

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Owens Corning third-quarter conference call. My name is Erica and I will be your coordinator for today. At this time, all participants are in listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference. (Operator Instructions)

I would now like to turn the presentation over to your host for today's call, Mr. Scott Deitz, Vice President of Investor Relations. Please proceed, sir.

Scott Deitz - *Owens Corning - VP-IR & Corporate Communications*

Thank you, Erica. Good morning, everyone. Thanks for taking the time to join us today for the conference call and review of our business results for the third quarter of 2008. Joining us today are Mike Thaman, Owens Corning's Chairman and Chief Executive Officer, and Duncan Palmer, Chief Financial Officer.

Following our presentation this morning, we will open this one-hour call to your questions. Please limit yourselves to one question and one follow-up so we can get answered as many of your questions as possible during the 60 minutes we have together.

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Earlier this morning, we issued a news release and Form 10-Q that detailed our results for the quarter and the first nine months of 2008. For the purposes of our discussion today, we've prepared slides that summarize our performance and our results for the third quarter. We will refer to the slides during this call.

For those of you listening to the call via the Internet or if you are on the telephone and near a computer, you can certainly access the slides at owenscorning.com. You will find a link on our home page. There is also a link on the Investors section of our website. This call and the supporting slides will be archived on the website and available for future reference. And please remember this call is being recorded.

Before we begin, just a few other reminders. Today's presentation will include forward-looking statements based on our current expectations and assumptions about our business. These statements are subject to risks and uncertainties and our actual results could differ materially. Please refer to the cautionary statements and risk factors identified in our SEC filings for a more detailed explanation of the inherent limitations of such forward-looking statements.

We ask that you understand that certain data included within this presentation contains non-GAAP financial measures. Today's prepared remarks will exclude items that affect comparability. Those excluded items are captured in our GAAP to non-GAAP reconciliations found within the financial tables of our earnings news release and our third quarter 10-Q.

For those of you following along with our slide presentation, we will begin on slide 4. Now, opening remarks from our Chairman and CEO, Mike Thaman, followed by CFO Duncan Palmer, and then we will turn to our Q&A session. Mike?

Mike Thaman - Owens Corning - Chairman, CEO

Thanks, Scott. Good morning, everyone. Thanks for joining us today. Owens Corning's third-quarter 2008 sales were \$1.6 billion, up 28% compared with the same quarter of last year. Revenue for the first nine months was up 24% compared with the same period in 2007.

Adjusted EBIT during the quarter was \$111 million compared with \$102 million in last year's third quarter, up 9%. For the first nine months of 2008, adjusted EBIT was \$242 million, nearly flat with the \$253 million performance during the first nine months of 2007.

The results that we are reporting today reflect the resilience of our portfolio. Year-to-date, our financial results are ahead of where we had expected to be when we entered the year. This is despite an overall housing market that is weaker than we anticipated and commodity inflation which, until recently, had been significantly worse than our expectations.

I would attribute our ability to overcome these challenges to three key factors. First, we've effectively executed our acquisition synergies and composites. Second, we've realized gains from productivity improvements in roofing and capitalized on positive market conditions with commercial discipline. And third, we sustained profitability in our insulation business despite a very challenging environment.

In prior calls, I measured our performance against important 2008 objectives. I will do the same today. We said that we would continue our journey to create an injury-free workplace. Over the past five years, we've reduced our rate of workplace injuries by over 80%. We have continued this strong performance with a 35% improvement year-to-date versus 2007. We are very proud of this performance.

We said the composite EBIT margins would approach double digits for 2008. They were 9% in the third quarter and are 10% through the first nine months of the year, compared with 7% in 2007.

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We said that we would achieve \$30 million in acquisition-related synergies and composites in 2008. Today, we are announcing that we will achieve at least \$50 million in synergies this year.

We said that we would improve our Roofing and Asphalt business following a \$17 million loss in the first quarter of the year. We have. EBIT grew to \$37 million in the second quarter and to \$95 million in the third quarter. This is the best quarter in the over 30-year history of the business.

We said that our Insulation business will be profitable in 2008. It was breakeven in the third quarter, and it will be profitable for the full year.

We said that we would continue to manage a strong balance sheet. Owens Corning is benefiting from a strong capital structure that was put in place in 2006. We've maintained our debt at comfortable levels, while buying back 2.9 million shares during the first nine months of the year.

I am pleased with this report card. We are achieving the goals that we established for 2008. While we are anticipating a tougher market for the remainder of 2008, the strength of our performance during the first nine months of the year allows us to maintain our previous estimate that 2008 adjusted EBIT will be at least \$265 million. In addition, continued strength in our Roofing performance creates an upside of up to 10% against that adjusted EBIT guidance.

Now I would like to review each of our businesses and segments. Results in our Composites Group were in line with expectations. Sales were up 48% during the quarter, compared with 2007, largely because of our acquisitions. Earnings from continuing operations more than doubled versus the third quarter of '07.

As we anticipated, Composite's margins were somewhat pressured during the third quarter due to downtimes associated with rebuilds and cost inflation that had not been offset by higher selling prices. Within the quarter, we also saw the impact of weaker volumes in Europe. As a result, we are working hard to accelerate our synergy realizations.

Today, I am pleased to announce our intention to expand our capacity in Hangzhou, China to meet the growth needs of our customers in that region. To balance capacity in the region with our forecast for demand, we will rationalize other assets in Asia, including the closure of the plant that we acquired in Gunsan, Korea.

In the midst of the current global economic and credit turmoil, we do see signs of slowdown in demand for composites. We will scale our operations around the world to align with market demand. We will continue to invest capital in converting melters to our Advantex technology, resulting in improved performance, lower raw material costs, less energy use and better asset efficiency. And we will also invest in serving our customers, providing differentiated products and transforming markets such as wind energy and infrastructure through product innovation.

Now let's turn to our Building Materials Group, with particular focus on the strong results from our Roofing and Asphalt segment. Last quarter, I had the pleasure to congratulate our Roofing and Asphalt team for their focus, hard work and achievement. I said that they were doing the right things, from productivity to price innovation. They had executed a strong turnaround in results. That momentum continued in the third quarter, with an absolutely exceptional quarter from this team.

