from the acquisition date and adjustments will continue to be made to the fair value of the identifiable assets acquired and liabilities assumed. Those adjustments may or may not be material. The pro forma effect of this acquisition on Net Sales and Net earnings attributable to Owens Corning was not material.

InterWrap Acquisition

On April 21, 2016, the Company acquired all outstanding shares of InterWrap Holdings, Inc. ("InterWrap"), a leading manufacturer of roofing underlayment and packaging materials, for approximately $452 million, net of cash acquired. This acquisition expands the Company’s position in roofing components, strengthens the Company’s capabilities to support the conversion from organic to synthetic underlayment and accelerates its growth in the roofing components market. Interwrap's operating results have been included in the Roofing segment of the Company's Consolidated Financial Statements since the date of the acquisition. During the six months ended June 30, 2017, the Consolidated Statements of Earnings included $86 million in Net sales attributable to the InterWrap acquisition (related to the one-year post-acquisition period). The pro forma effect of this acquisition on Net sales and Net earnings attributable to Owens Corning was not material.

8. WARRANTIES

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

	Six Months Ended June 30, 2017
Beginning balance	$ 52
Amounts accrued for current year	10
Settlements of warranty claims	(8)
Ending balance	$ 54

9. RESTRUCTURING AND ACQUISITION-RELATED COSTS

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

Table of Contents

9. RESTRUCTURING, ACQUISITION AND INTEGRATION-RELATED COSTS (continued)

Acquisition-Related Costs

During the first six months of 2017, the Company incurred $11 million of transaction and integration costs related to its announced acquisitions. Please refer to Note 7 of the Consolidated Financial Statements for further information on these acquisitions. These costs are recorded in the Corporate, Other and Eliminations category. See Restructuring Costs section below for detail on additional costs related to these acquisitions. The following table presents the impact and respective location of acquisition-related costs for the six months of 2017 on the Consolidated Statements of Earnings (in millions):

Location	InterWrap Acquisition	Pittsburgh Corning Acquisition	Total
Marketing and administrative expenses	$ 1	$ 1	$ 2
Other expenses, net	—	9	9
Total acquisition-related costs	$ 1	$ 10	$ 11

Restructuring Costs

Pittsburgh Corning Acquisition-Related Restructuring

Following the acquisition of Pittsburgh Corning into the Company's Insulation segment, the Company took actions to realize expected synergies from the newly acquired operations. During the second quarter of 2017, the Company recorded $14 million of severance charges related to these actions. The Company expects to incur an immaterial amount of incremental costs in the remainder of 2017 related to these actions.

2017 Cost Reduction Actions

During the second quarter of 2017, the Company took actions to avoid future capital outlays and reduce costs in its Composites segment, mainly through decisions to close certain sub-scale manufacturing facilities in Asia Pacific and North America and to reposition assets in its European operations. The Company recorded $13 million of charges, comprised of $11 million of severance, $1 million of accelerated depreciation and $1 million of exit costs associated with these actions. The Company expects to recognize approximately $40 million of additional exit costs in 2017 and 2018, of which about $25 million is accelerated depreciation.

Other Restructuring Actions

During the remainder of 2017, the Company expects to incur an immaterial amount of incremental costs related to its 2016 Cost Reduction Actions and InterWrap Acquisition-Related Restructuring. Please refer to Note 11 of our 2016 Form 10-K for more information about these restructuring actions.

Consolidated Statements of Earnings Classification

The following table presents the impact and respective location of total restructuring costs on the Consolidated Statements of Earnings, which are included in our Corporate, Other and Eliminations category (in millions):

		Three Months Ended June 30,		Six Months Ended June 30,	
Type of cost	Location	2017	2016	2017	2016

Accelerated depreciation	Cost of sales	$ 2	$ 1	$ 2	$ 1
Other exit costs	Cost of sales	2	2	2	2
Severance	Other expenses, net	25	—	25	—
Total restructuring costs		$ 29	$ 3	$ 29	$ 3

Table of Contents

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

9. RESTRUCTURING, ACQUISITION AND INTEGRATION-RELATED COSTS (continued)

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

	2017 Cost Reduction Actions	Pittsburgh Corning Acquisition-Related Restructuring	2016 Cost Reduction Actions	InterWrap Acquisition-Related Restructuring	2014 Cost Reduction Actions	Total
Balance at December 31, 2016	$ —	$ —	$ 1	$ —	$ 1	$ 2
Restructuring costs	13	14	1	1	—	29
Non-cash items	(2)	—	(1)	(1)	—	(4)
Balance at June 30, 2017	$ 11	$ 14	$ 1	$ —	$ 1	$ 27
Cumulative charges incurred	$ 13	$ 14	$ 19	$ 4	$ 45	$ 95

As of June 30, 2017, the remaining liability balance is comprised of $27 million of severance, inclusive of $6 million of long-term severance and $21 million of severance the Company expects to pay over the next twelve months.

