Owens Corning
Form 10-Q
August 01, 2007
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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, 2007

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 1-33100

Owens Corning

(Exact name of registrant as specified in its charter)

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

(419) 248-8000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

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

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨

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

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

As of July 30, 2007, 130,831,013 shares of registrant s common stock, par value $0.01 per share, were outstanding.

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(i)

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PART I

ITEM 1. FINANCIAL STATEMENTS

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited)

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(in millions, except per share data)			
NET SALES	$ 1,534	$ 1,722	$ 2,858	$ 3,323
COST OF SALES	1,288	1,426	2,419	2,758
Gross margin	246	296	439	565
OPERATING EXPENSES				
Marketing and administrative expenses	146	140	282	271
Science and technology expenses	16	15	30	31
Restructuring credits			(2)	
Chapter 11 related reorganization items		17	3	27
Asbestos litigation recoveries				(3)
Employee emergence equity program	12		20	
Gain on sale of fixed assets and other	(6)	(44)	(5)	(44)
Total operating expenses	168	128	328	282
EARNINGS BEFORE INTEREST AND TAXES	78	168	111	283
Interest expense, net	31	86	63	151
EARNINGS BEFORE TAXES	47	82	48	132
Income tax expense (benefit)	16	(169)	16	(179)
EARNINGS BEFORE MINORITY INTEREST AND EQUITY IN NET EARNINGS OF AFFILIATES	$ 31	$ 251	$ 32	$ 311
Minority interest and equity in net earnings (loss) of affiliates	(2)		(2)	3
NET EARNINGS	$ 29	$ 251	$ 30	$ 314
EARNINGS PER COMMON SHARE				
Basic net earnings per share	$ 0.23	$ 4.54	$ 0.23	$ 5.67
Diluted net earnings per share	$ 0.22	$ 4.19	$ 0.23	$ 5.24

WEIGHTED AVERAGE COMMON SHARES				
Basic	128.1	55.3	128.1	55.3
Diluted	131.1	59.9	131.1	59.9

The accompanying notes to consolidated financial statements are an integral part of this statement.

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OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

	Successor	
	June 30, 2007	December 31, 2006
	(in millions)	
ASSETS		
CURRENT		
Cash and cash equivalents	$ 135	$ 1,089
Receivables, less allowances of $18 million in 2007 and $26 million in 2006	793	573
Inventories	833	749
Restricted cash disputed distribution reserve	65	85
Other current assets	70	56
Total current	1,896	2,552
OTHER		
Deferred income taxes	548	549
Pension-related assets	9	8
Goodwill	1,295	1,313
Intangible assets	1,277	1,298
Investments in affiliates	80	97
Other noncurrent assets	138	132
Total other	3,347	3,397
PLANT AND EQUIPMENT		
Land	190	188
Buildings and leasehold improvements	494	470
Machinery and equipment	1,845	1,732
Construction in progress	172	171
	2,701	2,561
Accumulated depreciation	(182)	(40)
Net plant and equipment	2,519	2,521
TOTAL ASSETS	$ 7,762	$ 8,470

The accompanying notes to consolidated financial statements are an integral part of this statement.

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OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)

(unaudited)

	Successor	
	June 30, 2007	December 31, 2006
	(in millions)	
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT		
Accounts payable and accrued liabilities	$ 986	$ 1,081
Accrued interest	22	39
Short-term debt	12	1,401
Long-term debt current portion	15	39
Total current	1,035	2,560
LONG-TERM DEBT	2,093	1,296
OTHER		
Pension plan liability	264	312
Other employee benefits liability	326	325
Other	231	247
Total other	821	884
COMMITMENTS AND CONTINGENCIES (Note 11)		
MINORITY INTEREST	38	44
STOCKHOLDERS EQUITY		
Preferred stock, par value $0.01 per share 10 million shares authorized; none issued or outstanding at June 30, 2007, and December 31, 2006		
Common stock, par value $0.01 per share 400 million shares authorized; 130.8 million issued and outstanding at June 30, 2007, and December 31, 2006	1	1
Additional paid in capital	3,759	3,733
Accumulated deficit	(35)	(65)
Accumulated other comprehensive earnings	50	17
Total stockholders equity	3,775	3,686
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 7,762	$ 8,470

The accompanying notes to consolidated financial statements are an integral part of this statement.

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OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Successor	Predecessor
	Six Months Ended June 30,	
	2007	2006
	(in millions)	
NET CASH FLOW PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Net earnings	$ 30	$ 314
Adjustments to reconcile net earnings to cash used for operating activities:		
Depreciation and amortization	158	124
Provision for impairments	11	2
Gain on sale of fixed assets	(1)	(35)
Change in deferred income taxes	(8)	(204)
Provision for pension and other employee benefits liabilities	21	48
Provision for post-petition interest/fees on pre-petition obligations		155
Employee emergence equity program	20	
Stock compensation expense	6	
Decrease in restricted cash disputed distribution reserve	20	
Payments related to Chapter 11 filings	(16)	
Increase in receivables	(215)	(162)
Increase in inventories	(80)	(31)
Decrease in accrued interest	(17)	
(Increase) decrease in prepaid assets		(15)
Decrease in accounts payable and accrued liabilities	(104)	(95)
Proceeds from insurance for asbestos litigation claims, excluding Fibreboard		17
Pension fund contribution	(57)	(5)
Payments for other employee benefits liabilities	(15)	(14)
Increase in restricted cash asbestos and insurance related		(15)
Increase in restricted cash, securities and other Fibreboard		(9)
Other	5	4
Net cash flow provided by (used for) operating activities	(242)	79
NET CASH FLOW PROVIDED BY (USED FOR) INVESTING ACTIVITIES		
Additions to plant and equipment	(111)	(189)
Investment in affiliates and subsidiaries, net of cash acquired	(29)	(13)
Proceeds from the sale of assets or affiliate	12	44
Net cash flow provided by (used for) investing activities	(128)	(158)
NET CASH FLOW PROVIDED BY (USED FOR) FINANCING ACTIVITIES		
Payments on long-term debt	(66)	(4)
Proceeds from long-term debt	609	10
Payments on revolving credit facility	(118)	
Proceeds from revolving credit facility	383	