For the quarter, roofing produced \$95 million of earnings from continuing operations versus the prior year of \$15 million. Year-to-date earnings from continuing operations are \$115 million compared with \$36 million during the same period in '07. Half of these EBIT improvements for the first nine months of the year are due to productivity gains and asset rationalizations, which have positively impacted our cost base and should continue to do so. We have also seen an improving price environment. Year to date, we have now recovered our commodity cost inflation versus last year.

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Our Insulation business continues to face an increasingly difficult housing market in the US. In September, the seasonally adjusted rates for housing starts was 817,000 units. The actual starts in September were the lowest September since the Census Bureau started tracking data in 1959.

For the quarter, Insulation sales were down 11% compared with the third quarter of 2007. EBIT declined to breakeven compared with \$42 million of profit in the third quarter of 2007. Insulation volumes were down and prices on residential products continued to be under pressure in the third quarter. During the quarter, we continued to work hard to stabilize our pricing and we did achieve some successes. We also experienced some relief from the rapid cost inflation that we had been seeing.

Our Insulation sales in the commercial and industrial sector continued to hold up, as we have a good mix of products well-positioned in a number of non-housing related markets. We have launched our fall re-insulation campaign. While it is far too early to declare success, we have seen some positive early indications from both our customers and homeowners.

The Other Building Materials and Services segment reported a loss from continuing operations of \$3 million. This segment is hindered by increasing weakness in the new construction and remodel markets in the US. In addition, tightening consumer credit that limits access to loans for remodeling projects hurts this business.

Owens Corning is benefiting from a strong brand and leading market positions. We have a strong and stable capital structure that provides sufficient liquidity. We have no significant debt maturities that come due until the end of 2011. Obviously, we are in a rapidly changing environment. As we plan for 2009, our Building Materials businesses face continued uncertainty in the housing market in North America. Our Global Composites business confronts economic weakness that will assuredly impact demand.

We believe that we have responded well to the challenges since the housing downturn began more than two years ago. You should expect that we will continue to manage our capacity and our costs to produce near-term results, while continuing to build the foundations for medium- and long-term growth. The fundamental drivers of demand that underpin our key markets all point to sustained long-term growth.

Critical to our plan is the ability to continue to build our leadership team. I was pleased to announce in September that Karel Czanderna has joined the Owens Corning as Group President of our Building Materials Group. In this capacity, Karel will continue to sharpen our focus on customers and provide day-to-day leadership in this great business. This move will allow us to begin to streamline our operations to support our two business groups, Building Materials and Composites.

Before we turn to Q&A, I will turn it to Duncan to review the third-quarter performance and other financial items of interest. Duncan?

Duncan Palmer - Owens Corning - CFO

Thanks, Mike. Good morning, everybody. Let's start on slide 5, where we detail key financial figures for the third quarter of 2008. You will find more detailed financial information in the tables of today's news release on the Form 10-Q.

Today, we reported third-quarter 2008 consolidated net sales of \$1.6 billion, a 28% increase compared to 2007. This growth was driven by two of our business segments. Owens Corning's Roofing and Asphalt segment delivered record sales during the quarter as a result of higher selling prices, higher volumes and improved product mix. Composite sales increased during the quarter, largely because of the Company's fourth-quarter 2007 acquisition.

As a reminder, when we look at period-over-period comparability, our primary measure is adjusted earnings before interest and tax, adjusted EBIT. Given the market environment, we are really proud of the fact that we have been able to grow our third quarter year-over-year adjusted EBIT from \$102 million in 2007 to \$111 million in 2008, and that our year-to-date adjusted EBIT

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has sustained its \$242 million, just below the \$253 million we made in the comparable period in 2007. Results for the quarter demonstrate the strength of our business portfolio and our ability to execute in the midst of weakness in the global economy.

In a moment, I'll review our reconciliation of items affecting comparability to get to adjusted EBIT. These items totaled \$13 million in the third quarter of 2008, compared to \$19 million during the same period in 2007. Adjusted earnings for the third quarter of 2008 were \$94 million, or \$0.72 per diluted share, compared to \$56 million, or \$0.42 per diluted share, in 2007.

In the third quarter, marketing and administrative expenses increased by \$49 million. The increase was attributable to operating the acquired Composites business in 2008, increased transaction and integration costs related to the acquisition, and increased performance-based compensation expense.

Depreciation and amortization totaled \$84 million for the third quarter. We currently estimate our depreciation and amortization will total approximately \$315 million in 2008. Our capital expenditures totaled \$102 million in the third quarter, excluding purchases of precious metal. Net debt was approximately \$2 billion at the end of the quarter, in line with our expectations.

In the third quarter of 2008, we recorded a non-cash charge of \$899 million related to income taxes. Because of this charge, the Company incurred a net loss from continuing operations of \$810 million, or \$6.36 per share, in the third quarter. Later in this presentation, I will discuss this non-cash charge in further detail.

Moving to slide 6, you can see the detail associated with the reconciliation of our third-quarter 2008 adjusted EBIT of \$111 million to reported EBIT of \$98 million. We provide this is a better measure of our current operating results.

As part of capturing the value from integrating our Composites acquisition, we have an ongoing program to improve our efficient use of precious metals as production tooling. This program is significantly ahead of schedule. In the third quarter, we continued to sell precious metal, freed up from our combined operations. Proceeds from these sales were used to purchase other precious metals, which enabled us to retire some of our lease portfolio. Since this program's inception, we have reduced our lease costs from over \$2 million a month at the time of the acquisition in 2007 to \$1 million in the full third quarter of 2008.

During the quarter, we sold precious metal resulting in a net gain of \$26 million, which we exclude from adjusted EBIT. Other charges of \$10 million were recorded during the quarter, which are also excluded from adjusted EBIT.

We are executing the integration of the Composites acquisition, and we are significantly ahead of schedule in achieving acquisition-related synergies. Today, we estimate that these synergies will reach at least \$50 million in 2008 compared with our prior estimate of \$30 million. We incurred \$20 million of integration and transaction costs in the third quarter associated with achieving these savings.

Next, as you have seen in prior quarters, we adjusted for the non-cash amortization of costs associated with the employee emergence equity program, a total of \$6 million. These shares, which have a three-year vesting schedule and which will be amortized in the P&L until October 2009, were awarded to employees at the time of our emergence from Chapter 11 in 2006.