Table of Contents

10. DEBT

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

	June 30, 2017	December 31, 2016
9.00% senior notes, net of discount and financing fees, due 2019	$143	$ 143
4.20% senior notes, net of discount and financing fees, due 2022	597	596
4.20% senior notes, net of discount and financing fees, due 2024	391	391
3.40% senior notes, net of discount and financing fees, due 2026	395	395
7.00% senior notes, net of discount and financing fees, due 2036	537	536
4.30% senior notes, net of discount and financing fees, due 2047	588	—
Various capital leases, due through and beyond 2050	31	33
Fair value adjustment to debt	7	8
Total long-term debt	2,689	2,102
Less – current portion	3	3
Long-term debt, net of current portion	$2,686	$ 2,099

Senior Notes

The Company issued $600 million of 2047 senior notes on June 26, 2017 subject to $12 million of discounts and issuance costs. Interest on the 2047 senior notes is payable semiannually in arrears on January 15 and July 15 each year, beginning on January 15, 2018. A portion of the proceeds from the 2047 senior notes was used to fund the purchase of Pittsburgh Corning in the second quarter of 2017. In the third quarter of 2017, a portion of the proceeds was used by the Company, in addition to borrowings on the Receivables Securitization Facility (as defined below), to repurchase $82 million of its outstanding 2019 senior notes and $140 million of its outstanding 2036 senior notes, together with a $58 million tender premium and $1 million of accrued interest. The Company also issued a make-whole call to repay the remainder of its outstanding 2019 senior notes, which it expects to complete in the middle of the third quarter of 2017 with a redemption premium of approximately $8 million and $1 million of accrued interest. In total for all of these repurchase and redemption activities, the Company expects to recognize approximately $71 million of loss on extinguishment of debt in the third quarter of 2017, inclusive of the remaining unamortized financing fees and discount. The remaining proceeds of the 2047 senior notes are to be used for general corporate purposes.

The Company issued $400 million of 2026 senior notes on August 8, 2016. Interest on the notes is payable semiannually in arrears on February 15 and August 15 each year, beginning on February 15, 2017. A portion of the proceeds from these notes was used to redeem $158 million of our 2016 senior notes. The remaining proceeds were used to pay down portions of our Receivables Securitization Facility and for general corporate purposes.

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

The Company issued $600 million of 2022 senior notes on October 17, 2012. Interest on the notes is payable semiannually in arrears on June 15 and December 15 each year, beginning on June 15, 2013. The proceeds of these

notes were used to refinance $250 million of our 2016 senior notes and $100 million of our 2019 senior notes and pay down our Senior Revolving Credit Facility.
The Company issued $350 million of 2019 senior notes on June 3, 2009. On October 31, 2006, the Company issued $650 million of 2016 senior notes and $540 million of 2036 senior notes. The proceeds of these notes were used to pay certain unsecured and administrative claims, finance general working capital needs and for general corporate purposes.

10. DEBT (continued)

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

The Senior Notes are fully and unconditionally guaranteed by certain of the Company’s current and future domestic subsidiaries that are borrowers or guarantors under the Company’s credit agreement ("Credit Agreement"). The guarantees are unsecured and rank equally in right of payment with all other existing and future senior unsecured indebtedness of the guarantors. The guarantees are effectively subordinated to existing and future secured debt of the guarantors to the extent of the assets securing that indebtedness.

The Company has the option to redeem all or part of the Senior Notes at any time at a “make-whole” redemption price.

The Company is subject to certain covenants in connection with the issuance of the Senior Notes that it believes are usual and customary. The Company was in compliance with these covenants as of June 30, 2017.

In the first quarter of 2016, the Company terminated the existing interest rate swaps designated to hedge a portion of the 4.20% senior notes due 2022. The swaps were carried at fair value and recorded as other assets or liabilities, with a fair value adjustment to long-term debt on the Consolidated Balance Sheets.

Senior Revolving Credit Facility

The Company has an $800 million multi-currency senior revolving credit facility that has been amended from time to time (the "Senior Revolving Credit Facility") with a maturity date in November 2020 and uncommitted incremental loans permitted under the facility of $600 million. The Senior Revolving Credit Facility includes both borrowings and letters of credit. Borrowings under the Senior Revolving Credit Facility may be used for general corporate purposes and working capital. The Company has the discretion to borrow under multiple options, which provide for varying terms and interest rates including the United States prime rate or LIBOR plus a spread.