Payment of note payable to 524(g) Trust	(1,390)	
Net increase (decrease) in short-term debt	(4)	2
Net cash flow provided by (used for) financing activities	(586)	8
Effect of exchange rate changes on cash	2	5
NET DECREASE IN CASH AND CASH EQUIVALENTS	(954)	(66)
Cash and cash equivalents at beginning of period	1,089	1,559
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 135	$ 1,493

The accompanying notes to consolidated financial statements are an integral part of this statement.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. GENERAL

Owens Corning (formerly known as Owens Corning (Reorganized) Inc.) was initially formed on July 21, 2006, as a wholly-owned subsidiary of Owens Corning Sales, LLC (formerly known as Owens Corning (OCD) and did not conduct significant operations prior to October 31, 2006 (the Effective Date), when OCD and 17 of its subsidiaries (collectively, the Debtors) emerged from Chapter 11 bankruptcy proceedings as described more fully in Note 16 below. As part of a restructuring that was conducted in connection with OCD s emergence from bankruptcy, on October 31, 2006, Owens Corning became a holding company and the ultimate parent company of OCD and the other Owens Corning companies.

Unless the context requires otherwise, the terms Owens Corning , Company , we and our in this report refer to Owens Corning (formerly known as Owens Corning (Reorganized) Inc.) and its subsidiaries.

In accordance with Statement of Position 90-7 (SoP 90-7), the Company adopted fresh-start accounting as of the Effective Date. Fresh-start accounting is required upon a substantive change in control and requires that the reporting entity allocate the reorganization value of the company to its assets and liabilities in a manner similar to that which is required under Statement of Financial Accounting Standards No. 141, Business Combinations. Under the provisions of fresh-start accounting, a new entity has been deemed created for financial reporting purposes. The financial information set forth in this report, unless otherwise expressly set forth or as the context otherwise indicates, reflects the consolidated results of operations and financial condition of Owens Corning and its subsidiaries for the periods following October 31, 2006 (Successor) and of OCD and its subsidiaries for the periods through October 31, 2006 (Predecessor).

The consolidated financial statements included in this Report are unaudited, pursuant to certain rules and regulations of the Securities and Exchange Commission, and include, in the opinion of the Company, adjustments necessary for a fair statement of the results for the periods indicated, which, however, are not necessarily indicative of results which may be expected for the full year. The financial statements for the period ended June 30, 2006, 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. The December 31, 2006, 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. Certain reclassifications have been made to the period presented for 2006 to conform to the classifications used in the period presented for 2007.

In connection with the consolidated financial statements and notes included in this Report, reference is made to the consolidated financial statements and notes thereto contained in the Company s 2006 annual report on Form 10-K, as filed with the Securities and Exchange Commission.

2. SEGMENT DATA

The Company discloses its segments in accordance with Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS No. 131). The Company s business operations fall within two general product categories, building materials and composites. There are three reportable segments in the building materials product category: (1) Insulating Systems; (2) Roofing and Asphalt; and (3) Other Building Materials and Services and there is one reportable segment in the composites product category: Composite Solutions. Accounting policies for the segments are the same as those for the Company.

The Company has reported financial and descriptive information about each of the Company s four reportable segments below on a basis that is used internally for evaluating segment performance and deciding how to allocate resources to those segments.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. SEGMENT DATA (continued)

The Company s four reportable segments are defined as follows:

Insulating Systems

Manufactures and sells fiberglass insulation into residential, commercial and industrial markets for both thermal and acoustical applications. Also manufactures and sells glass fiber pipe insulation, energy efficient flexible duct media and foam insulation used in above and below grade construction applications.

Roofing and Asphalt

Manufactures and sells residential roofing shingles and oxidized asphalt materials used in residential and commercial construction and specialty applications.

Other Building Materials and Services

Manufactures and sells vinyl siding and accessories and manufactured stone veneer building products. Also provides franchise opportunities for the home remodeling and new construction industries. The Company s distribution network also sells other building material products, such as windows and doors, not manufactured by Owens Corning. The operating segments comprising this segment individually do not meet the threshold for reporting separately.

Composite Solutions

Manufactures, fabricates and sells glass fiber reinforcements, mat, veil and specialized products worldwide that are used in a wide variety of composite material systems. Primary end uses are in the transportation, building construction, telecommunications and electronics markets.

As noted in the segment financial data below, the Company records inter-segment sales from the Composite Solutions segment to the Roofing and Asphalt segment for sales of glass-reinforced mat materials used in the manufacture of residential roofing materials. All other inter-segment sales are not material to any segment.

