Owens Corning
Form 10-Q
October 21, 2015
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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 September 30, 2015
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-33100
Owens Corning
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No þ
As of October 15, 2015, 116,585,687 shares of registrant's common stock, par value $0.01 per share, were outstanding.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
NET SALES	$1,461	$1,382	$4,082	$4,015
COST OF SALES	1,121	1,131	3,225	3,282
Gross margin	340	251	857	733
OPERATING EXPENSES				
Marketing and administrative expenses	130	110	389	372
Science and technology expenses	18	18	53	57
Charges related to cost reduction actions	(5)	19	(5)	31
Other expenses (income), net	1	(3)	10	(15)
Total operating expenses	144	144	447	445
EARNINGS BEFORE INTEREST AND TAXES	196	107	410	288
Interest expense, net	28	28	80	86
Gain on extinguishment of debt	—	—	(5)	—
EARNINGS BEFORE TAXES	168	79	335	202
Less: Income tax expense	55	27	112	9
Equity in net earnings of affiliates	—	—	1	1
NET EARNINGS	113	52	224	194
Less: Net earnings attributable to noncontrolling interests	1	—	3	1
NET EARNINGS ATTRIBUTABLE TO OWENS CORNING	$112	$52	$221	$193
EARNINGS PER COMMON SHARE ATTRIBUTABLE TO OWENS CORNING COMMON STOCKHOLDERS				
Basic	$0.96	$0.44	$1.88	$1.64
Diluted	$0.95	$0.44	$1.87	$1.63
Dividend	$0.17	$0.16	$0.51	$0.48
WEIGHTED AVERAGE COMMON SHARES				
Basic	117.2	117.4	117.5	117.5
Diluted	118.3	118.1	118.4	118.3

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
NET EARNINGS	$113	$52	$224	$194
Currency translation adjustment (net of tax of $(2) and $0 for the three months ended September 30, 2015 and 2014, respectively, and $(4), and $0 for the nine months ended September 30, 2015 and 2014, respectively)	(38)	(59)	(81)	(64)
Pension and other postretirement adjustment (net of tax of $(1) for the three months ended September 30, 2015 and 2014, and $(4), and $(3) for for the nine months ended September 30, 2015 and 2014, respectively)	6	4	12	6
Deferred gain (loss) on hedging (net of tax of $1 and $0 for the three months ended September 30, 2015 and 2014, respectively, and $(1), and $1 for the nine months ended September 30, 2015 and 2014, respectively)	(1)	—	2	(1)
COMPREHENSIVE EARNINGS	80	(3)	157	135
Less: Comprehensive earnings attributable to noncontrolling interests	1	—	3	1
COMPREHENSIVE EARNINGS ATTRIBUTABLE TO OWENS CORNING	$79	$(3)	$154	$134

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

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

ASSETS	September 30, 2015	December 31, 2014
CURRENT ASSETS		
Cash and cash equivalents	$62	$67
Receivables, less allowances of $9 at September 30, 2015 and $10 at December 31, 2014	861	674
Inventories	701	817
Assets held for sale	14	16
Other current assets	237	233
Total current assets	1,875	1,807
Property, plant and equipment, net	2,885	2,899
Goodwill	1,167	1,168
Intangible assets	1,004	1,017
Deferred income taxes	352	444
Other non-current assets	228	220
TOTAL ASSETS	$7,511	$7,555
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$963	$949
Short-term debt	18	31
Long-term debt – current portion	3	3
Total current liabilities	984	983
Long-term debt, net of current portion	1,979	1,991
Pension plan liability	375	447
Other employee benefits liability	243	252
Deferred income taxes	18	22
Other liabilities	138	130
OWENS CORNING STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.01 per share (a)	—	—
Common stock, par value $0.01 per share (b)	1	1
Additional paid in capital	3,959	3,954
Accumulated earnings	966	805
Accumulated other comprehensive deficit	(617)	(550)
Cost of common stock in treasury (c)	(574)	(518)
Total Owens Corning stockholders' equity	3,735	3,692
Noncontrolling interests	39	38
Total equity	3,774	3,730
TOTAL LIABILITIES AND EQUITY	$7,511	$7,555

(a) 10 shares authorized; none issued or outstanding at September 30, 2015, and December 31, 2014

(b) 400 shares authorized; 135.5 issued and 116.7 outstanding at September 30, 2015; 135.5 issued and 117.8 outstanding at December 31, 2014