The Senior Revolving Credit Facility contains various covenants, including a maximum allowed leverage ratio and a minimum required interest expense coverage ratio, that the Company believes are usual and customary for a senior unsecured credit agreement. The Company was in compliance with these covenants as of June 30, 2017. Please refer to the Credit Facility Utilization paragraph below for liquidity information as of June 30, 2017.

Term Loan Commitment

The Company obtained a term loan commitment on June 8, 2017 for $350 million (the "Term Loan Commitment"), separate from the $600 million of uncommitted incremental loans permitted under the Senior Revolving Credit Facility. The Company entered into the Term Loan Commitment, in part, to pay a portion of the purchase price of the Pittsburgh Corning acquisition. If drawn, the Term Loan Commitment requires full repayment by June 2018 for any outstanding borrowings. In the second quarter of 2017, the Company used a portion of the proceeds from the issuance of the 2047 senior notes for the Pittsburgh Corning acquisition, in lieu of drawing on this Term Loan Commitment.

The Term Loan Commitment contains various covenants, including a maximum allowed leverage ratio and a minimum required interest expense coverage ratio, that the Company believes are usual and customary for a senior unsecured credit agreement. The Company was in compliance with these covenants as of June 30, 2017. Please refer to the Credit Facility Utilization paragraph below for liquidity information as of June 30, 2017.

Receivables Securitization Facility

From time to time, the Company has borrowings outstanding under a Receivables Purchase Agreement (the “RPA”) that are accounted for as secured borrowings in accordance with Accounting Standards Codification ("ASC") 860, "Accounting for Transfers and Servicing." Owens Corning Sales, LLC and Owens Corning Receivables LLC, each a subsidiary of the Company, have a $250 million RPA with certain financial institutions. The securitization facility (the "Receivables Securitization Facility") now matures in May 2020, following amendments in March 2017 and May 2017 to extend its maturity. No other significant terms impacting liquidity were amended. The Company has the ability to borrow at the lenders' cost of funds, which approximates A-1/P-1 commercial paper rates, plus a fixed spread.

The Receivables Securitization Facility contains various covenants, including a maximum allowed leverage ratio and a minimum required interest expense coverage ratio that the Company believes are usual and customary for a securitization facility. The

Table of Contents

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

10. DEBT (continued)

Company was in compliance with these covenants as of June 30, 2017. Please refer to the Credit Facility Utilization paragraph below for liquidity information as of June 30, 2017.

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

Credit Facility Utilization

The following table shows how the Company utilized its primary sources of liquidity (in millions):

	As of June 30, 2017		
	Senior Revolving Credit Facility	Receivables Securitization Facility	Term Loan Commitment (a)
Facility size or borrowing limit	$800	$ 250	$ 350
Borrowings	—	—	—
Outstanding letters of credit	9	2	n/a
Availability on facility	$791	$ 248	$ 350

(a) On July 24, 2017, the Company provided formal notification of its intent to voluntarily reduce the entire Term Loan Commitment, thus eliminating the availability of credit under the facility effective on July 31, 2017.

Short-Term Debt

At both June 30, 2017 and December 31, 2016, short-term borrowings were less than $1 million. The short-term borrowings consisted of various operating lines of credit and working capital facilities. Certain of these borrowings are collateralized by receivables, inventories or property. The borrowing facilities are typically for one-year renewable terms. The weighted average interest rate on all short-term borrowings was approximately 5.4% for June 30, 2017 and December 31, 2016.

Table of Contents

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

11. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Pension Plans

The Company sponsors defined benefit pension plans. Under the plans, pension benefits are based on an employee's years of service and, for certain categories of employees, qualifying compensation. Company contributions to these pension plans are determined by an independent actuary to meet or exceed minimum funding requirements. In our non-U.S. plans, the unrecognized cost of any retroactive amendments and actuarial gains and losses are amortized over the average future service period of plan participants expected to receive benefits. In our U.S. plans, the unrecognized cost of any retroactive amendments and actuarial gains and losses are amortized over the average remaining life expectancy of the inactive participants as substantially all of the plan participants are inactive.

During the second quarter of 2017, the Company completed two balance sheet risk mitigation actions related to certain non-U.S. pension plans. These actions included the purchase of non-participating annuity contracts from an insurance company and the payment of lump sums to retirees, which resulted in the settlement of liabilities to affected participants. As a result of these transactions, the Company recognized pension settlement losses of $30 million during the three and six months ended June 30, 2017. These losses are included in Other expenses, net on the Consolidated Statements of Earnings in our Corporate, Other and Eliminations category. These transactions did not have a material effect on the plans' funded status.