We have also included a \$2 million adjustment associated with the ongoing completion of our \$100 million cost reduction program announced last year to drive 2008 results.

As a reminder, we view the cost of leasing precious metals used in production tooling to be a financing cost. As a result, adjusted EBIT excludes the \$1 million expense incurred in the third quarter. This expense is included, however, in our calculation of adjusted earnings per share.

Now, if you move to slide 7, you will see an illustration of adjusted EBIT performance comparing third-quarter 2008 with second-quarter 2008 results, based on business segment contribution. We illustrate this to show how our business segments have evolved over the year.

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The \$34 million adjusted EBIT improvement from the second quarter of 2008 to the third was the result of outstanding performance in our Roofing and Asphalt segment. This improvement was partially offset by the anticipated decline in our Composites segment and increased marketing costs in our Insulation segment, focused on growing our business in areas such as re-insulation.

With that as background, turn to slide 8 and we will begin a more detailed review of our business segments, starting with Composites. Third-quarter year-over-year net sales in Composites were up over 48%. Sales growth was largely due to the acquisition net of the divestiture.

Third-quarter EBIT was \$54 million compared to \$26 million in the third quarter of 2007, up 108%. EBIT as a percent of sales was 9.2% compared to 6.5% in third quarter 2007. The third-quarter EBIT margin improvement over 2007 is a result of the great progress achieved in successfully combining the two businesses and in accelerating the synergies. We have begun to see some market weakness in Composites in the third-quarter, especially in Europe. We are therefore comfortable with our guidance that Composites will approach full-year double-digit EBIT margins in 2008.

Next, on to slide 9, our Insulating Systems business. Our Insulating is clearly feeling the impact of the continued decline in housing starts. Net sales in this segment were \$412 million in the third quarter of 2008, down 11% compared to the third quarter in 2007. Substantially all of this decline was due to a reduction in sales volume.

EBIT for the third quarter of 2008 was breakeven compared with \$42 million in 2007. We continue to expect that the business will be profitable for the full year 2008, and we have maintained a profitable business despite nine consecutive quarters of progressively weaker demand, declining prices, and mounting inflationary pressures. This is a great business in a well-structured industry. Owens Corning's pink fiberglass insulation is a powerful and enduring brand. We are the clear market leader, well-positioned to return to historical levels of performance when the housing market bottoms and improves, as we know it will.

Next, slide 10 provides an overview of our Roofing and Asphalt business. Record third-quarter 2008 sales reached \$616 million, an increase of 63% from the same period in 2007. This increase was primarily the result of selling price increases that were driven by a doubling of asphalt costs, a core ingredient in roofing shingles, as well as improved sales volumes. An improved product mix, driven by our Duration Series shingle and our roofing accessory products, also lifted sales.

In the third quarter 2008, our Roofing and Asphalt segment EBIT was \$95 million, a fivefold improvement over the third quarter of 2007. EBIT for the first nine months of 2008 was \$115 million, a \$79 million increase over the comparable period in 2007.

We have created a sustainable improvement in our Roofing and Asphalt business in 2008. Approximately one half of the EBIT improvement in the first nine months of the year was the result of gains in productivity, and approximately a third was the result of improved product mix and higher sales volumes. Higher prices in excess of cost inflation accounted for less than 20% of the increase, and were mainly achieved in the third quarter.

Next, Other Building Materials and Services, on slide 11. This segment is comprised of our Masonry Products business and our Construction Services business. Third-quarter 2008 sales of \$67 million were down 14% compared with 2007, primarily due to declines in our Masonry Products business resulting from continued weakness in new construction and repair and remodeling.

The decline in product volumes and increased idle facility costs in Masonry Products resulted in a third-quarter loss in the overall segment of \$3 million, which was an improvement over the second-quarter loss of \$5 million.

Next, moving to slide 12, we have a few additional items to cover before turning to our Q&A. We repurchased 1.9 million shares at an average price of \$22.23 per share in the third quarter. During the first three quarters of 2008, the Company has repurchased 2.9 million shares at an average price of \$22.70 per share. After third-quarter purchases, we have 3.6 million shares remaining under the previously announced share buyback program.

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As you will see on slide 13, we recorded a non-cash charge of \$899 million in the third quarter to establish an accounting valuation allowance in accordance with FAS 109 Accounting for Income Taxes. The valuation allowance was required based upon the Company's US losses before income taxes in 2007, so far in 2008 and our current estimates of near-term US results during the continuing US housing downturn. The charge to record the valuation allowance is a non-cash charge and will have no impact on Owens Corning's cash flow, liquidity or credit facilities.

This accounting valuation allowance is necessary under US guidelines to adjust the value of our US deferred tax assets, based upon our outlook for near-term future fiscal periods. This charge will have no impact on the Company's ability to use its \$3 billion US net operating loss carryforward to offset future profits. We believe that we will have sufficient US profitability during the tax loss carryforward period to realize substantially all of the economic value of the net operating losses before they expire. We will periodically review the accounting valuation and will reverse the charge partially or totally when and if appropriate under FAS 109.

As a result of the valuation allowance, the effective book tax rate in the future on our total global reported earnings will vary significantly, as the effective rate on the US portion of earnings before income taxes will be zero, unless and until the valuation allowance is reversed. The effective tax rate in our non-US operations will be less than 25%. Therefore, to better understand our adjusted earnings and earnings per diluted share, we believe it may be more beneficial to use a more normalized effective tax rate.

Now, to slide 14. Our capital expenditures could be somewhat higher than the \$350 million prior guidance for the full year, excluding precious metals. The increased capital will accelerate growth and synergies in the Composites business, as well as allowing us to fund energy reduction programs in all operations. Energy represents about 10% of our cost of sales. We have reduced the energy intensity of our operations by almost 20% since 2002, and will continue this initiative as part of our 10-year goal to reduce the energy intensity of our operations by 25% by 2012.

Given the economic and financial challenges in the global market, we continue to be comfortable with the strength of our balance sheet. We estimate year-end net debt will be at the about the same level as last year's level.

Our liquidity position remains strong, with \$76 million of cash in hand and \$754 million of unused committed credit lines available at the end of the third quarter. We have access to ample funds for our investment plans and corporate financing requirements.

With that, Scott, back to you for Q&A.