(c) 18.8 shares at September 30, 2015, and 17.7 shares at December 31, 2014

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

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

	Nine Months Ended September 30, 2015	2014
NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES		
Net earnings	$224	$194
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	224	229
Gain on sale of fixed assets	(1)	(50)
Net loss on sale of European Stone business	—	20
Deferred income taxes	75	(4)
Provision for pension and other employee benefits liabilities	10	14
Stock-based compensation expense	22	21
Other non-cash	(6)	(28)
Gain on extinguishment of debt	(5)	—
Change in working capital	(102)	(257)
Pension fund contribution	(59)	(51)
Payments for other employee benefits liabilities	(16)	(16)
Other	18	(10)
Net cash flow provided by operating activities	384	62
NET CASH FLOW USED FOR INVESTING ACTIVITIES		
Additions to plant and equipment	(240)	(216)
Proceeds from the sale of assets or affiliates	3	65
Investment in subsidiaries and affiliates, net of cash acquired	—	(12)
Derivative settlement	—	1
Purchases of alloy	(8)	(25)
Proceeds from sale of alloy	8	25
Net cash flow used for investing activities	(237)	(162)
NET CASH FLOW (USED FOR) PROVIDED BY FINANCING ACTIVITIES		
Proceeds from senior revolving credit and receivables securitization facilities	1,079	1,068
Payments on senior revolving credit and receivables securitization facilities	(1,082)	(919)
Payments on long-term debt	(8)	(1)
Net increase (decrease) in short-term debt	(10)	21
Cash dividends paid	(58)	(37)
Purchases of treasury stock	(86)	(44)
Other	18	7
Net cash flow (used for) provided by financing activities	(147)	95
Effect of exchange rate changes on cash	(5)	(1)
Net decrease in cash and cash equivalents	(5)	(6)
Cash and cash equivalents at beginning of period	67	57
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$62	$51

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

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

1. GENERAL

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

The Consolidated Financial Statements included in this report are unaudited, pursuant to certain rules and regulations of the Securities and Exchange Commission, and include, in the opinion of the Company, normal recurring adjustments necessary for a fair statement of the results for the periods indicated, which, however, are not necessarily indicative of results which may be expected for the full year. The December 31, 2014, balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States (U.S.). In connection with the Consolidated Financial Statements and Notes included in this report, reference is made to the Consolidated Financial Statements and Notes contained in the Company’s 2014 annual report on Form 10-K. Certain reclassifications have been made to the periods presented for 2014 to conform to the classifications used in the periods presented for 2015.

In the three and nine months ended September 30, 2015, the Company recorded additional income tax expense of $4 million and $8 million, respectively, related to prior periods. The effects of these charges were not material to the current or any previously issued financial statements.

2. SEGMENT INFORMATION

In the fourth quarter of 2014, Owens Corning announced organizational changes to streamline the Company's management structure and reduce costs. As a result of this action, the Building Materials Group organizational structure was eliminated. The Company's management structure now has three reportable segments: Composites, Insulation and Roofing. As a result, the 2014 segment information in this Note has been presented to reflect the new structure. Accounting policies for the segments are the same as those for the Company. The Company’s reportable segments are defined as follows:

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

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

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

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

2. SEGMENT INFORMATION (continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Reportable Segments				
Composites	$500	$489	$1,486	$1,471
Insulation	502	454	1,332	1,256
Roofing	502	474	1,398	1,408
Total reportable segments	1,504	1,417	4,216	4,135
Corporate eliminations	(43)	(35)	(134)	(120)
NET SALES	$1,461	$1,382	$4,082	$4,015
External Customer Sales by Geographic Region				
United States	$1,029	$938	$2,825	$2,726
Europe	128	142	393	451
Asia Pacific	178	168	492	474
Other	126	134	372	364
NET SALES	$1,461	$1,382	$4,082	$4,015

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

2. SEGMENT INFORMATION (continued)

EARNINGS BEFORE INTEREST AND TAXES

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Reportable Segments				
Composites	$61	$32	$188	$96
Insulation	58	43	90	62
Roofing	103	58	213	200
Total reportable segments	222	133	491	358
Charges related to cost reduction actions and related items	(2)	(21)	(4)	(33)
Net loss on sale of European Stone business	—	(1)	—	(20)
Impairment loss on Alcala, Spain facility held for sale	—	(3)	—	(3)
Gain on sale of Hangzhou, China facility	—	—	—	45
Net loss related to Hurricane Sandy	—	—	—	(6)
General corporate expense and other	(24)	(1)	(77)	(53)
EBIT	$196	$107	$410	$288

3. INVENTORIES

Inventories consist of the following (in millions):

	September 30, 2015	December 31, 2014
Finished goods	$477	$568
Materials and supplies	224	249
Total inventories	$701	$817

4. DERIVATIVE FINANCIAL INSTRUMENTS

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

The Company generally does not require collateral or other security with counterparties to these financial instruments and is therefore subject to credit risk in the event of nonperformance; however, the Company monitors credit risk and currently does not anticipate nonperformance by other parties. Contracts with counterparties generally contain right of offset provisions. These provisions effectively reduce the Company's exposure to credit risk in situations where the Company has gain and loss positions outstanding with a single counterparty. It is the Company's policy to offset on the Consolidated Balance Sheets the amounts recognized for derivative instruments with any cash collateral arising from derivative instruments executed with the same counterparty under a master netting agreement. As of September 30, 2015, and December 31, 2014, the Company did not have any amounts on deposit with any of its counterparties, nor did any of its counterparties have any amounts on deposit with the Company.

