LOUISIANA-PACIFIC CORP
Form 10-Q
November 04, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)

of the Securities Exchange Act of 1934

For Quarterly Period Ended September 30, 2009

Commission File Number 1-7107

LOUISIANA-PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**93-0609074**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**

414 Union Street, Nashville, TN 37219

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (615) 986-5600

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 124,546,204 shares of Common Stock, $1 par value, outstanding as of November 3, 2009.

Except as otherwise specified and unless the context otherwise requires, references to LP , the Company , we ,

us , and our refer to Louisiana-Pacific Corporation and its subsidiaries.

ABOUT FORWARD-LOOKING STATEMENTS

Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 provide a safe harbor for forward-looking statements to encourage companies to provide prospective information about their businesses and other matters as long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statements. This report contains, and other reports and documents filed by us with the Securities and Exchange Commission may contain, forward-looking statements. These statements are or will be based upon the beliefs and assumptions of, and on information available to, our management.

The following statements are or may constitute forward-looking statements: (1) statements preceded by, followed by or that include words like may, will, could, should, believe, expect, anticipate, intend, plan, estimate, potential, continue or future or the negati thereof and (2) other statements regarding matters that are not historical facts, including without limitation, plans for product development, forecasts of future costs and expenditures, possible outcomes of legal proceedings, capacity expansion and other growth initiatives and the adequacy of reserves for loss contingencies.

Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to the following:

- changes in general economic conditions;
- changes in the cost and availability of capital;
- changes in the level of home construction activity;
- changes in competitive conditions and prices for our products;
- changes in the relationship between supply of and demand for building products;
- changes in the relationship between supply of and demand for raw materials, including wood fiber and resins, used in manufacturing our products;
- changes in the cost and availability of energy, primarily natural gas, electricity and diesel fuel;
- changes in other significant operating expenses;
- changes in exchange rates between the U.S. dollar and other currencies, particularly the Canadian dollar, EURO, Brazilian *real* and the Chilean *peso*;
- prolonged illiquidity in the market for auction rate securities held by us for investment;
- changes in general and industry-specific environmental laws and regulations;

- changes in tax laws, and interpretations thereof;
- changes in circumstances giving rise to environmental liabilities or expenditures;
- the resolution of existing and future product-related litigation and other legal proceedings; and
- acts of God or public authorities, war, civil unrest, fire, floods, earthquakes and other matters beyond our control.

In addition to the foregoing and any risks and uncertainties specifically identified in the text surrounding forward-looking statements, any statements in the reports and other documents filed by us with the Commission that warn of risks or uncertainties associated with future results, events or circumstances identify important factors that could cause actual results, events and circumstances to differ materially from those reflected in the forward-looking statements.

ABOUT THIRD PARTY INFORMATION

In this report, we rely on and refer to information regarding industry data obtained from market research, publicly available information, industry publications, U.S. government sources and other third parties. Although we believe the information is reliable, we cannot guarantee the accuracy or completeness of the information and have not independently verified it.

Item 1. Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES

(AMOUNTS IN MILLIONS EXCEPT PER SHARE AMOUNTS) (UNAUDITED)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales	$ 308.8	$ 389.6	$ 779.6	$ 1,126.0
Operating costs and expenses:				
Cost of sales	271.4	382.2	729.1	1,130.0
Depreciation, amortization and cost of timber harvested	22.2	27.0	60.2	80.4
Selling and administrative	26.1	36.6	82.5	115.8
(Gain) loss on sale or impairment of long-lived assets	(1.2)	9.8	(2.1)	9.5
Other operating credits and charges, net	(1.6)	1.6	(7.3)	67.7
Total operating costs and expenses	316.9	457.2	862.4	1,403.4
Loss from operations	(8.1)	(67.6)	(82.8)	(277.4)
Non-operating income (expense):				
Foreign currency exchange gain	1.0	2.3	10.3	6.6
Gain (loss) on early debt extinguishment	(0.2)		0.4	
Other than temporary investment impairment	(0.1)	(88.7)	(1.8)	(91.2)
Interest expense, net of capitalized interest	(20.4)	(12.4)	(53.3)	(36.3)
Investment income	7.4	8.1	20.1	31.5
Total non-operating expense	(12.3)	(90.7)	(24.3)	(89.4)
Loss before taxes and equity in loss of unconsolidated affiliates	(20.4)	(158.3)	(107.1)	(366.8)
Benefit for income taxes	(10.5)	(61.0)	(45.7)	(153.7)
Equity in loss of unconsolidated affiliates	2.8	3.1	8.8	12.6
Loss from continuing operations	(12.7)	(100.4)	(70.2)	(225.7)
Discontinued operations:				
Loss from discontinued operations before income taxes	(0.4)	(17.4)	(4.8)	(20.5)
Income tax benefit	(0.2)	(6.7)	(1.9)	(7.9)
Loss from discontinued operations	(0.2)	(10.7)	(2.9)	(12.6)
Net loss	(12.9)	(111.1)	(73.1)	(238.3)
Less: Net loss attributed to noncontrolling interest	(0.4)		(0.8)	
Net loss attributed to Louisiana-Pacific Corporation	$ (12.5)	$ (111.1)	$ (72.3)	$ (238.3)
Loss per share of common stock (basic and diluted):				
Loss from continuing operations	$ (0.12)	$ (0.98)	$ (0.67)	$ (2.19)
Loss from discontinued operations		(0.10)	(0.03)	(0.13)
Net loss per share	$ (0.12)	$ (1.08)	$ (0.70)	$ (2.32)