Scott Deitz - Owens Corning - VP-IR & Corporate Communications

And Erica, I will turn it over to you, and you can get folks lined up in the queue, and we will be ready to begin when you are.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jack Kasprzak, BB&T Capital Markets.

Jack Kasprzak - BB&T Capital Markets - Analyst

Thanks. Good morning, everyone. I wanted to ask about the Roofing segment first. How should we think about the margins going forward? Obviously, very good quarter there, great trends, storm-related demand that you pointed out. With the price

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increases in place, is there any reason to think that you can't continue to generate those sorts of margins, the margins we saw in the third quarter, I mean?

Mike Thaman - Owens Corning - Chairman, CEO

Jack, this is Mike. You know, the Roofing business, obviously, over the last eight quarters has been relatively volatile. So we've seen some periods of strength in the business, and then we have seen obviously some periods of weakness from a margin point of view. We were really happy to see the different components of the business line up in the third quarter, I think first and foremost, our ability to drive costs out of the business, which we do believe is an integral part of the margin improvement.

Some of the volume we saw in the third quarter did relate to some spring storms and some years, that volume is out there in the market and some years that volume isn't. So I think that's probably going to be more variable from year to year.

And then we did see, on our side, good commercial discipline. We challenged our team to go out and get asphalt costs recovered in the price of our shingles. It took us three quarters to do that. We didn't get it in the first quarter. We were just getting there in the second. Now, we've finally caught up in the third. We've always said we see no reason why, as a good manufacturer with a good value proposition, we shouldn't be able to do that with our customers and they shouldn't be able to do that with the contractor and the homeowners. We continue to work on that.

I think from quarter to quarter, you may see some timing differences between the cost of asphalt and the price of our shingles. But we've always said we thought high single-digit operating margins for Roofing were both a good goal and attainable.

Jack Kasprzak - BB&T Capital Markets - Analyst

Okay, great. And second question is on CapEx. I guess you modestly raised the CapEx for '08. What about -- any sort of trend you could give us for '09 -- similar, down? And what would you consider a maintenance level of CapEx to be?

Mike Thaman - Owens Corning - Chairman, CEO

Yes, we gave -- we released some capital out to the businesses, probably a couple months ago, when we saw that the '08 numbers were coming in a little stronger than we had expected coming into the year. We generally try to enter the year cautiously, and then if we see the opportunity to fund some projects, we will go and do that.

I think in Duncan's comments, in particular, the two places we have been willing to put more capital to the business has been accelerating synergies in the OCV integration, as well as energy reduction projects, which pay in the near term and we think pay a lot in the long term. So we continued to move in that direction.

We have said historically that we think maintenance capital is around the 80% level of depreciation; our depreciation this year will be about \$320 million. So we would think that to maintain our productive capacity, safety, environmental, keep our cost position acceptable, that is probably around where capital needs to be put into the business. But we would also expect, based on the sustained profitability of our business, that you should expect us to not be looking to invest maintenance capital next year, but to put capital into our business to create shareholder value.

Jack Kasprzak - BB&T Capital Markets - Analyst

Okay, great. Thank you.

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Michael Rehaut, JPMorgan.

Michael Rehaut - JPMorgan - Analyst

Hi. Good morning, everyone. First question, I guess, just to try and understand Roofing and Asphalt and appreciate that your prior remarks that it is kind of a volatile segment. But, on the revenue side, I was wondering if you could give us any type of breakdown in terms of price, mix and volume, and what, perhaps, you felt, if any, was kind of a contribution from some of the storms earlier this summer.

Mike Thaman - Owens Corning - Chairman, CEO

Sure. Maybe I will let Duncan chip in with some additional guidance. You know, the biggest driver of the revenue growth -- you know, we said that in the quarter, revenue growth was up kind of over 60% -- was really recapture of asphalt costs. So we saw asphalt costs in the third quarter this year probably at double what they were in this quarter 2007. That is our single biggest line item in cost of goods, so when that doubles, obviously, if you go out to the marketplace and you recover it, that is going to be a big win for you. Then it is going to drive top line.

When we look at the breakdown between volume, I know in our public disclosure and our Q, we said that about a third of the improvement on the EBIT line year over year was related to volume and mix. I don't know if we are prepared to go further beyond that in terms of breaking down the revenue line. Duncan, do you have anything there?

Duncan Palmer - Owens Corning - CFO

Yes, actually, you would find it in the 10-Q. But just to give you the information, we said about three-fourths of the increase, both in the three months and the nine months ended September 30, compared to '07 was due to higher selling prices, driven by increases in raw material and delivery costs. So that is kind of the inflation-driven pricing that you talked about.

And then we talked about the remainder of the increases is due to both sales volumes, but also the improved mix that came from our Duration Series shingle and the roofing accessories that we talked about.

Michael Rehaut - JPMorgan - Analyst

Okay. So, I appreciate that, guys. And just extrapolating that forward, with the higher price recovery, are we to kind of look at that type of a revenue gain for 4Q '08 and 1H '09?

Mike Thaman - Owens Corning - Chairman, CEO

This is Mike again. I think it is difficult for us to give guidance or forecast on the revenue line, because revenue has been so significantly impacted by asphalt costs. We have seen oil prices come down, obviously, over the course of the last 60 days. That will start to pass through into the price of our asphalt, and if history is repeated, we would expect some of that begins to pass through then into the price of shingles. Although we would hope that that happens in a good, solid way, where we have discipline around our margin rates. I think that could affect the revenue line. So in effect, when you ask us to forecast that, you're asking us to forecast the oil prices, to a certain extent.

I think on the volume side, what I would say is even with some storms this year, the roofing industry in total is at or below 10-year average markets. So it is not an explosive growth kind of market; it is some growth in the spring coming off of a fairly weak

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market demand. So we would not look at this year's demand as being an extraordinary year, although we would say some of the spring storms helped give us a little bit of tailwind on demand that was helpful to our results.

Michael Rehaut - *JPMorgan - Analyst*

Okay, great. Thanks guys. One last technical one. The tax rate, US effective to be zero and non-US less than 25%. Is that something that you were pointed towards 4Q, or '09, or how are we to think about what to model in next quarter and for '09?