Earnings 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, restructuring costs and certain other expense or income items are excluded from the internal evaluation of segment performance. Accordingly, these items are not reflected in earnings before interest and taxes for the Company s reportable segments. Reference is made below to the reconciliation of reportable segment earnings before interest and taxes to consolidated earnings before interest and taxes.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. SEGMENT DATA (continued)

External customer sales are attributed to geographic region based upon the location from which the product is shipped to the external customer.

NET SALES	Successor Three Months Ended June 30, 2007	Predecessor Three Months Ended June 30, 2006	Successor Six Months Ended June 30, 2007	Predecessor Six Months Ended June 30, 2006
	(in millions)			
Reportable Segments				
Insulating Systems	$ 441	$ 519	$ 860	$ 1,041
Roofing and Asphalt	414	501	720	962
Other Building Materials and Services	303	346	535	639
Composite Solutions	425	411	828	784
Total reportable segments	1,583	1,777	2,943	3,426
Corporate Eliminations (1)	(49)	(55)	(85)	(103)
Consolidated	$ 1,534	$ 1,722	$ 2,858	$ 3,323
External Customer Sales by Geographic Region				
United States	$ 1,180	$ 1,418	$ 2,196	$ 2,767
Europe	131	114	253	211
Canada and other	223	190	409	345
NET SALES	$ 1,534	$ 1,722	$ 2,858	$ 3,323

(1) Included in corporate eliminations are inter-segment sales, primarily from the Composite Solutions segment to the Roofing and Asphalt segment. Those eliminations were approximately $32 million and $42 million in the Successor three months ended June 30, 2007, and the Predecessor three months ended June 30, 2006, respectively, and approximately $62 million and $84 million in the Successor six months ended June 30, 2007, and the Predecessor six months ended June 30, 2006, respectively. The remaining inter-segment sales eliminations are not material to any other segment.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. SEGMENT DATA (continued)

EARNINGS BEFORE INTEREST AND TAXES	Successor Three Months Ended June 30, 2007	Predecessor Three Months Ended June 30, 2006	Successor Six Months Ended June 30, 2007	Predecessor Six Months Ended June 30, 2006
	(in millions)			
Reportable Segments				
Insulating Systems	$ 42	$ 112	$ 95	$ 235
Roofing and Asphalt	29	48	21	78
Other Building Materials and Services	17(a)	8	16(a)	5
Composite Solutions	28	51(b)	54	65(b)
Total reportable segments	$ 116	$ 219	$ 186	$ 383
Reconciliation to Consolidated Earnings Before Interest and Taxes				
Chapter 11-related reorganization items	$	$ (17)	$ (3)	$ (27)
Asbestos litigation recoveries				3
Restructuring credits			2	
OCV Reinforcements transaction costs	(7)		(18)	
Gains (losses) related to the exit of our HOMExperts service line	1		(7)	
Losses related to strategic reviews	(12)		(12)	
Employee emergence equity program	(12)		(20)	
General corporate expense	$ (8)	$ (34)	$ (17)	$ (76)
CONSOLIDATED EARNINGS BEFORE INTEREST AND TAXES	$ 78	$ 168	$ 111	$ 283

(a) Includes $1 million of income and excludes $7 million of losses related to the exit of the HOMExperts service line in the three months ended June 30, 2007, and the six months ended June 30, 2007, respectively.

(b) Includes $27 million and $35 million of gains on the sale of metal which is reflected in the Consolidated Statement of Earnings under the caption gain on the sale of fixed assets and other in the three months ended June 30, 2006, and the six months ended June 30, 2006, respectively.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

3. INVENTORIES

Inventories are summarized as follows (in millions):

	Successor	
	June 30, 2007	December 31, 2006
Finished goods	$ 578	$ 518
Materials and supplies	218	194
FIFO inventory	796	712
LIFO adjustment	37	37
Total inventories	$ 833	$ 749

4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	Successor June 30, 2007			
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	19	$ 174	$ (6)	$ 168
Technology	20	198	(7)	191
Franchise and other agreements	15	33	(3)	30
Non-amortizable intangible assets:				
Trademarks		888		888
Total intangible assets		$ 1,293	$ (16)	$ 1,277
Goodwill		$ 1,295		

	Successor December 31, 2006			
	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	19	$ 174	$ (2)	$ 172
Technology	20	198	(2)	196
Franchise and other agreements	15	33	(1)	32
In process research and development		21	(21)	
Non-amortizable intangible assets:				
Trademarks		898		898
Total intangible assets		$ 1,324	$ (26)	$ 1,298
Goodwill		$ 1,313		

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

4. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Other Intangible Assets

The value assigned to the intangibles upon the adoption of fresh-start accounting represents the Company s best estimates of fair value based on internal and external valuations. As a result, the Company expects the ongoing amortization expense for finite intangible assets to be approximately $21 million in each of the next five fiscal years.

Due to the Company s strategic review, in the second quarter of 2007 we recorded an impairment of $10 million related to the Fabwel unit of our Composites segment, in the caption cost of sales on its Consolidated Statement of Earnings.