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

	Location	Fair Value at September 30, 2015	December 31, 2014
Derivative assets designated as hedging instruments:			
Net investment hedges:			
Cross currency swaps	Other current assets	$5	$—
Cross currency swaps	Other non current assets	$3	$—
Amount of gain recognized in OCI (effective portion)	OCI	$9	$—
Fair value hedges:			
Interest rate swaps	Other current assets	$1	$—
Interest rate swaps	Other non current assets	$5	$—
Derivative liabilities designated as hedging instruments:			
Cash flow hedges:			
Natural gas and electricity, and foreign exchange contracts	Accounts payable and accrued liabilities	$4	$9
Amount of loss recognized in OCI (effective portion)	OCI	$6	$8
Fair value hedges:			
Interest rate swaps	Other liabilities	$—	$(3)
Derivative assets not designated as hedging instruments:			
Foreign exchange contracts	Other current assets	$1	$1
Derivative liabilities not designated as hedging instruments:			
Foreign exchange contracts	Accounts payable and accrued liabilities	$1	$2

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4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	Location	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Derivative activity designated as hedging instruments:					
Natural gas and electricity:					
Amount of loss reclassified from OCI into earnings (effective portion)	Cost of sales	$2	$1	$8	$—
Interest rate swaps:					
Amount of (gain) loss recognized in earnings	Interest expense, net	$—	$(1)	$—	$—
Derivative activity not designated as hedging instruments:					
Natural gas and electricity:					
Amount of (gain) recognized in earnings	Other expenses (income), net	$—	$(5)	$(1)	$(5)
Foreign currency exchange contract:					
Amount of (gain) loss recognized in earnings (a)	Other expenses (income), net	$(3)	$—	$(3)	$1

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

Cash Flow Hedges

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

The Company currently has natural gas derivatives designated as hedging instruments that mature within 15 months. The Company’s policy for natural gas exposures is to hedge up to 75% of its total forecasted exposures for the next two months, up to 60% of its total forecasted exposures for the following four months, and lesser amounts for the remaining periods. The Company's policy for electricity exposures is to hedge up to 75% of its total forecasted exposures for the current calendar year and up to 65% of its total forecasted exposures for the first calendar year forward. Based on market conditions, approved variation from the standard policy may occur. The Company performs an analysis for effectiveness of its derivatives designated as hedging instruments at the end of each quarter based on the terms of the contract and the underlying item being hedged.

As of September 30, 2015, $6 million of losses included in accumulated OCI on the Consolidated Balance Sheets relate to contracts that are expected to impact earnings during the next 12 months. Transactions and events that are expected to occur over the next 12 months that will necessitate recognizing these deferred amounts include the recognition of the hedged item through earnings.

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4. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Fair Value Hedges

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

Net Investment Hedges

During the first quarter of 2015, the Company entered into cross currency forward contracts to hedge a portion of the net investment in foreign subsidiaries against fluctuations in foreign exchange rates. For derivative instruments that are designated and qualify as hedges of net investments in foreign operations, settlements and changes in fair values of the derivative instruments are recognized in Currency translation adjustment, a component of Accumulated OCI, to offset the changes in the values of the net investments being hedged. Any portion of net investment hedges that is determined to be ineffective is recorded in Other expenses (income), net on the Consolidated Statements of Earnings.

Other Derivatives

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

5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

September 30, 2015	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	20	$172	$(80)	$92
Technology	21	193	(90)	103
Franchise and other agreements	13	43	(20)	23
Indefinite-lived intangible assets:				
Trademarks		786	—	786
Total intangible assets		$1,194	$(190)	$1,004
Goodwill		$1,167		

December 31, 2014	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:				
Customer relationships	19	$172	$(72)	$100
Technology	20	193	(83)	110
Franchise and other agreements	12	39	(18)	21
Indefinite-lived intangible assets:				
Trademarks		786	—	786
Total intangible assets		$1,190	$(173)	$1,017

Goodwill	$1,168

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5. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

The changes in the gross carrying amount of intangible assets by asset group are as follows (in millions):

	Customer relationships	Technology	Franchise and other agreements	Trademarks	Total
Balance at December 31, 2014	$172	$193	$39	$786	$1,190
Additional Franchises and Agreements	—	—	4	—	4
Balance at September 30, 2015	$172	$193	$43	$786	$1,194

Other Intangible Assets

The Company expects the ongoing amortization expense for amortizable intangible assets to be approximately $22 million in each of the next five fiscal years. The Company's future cash flows are not materially impacted by its ability to extend or renew agreements related to our amortizable intangible assets.

Goodwill

The Company tests goodwill and indefinite-lived intangible assets for impairment during the fourth quarter of each year, or more frequently should circumstances change or events occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount. No testing was deemed necessary in the first nine months of 2015.

6. PROPERTY, PLANT AND EQUIPMENT

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

	September 30, 2015	December 31, 2014
Land	$193	$196
Buildings and leasehold improvements	778	789
Machinery and equipment	3,435	3,405
Construction in progress	296	233
	4,702	4,623
Accumulated depreciation	(1,817)	(1,724)
Property, plant and equipment, net	$2,885	$2,899

Machinery and equipment includes certain precious metals used in our production tooling, which comprise approximately 16% and 15% of total machinery and equipment as of September 30, 2015, and December 31, 2014, respectively. Precious metals used in our production tooling are depleted as they are consumed during the production process, which typically represents an annual expense of less than 3% of the outstanding carrying value.