Duncan Palmer - *Owens Corning - CFO*

Yes, this is Duncan. In the past, we have kind of given guidance that from a book point of view, our effective tax rate in the US would be at or around 35%, and our book effective tax rate outside the US would be at or below 25%. Now, with the valuation allowance, and as long as the valuation allowance is in place, the US rate will be zero. But the foreign effective tax rate will be unaffected, so it would be 25% or less. And I think that would be certainly guidance for Q4, and I think that would extend into next year.

Michael Rehaut - *JPMorgan - Analyst*

Okay. So use it for '09 as well, then?

Duncan Palmer - *Owens Corning - CFO*

Yes. I mean, obviously what's going to happen over time is the blended rate will depend on how much we make outside the US versus inside the US, and whether the valuation allowance stays in place. So there are going to be some factors there. But -- that is why we try and break this guidance out as usefully as we can.

Michael Rehaut - *JPMorgan - Analyst*

Very good. Thank you.

Operator

Keith Hughes, SunTrust.

Keith Hughes - *SunTrust - Analyst*

Thank you. Within the Composites, you have broken out in the slide the component that is international. How much of that is Europe, the area where you are seeing the weakness you discussed earlier?

Mike Thaman - *Owens Corning - Chairman, CEO*

Well, certainly outside of North America, Keith, our second-biggest region would be Europe. We don't break out specifically our sales by region for Composites. I think in some of our geographic disclosure in our 10-Q, you would see geographic breakdown of all of Owens Corning, but that breakdown does include some Building Materials sales in Europe and some Building Materials sales in China or Asia. So we don't really have a specific disclosure on that.

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But I would tell you that in the International segment, once you get outside of the US and Canada, the single biggest area for us would be Western and Eastern Europe.

Keith Hughes - *SunTrust - Analyst*

Okay. And just in the production of Composites, what is the mix now between fixed and variable costs?

Mike Thaman - *Owens Corning - Chairman, CEO*

Well, we haven't disclosed on that in the past. So some of the things that we have said about that is that the single biggest drivers of costs for us are, on the asset side, for sure the PP&E and then also the cost of the metals used in the tooling. And those are two areas where we feel we have a very good position. We have a nice footprint around PP&E, and we've done, I think, outstanding work on reworking our precious metal pool and being able to meet our tooling needs, while retiring a lot of leases through the course of 2008.

When you get to the variable side, obviously, it is energy. And you heard in Duncan's comments some of the things we are doing to try to drive down our energy costs and our energy intensity. Certainly, our Advantex technology in Composites is leading the way on that, and that is one of the major synergies that we have in the Vetrotex integration, is to put our Advantex technology into their facilities.

Beyond energy, you do get into our batch materials and chemicals, which can be relatively expensive, depending on the product line or the geography. Often, they are driven by energy costs or somehow our oil derivatives or petrochemical derivatives. So we would expect to see some potential softening of the costs there, but that is typically on a pretty good-sized lag. And then you do have relatively significant fixed costs of the maintenance, upkeep and management of the infrastructure which it takes to make glass.

Keith Hughes - *SunTrust - Analyst*

Okay. And final question. You are building a new plant in China; looks like we are rationalizing one in Korea. Does that add net capacity or is that just putting in more efficient capacity?

Mike Thaman - *Owens Corning - Chairman, CEO*

It is really about getting the right capacity in the right place. So with the acquisition of the Vetrotex, we were able to get a couple footprints in China, one in the Beijing area, then one at Hangzhou. We are going to expand our capacity in Hangzhou.

We also ended up with two plants in Korea. And when we look at long-term growth, in effect, our long-term plan in Asia would have been to be manufacturing in Korea and exporting to China. We think it is a much better kind of blend of our footprint to take down the facility that we acquired in Gunsan and expand our capacity in Hangzhou.

Keith Hughes - *SunTrust - Analyst*

Okay, thank you.

Operator

Jim Barrett, C.L. King and Associates.

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Jim Barrett - *C.L. King & Associates - Analyst*

Good morning, everyone. Mike, could you talk about your expected synergies from Composites? To what extent was the \$50 million accelerated from 2009, 2010, as opposed to being additive?

Mike Thaman - *Owens Corning - Chairman, CEO*

Yes, it's a great question, Jim, and I appreciate you recognizing our performance around the synergies. You know, at this point, we have not disclosed anything about increasing our synergy goal above the \$100 million. I would characterize it at this point as an acceleration.

In our investor day, we kind of broke out the buckets where we saw the synergy realization, and we said that if it was \$100 million, it would be about 30% in operating expenses, about 20% in kind of supply chain and distribution, and about 50% in manufacturing and operations.

I think what we have seen is we are getting after all of those categories faster and probably with a little bit better execution than we had put into our external plans. And given our strength of that performance, we felt comfortable saying we think we will get to \$50 million just this year.

Jim Barrett - *C.L. King & Associates - Analyst*

Good. And then a related follow-up. To what extent is the \$100 million dependent upon some degree of global economic growth, as opposed to internal productivity improvements that you just sort of outlined?

Mike Thaman - *Owens Corning - Chairman, CEO*

You know, it was -- let me reflect on that for a second. I guess I hadn't thought about that a lot. I would say, Jim, probably not a lot.

Jim Barrett - *C.L. King & Associates - Analyst*

Okay.

Mike Thaman - *Owens Corning - Chairman, CEO*

You know, the supply-chain piece of it does involve some reconfiguration of assets. So if we went through a period here where we saw decidedly weaker demand than we had had in our internal plans, it may cause you to delay the rate at which you want to reconfigure assets, which could have gotten at that piece of the supply chain. But that is really the smallest slice of the synergies.

The operating expenses is an absolute dollar opportunity. A lot of the Advantex conversions and technology is an absolute dollar opportunity, because it's in existing facilities. So I would say, well less than 20% is probably volume sensitive, and the bulk of it is really absolute dollar driven. And I guess I would challenge the team, if that were the case, we would find other synergies to make it up. We are pretty resolute about the \$100 million goal.

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Jim Barrett - *C.L. King & Associates - Analyst*

Okay, thank you very much.

Operator

Dennis McGill, Zelman & Associates.

Dennis McGill - *Zelman & Associates - Analyst*

Good morning. Thanks for taking my call, guys. The first question, just staying on Composites, you mentioned slower volume growth in Europe. Can you maybe expand on that a little bit as far as end channel where you are seeing that and maybe even country, and then also elaborate on what you are seeing on domestic volumes here?