Goodwill

The changes in the net carrying amount of goodwill by segment are as follows (in millions):

Successor	**Insulating Systems**	**Roofing & Asphalt**	**Other Building Materials & Services**	**Composite Solutions**	**Total**
Balance as of December 31, 2006	$ 852	$ 261	$ 142	$ 58	$ 1,313
Acquisitions (see Note 5)				20	20
Income tax adjustments (see Note 11)	(29)	(9)			(38)
Balance as of June 30, 2007	$ 823	$ 252	$ 142	$ 78	$ 1,295

The Successor has elected the fourth quarter to perform its annual testing for goodwill impairment. The Company will test goodwill for impairment as of October 1st of each fiscal year going forward, 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, as provided for in Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

5. ACQUISITIONS AND DIVESTITURES

During the second quarter of 2007, the Company increased its ownership in Owens Corning India Limited (OCIL) from 60% to 78.5%. The purchase price was approximately $28 million and was recorded as an increase in goodwill of approximately $20 million, an increase in plant and equipment of approximately $1 million and a decrease in minority interest of approximately $7 million on its Consolidated Balance Sheet. OCIL is a growing, profitable business with a low cost production platform that supplies Composites Solutions customers in India and exports to other markets.

In the first quarter of 2007, the Company sold its remaining 40% ownership interest in Owens Corning South Africa (Pty) Ltd. The Company received $12 million for the divestiture.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

6. 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 liabilities is as follows (in millions):

	Successor For the Six Months Ended June 30, 2007
Beginning balance	$ 50
Amounts accrued for current year	7
Adjustment of preexisting accrual estimates	4
Settlements of warranty claims	(18)
Ending balance	$ 43

7. RESTRUCTURING OF OPERATIONS AND OTHER CHARGES (CREDITS)

In the second half of 2006, we substantially completed the restructuring actions taken to close facilities, exit certain product lines and reduce operating costs. During the six months ended June 30, 2007, the Company recorded a credit of $2 million related to lower estimated employee severance cost for employee separations in the 2006 restructuring actions. We do not expect to incur any additional costs related to the 2006 actions and final payments are estimated to occur within the third quarter of 2007.

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

	Successor For the Six Months Ended June 30, 2007
Beginning balance	$ 29
Amounts credited in current year	(2)
Cash payments	(21)
Ending balance	$ 6

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

8. DEBT

Details of our outstanding long-term debt at June 30, 2007, and December 31, 2006, are as follows (in millions):

	Successor	
	June 30, 2007	**December 31, 2006**
Senior Term Facility, maturing in 2011	$ 600	$
6.50% Senior Notes, net of discount, due 2016	648	648
7.00% Senior Notes, net of discount, due 2036	539	539
Revolving Credit Facility, maturing in 2011	265	
Internal Revenue Service note, maturing in 2012, 8.0% (see Note 11)		89
Various capital leases, due through 2050	25	20
Other floating rate debt, maturing through 2017	29	35
Other fixed rate debt, with maturities up to 2011, at rates from 5.0% to 11.0%	2	4
	2,108	1,335
Less current portion	15	39
Total long-term debt	$ 2,093	$ 1,296

Senior Notes

We issued $1.2 billion of senior notes (collectively, the Senior Notes) concurrently with our emergence from bankruptcy on the Effective Date. The proceeds of these notes were used to pay certain unsecured and administrative claims, finance general working capital needs and for general corporate purposes.

The senior notes were initially offered and sold to qualified institutional buyers in reliance on Rule 144A of the Securities Act. In the second quarter of 2007, we filed a registration statement with the Securities and Exchange Commission for an offering pursuant to which notes substantially identical to the original notes were offered in exchange for the then outstanding notes. Such offering was completed in late June 2007, and all of the original notes were exchanged for registered notes (collectively, the Senior Notes).

The Senior Notes consist of $650 million aggregate principal amount of 6.50% notes due December 1, 2016 and $550 million aggregate principal amount of 7.00% notes due December 1, 2036, with effective interest rates of 6.62% and 7.23%, respectively. Interest on each series of notes is payable on June 1 and December 1 of each year, beginning on June 1, 2007.

The Senior Notes are general unsecured obligations of the Company and rank pari passu with all existing and future unsecured senior indebtedness of the Company. The Senior Notes rank senior in right of payment to any subordinated indebtedness of the Company and are effectively subordinated to the Company s secured indebtedness, to the extent of the value of the collateral securing such indebtedness.

The Senior Notes are also guaranteed by each of the Company s current and future material wholly-owned United States subsidiaries that is a borrower or a guarantor under the Credit Agreement (defined below). Each guaranty of the Senior Notes is a general unsecured obligation of the guarantors and ranks pari passu with all existing and future unsecured senior indebtedness of the subsidiary guarantors. The guarantees of the Senior

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

8. DEBT (continued)

Notes rank senior in right of payment to any subordinated indebtedness of the guarantors and are effectively subordinated to the guarantor s secured indebtedness, to the extent of the value of the collateral securing such indebtedness.

Owens Corning has the option to redeem all or part of the Senior Notes at any time at a make Whole redemption price. We are subject to certain covenants in connection with the issuance of the Senior Notes.

Senior Credit Facilities

On October 31, 2006, the Company entered into a credit agreement (the Credit Agreement) with Citibank, N.A., as administrative agent and various lenders, which are parties thereto. The Credit Agreement created two credit facilities (the Credit Facilities), consisting of:

- a $1.0 billion multi-currency senior revolving credit facility; and
- a $600 million delayed-draw senior term loan facility.

The Credit Facilities each have a five-year maturity. Proceeds from the revolving credit facility are available for general working capital needs and for other general corporate purposes. The term loan was used to partially fund payments to the Owens Corning/Fibreboard Asbestos Personal Injury Trust (the 524(g) Trust) in January of 2007 (see Note 16). The revolving credit facility is comprised of a U.S. facility, a Canadian facility and a European facility. The Credit Agreement allows the Company to borrow under multiple options, which provide for varying terms and interest rates.