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

	Three Months Ended June 30,					
	2017			2016		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	$1	$ 1	$ 2	$1	$ 1	$ 2
Interest cost	10	4	14	11	5	16
Expected return on plan assets	(15)	(5)	(20)	(15)	(6)	(21)
Amortization of actuarial loss	4	2	6	4	1	5
Settlement loss	—	30	30	—	—	—
Curtailment gain	—	—	—	—	(6)	(6)
Contractual termination benefit	—	—	—	—	2	2
Net periodic pension cost	$—	$ 32	$ 32	$1	$ (3)	$ (2)

	Six Months Ended June 30,					
	2017			2016		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	$3	$ 2	$ 5	$3	$ 2	5
Interest cost	20	8	28	22	9	31
Expected return on plan assets	(29)	(11)	(40)	(29)	(12)	(41)
Amortization of actuarial loss	7	3	10	7	2	9
Settlement loss	—	30	30	—	—	—
Curtailment gain	—	—	—	—	(6)	(6)
Contractual termination benefit	—	—	—	—	2	2
Net periodic pension cost	$1	$ 32	$ 33	$3	$ (3)	$ —

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

11. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (continued)

The Company expects to contribute approximately $50 million in cash to the U.S. pension plans and another $21 million to non-U.S. plans during 2017. The Company made cash contributions of $16 million to the plans during the six months ended June 30, 2017.

Postemployment and Postretirement Benefits Other than Pension Plans

The Company maintains healthcare and life insurance benefit plans for certain retired employees and their dependents. The health care plans in the United States are non-funded and pay either (1) stated percentages of covered medically necessary expenses, after subtracting payments by Medicare or other providers and after stated deductibles have been met, or (2) fixed amounts of medical expense reimbursement.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Components of Net Periodic Benefit Cost				
Service cost	$ 1	$ —	$ 2	$ 1
Interest cost	3	2	5	4
Amortization of prior service cost	—	(1)	(1)	(2)
Amortization of actuarial loss	1	—	—	—
Net periodic benefit cost	$ 5	$ 1	$ 6	$ 3

12. CONTINGENT LIABILITIES AND OTHER MATTERS

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

Litigation and Regulatory Proceedings

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

Litigation Settlement Gain

In May 2017, the Company and TopBuild Corp. entered into a settlement agreement in connection with a commercial breach of contract dispute from the second quarter of 2016. Under the terms of the settlement, TopBuild Corp. paid Owens Corning $30 million in cash in the second quarter of 2017. The settlement also resulted in the dismissal of the lawsuit filed in May 2016 in connection with the dispute. For the three and six months ended June 30, 2017, a $29 million litigation settlement gain, net of legal fees, was recorded in Other expenses, net on the Consolidated Statements of Earnings in the Corporate, Other and Eliminations category.

Table of Contents

12. CONTINGENT LIABILITIES AND OTHER MATTERS (continued)

Environmental Matters

The Company has established policies and procedures designed to ensure that its operations are conducted in compliance with all relevant laws and regulations and that enable the Company to meet its high standards for corporate sustainability and environmental stewardship. Our manufacturing facilities are subject to numerous foreign, federal, state and local laws and regulations relating to the presence of hazardous materials, pollution and protection of the environment, including emissions to air, discharges to water, management of hazardous materials, handling and disposal of solid wastes, and remediation of contaminated sites. All Company manufacturing facilities operate using an ISO 14001 or equivalent environmental management system. The Company’s 2020 Sustainability Goals require significant global reductions in energy use, water consumption, waste to landfill, and emissions of greenhouse gases, fine particulate matter and toxic air emissions.

Owens Corning is involved in remedial response activities and is responsible for environmental remediation at a number of sites, including certain of its currently owned or formerly owned plants. These responsibilities arise under a number of laws, including, but not limited to, the Federal Resource Conservation and Recovery Act ("RCRA"), and similar state or local laws pertaining to the management and remediation of hazardous materials and petroleum. The Company has also been named a potentially responsible party under the U.S. Federal Superfund law, or state equivalents, at a number of disposal sites. The Company became involved in these sites as a result of government action or in connection with business acquisitions. As of June 30, 2017, the Company was involved with a total of 21 sites worldwide, including 8 Superfund sites and 13 owned or formerly owned sites. None of the liabilities for these sites are individually significant to the Company.