Mike Thaman - *Owens Corning - Chairman, CEO*

Yes, let me try to frame that. I think we provided some very good disclosure at our investor day on September 9. So any of the folks on the call who have not gone out to our website and looked at some of the presentations that we put together for investor day, I would encourage you to do that. And in particular, for Composites, we put together a slide that showed really where the end-use markets were and what we saw in terms of growth rate.

And some of the faster growing markets, like the industrial market, the power and energy markets, the water distribution markets and aerospace and defense, tend to be a little bit longer-cycle markets, where you need to make big investments. And then the decisions around those investments create two or three years' worth of demand for us.

So I would say in some of the faster-growth markets, those are also a bit of the longer-cycle markets, and that is probably not where we've seen the weakness. Some of the other big markets that are slower growth, like transportation, which would include automotive, obviously, housing, which would include sanitary fixtures and construction type products, and then consumer, which would have things like boats and personal watercrafts and leisure goods, those are probably the areas we are seeing slowing down faster today.

So it is the slower growth markets that appear to be correcting faster. They tend to be shorter cycle and closer to the consumer. And I think that would be true in Europe, and I think that is probably true with what we would expect to see here in North America, too.

Dennis McGill - *Zelman & Associates - Analyst*

Okay. And then as you -- obviously have pulled forward some of the cost benefits of the acquisition, but volumes are getting a bit weaker here and you are still holding your margin expectation, similar, obviously the volume is becoming more challenging. But if we think about next year and let's say we're in a modest global recession, but we are seeing slowing everywhere, can you still expand, in that scenario, volumes in this segment, given the acquisition and synergies and some of the end markets that you're in?

Mike Thaman - *Owens Corning - Chairman, CEO*

Well, Dennis, I guess our view would be that even with some of the more dire forecasts, generally, the expectation seems to be that we will see some amount of global economic growth next year. Now, I think it will probably feel a bit like a global recession, given that we have seen good global growth. But the strong growth that we've seen in some of the developing countries like

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China, India, even Brazil, where we have a relatively strong position, we expect that to slow down. We don't necessarily expect that to go negative.

So when we look at next year, we would expect there is enough growth out there in the development parts of the world that Composites demand in aggregate should be relatively steady. I don't think we are prepared yet to give a point of view whether we think it will be modestly up or modestly down, but we don't really envision a collapse in Composites demand.

So as a result of that, we feel pretty good that we've got a lot of levers to pull to keep trying to make progress against margins. There are two things that go into margins, though. One is volume and then the other is the price-cost relationship. And what we have not seen yet but we are watching very carefully is to make sure that our price and our cost position is positive around producing positive margin growth.

Dennis McGill - *Zelman & Associates - Analyst*

Okay, that's helpful. And then just one last question. Switching gears, on the share repurchases, can you just talk about how you guys think about it internally when you're making a decision of allocating cash to repurchases. I know you haven't been huge repurchasers in the past, so obviously something has changed in the near term between your capital allocation decision. And just like a little clarity around how you guys are thinking about it and looking at the value of the stock here.

Duncan Palmer - *Owens Corning - CFO*

Yes, I mean -- it is Duncan -- I will take that. I mean, I think -- when you think about uses of free cash flow, we obviously are looking first of all to maintaining and growing investments profitably in our own business that we are looking at. Where we have line of sight to free cash flow, above and beyond what our investment requirements and line of sight we can see to those, then we think that buybacks as part of the overall treasury tool kit are a useful tool as a use of free cash flow, when we have line of sight to it and to support investor returns.

I think if you look back at when we first put the buyback program in place, which was during the first half of last year, we had seen line of sight to free cash flow, and then we were able to use that free cash flow for the acquisition of the Vetrotex business, which has turned out -- we think that is a very value-accretive investment for our shareholders, and therefore, we used our free cash flow for that rather than buybacks.

And this year, where we've seen results ticking up and seeing the ability to generate free cash flow, we both applied that to accelerating some CapEx, as we talked about, and also being able to use it to do some buybacks.

Dennis McGill - *Zelman & Associates - Analyst*

Okay. And just would you be willing to borrow to fund buybacks, or --?

Duncan Palmer - *Owens Corning - CFO*

What we have said is that we are comfortable with our overall level of debt, and that we have really seen, when we've had line of sight to free cash flow, that that has been one of the uses we have thought of as free cash flow.

Mike Thaman - *Owens Corning - Chairman, CEO*

And Dennis, we haven't historically.

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Dennis McGill - *Zelman & Associates - Analyst*

Okay. Thanks a lot, guys.

Operator

Garik Shmois, Longbow Research.

Garik Shmois - *Longbow Research - Analyst*

Hi, good morning. Thanks for taking my call. Just on Insulation, we haven't talked much about that this morning. Just wondering how you are viewing the risk to profitability next year. You hope to be profitable, you intend to be profitable this year. But with housing likely to be down again next year, just how you are viewing various levers that you could pull still to maintain performance in that segment.

Mike Thaman - *Owens Corning - Chairman, CEO*

Yes, it's a very good question. I mean, obviously, we know what the levers are. We've had the housing market drop from \$2.2 million at the peak to I guess \$800,000 last month. So we've seen 1.4 million units come out of the run rate of demand. And during that period of time, we have been able to keep the business profitable. I think Duncan alluded to the fact that we've now experienced nine consecutive quarters of year-over-year demand weakness, year-over-year pricing weakness and inflation.

So, we have the levers, we know what they are, and I would tell you we have pulled on them very hard for nine consecutive quarters. We still feel good about the business and comfortable with it. Obviously, we are getting closer to breakeven. We barely made money in the third. We have said we are confident we will make money for the year.

We have also said, I think in the past, and I would say it again today, there is some amount of correction in housing that we probably believe we could keep that business profitable, and then there is some amount of correction in housing where the business will potentially lose money.

But at the end of the day, the real issue is when do we get the recovery and how sharp is a recovery. And our view would be -- and I think this is a fairly widely held view -- that the deeper the correction in housing, both in terms of pricing and volume, probably the faster and the harder the recovery will come when it comes. And that is very good for the business.