Any obligations under the Credit Facilities are unconditionally and irrevocably guaranteed by the Company s current and future material wholly-owned United States subsidiaries. The Company had $265 million of borrowings and $125 million of letters of credit outstanding under the revolving credit facility at June 30, 2007.

The Credit Agreement also requires payment to the lenders of a commitment fee based on the average daily unused commitments under the Credit Facilities at rates based upon the applicable corporate credit ratings of the Company. Voluntary prepayments of the loans and voluntary reductions of the unutilized portion of the commitments under the Credit Facilities are permissible without penalty, subject to certain conditions.

The Credit Agreement contains financial, affirmative and negative covenants that we believe are usual and customary for a senior unsecured credit agreement.

Short Term Debt

At June 30, 2007, and December 31, 2006, short-term borrowings were $12 million and $1.401 billion, respectively. The December 31, 2006, balance included a note payable to the 524(g) Trust of $1.390 billion, which was paid in January of 2007 (see Note 16). The remaining short-term borrowings for both periods consisted of various operating lines of credit and working capital facilities maintained by certain of the Company s non-U.S. subsidiaries. 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 short-term borrowings was approximately 6.1% and 7.0% at June 30, 2007, and December 31, 2006, respectively.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

9. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Pension Plans

The Company has several defined benefit pension plans covering most employees. 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. Contributions to the U.S. pension plan are based on amounts needed to meet or exceed minimum funding requirements. The unrecognized cost of retroactive amendments and actuarial gains and losses are amortized over the average future service period of plan participants expected to receive benefits.

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

	Successor Three Months Ended June 30, 2007			Predecessor Three Months Ended June 30, 2006		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	$ 6	$ 2	$ 8	$ 6	$ 1	$ 7
Interest cost	14	6	20	15	5	20
Expected return on plan assets	(17)	(7)	(24)	(15)	(6)	(21)
Amortization of loss				11	2	13
Amortization of prior service cost				1		1
Net periodic pension cost	$ 3	$ 1	$ 4	$ 18	$ 2	$ 20

	Successor Six Months Ended June 30, 2007			Predecessor Six Months Ended June 30, 2006		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	$ 12	$ 4	$ 16	$ 11	$ 2	$ 13
Interest cost	28	12	40	29	10	39
Expected return on plan assets	(34)	(14)	(48)	(29)	(11)	(40)
Amortization of loss				21	4	25
Amortization of prior service cost				3		3
Net periodic pension cost	$ 6	$ 2	$ 8	$ 35	$ 5	$ 40

Owens Corning expects to contribute approximately $100 million in cash to the U.S. pension plans and approximately $10 million to non-U.S. plans during 2007. The Company made cash contributions of approximately $57 million to the plans during the six months ended June 30, 2007.

Postemployment and Postretirement Benefits Other than Pension Plans

The Company and its subsidiaries maintain health care and life insurance benefit plans for certain retired employees and their dependents. The health care plans in the U.S. 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.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

9. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (continued)

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):

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Components of Net Periodic Benefit Cost				
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	4	5	9	10
Amortization of loss		1		1
Amortization of prior service cost		(4)		(7)
Net periodic benefit cost	$ 5	$ 3	$ 11	$ 6

10. STOCK COMPENSATION

On October 31, 2006, all stock and stock options of the Predecessor were extinguished in accordance with the plan of reorganization (the Plan) confirmed as a part of the Debtors emergence from Chapter 11 bankruptcy proceedings.

2006 Stock Plan

In conjunction with the confirmation of the Plan, the Company s 2006 Stock Plan was approved by the United States Bankruptcy Court for the District of Delaware (the USBC). In accordance with Section 303 of the Delaware General Corporation Law, such approval constituted stockholder approval of the 2006 Stock Plan. The 2006 Stock Plan became effective on October 31, 2006, the date that the Debtors emerged from Chapter 11 Bankruptcy.

The 2006 Stock Plan authorizes grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units, bonus stock awards and performance stock awards to be made pursuant to the plan. At June 30, 2007, the maximum number of shares remaining available under the 2006 Stock Plan for all stock awards was 3,112,624 shares.

Stock Options

The Company grants stock options under its employee emergence equity program. The Company calculates a weighted-average grant date fair value, using a Black-Scholes valuation model for options granted. No stock options were granted or exercised during the six months ended June 30, 2007.

The exercise price of each option awarded under the Plan equals the market price of the Company s common stock on the date of grant and an option s maximum term is 10 years. Shares issued from the exercise of options are recorded in the common stock accounts at the option price. The awards and vesting periods of such awards are determined at the discretion of the Compensation Committee of the Board of Directors. The volatility assumption was based on a benchmark study of our peers.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

10. STOCK COMPENSATION (continued)

The following table summarizes our share option activity during the Successor six months ended June 30, 2007:

Successor	Number of Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2006	2,123,100	$ 30.00
Options granted		
Options exercised		
Options forfeited	(11,000)	$ 30.00
Outstanding at June 30, 2007	2,112,100	$ 30.00

The following table summarizes information about options outstanding and exercisable at June 30, 2007:

Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options Exercisable	Weighted-Averaged Exercise Price
$30.00 $30.00	2,112,100	9.33	$ 30.00		$ 30.00

During the six months ended June 30, 2007, the Company recognized expense of $5 million related to the Company s stock options, which was recorded under the caption employee emergence equity program on the Consolidated Statements of Earnings. As of June 30, 2007, there was $14 million of total unrecognized compensation cost related to stock options awards. The total aggregate intrinsic value of options outstanding as of June 30, 2007, was $8 million.