7. ASSETS HELD FOR SALE

Assets held for sale as of September 30, 2015 consists of Property, plant and equipment related to two closed production facilities in Alcala, Spain and Vado, Italy, and one assembly and warehousing facility held for sale in the United States.

8. WARRANTIES

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

	Nine Months Ended September 30, 2015
Beginning balance	$40
Amounts accrued for current year	13
Settlements of warranty claims	(11)
Ending balance	$42

9. COST REDUCTION ACTIONS

2014 Cost Reduction Actions

During 2014, the Company took actions to reduce costs throughout its global Composites network, mainly through the decision to close a facility in Japan and optimize a facility in Canada, in addition to other cost reduction actions. The Company also took actions in 2014 to streamline its management structure and reduce costs, resulting in the elimination of the Building Materials Group organizational structure. For the year-to-date 2015, the Company recorded $5 million of net gains in charges related to cost reduction actions, comprised of a $3 million gain from the revision of estimated total severance costs of these actions, $1 million in charges for a contract termination, and $3 million of net gains related to pension curtailment and settlement. For the year-to-date 2015, the Company also recorded $9 million of net charges in other items related to cost reduction actions, primarily comprised of facility closure costs in Japan.

The following table summarizes the status of the unpaid liabilities from the Company’s charges related to cost reduction actions (in millions):

	Balance at December 31, 2014	Costs Incurred	Payments	Foreign Currency Translation	Non-cash Items	Balance at September 30, 2015	Cumulative Charges Incurred
Severance	$31	$(3)	$17	$(1)	$—	$10	$33
Contract Termination	3	1	—	—	—	4	4
Pension Curtailment and Settlement	—	(3)	—	—	3	—	(3)
Total	$34	$(5)	$17	$(1)	$3	$14	$34

The Company expects the unpaid balance of these severance and contract termination charges to be paid over the next year.

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

10. DEBT

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

	September 30, 2015	December 31, 2014
6.50% senior notes, net of discount, due 2016	$158	$158
9.00% senior notes, net of discount, due 2019	143	143
4.20% senior notes, net of discount, due 2022	600	600
4.20% senior notes, net of discount, due 2024	393	392
7.00% senior notes, net of discount, due 2036	540	540
Accounts receivable securitization facility, maturing in 2018	102	106
Senior revolving credit facility, maturing in 2018	—	—
Various capital leases, due through and beyond 2050	37	47
Fair value adjustment to debt	9	8
Total long-term debt	1,982	1,994
Less – current portion	3	3
Long-term debt, net of current portion	$1,979	$1,991

Senior Notes

The Company issued $400 million of senior notes, due in 2024, on November 12, 2014 at 4.20%. The Company paid $4 million in loan costs in connection with the 2024 notes. These costs were deferred and are being amortized over the term of the 2024 notes. Interest on the notes is payable semiannually in arrears on June 1 and December 1 each year, beginning on June 1, 2015. The proceeds from these notes were used to repay $242 million of our 2016 senior notes, $105 million of our 2019 senior notes and to pay down our Senior Revolving Credit Facility.

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

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

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

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

The Company has the option to redeem all or part of the Senior Notes at any time at a “make whole” redemption price. The Company is subject to certain covenants in connection with the issuance of the Senior Notes that it believes are usual and customary. The Company was in compliance with these covenants as of September 30, 2015.

In the fourth quarter of 2011, the Company terminated the interest rate swaps designated to hedge a portion of the 6.50% senior notes due 2016. The swaps were carried at fair value and recorded as other assets or liabilities, with a fair value adjustment to long-term debt on the Consolidated Balance Sheets. The fair value adjustment to debt will be amortized through 2016 as a reduction to interest expense in conjunction with the maturity date of the notes.

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10. DEBT (continued)

On June 28, 2013, the Company entered into interest rate swap agreements effective July 1, 2013 to manage its interest rate exposure by swapping $100 million of fixed rate to variable rate exposure designated against our 4.20% senior notes due in 2022. The swaps are carried at fair value and recorded as other assets or liabilities, with a fair value adjustment to long-term debt on the Consolidated Balance Sheets.

Senior Revolving Credit Facility

In November 2013, the Company amended the credit agreement (the "Credit Agreement") for the $800 million multi-currency senior revolving credit facility (the "Senior Revolving Credit Facility") to extend the maturity to November 2018 and reduce the letters of credit sublimit to $100 million. The Senior Revolving Credit Facility includes both borrowings and letters of credit. Borrowings under the Senior Revolving Credit Facility may be used for general corporate purposes and working capital. The Company has the discretion to borrow under multiple options, which provide for varying terms and interest rates including the United States prime rate or LIBOR plus a spread.