Remediation activities generally involve a potential range of activities and costs related to soil and groundwater contamination. This can include pre-cleanup activities such as fact finding and investigation, risk assessment, feasibility studies, remedial action design and implementation (where actions may range from monitoring to removal of contaminants, to installation of longer-term remediation systems). A number of factors affect the cost of environmental remediation, including the number of parties involved in a particular site, the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations, variability in clean-up standards, the need for legal action, and changes in remediation technology. Taking these factors into account, Owens Corning has predicted the costs of remediation reasonably estimated to be paid over a period of years. The Company accrues an amount on an undiscounted basis, consistent with the reasonable estimates of these costs when it is probable that a liability has been incurred. Actual cost may differ from these estimates for the reasons mentioned above. At June 30, 2017, the Company had an accrual totaling $3 million for these costs. Changes in required remediation procedures or timing of those procedures, or discovery of contamination at additional sites, could result in material increases to the Company’s environmental obligations.

13. STOCK COMPENSATION

Stock Plans

2016 Stock Plan

On April 21, 2016, the Company's stockholders approved the Owens Corning 2016 Stock Plan (the "2016 Stock Plan") which authorizes grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units, bonus stock awards and performance stock awards. At June 30, 2017, the number of shares remaining available under the 2016 Stock Plan for all stock awards was 3.2 million.

Stock Options

The Company did not grant any stock options during the six months ended June 30, 2017. The Company calculates a weighted-average grant-date fair value using a Black-Scholes valuation model for options granted. Compensation expense for options is measured based on the fair market value of the option on the date of grant, and is recognized on a straight-line basis over a four year vesting period. In general, the exercise price of each option awarded was equal to the market price of the Company's common stock on the date of grant, and an option's maximum term is 10 years.

13. STOCK COMPENSATION (continued)

During both the three and six months ended June 30, 2017, the Company recognized expense of less than $1 million and $1 million, respectively, related to the Company's stock options. During both the three and six months ended June 30, 2016, the Company recognized expense of less than $1 million and $1 million, respectively, related to the Company's stock options. As of June 30, 2017, there was $1 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 0.67 years. The total aggregate intrinsic value of options outstanding as of June 30, 2017 was $28 million.
The following table summarizes the Company’s stock option activity:

	Six Months Ended June 30, 2017	
	Number of Options	Weighted-Average Exercise Price
Beginning Balance	975,400	$ 35.14
Exercised	(107,950)	36.02
Forfeited	(2,000)	37.65
Ending Balance	865,450	$ 35.02

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

	Options Outstanding			Options Exercisable		
		Weighted-Average			Weighted-Average	
Range of Exercise Prices	Options Outstanding	Remaining Contractual Life	Exercise Price	Number Exercisable at June 30, 2017	Remaining Contractual Life	Exercise Price
$13.89 - $42.16	865,450	4.79	$ 35.02	796,500	4.63	$ 34.79

Restricted Stock Awards and Restricted Stock Units
The Company has granted restricted stock awards and restricted stock units (collectively referred to as “restricted stock”) as a part of its long-term incentive plan. Compensation expense for restricted stock is measured based on the market price of the stock at date of grant and is recognized on a straight-line basis over the vesting period, which is is typically three or four years. The Stock Plan allows alternate vesting schedules for death, disability, and retirement over various periods ending in 2020.
During the three and six months ended June 30, 2017, the Company recognized expense of $5 million and $10 million, respectively, related to the Company's restricted stock. During the three and six months ended June 30, 2016, the Company recognized expense of $5 million and $9 million, respectively, related to the Company's restricted stock. As of June 30, 2017, there was $42 million of total unrecognized compensation cost related to restricted stock. That cost is expected to be recognized over a weighted-average period of 2.84 years. The total fair value of shares vested during the six months ended June 30, 2017 and 2016 was $18 million and $14 million, respectively.

Table of Contents

13. STOCK COMPENSATION (continued)

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

	Six Months Ended June 30, 2017	
	Number of Shares/Units	Weighted-Average Grant-Date Fair Value
Beginning Balance	1,800,557	$ 37.78
Granted	462,499	55.84
Vested	(467,051)	39.01
Forfeited	(33,063)	42.95
Ending Balance	1,762,942	$ 42.02

Performance Stock Awards and Performance Stock Units

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

In the six months ended June 30, 2017, the Company granted both internal company-based and external-based metric PSUs.

Internal based metrics

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

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

External-based metrics

The external-based metrics vest after a three-year period. Outstanding grants issued in 2015 and thereafter are based on the Company's total stockholder return relative to the performance of the companies constituting the former S&P Building & Construction Industry Index. Outstanding grants issued prior to 2015 are based on the Company's total stockholder return relative to the performance of the companies in the S&P 500 Index. The amount of stock distributed will vary from 0% to 200% of PSUs awarded depending on the relative stockholder return performance.