Restricted Stock Awards and Restricted Stock Units

In 2006, the Company granted restricted stock awards and restricted stock units under its employee emergence equity program, Board of Director compensation plan, and its long-term incentive plan (LTIP). Compensation expense for restricted stock is measured based on the market price of the stock on the date of grant and is recognized on a straight-line basis over the vesting period. Stock restrictions are subject to alternate vesting plans for death, disability, approved early retirement and involuntary termination, over various periods ending in 2009.

A summary of the status of the Company s plans that had restricted stock issued as of June 30, 2007, and changes during the six months ended June 30, 2007, are presented below:

Successor	**Number of Shares**	**Weighted-Average Grant-Date Fair Value**
Outstanding at December 31, 2006	3,030,150	$ 30.00
Granted	252,300	$ 33.27
Vested	(275,446)	$ 30.48
Forfeited	(79,900)	$ 30.24
Outstanding at June 30, 2007	2,927,104	$ 30.24

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

10. STOCK COMPENSATION (continued)

During the six months ended June 30, 2007, the Company recognized expense of $17 million related to the Company s restricted stock, of which $15 million was recorded under the caption employee emergence equity program on the Consolidated Statements of Earnings. The Company previously recorded $3 million in restricted stock expense related to its fiscal 2006 restructuring activities. As of June 30, 2007, there was $57 million of total unrecognized compensation cost related to restricted stock. That cost is expected to be recognized over a weighted average period of 2.38 years. The total fair value of shares vested during the six months ended June 30, 2007, was approximately $7 million.

Performance Stock Awards and Performance Stock Units

The Company grants performance stock awards and performance stock units as a part of its LTIP. In the second quarter of 2007, the Company granted performance stock, of which fifty percent will be settled in stock and fifty percent will be settled in cash. The amount of the performance stock is contingent on meeting various company-wide performance goals, including cumulative earnings per share. Compensation expense for performance stock settled in stock is measured based on the market price of the stock on the date of grant and is recognized on a straight-line basis over the vesting period. Compensation expense for performance stock settled in cash is measured based on the market price of the stock at the end of each quarter and is recognized on a straight-line basis over the vesting period. The initial valuation of all performance stock granted assumes that performance goals will be achieved, this assumption is monitored each quarter and if it becomes probable that such goals will not be achieved or will be exceeded, compensation cost recognized will be adjusted and previous surplus compensation cost recognized will be reversed or additional cost will be recognized. Stock restrictions are subject to alternate vesting plans for death, disability, approved early retirement and involuntary termination, over various periods ending in 2009.

A summary of the status of the Company s plans that had performance stock issued as of June 30, 2007, and changes during the six months ended June 30, 2007, are presented below. The weighted-average grant date fair value for performance stock issued in 2007 that will be settled in stock is $34.06.

Successor	**Number of Shares**
Outstanding at December 31, 2006	
Granted	412,226
Vested	(58,908)
Forfeited	
Outstanding at June 30, 2007	353,318

During the six months ended June 30, 2007, the Company recognized expense of $4 million related to the Company s performance stock, of which $2 million relates to the retirement of certain employees. As of June 30, 2007, there was $9 million of total unrecognized compensation cost related to performance stock. That cost is expected to be recognized over a weighted average period of 2.5 years. The total fair value of shares vested during the six months ended June 30, 2007, was approximately $2 million.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

11. CONTINGENT LIABILITIES AND OTHER MATTERS

Bankruptcy Related-Matters

In accordance with the terms of the Plan, the Company established a Disputed Distribution Reserve (as defined in the Plan) funded in the initial amount of approximately $85 million, which is reflected as restricted cash on the Consolidated Balance Sheet as of December 31, 2006, for the potential payment of certain non-tax claims against the Debtors that were disputed as of the Effective Date. In the second quarter of 2007, approximately $20 million of the claims were settled. The remaining reserve, in the amount of $65 million at June 30, 2007, is reflected as restricted cash on the Consolidated Balance Sheet as of June 30, 2007. See Note 16 to the Consolidated Financial Statements for a discussion of certain other bankruptcy-related matters.

Tax Matters

Owens Corning s federal income tax returns typically are audited by the IRS in multi-year audit cycles. The audit for the years 1992-1995 was completed in late 2000. Due to OCD s Chapter 11 filing in 2000, the IRS also accelerated and completed the audit for the years 1996-1999 by March of 2001. As a result of these audits and unresolved issues from prior audit cycles, the IRS asserted claims for unpaid income taxes plus interest thereon. As a result of settlement negotiations, in the fourth quarter of 2004 the Company and the IRS reached an agreement in principle to settle such claims in return for total settlement payments by the Company of approximately $69 million, plus interest. The settlement was approved by the USBC by Order dated November 15, 2004 and by the Congressional Joint Committee on Taxation on May 17, 2005. The Company estimated the interest applicable to the settlement to be approximately $30 million. However, the IRS computed such interest to be approximately $71 million. In the second quarter of 2007, the Company and the IRS reconciled the differences between the two interest computations. The IRS substantively accepted the position of the Company and, accordingly, reduced the interest by approximately $38 million, which was recorded as a reduction to goodwill and long-term debt on the Consolidated Balance Sheets. The Company subsequently paid off the IRS Note in the second quarter of 2007.