The Senior Revolving Credit Facility contains various covenants, including a maximum allowed leverage ratio and a minimum required interest expense coverage ratio that the Company believes are usual and customary for a senior unsecured credit agreement. The Company was in compliance with these covenants as of September 30, 2015.

As of September 30, 2015, the Company had no borrowings on its Senior Revolving Credit Facility, $9 million of outstanding letters of credit, and $791 million available on this facility.

Receivables Securitization Facility

Included in long-term debt on the Consolidated Balance Sheets are amounts outstanding under a Receivables Purchase Agreement (the "RPA") that are accounted for as secured borrowings in accordance with Accounting Standards Codification ("ASC") 860, Accounting for Transfers and Servicing. Owens Corning Sales, LLC and Owens Corning Receivables LLC, each a subsidiary of the Company, have a $250 million RPA with certain financial institutions. The securitization facility was amended in November of 2013 to extend its maturity to July 2016 and to reduce the size of the facility to $200 million during the months of November, December, and January. The securitization facility was amended in January of 2015 to extend its maturity to January 2018 and remove the seasonal reduction of the facility restoring the full $250 million of facility capacity during the months of November, December, and January. As of September 30, 2015, the Company utilized its receivables securitization facility for $102 million in borrowings and $2 million of outstanding letters of credit, and had $146 million available on this facility. The Company has the ability to borrow at the lenders' cost of funds, which approximates A-1/P-1 commercial paper rates, plus a fixed spread.

The RPA contains various covenants, including a maximum allowed leverage ratio and a minimum required interest expense coverage ratio that the Company believes are usual and customary for a securitization facility. The Company was in compliance with these covenants as of September 30, 2015.

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

Capital Leases

In the second quarter of 2015 the Company purchased its World Headquarters facility which had previously been classified as a capital lease. As a result, the Company reduced its capital lease obligation by $10 million and recorded a $5 million gain on extinguishment of debt in the second quarter of 2015.

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10. DEBT (continued)

Short-Term Debt
At September 30, 2015 and December 31, 2014, short-term borrowings were $18 million and $31 million, respectively. The short-term borrowings for both periods consisted of various operating lines of credit and working capital facilities. Certain of these borrowings are collateralized by receivables, inventories or property. The borrowing facilities are typically for one-year renewable terms. The weighted average interest rate on all short-term borrowings was approximately 7% for September 30, 2015 and 7.2% for December 31, 2014.

11. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS
Pension Plans
The Company sponsors defined benefit pension plans. Under the plans, pension benefits are based on an employee's years of service and, for certain categories of employees, qualifying compensation. Company contributions to these pension plans are determined by an independent actuary to meet or exceed minimum funding requirements. In our Non-U.S. plans, the unrecognized cost of any retroactive amendments and actuarial gains and losses are amortized over the average future service period of plan participants expected to receive benefits. In our U.S. plans, the unrecognized cost of any retroactive amendments and actuarial gains and losses are amortized over the average remaining life expectancy of the inactive participants as substantially all of the plan participants are inactive.
The following tables provide information regarding pension expense recognized (in millions):

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	$2	$1	$3	$2	$2	$4
Interest cost	11	3	14	12	6	18
Expected return on plan assets	(15)	(5)	(20)	(14)	(7)	(21)
Amortization of actuarial loss	4	1	5	2	1	3
Settlement gain	—	(1)	(1)	—	—	—
Curtailment gain	—	(1)	(1)	—	—	—
Net periodic pension cost	$2	$(2)	$—	$2	$2	$4

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Components of Net Periodic Pension Cost						
Service cost	$6	$3	$9	$6	$4	$10
Interest cost	33	13	46	36	17	53
Expected return on plan assets	(44)	(18)	(62)	(43)	(20)	(63)
Amortization of actuarial loss	11	3	14	7	2	9
Settlement gain	—	(1)	(1)	—	—	—
Curtailment gain	—	(2)	(2)	—	—	—
Net periodic pension cost	$6	$(2)	$4	$6	$3	$9

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11. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (continued)

The Company expects to contribute approximately $48 million in cash to the United States Pension Plans and another $14 million to non-United States plans during 2015. The Company made cash contributions of approximately $59 million to the plans during the nine months ended September 30, 2015.

Postemployment and Postretirement Benefits Other than Pension Plans

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

The following table provides the components of net periodic benefit cost for aggregated United States and non-United States Plans for the periods indicated (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Components of Net Periodic Benefit Cost				
Service cost	$1	$1	$2	$2
Interest cost	3	3	7	8
Amortization of prior service cost	(1)	(1)	(3)	(3)
Amortization of actuarial gain	—	(1)	—	(2)
Net periodic benefit cost	$3	$2	$6	$5

12. CONTINGENT LIABILITIES AND OTHER MATTERS

The Company is involved in various legal proceedings relating to employment, product liability and other matters (collectively, "Proceedings"). The Company regularly reviews the status of such Proceedings with legal counsel. Liabilities for such Proceedings are recorded when it is probable that the liability has been incurred and when the amount of the liability can be reasonably estimated. Liabilities are adjusted when additional information becomes available. Management believes that the amount of any reasonably possible losses in excess of any amounts accrued, if any, with respect to such Proceedings or any other known claims, including the matters described below under the caption Environmental Matters (the "Environmental Matters") will not be material to the Company's financial statements. Management believes that the ultimate disposition of the Proceedings and the Environmental Matters will not have a material adverse effect on the Company's operations or financial condition taken as a whole.