The Company estimated the fair value of the external-based metric performance stock grants using a Monte Carlo simulation. The external-based metric performance stock granted in 2017 uses various assumptions that include expected volatility of 26.1%, and a risk free interest rate of 1.4%, both of which were based on an expected term of 2.92 years. Expected volatility was based on a benchmark study of our peers. The risk-free interest rate was based on zero coupon U.S. Treasury bills at the time of grant. The expected term represents the period from the grant date to the end of the three-year performance period. Compensation expense for external-based metric PSUs is measured based on the grant date fair value and is recognized on a straight-line basis over the vesting period. Pro-rata vesting may be utilized in the case of death, disability or approved retirement, and awards if earned will be paid at the end of the three-year period.

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

13. STOCK COMPENSATION (continued)

During the three and six months ended June 30, 2017, the Company recognized expense of $3 million and $8 million, respectively, related to PSUs. During the three and six months ended June 30, 2016, the Company recognized expense of $3 million and $5 million, respectively, related to the Company's PSUs. As of June 30, 2017, there was $22 million of total unrecognized compensation cost related to PSUs. That cost is expected to be recognized over a weighted-average period of 1.88 years.

The following table summarizes the Company's PSU activity:

	Six Months Ended June 30, 2017	
	Number of PSUs	Weighted-Average Grant-Date Fair Value
Beginning Balance	472,300	$ 47.19
Granted	221,050	59.71
Forfeited	(8,052)	45.93
Ending Balance	685,298	$ 51.24

Employee Stock Purchase Plan

On April 18, 2013, the Company's stockholders approved the Owens Corning Employee Stock Purchase Plan ("ESPP"). The ESPP is a tax-qualified plan under Section 423 of the Internal Revenue Code. The purchase price of shares purchased under the ESPP is equal to 85% of the lower of the fair market value of shares of Owens Corning common stock at the beginning or ending of the offering period, which is a six-month period ending on May 31 and November 30 of each year. At the approval date, 2.0 million shares were available for purchase under the ESPP. As of June 30, 2017, 1.1 million shares remain available for purchase.

During the three and six months ended June 30, 2017, the Company recognized expense of $1 million and $2 million, respectively, related to the Company's ESPP. During the three and six months ended June 30, 2016, the Company recognized expense of less than $1 million and $1 million, respectively, related to the Company's ESPP. As of June 30, 2017, there was $1 million of total unrecognized compensation cost related to the ESPP.

14. EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net earnings attributable to Owens Corning	$96	$138	$197	$195
Weighted-average number of shares outstanding used for basic earnings per share	111.6	115.1	112.0	115.3
Non-vested restricted and performance shares	1.2	0.8	1.2	0.8
Options to purchase common stock	0.3	0.5	0.3	0.4
Weighted-average number of shares outstanding and common equivalent shares used for diluted earnings per share	113.1	116.4	113.5	116.5
Earnings per common share attributable to Owens Corning common stockholders:				
Basic	$0.86	$1.20	$1.76	$1.69

Diluted	$0.85	$1.19	$1.74	$1.67

Table of Contents

14. EARNINGS PER SHARE (continued)

On October 24, 2016, the Board of Directors approved a share buy-back program under which the Company is authorized to repurchase up to 10 million shares of the Company’s outstanding common stock (the “Repurchase Authorization”). The Repurchase Authorization enables the Company to repurchase shares through the open market, privately negotiated, or other transactions. The actual number of shares repurchased will depend on timing, market conditions and other factors and is at the Company’s discretion. The Company repurchased 2.0 million shares of its common stock for $121 million during the six months ended June 30, 2017 under the Repurchase Authorization. As of June 30, 2017, 7.8 million shares remain available for repurchase under the Repurchase Authorization.
For the three and six months ended June 30, 2017, we did not have any non-vested performance shares that had an anti-dilutive effect on earnings per share.
For the three and six months ended June 30, 2016, the number of shares used in the calculation of diluted earnings per share did not include 0.1 million non-vested performance shares due to their anti-dilutive effect.

15. FAIR VALUE MEASUREMENT

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

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.
Items Measured at Fair Value

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

Derivatives

The Company executes financial derivative contracts for the purpose of mitigating risk exposure that is generated from our normal operations. These derivatives consist of natural gas swaps, cross currency swaps and foreign exchange forward contracts, all of which are over-the-counter and not traded through an exchange. The Company uses widely accepted valuation tools to determine fair value, such as discounting cash flows to calculate a present value for the derivatives. The models use Level 2 inputs, such as forward curves and other commonly quoted observable transactions and prices.
The following table summarizes the fair values and levels within the fair value hierarchy in which the fair value measurements fall as of June 30, 2017 (in millions):