Securities and Certain Other Litigation

On or about September 2, 2003, certain of OCD s directors and officers 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 is 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 in 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 USBC 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. The named officer and director defendants have each filed contingent indemnification claims with respect to such litigation against OCD.

On September 1, 2006, various 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

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

11. CONTINGENT LIABILITIES AND OTHER MATTERS (continued)

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 the investments in an OCD company common stock fund. A motion to dismiss was filed on behalf of the defendants on March 5, 2007.

Environmental Liabilities

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 June 30, 2007, we had environmental remediation liabilities as a PRP at 41 sites. Our environmental liabilities at 23 of these sites will be resolved pursuant to the terms of the Plan and will be paid out of the Non-Tax Bankruptcy Reserve. At the other 18 sites, we have a continuing legal obligation to either complete remedial actions or contribute to the completion of remedial actions as part of a group of PRPs. For these sites we estimate a reserve 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 June 30, 2007, our reserve for such liabilities was $7 million, of which $2 million is recorded in the Non-Tax Bankruptcy Reserve as discussed in Note 16. We will continue to review our environmental reserve and make such adjustments as appropriate.

12. EARNINGS PER SHARE

The following table reconciles the weighted average number of shares used in the basic earnings per share calculation to the weighted average number of shares used to compute diluted earnings per share (in millions, except per share amounts):

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net earnings	$ 29	$ 251	$ 30	$ 314
Weighted-average number of shares outstanding used for basic earnings per share	128.1	55.3	128.1	55.3
Non-vested restricted shares	2.7		2.7	
Stock options	0.3		0.3	
Shares from assumed conversion of preferred securities		4.6		4.6
Weighted-average number of shares outstanding and common equivalent shares used for diluted earnings per share	131.1	59.9	131.1	59.9

Net earnings per common share:				
Basic net earnings per share	$ 0.23	$ 4.54	$ 0.23	$ 5.67
Diluted net earnings per share	$ 0.22	$ 4.19	$ 0.23	$ 5.24

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

13. COMPREHENSIVE EARNINGS

The following table presents comprehensive earnings for the periods indicated (in millions):

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net earnings	$ 29	$ 251	$ 30	$ 314
Currency translation adjustment	21	26	28	30
Pension and other postretirement adjustment	1	(4)	1	(4)
Deferred income (loss) on hedging	(3)	(5)	4	(21)
Comprehensive earnings	$ 48	$ 268	$ 63	$ 319

14. INCOME TAXES

The Successor s income tax expense for the six months ended June 30, 2007, was $16 million, which represents a 34% effective tax rate. The difference between the 34% 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.

On an on-going basis, the Company records valuation allowances related to realization of certain tax assets. In light of the Predecessor s financial position and Chapter 11 proceedings, the Predecessor decreased its valuation allowance for tax assets related to asbestos-related liabilities by $40 million during the first quarter of 2006, resulting in a $40 million tax benefit in the quarter and an effective tax rate of negative 20%. In the second quarter of 2006, the Predecessor further decreased its valuation allowance by an additional $225 million for tax assets related to asbestos-related liabilities, resulting in a $225 million tax benefit in the quarter. As a result of these items, the Predecessor had an effective tax rate of negative 136% for the first six months of 2006.

On May 18, 2006, new Texas state tax legislation, which substantially changed the state s tax system, was enacted. The legislation impacted the Predecessor s ability to utilize its deferred tax assets, including previously recorded state of Texas net operating loss carry forwards. As a result of this legislation, the Predecessor incurred $10 million of additional tax expense during the second quarter of 2006 to record its deferred tax assets and net operating loss carry forwards at realizable value.

15. 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 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.

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

16. EMERGENCE FROM CHAPTER 11 PROCEEDINGS

Background

On October 5, 2000 (the Petition Date), OCD and the 17 United States subsidiaries listed below (collectively with OCD, the Debtors) filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the USBC:

CDC Corporation	Integrex Testing Systems LLC
Engineered Yarns America, Inc.	HOMExperts LLC
Falcon Foam Corporation	Jefferson Holdings, Inc.
Integrex	Owens-Corning Fiberglas Technology, Inc.
Fibreboard Corporation	Owens-Corning HT, Inc.
Exterior Systems, Inc.	Owens-Corning Overseas Holdings, Inc.
Integrex Ventures LLC	Owens Corning Remodeling Systems, LLC
Integrex Professional Services LLC	Soltech, Inc.
Integrex Supply Chain Solutions LLC	

Until October 31, 2006, the date on which the Debtors emerged from bankruptcy, the Debtors operated their businesses as debtors-in-possession in accordance with the Bankruptcy Code. The Chapter 11 cases of the Debtors (collectively, the Chapter 11 Cases) were jointly administered under Case No. 00-3837 (JKF). The Debtors filed for relief under Chapter 11 of the Bankruptcy Code to address the growing demands on cash flow resulting from the multi-billion dollars of asbestos personal injury claims that had been asserted against OCD and Fibreboard Corporation.

Under the terms of the Plan and related Confirmation Order, asbestos personal injury claims against each of OCD and Fibreboard will be administered and distributions on account of such claims will be made, exclusively from the 524(g) Trust that has been established and funded pursuant to the Plan. In addition, all asbestos property damage claims against OCD or Fibreboard either (i) have been resolved, (ii) will be resolved pursuant to the Plan, along with certain other unsecured claims for an aggregate amount within the Company s Non-Tax Bankruptcy Reserve (defined below) at June 30, 2007, or (iii) are barred pursuant to the Plan and Confirmation Order. Accordingly, other than the limited number and value of property damage claims being resolved pursuant to clause (ii) above, the Company has no further asbestos liabilities.