Litigation

The Company is involved in litigation from time to time in the regular course of its business. The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses that are reasonably estimable. The Company does not believe that the ultimate outcome of these actions will have a material adverse effect on its financial condition, results of operations or cash flows.

Environmental Matters

The Company has been deemed by the United States Environmental Protection Agency to be a Potentially Responsible Party ("PRP") with respect to certain sites under the Comprehensive Environmental Response Compensation and Liability Act. The Company has also been deemed a PRP under similar state or local laws and in other instances other PRPs have brought suits against it as a PRP for contribution under such federal, state, or local laws. At September 30, 2015, the Company had environmental remediation liabilities as a PRP at 19 sites where it has a continuing legal obligation to either complete remedial actions or contribute to the completion of remedial actions as part of a group of PRPs. Environmental liability estimates may be affected by changing determinations of what constitutes an environmental exposure or an acceptable level of cleanup. To the extent that the required remediation procedures or timing of those procedures change, additional contamination is identified, or the financial condition of other PRPs is adversely affected, the estimate of our environmental liabilities may change. For these sites the Company estimates a reserve to reflect environmental liabilities that have been asserted or are probable of assertion, in which liabilities are probable and reasonably estimable. At September 30, 2015, our reserve for such liabilities was $2 million. Changes in required remediation procedures or timing of those procedures at existing legacy sites, or discovery of contamination at additional sites, could result in increases to our environmental obligations.

13. STOCK COMPENSATION

Stock Plans

On April 18, 2013, the Company’s stockholders approved the Owens Corning 2013 Stock Plan (the “2013 Stock Plan”) which replaced the 2010 Stock Plan, whose available shares were rolled into and made available under the 2013 Stock Plan. The 2013 Stock Plan authorizes grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units, bonus stock awards and performance stock awards. At September 30, 2015, the number of shares remaining available under the 2013 Stock Plan for all stock awards was 2.0 million.

Stock Options

The Company did not grant any stock options during the nine months ended September 30, 2015. The Company calculates a weighted-average grant-date fair value using a Black-Scholes valuation model for options granted. Compensation expense for options is measured based on the fair market value of the option on the date of grant, and is recognized on a straight-line basis over a four year vesting period. In general, the exercise price of each option awarded was equal to the market price of the Company’s common stock on the date of grant and an option’s maximum term is 10 years.

During the three and nine months ended September 30, 2015 the Company recognized expense of $1 million and $3 million, respectively, related to the Company's stock options. During the three and nine months ended September 30, 2014, the Company recognized expense of $1 million, and $4 million related to the Company’s stock options, respectively. As of September 30, 2015, there was $5 million of total unrecognized compensation cost related to stock options. That cost is expected to be recognized over a weighted-average period of 1.99 years. The total aggregate intrinsic value of options outstanding as of September 30, 2015 was $23 million.

The following table summarizes the Company’s stock option activity:

	Nine Months Ended September 30, 2015	
	Number of Options	Weighted-Average Exercise Price
Beginning Balance	2,754,895	$31.04
Exercised	(579,800)	30.31
Forfeited	(105,100)	38.09
Expired	(5,100)	41.89
Ending Balance	2,064,895	$30.86

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

	Options Outstanding			Options Exercisable		
		Weighted-Average		Number	Weighted-Average	
Range of Exercise Prices	Options Outstanding	Remaining Contractual Life	Exercise Price	Exercisable at September 30, 2015	Remaining Contractual Life	Exercise Price
$13.89-$42.16	2,064,895	4.50	$30.86	1,664,395	3.72	$29.04

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13. STOCK COMPENSATION (continued)

Restricted Stock Awards and Restricted Stock Units
The Company has granted restricted stock awards and restricted stock units (collectively referred to as "restricted stock") as a part of its long-term incentive plan. Compensation expense for restricted stock is measured based on the market price of the stock at date of grant and is recognized on a straight-line basis over the four-year vesting period. Stock restrictions are subject to alternate vesting plans for death, disability, approved early retirement and involuntary termination, over various periods ending in 2019.
During the three and nine months ended September 30, 2015, the Company recognized expense of $5 million and $13 million, respectively, related to the Company's restricted stock. During the three and nine months ended September 30, 2014, the Company recognized expense of $4 million and $13 million, respectively, related to the Company's restricted stock. As of September 30, 2015, there was $30 million of total unrecognized compensation cost related to restricted stock. That cost is expected to be recognized over a weighted-average period of 2.73 years. The total fair value of shares vested during the nine months ended September 30, 2015 and 2014 was $17 million and $14 million, respectively.
The following table summarizes the Company's restricted stock activity:

	Nine Months Ended September 30, 2015	
	Number of Shares/Units	Weighted-Average Grant-Date Fair Value
Beginning Balance	1,727,741	$33.58
Granted	609,087	39.61
Vested	(485,778)	34.32
Forfeited	(129,999)	38.13
Ending Balance	1,721,051	$35.29

Performance Stock Awards and Performance Stock Units
The Company has granted performance stock awards and performance stock units (collectively referred to as "PSUs") as a part of its long-term incentive plan. All outstanding performance grants will fully settle in stock. The amount of stock ultimately distributed from the 2015 grants is contingent on meeting internal company-based metrics or an external-based stock performance metric. The amount of stock ultimately distributed from 2014 and prior grants is contingent on meeting an external based stock performance metric.
In the nine months ended September 30, 2015, the Company granted both internal company-based and external-based metric PSUs.
Internal based metrics
The internal company-based metrics vest after a three-year period and are based on return on invested capital over a three-year period. The amount of stock distributed will vary from 0% to 300% of PSUs awarded depending on performance versus the company-based metrics.
The initial fair value for all internal company-based metric PSUs assumes that the performance goals will be achieved and is based on the grant date stock price. This assumption is monitored quarterly and if it becomes probable that such goals will not be achieved or will be exceeded, compensation expense recognized will be adjusted and previous surplus compensation expense recognized will be reversed or additional expense will be recognized. The expected term represents the period from the grant date to the end of the three-year performance period. Pro-rata vesting may be utilized in the case of death or disability, and awards if earned will be paid at the end of the three-year period.

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13. STOCK COMPENSATION (continued)

External based metrics
The external-based metric vests after a three-year period. Outstanding grants issued in 2015 will be based on the Company's total stockholder return relative to the performance of the S&P Building & Construction Industry Index. Outstanding grants issued prior to 2015 are based on the Company's total stockholder return relative to the performance of the companies in the S&P 500 Index. The amount of stock distributed will vary from 0% to 200% of PSUs awarded depending on the relative stockholder return performance.
The Company estimated the fair value of the external-based metric performance stock grants using a Monte Carlo simulation that uses various assumptions that include expected volatility of 29.2%, and a risk free interest rate of 1.1% both of which were based on an expected term of 2.90 years. Expected volatility was based on a benchmark study of our peers. The risk-free interest rate was based on zero coupon United States Treasury bills at the time of grant. The expected term represents the period from the grant date to the end of the three-year performance period. Compensation expense for external based metric PSUs is measured based on the grant date fair value and is recognized on a straight-line basis over the vesting period. Pro-rata vesting may be utilized in the case of death or disability, and awards if earned will be paid at the end of the three-year period.
During the three and nine months ended September 30, 2015, the Company recognized expense of $2 million and $5 million, respectively, related to the Company's PSUs. During the three and nine months ended September 30, 2014, the Company recognized expense of $1 million and $4 million related to the Company's PSUs, respectively. As of September 30, 2015, there was $11 million of total unrecognized compensation cost related to PSUs. That cost is expected to be recognized over a weighted-average period of 1.80 years.
The following table summarizes the Company's PSU activity:

	Nine Months Ended September 30, 2015	
	Number of PSUs	Weighted-Average Grant-Date Fair Value
Beginning Balance	416,250	$ 49.53
Granted	251,600	43.88
Forfeited	(80,650)	48.53
Ending Balance	587,200	$ 47.25

Employee Stock Purchase Plan
On April 18, 2013, the Company's stockholders approved the Owens Corning Employee Stock Purchase Plan ("ESPP"). The ESPP is a tax-qualified plan under Section 423 of the Internal Revenue Code. The purchase price of shares purchased under the ESPP is equal to 85% of the lower of the fair market value of shares of Owens Corning common stock at the beginning or ending of the offering period, which is a six-month period ending on May 31 and November 30 of each year. At the approval date, 2 million shares were available for purchase under the ESPP. As of September 30, 2015, 1.7 million shares remain available for purchase.
During the three and nine months ended September 30, 2015 the Company recognized expense of less than $1 million and $1 million, respectively, related to the Company's ESPP. During the three and nine months ended September 30, 2014, the Company recognized expense of less than $1 million, and $1 million, respectively, related to the Company's ESPP. As of September 30, 2015, there was less than $1 million of total unrecognized compensation cost related to the ESPP.

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14. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net earnings attributable to Owens Corning	$112	$52	$221	$193
Weighted-average number of shares outstanding used for basic earnings per share	117.2	117.4	117.5	117.5
Non-vested restricted and performance shares	0.7	0.4	0.5	0.4
Options to purchase common stock	0.4	0.3	0.4	0.4
Weighted-average number of shares outstanding and common equivalent shares used for diluted earnings per share	118.3	118.1	118.4	118.3
Earnings per common share attributable to Owens Corning common stockholders:				
Basic	$0.96	$0.44	$1.88	$1.64
Diluted	$0.95	$0.44	$1.87	$1.63

In 2012, the Company approved a new share buy-back program under which the Company is authorized to repurchase up to 10 million shares of the Company's outstanding common stock (the "Repurchase Program"). The Repurchase Program authorizes the Company to repurchase shares through the open market, in privately negotiated or other transactions. The actual number of shares repurchased will depend on timing, market conditions and other factors and will be at the Company's discretion. The Company repurchased 2.1 million shares of its common stock for $89 million during the nine months ended September 30, 2015 under the Repurchase Program. As of September 30, 2015, 5.6 million shares remain available for repurchase under the Repurchase Program.