	Total Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				

Derivative assets	$	4	$	—	$	4	$	—
Liabilities:								
Derivative liabilities	$	13	$	—	$	13	$	—

Table of Contents

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

15. FAIR VALUE MEASUREMENT (continued)

The following table summarizes the fair values and levels within the fair value hierarchy in which the fair value measurements fall as of December 31, 2016 (in millions):

	Total Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivative assets	$ 16	$ —	$ 16	$ —
Liabilities:				
Derivative liabilities	$ 2	$ —	$ 2	$ —

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

	June 30, 2017	December 31, 2016
9.00% senior notes, net of discount and financing fees, due 2019	113 %	114 %
4.20% senior notes, net of discount and financing fees, due 2022	106 %	104 %
4.20% senior notes, net of discount and financing fees, due 2024	105 %	102 %
3.40% senior notes, net of discount and financing fees, due 2026	99 %	95 %
7.00% senior notes, net of discount and financing fees, due 2036	133 %	118 %
4.30% senior notes, net of discount and financing fees, due 2047	96 %	— %

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

16. INCOME TAXES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Income tax expense	$67	$73	$110	$107
Effective tax rate	41 %	35 %	36 %	35 %

The difference between the effective tax rate and the U.S. federal statutory tax rate of 35% for the three and six months ended June 30, 2017 is primarily due to U.S. state and local income tax expense, the benefit of lower foreign tax rates and other discrete adjustments.

There was no difference between the effective tax rate and the U.S. federal statutory tax rate of 35% for the three and six months ended June 30, 2016.

Table of Contents

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

17. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE DEFICIT

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Currency Translation Adjustment				
Beginning balance	$(248)	$(213)	$(284)	$(247)
Net investment hedge amounts classified into AOCI, net of tax	(9)	5	(9)	(2)
Gain (loss) on foreign currency translation	38	(18)	74	23
Other comprehensive income/(loss), net of tax	29	(13)	65	21
Ending balance	$(219)	$(226)	$(219)	$(226)
Pension and Other Postretirement Adjustment				
Beginning balance	$(429)	$(409)	$(429)	$(419)
Amounts reclassified from AOCI to net earnings, net of tax (a)	17	(2)	18	—
Amounts classified into AOCI, net of tax	(3)	2	(4)	10
Other comprehensive income, net of tax	14	—	14	10
Ending balance	$(415)	$(409)	$(415)	$(409)
Hedging Adjustment				
Beginning balance	$1	$(3)	$3	$(4)
Amounts reclassified from AOCI to net earnings, net of tax (b)	—	1	(1)	4
Amounts classified into AOCI, net of tax	(1)	2	(2)	—
Other comprehensive (loss)/income, net of tax	(1)	3	(3)	4
Ending balance	$—	$—	$—	$—
Total AOCI ending balance	$(634)	$(635)	$(634)	$(635)

(a) These AOCI components are included in the computation of total Pension and OPEB expense and are recorded in Cost of sales, Marketing and administrative expenses and Other expenses, net. See Note 11 for additional information.
(b) Amounts reclassified from (loss)/gain on cash flow hedges are reclassified from AOCI to income when the hedged item affects earnings and are recognized in Cost of sales. See Note 4 for additional information.

18. ACCOUNTING PRONOUNCEMENTS

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

Standard	Description	Effective Date for Company	Effect on the Consolidated Financial Statements
Recently issued standards:			
ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)," as amended by ASU's 2015-14, 2016-08, 2016-10, 2016-11, 2016-12, 2016-20 and 2017-05.	This standard outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Entities can adopt this standard either through a retrospective or modified-retrospective approach.	January 1, 2018	We are currently assessing the impact this standard will have on our Consolidated Financial Statements. We expect to complete our assessment in the second half of 2017 and plan to use the modified-retrospective method of adoption. Many of our customer volume commitments are short-term (as explained on pg. 5 of the Risk Factors disclosed in Item 1A of our 2016 Form 10-K) and contain single performance obligations. As a result, we do not expect many elements of this standard to be applicable to our business model. Under our current accounting policy (as described in Note 1 of our 2016 Form 10-K), we recognize revenue when title and risk of loss pass to the customer and collectability is reasonably assured, and we estimate variable consideration based on historical experience, current conditions and contractual obligations. We believe our current variable consideration estimates are largely consistent with the new standard, but we are still analyzing potential quarterly timing differences for our consignment sales arrangements and customized products manufactured for customers. We are also still assessing the standard's new disclosure requirements, including the disaggregation of segment revenue.
ASU 2016-02 "Leases (Topic 842)"	The standard requires lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. The recognition and presentation of expenses will depend on classification as a finance or operating lease. Entities will adopt	January 1, 2019	We are currently assessing the potential impact of this standard adoption on our financial reporting processes and disclosures. We believe that our adoption of the standard will likely have a material impact to our Consolidated Balance Sheets for the recognition of certain operating leases as right-of-use assets and lease liabilities. (Our operating lease obligations are described in