So the quicker we get housing prices to an acceptable level that makes homeowners want to buy houses, and the quicker we blow through the inventories that are out there, that gets the market into equilibrium, the faster we will see demographic-led growth. And demographic-led growth would get this business back, we believe, to kind of 1.7 million housing starts on average, which really creates quite a bit of acceleration and improvement in the business.

So we don't see keeping the business profitable in all environments as kind of a be-all, end-all goal, although it is something that is a great place to draw a line internally and it's a place we are fighting very hard to stay profitable.

I will add one last point. I think if you look at the deleveraging of the earnings of the business from '06 to '07 and then the deleveraging in earnings from '07 to '08, the year-over-year decline in housing is about the same from '06 to '07 and '07 to '08. We are pretty proud of the fact that we have really flattened the curve of the deleveraging of profitability here in '08.

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Garik Shmois - *Longbow Research - Analyst*

Thanks for the detail. And just, my last question is, can you just update your view for housing starts next year, how you are thinking about home construction in 2009?

Mike Thaman - *Owens Corning - Chairman, CEO*

Yes, at this point, we have not given any view for '09. You know, we are certainly watching very carefully and we think the next three or four months, hopefully we'll get some visibility to where the market is going to go forward on its path, and I think you should expect us to talk about that a bit on our fourth-quarter call, which will be, I believe, in early February.

Garik Shmois - *Longbow Research - Analyst*

Okay. Thanks a lot. Good luck.

Operator

Mary Gilbert, Imperial Capital.

Mary Gilbert - *Imperial Capital - Analyst*

Good morning. I kind of just wanted to go through what we are looking at with each one of the business segments. So with Composites, we are seeing some weakness in some of the slower growth areas, so that overall you are hoping that business will be flat to roughly -- to slightly positive next year, and then hopefully the profitability will be higher because of the synergies. Is that sort of fair to say in kind of characterizing the outlook for '09?

Mike Thaman - *Owens Corning - Chairman, CEO*

I mean, I think you have the directions on our comments. I think it is a fair summary of kind of directionally what we've said about each of the major drivers of the business.

Mary Gilbert - *Imperial Capital - Analyst*

Okay, so now looking at Insulation for next year, and we have an idea what is going on in the housing side. But what about commercial/industrial? Could that put further pressure on the business in '09, and obviously make the goal of being able to maintain profitability or breakeven possibly more challenging? So that could be a business really coming under pressure.

Mike Thaman - *Owens Corning - Chairman, CEO*

I mean, it could. I don't think anybody is saying that we are going to see the kind of correction in commercial that we've seen in residential. But I think historically, commercial has followed residential.

We have a somewhat unique mix of commercial businesses, so we tend to call our segment Commercial and Industrial. So some of the places where we would play on the industrial side would be related to energy efficiency and insulating pipes and other things that may or may not be impacted by a slower overall economy and also slower commercial construction. And then some of it is more classical commercial type construction, so --

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Mary Gilbert - *Imperial Capital - Analyst*

What percent represents the industrial piece of the commercial/industrial? Is it a bigger piece that represents that?

Mike Thaman - *Owens Corning - Chairman, CEO*

Yes, well we said -- and I think it's on slide 9 of the presentation that we used today -- is that about 27% of the overall revenue in the Insulation business is in commercial and industrial in the US and Canada.

Mary Gilbert - *Imperial Capital - Analyst*

Right. So what piece is the industrial piece of that segment -- of the C&I together?

Mike Thaman - *Owens Corning - Chairman, CEO*

We don't break it out that finely, Mary.

Mary Gilbert - *Imperial Capital - Analyst*

Okay. Then on the Roofing and Asphalt side, my impression there is that the biggest benefit, of course, was what you have been reiterating all through this call, is on the pricing. And so that we should have the benefit of that -- well, I guess a couple questions.

If we start to see asphalt pricing come down, then will we also see -- you will have to reduce your prices as well. But is that something where you are able to retain some of the increase? Do you see what I'm saying? That it is not a direct correlation on the way down. How is that relationship?

And then there should be a benefit in the first half, offset in part by the volume, as we work -- sort of get beyond the storm-related demand. Is that fair to say?

Mike Thaman - *Owens Corning - Chairman, CEO*

Well, let me first speak to your opening comment. The biggest benefit, clearly, has been the productivity and asset rationalization [work]. So half of the improvement year-over-year is attributable to cost drivers that are really focused execution work by our team. So as you reconcile the year-to-date results and you see really a dramatic improvement in the business, half of that improvement are things that we have been hard at work on, some of which took multiple years. So we knew we would get eventually some of those benefits into the market and we would get them through to our P&L, and I think you see that in the third quarter.

The reason you see it in the third quarter is, we were finally able to get pricing to catch up with inflation, so the inflation had been masking some of the progress we have been making in the underlying business. And now that our pricing has caught up with the inflation, we are seeing the productivity come through to the bottom.

Candidly, we don't see any reason why pricing shouldn't continue to track inflation. Now having said that, if we see a lot of deflation, you would expect to see some amount of pricing track deflation, too. So this is an area where we need to have great commercial execution. I think our commercial execution over the course of the last three quarters to get to where we are today has been good.

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And if you think about the economics of the business, manufacturers and distributors alike aren't really looking to devalue inventories just because of deflation. So we would not be looking to move aggressively to do that, but through time, it is a competitive market. I think you would expect to see some price go back into the market as raw materials come back down.

Mary Gilbert - *Imperial Capital - Analyst*

Okay. So is it fair to say, in summary, that -- because everyone obviously is focused on '09 -- we're in a very tough economic climate, and globally we are feeling that impact -- that we could see flat to modestly improving profitability on the consolidated business?

Mike Thaman - *Owens Corning - Chairman, CEO*

For all of Owens Corning in total?

Mary Gilbert - *Imperial Capital - Analyst*

Yes.

Mike Thaman - *Owens Corning - Chairman, CEO*

Yes, we have not given any guidance at this point related to '09.

Mary Gilbert - *Imperial Capital - Analyst*

Right, I understand that, but I just wondered kind of talking about sort of the lay of the land and how we are looking at '09, if that seemed like a fair thought.