For the three months ended September 30, 2015, the number of shares used in the calculation of diluted earnings per share did not include 0.6 million of options to purchase common stock, due to their anti-dilutive effect. For the nine months ended September 30, 2015, the number of shares used in the calculation of diluted earnings per share did not include 0.1 million non-vested Restricted and Performance shares, and 0.6 million of options to purchase common stock, due to their anti-dilutive effect.

For the three and nine months ended September 30, 2014, the number of shares used in the calculation of diluted earnings per share did not include 1.3 million and 1.0 million, respectively, of options to purchase common stock, due to their anti-dilutive effect.

15. FAIR VALUE MEASUREMENT

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

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

Items Measured at Fair Value

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

15. FAIR VALUE MEASUREMENT (continued)

Derivatives

The Company executes financial derivative contracts for the purpose of mitigating risk exposure that is generated from our normal operations. These derivatives consist of natural gas swaps, interest rate swaps, cross currency swaps, and foreign exchange forward contracts, all of which are over-the-counter and not traded through an exchange. The Company uses widely accepted valuation tools to determine fair value, such as discounting cash flows to calculate a present value for the derivatives. The models use Level 2 inputs, such as forward curves and other commonly quoted observable transactions and prices.

Contingent Consideration

In connection with our third quarter 2014 acquisition, we recorded contingent consideration pertaining to amounts payable to the former owners related to a put/call option that is to be determined based on a multiple of 2016 EBITDA that contains a cap of $7 million and a floor of $4 million. The valuation of contingent consideration uses assumptions we believe would be made by a market participant and has been based on a significant input not observable in the market. The significant unobservable input used in the fair value measurement of our contingent consideration includes our internal forecast of business performance, which is a Level 3 input. The fair value of the put/call as of September 30, 2015 is $6 million and has been recorded in Other liabilities on the Consolidated Balance Sheet. The change in fair value of $1 million for the nine months ended September 30, 2015 was recognized in Interest expense, net on the Consolidated Statements of Earnings.

The following table summarizes the fair values and levels within the fair value hierarchy in which the fair value measurements fall as of September 30, 2015 (in millions):

	Total Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivative assets	$15	$—	$15	$—
Liabilities:				
Derivative liabilities	$5	$—	$5	$—
Contingent consideration	6	—	—	6
Total liabilities	$11	$—	$5	$6

The following table summarizes the fair values and levels within the fair value hierarchy in which the fair value measurements fall as of December 31, 2014 (in millions):

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

Derivative assets	$1	$—	$1	$—
Liabilities:				
Derivative liabilities	$8	$—	$8	$—
Contingent consideration	5	—	—	5
Total liabilities	$13	$—	$8	$5

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15. FAIR VALUE MEASUREMENT (continued)

Items Disclosed at Fair Value

Long-term debt

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

	September 30, 2015	December 31, 2014
6.50% senior notes, net of discount, due 2016	104%	109%
9.00% senior notes, net of discount, due 2019	118%	119%
4.20% senior notes, net of discount, due 2022	102%	101%
4.20% senior notes, net of discount, due 2024	100%	99%
7.00% senior notes, net of discount, due 2036	118%	124%

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

16. INCOME TAXES

The following table provides the Income tax expense and effective tax rate for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Income tax expense	$55	$27	$112	$9
Effective tax rate	33%	34%	33%	4%

The difference between the effective tax rate and the U.S. federal statutory tax rate of 35% for the three and nine months ended September 30, 2015 is primarily attributable to the tax accounting treatment of various locations which are currently in a loss position, reversal of valuation allowances, the benefit of lower foreign tax rates, and other discrete tax adjustments.

Realization of deferred tax assets depends on achieving a certain minimum level of future taxable income. Management currently believes that it is at least reasonably possible that the minimum level of taxable income will be met within the next 12 months to reduce the valuation allowance of certain foreign jurisdictions by a range of $0 million to $50 million.

For the third quarter of 2014, the difference between the effective tax rate and the statutory rate of 35% is primarily attributable to the tax accounting treatment related to various locations which are currently in a loss position. For the year-to-date 2014 period, the difference between the effective tax rate and the statutory rate of 35% is primarily attributable to the resolution of an uncertain tax position upon receiving final notification from the IRS that it had completed its audit examination for the taxable years 2008 through 2010 and the reversal of a valuation allowance recorded in prior years against certain European net deferred tax assets which cumulatively totaled $78 million. The remaining differences relate to other discrete adjustments and the accounting treatment of various locations which are currently in a loss position.

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17. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE DEFICIT

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Currency Translation Adjustment				
Beginning balance	$(176)	$		