Pursuant to the terms of the Plan, the Company is obligated to make certain additional payments to certain creditors, including certain payments to holders of administrative expense priority claims and professional advisors in the Chapter 11 Cases. The Company had reserved approximately $79 million as of June 30, 2007, to pay remaining claims in the Bankruptcy of which approximately $76 million relate to non-tax claims (the Non-Tax Bankruptcy Reserve). Pursuant to the Plan, the Company has established a Disputed Distribution Reserve, funded in the amount of approximately $65 million as of June 30, 2007, which is reflected as restricted cash in the Consolidated Balance Sheet, for the potential payment of certain non-tax claims against the Debtors that were disputed as of the Effective Date.

OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

16. EMERGENCE FROM CHAPTER 11 PROCEEDINGS (continued)

The amount for Chapter 11 related reorganization items in the Consolidated Statements of Earnings consist of the following (in millions):

	Successor	Predecessor	Successor	Predecessor
	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Professional fees	$	$ 30	$ 3	$ 50
Payroll and compensation		4		8
Investment income		(17)		(31)
Total	$	$ 17	$ 3	$ 27

17. SUBSEQUENT EVENTS

In July of 2007, the Company reached an agreement to sell the Siding Solutions business to the Saint-Gobain Group for $371 million. The sale includes our Norandex/Reynolds distribution business with 153 U.S. distribution centers in 38 states, and three vinyl siding manufacturing facilities located in Claremont, N.C., Joplin, Mo., and London, Ontario.

In July of 2007, the Company announced that it had converted its previously announced joint venture agreement with Saint-Gobain into an acquisition, under which we will acquire Saint-Gobain s Reinforcement and Composites business for $640 million. The acquired business is comprised of 20 plants, which includes 12 glass fiber reinforcements plants, 6 fabrics plants and 2 plants that produce both reinforcements and fabrics. Saint-Gobain will retain its facility in Wichita Falls, Texas.

The Company has announced that it plans to divest its facilities in Battice, Belgium; Birkeland, Norway; and Huntingdon, Pennsylvania. These sales are intended to address regulatory concerns associated with the acquisition of Saint Gobain s Reinforcement and Composites business.

The acquisition advances our position as a global leader in glass reinforcements and composites. The combined business will serve customers with improved technology, an expanded product range and a strengthened presence in both developed and emerging markets.

18. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

Guarantor and Nonguarantor Financial Statements

As described in Note 8, Owens Corning issued $1.2 billion aggregate principal amount of Senior Notes. The Senior Notes are guaranteed, fully, unconditionally and joint and severally, by each of Owens Corning s current

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

18. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

and future 100% owned material domestic subsidiaries that are a borrower or a guarantor under Owens Corning s Credit Facilities, which permits changes to the named guarantors in certain situations (collectively, the Guarantor Subsidiaries). The remaining subsidiaries have not guaranteed the Senior Notes (collectively, the Nonguarantor Subsidiaries). As disclosed in Note 1, Owens Corning became the holding company and ultimate parent company of OCD and the other Owens Corning companies on October 31, 2006, as a part of the restructuring that was conducted in connection with OCD s emergence from bankruptcy.

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS (LOSS)

FOR THE SUCCESSOR THREE MONTHS ENDED JUNE 30, 2007

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$	$ 1,199	$ 401	$ (66)	$ 1,534
COST OF SALES		1,040	314	(66)	1,288
Gross Margin		159	87		246
OPERATING EXPENSES					
Marketing and administrative expenses	33	88	25		146
Science and technology expenses		15	1		16
Chapter 11 related reorganization items		(1)	1		
Employee emergence equity program	3	7	2		12
Other	(53)	32	15		(6)
Total operating expenses	(17)	141	44		168
EARNINGS BEFORE INTEREST AND TAXES	17	18	43		78
Interest (income) expense, net	32	(2)	1		31
EARNINGS (LOSS) BEFORE TAXES	(15)	20	42		47
Income tax expense	1	3	12		16

EARNINGS (LOSS) BEFORE MINORITY INTEREST AND EQUITY IN NET EARNINGS (LOSS) OF AFFILIATES	(16)	17	30		31
Equity in net earnings (loss) of subsidiaries	45	29		(74)	
Minority interest and equity in net earnings (loss) of affiliates		(1)	(1)		(2)
NET EARNINGS (LOSS)	$ 29	$ 45	$ 29	$ (74)	$ 29

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OWENS CORNING AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

18. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS (continued)

OWENS CORNING AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS (LOSS)

FOR THE PREDECESSOR THREE MONTHS ENDED JUNE 30, 2006

(in millions)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
NET SALES	$	$ 1,440	$ 370	$ (88)	$ 1,722
COST OF SALES		1,204	310	(88)	1,426
Gross Margin		236	60		296
OPERATING EXPENSES					
Marketing and administrative expenses		117	23		140
Science and technology expenses		13	2		15
Chapter 11 related reorganization items		17			17
Other		(53)	9		(44)
Total operating expenses		94	34		128
EARNINGS BEFORE INTEREST AND TAXES		142	26		168
Interest expense, net		85	1		86
EARNINGS BEFORE TAXES		57	25		82
Income tax expense (benefit)		(180)	11		(169)
EARNINGS BEFORE MINORITY INTEREST AND EQUITY IN NET EARNINGS (LOSS) OF AFFILIATES		237	14		251