	this standard through a retrospective approach.		Note 8 of our 2016 Form 10-K). We are in the process of analyzing our lease portfolio and implementing systems to comply with the standard's retrospective adoption requirements.
ASU 2016-13 "Financial Instruments - Credit Losses (Topic 326)"	This standard replaces the incurred loss methodology for recognizing credit losses with a current expected credit losses model and applies to all financial assets, including trade receivables. Entities will adopt the standard using a modified-retrospective approach.	January 1, 2020	We are currently assessing the impact this standard will have on our Consolidated Financial Statements. Our current accounts receivable policy (as described in Note 1 of our 2016 Form 10-K) uses historical and current information to estimate the amount of probable credit losses in our existing accounts receivable. We have not yet analyzed our current systems and methods to determine the impact of using forward-looking information to estimate expected credit losses.
ASU 2016-16 "Income Taxes (Topic 740)"	This standard clarifies that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs.	January 1, 2018	We are currently assessing the impact this standard will have on our Consolidated Financial Statements.
ASU 2017-07 "Compensation - Retirement Benefits (Topic 715)"	This standard requires that the other components of net benefit cost be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Entities will adopt the presentation elements of this standard on a retrospective basis.	January 1, 2018	We do not expect that the adoption of this standard will have a material effect on our Consolidated Financial Statements on an ongoing basis. The standard's retrospective adoption, though, will likely have a significant impact on the classifications in our 2017 Consolidated Statements of Earnings, mainly due to pension settlement losses that were recorded in the second quarter of 2017 (as described in Note 11 of the Consolidated Financial Statements).

Table of Contents

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

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

Guarantor and Nonguarantor Financial Statements

The Senior Notes and the Senior Revolving Credit Facility are guaranteed, fully, unconditionally and jointly and severally, by certain of Owens Corning's current and future wholly-owned material domestic subsidiaries that are borrowers or guarantors under the Credit Agreement, which permits changes to the named guarantors in certain situations (collectively, the "Guarantor Subsidiaries"). The remaining subsidiaries have not guaranteed the Senior Notes and the Senior Revolving Credit Facility (collectively, the "Non-Guarantor Subsidiaries").

Table of Contents

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF EARNINGS
FOR THE THREE MONTHS ENDED JUNE 30, 2017
(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$ —	$ 1,171	$ 544	$ (118)	$ 1,597
COST OF SALES	—	881	425	(118)	1,188
Gross margin	—	290	119	—	409
OPERATING EXPENSES					
Marketing and administrative expenses	38	86	31	—	155
Science and technology expenses	—	18	3	—	21
Other expenses, net	4	(39)	78	—	43
Total operating expenses	42	65	112	—	219
EARNINGS BEFORE INTEREST AND TAXES	(42)	225	7	—	190
Interest expense, net	24	—	3	—	27
EARNINGS BEFORE TAXES	(66)	225	4	—	163
Income tax expense	(27)	82	12	—	67
Equity in net earnings of subsidiaries	135	(8)	—	(127)	—
Equity in net earnings of affiliates	—	—	—	—	—
NET EARNINGS	96	135	(8)	(127)	96
Net earnings attributable to noncontrolling interests	—	—	—	—	—
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$ 96	$ 135	$ (8)	$ (127)	$ 96

Table of Contents

OWENS CORNING AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

19. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF EARNINGS
FOR THE THREE MONTHS ENDED JUNE 30, 2016
(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$—	$ 1,090	$ 567	$ (112)	$ 1,545
COST OF SALES	1	821	419	(112)	1,129
Gross margin	(1)	269	148	—	416
OPERATING EXPENSES					
Marketing and administrative expenses	35	81	35	—	151
Science and technology expenses	—	17	4	—	21
Other expenses, net	(1)	23	(18)	—	4
Total operating expenses	34	121	21	—	176
EARNINGS BEFORE INTEREST AND TAXES	(35)	148	127	—	240
Interest expense, net	24	(1)	6	—	29
EARNINGS BEFORE TAXES	(59)	149	121	—	211
Income tax expense	(31)	71	33	—	73
Equity in net earnings of subsidiaries	166	88	—	(254)	—
Equity in net earnings of affiliates	—	—	1	—	1
NET EARNINGS	138	166	89	(254)	139
Net earnings attributable to noncontrolling interests	—	—	1	—	1
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$138	$ 166	$ 88	$ (254)	$ 138