Mike Thaman - *Owens Corning - Chairman, CEO*

Yes, I mean I would stick to my prior answer, Mary. I think at this point it is premature for us to make a call on '09. You know, we are sorting out where we think end-use markets will be. We are working hard to make sure that we get our internal plans aligned with where we think the business will be. And we will stand prepared to talk about that on February 18 when we do our fourth-quarter earnings call.

Mary Gilbert - *Imperial Capital - Analyst*

Okay, one last question. On the metal lease obligations that you have, where do you stand with regard to that? How many -- in other words, how many more of those leased metals do you have? And when will you sort of be out of it? Because you're purchasing new metals as you are selling some of the other metals.

Duncan Palmer - *Owens Corning - CFO*

Yes, I mean, I think what we've disclosed today is that our overall lease expense in the third quarter was about \$1 million. And that as of the time of the acquisition, that was running at over \$2 million per month. So if you think about that in terms of the overall reduction in lease expense, it's been a very dramatic one.

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We are clearly making great progress in terms of freeing up metal from our business and being able to use that to buy other metal to retire leases. So that has been a great opportunity for us, to work that portfolio down at significantly ahead of where we thought it would be, and we are looking to kind of extinguish that over the coming months and quarters.

I would say that -- I think it would be fair to say that we are well over half of the way through that lease portfolio at the moment.

Mary Gilbert - *Imperial Capital - Analyst*

Great. Thank you very much.

Scott Deitz - *Owens Corning - VP-IR & Corporate Communications*

Erica, I think we have time for one more question and then we will go to closing thoughts from Mike.

Operator

Keith Johnson, Morgan, Keegan.

Keith Johnson - *Morgan, Keegan - Analyst*

Good morning. Just I guess real quick, if I listen to what you guys have been kind of saying about some of the changes in the end markets and I compare them to maybe some of the calls that I've listened to to date, a lot of companies talked about substantial and quick changes in there end markets as they came through the third quarter, and kind of looking at where they are in October and going into the fourth quarter.

Are you guys -- would you characterize that pace of change in your global markets due to the credit crisis and kind of economic turmoil we are seeing?

Mike Thaman - *Owens Corning - Chairman, CEO*

Yes, Keith, thanks for the question. I think our view would probably be more reflective of the strength and breadth of our portfolio. There are some markets where we've seen maybe quicker changes than we anticipated, and I think an example of that would be the Composites business in Europe.

But our Composites business is global. And the Asian markets have continued to grow. Some of the markets that we have in places like India and Brazil have continued to be in pretty good shape. And here in North America, while we've seen some weakness in the market, we've also seen some change in the competitive dynamic with the shutdown of the Wichita Falls facility by Saint-Gobain, which we had talked about on our prior quarter.

So when you look about Composites, what you see is a strong global footprint, a lot of end-use markets for the portfolio, some of which may be reacting the way you heard other management teams talk on other calls, and then some of which have tended not to, at least in our view so far.

On the Building Materials side of the business, we haven't seen a sudden change in our Insulation business. We've seen a pretty long and sustained downward pressure on that business. And in fact, in our Roofing business, we have offset that with some real strength, which has come from our own performance, and then also some strength in the market that has come from some storm-related demand.

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So I think you have to take every portfolio kind of uniquely. And ours is a fairly unique portfolio and I think at least at this point in time, it is really showing remarkable resilience. I think growing earnings on an adjusted basis from the third quarter of last year to the third quarter of this year, at least from our point of view, is quite a marked accomplishment and we are pretty proud of it.

Keith Johnson - *Morgan, Keegan - Analyst*

Okay, thanks.

Operator

Okay. There are no further questions.

Scott Deitz - *Owens Corning - VP-IR & Corporate Communications*

Okay. Go ahead, Mike, if you've got a few wrap-up thoughts. And special thanks to everybody who joined us on the call. If there is somebody we didn't get to during the call, certainly feel free to give us a call later this afternoon and we will get to you. Thanks.

Mike Thaman - *Owens Corning - Chairman, CEO*

First, let me just thank everyone for joining us for the call and for your continued interest in our Company and our stock. Obviously, it's been a challenging month or quarter here in the financial markets. Sometimes it is nice to just talk about our business. This was a quarter we were excited to talk about our business.

We've talked about Roofing business as being an important part of our portfolio for a lot of quarters, and for a lot of those quarters, we had to explain kind of what happened this quarter and what was new and different about Roofing. I think that this quarter, in the third quarter of '08, what is new and different about Roofing is outstanding execution, good commercial leadership in the marketplace and strong profitability. And we think a lot of that is good, solid fundamentals of what we've been trying to do to our business, and we are excited about having that part of our portfolio really driving results for us.

We wouldn't want that to overshadow, though, the great progress we have made in Composites. You know, the Composites acquisition, which is coming up now on a year in about a week, or at the end of this week, a year ago this time we were announcing that we were acquiring Vetrotex. We saw a lot of opportunities in going out and getting that done. Most everything we've seen has been accomplished, and we've seen a lot of new things we can go get done. So we continue to feel comfortable with that being a great acquisition for our shareholders. We were really happy today to be able to reiterate our synergy savings and actually tell you that we are ahead of plan and that we will do \$50 million this year.

I think Duncan summarized our Insulation business very effectively and well. Despite nine quarters of continued pressure on demand, nine quarters of continued pressure on pricing and nine quarters of really cumulative inflation, that business, which is a great franchise in a great market, has continued to make money and it has hung in there. Our team there is working hard and fighting hard to allow us to be able to say that to our investors each quarter, and we stand ready to come back a quarter from now and tell you that it made money for the year, which was the goal that we set at the beginning.

And then finally, we are very happy with our capital structure. So we put a capital structure in place a couple years ago that allowed us to manage Owens Corning through turmoil. Maybe we didn't anticipate this kind of turmoil at the time we put it in place, but we sure are happy that we have it. We have very, very good position versus all of our financing, very good positions versus our liquidity. That gives us the flexibility to think about where are the places we can invest and create value for our shareholders.

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Obviously, the world is changing. I will leave you with what I said in my script, which is we believe we've reacted well over the course of the last two years to what has been a difficult housing market in terms of managing our capacity and managing our costs to be able to respond to market conditions. I think that the investors on the call should expect us to continue to do that in the coming quarters and years.

With that, I will sign off, and thank you again for your interest and participation with our Company.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Everyone have a great day.

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