Average shares of stock outstanding - basic and diluted	103.4	102.9	103.2	102.9
Amounts attributed to LP Corporation common shareholders:				
Loss from continuing operations, net of tax	$ (12.3)	$ (100.4)	$ (69.4)	$ (225.7)
Loss from discontinued operations, net of tax	(0.2)	(10.7)	(2.9)	(12.6)
	$ (12.5)	$ (111.1)	$ (72.3)	$ (238.3)

The accompanying notes are an integral part of these unaudited financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES

(AMOUNTS IN MILLIONS) (UNAUDITED)

	September 30, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	$ 439.8	$ 97.7
Short-term investments	6.0	21.4
Receivables, net	79.6	43.8
Income tax receivable	12.2	94.2
Inventories	151.7	187.3
Prepaid expenses and other current assets	7.7	9.9
Deferred income taxes	25.3	25.3
Current portion of notes receivable from asset sales	135.1	20.0
Current assets of discontinued operations	3.0	3.1
Total current assets	860.4	502.7
Timber and timberlands	50.4	55.6
Property, plant and equipment	2,325.8	2,324.6
Accumulated depreciation	(1,285.9)	(1,250.3)
Net property, plant and equipment	1,039.9	1,074.3
Notes receivable from asset sales	123.5	238.6
Long-term investments	42.3	19.3
Restricted cash	39.4	76.7
Investments in and advances to affiliates	178.2	186.9
Deferred debt costs	16.7	3.3
Other assets	27.1	26.3
Long-term assets of discontinued operations	5.0	5.0
Total assets	$ 2,382.9	$ 2,188.7
LIABILITIES AND EQUITY		
Current portion of long-term debt	$ 162.6	$ 7.7
Current portion of limited recourse notes payable	133.4	20.0
Short-term notes payable	0.2	2.0
Accounts payable and accrued liabilities	116.9	121.5
Current portion of deferred tax liabilities	3.0	4.7
Current portion of contingency reserves	10.0	10.0
Total current liabilities	426.1	165.9
Long-term debt, excluding current portion:		
Limited recourse notes payable	119.9	233.3
Other long-term debt	209.6	239.3
Total long-term debt, excluding current portion	329.5	472.6
Contingency reserves, excluding current portion	23.4	30.5
Other long-term liabilities	126.9	130.8
Deferred income taxes	150.7	187.9
Redeemable noncontrolling interest	20.9	18.7
Stockholders equity:		
Common stock	138.7	116.9
Additional paid-in capital	562.9	441.3

Retained earnings	947.2	1,019.5
Treasury stock	(286.1)	(297.3)
Accumulated comprehensive loss	(57.3)	(98.1)
Total stockholders equity	1,305.4	1,182.3
Total liabilities and equity	$ 2,382.9	$ 2,188.7

The accompanying notes are an integral part of these unaudited financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES

(AMOUNTS IN MILLIONS) (UNAUDITED)

	Quarter Ended September 30,		Nine Months Ended Sept. 30,	
	2009	**2008**	**2009**	**2008**
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$ (12.9)	$ (111.1)	$ (73.1)	$ (238.3)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation, amortization and cost of timber harvested	22.2	27.0	60.2	80.4
Loss of unconsolidated affiliates	2.8	3.1	8.8	12.6
Other operating charges and credits, net	1.1	(43.9)	3.9	28.3
(Gain) loss on sale or impairment of long-lived assets	(1.1)	9.8	(2.1)	9.5
Other than temporary investment impairment	0.1	88.7	1.8	91.2
Stock based compensation expense related to stock plans	1.5	2.5	5.5	7.4
Exchange (gain) loss on remeasurement	2.3	(7.5)	(4.7)	(16.6)
Cash settlement of contingencies	(1.7)	(5.6)	(10.7)	(15.2)
Warranty reserves, net of payment	(0.9)	14.0	(0.9)	14.4
Other adjustments	(3.0)	2.0	(0.2)	3.2
Pension expense (in excess of payments)	2.9	2.0	6.7	8.2
Decrease (increase) in receivables	(1.8)	4.0	(33.1)	(7.3)
Decrease in income tax receivables	1.2	61.0	75.8	48.8
Decrease (increase) in inventories	4.5	(1.1)	43.0	9.9
Decrease (increase) in prepaid expenses	(2.1)	(3.1)	2.5	(4.7)
Increase (decrease) in accounts payable and accrued liabilities	(11.1)	(20.3)	0.6	(27.0)
Decrease in deferred income taxes	(13.8)	(57.0)	(50.8)	(95.4)
Net cash provided by (used in) operating activities	(9.8)	(35.5)	33.2	(90.6)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Property, plant, and equipment additions	(2.0)	(12.4)	(6.7)	(88.3)
Purchase of a business		(0.8)		(45.4)
Investments in and advances to joint ventures	2.7	1.5	1.3	(2.7)
Proceeds from sale of assets	2.0		7.2	
Receipt of proceeds from notes receivable				54.4
Cash paid for purchase of investments		(43.1)		(216.0)
Proceeds from sales of investments	1.4	77.9	22.9	287.2
(Increase) decrease in restricted cash under letters of credit	(0.4)		37.2	(12.0)
Other investing activities, net	0.2		0.1	1.1
Net cash provided by (used in) investing activities	3.9	23.1	62.0	(21.7)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowing of long term debt			281.3	12.0
Repayment of long term debt	(13.3)		(149.6)	(53.6)
Payment of debt issuance fees			(15.5)	
Net borrowings under revolving credit lines and short term notes payable	0.2	(4.3)	0.2	(16.1)
Sales of common stock	132.3		132.3	
Payment of cash dividends				(31.0)
Net cash provided by (used in) financing activities	119.2	(4.3)	248.7	(88.7)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1.8	2.0	(1.8)	3.6

Net increase (decrease) in cash and cash equivalents	115.1	(14.7)	342.1	(197.4)
Cash and cash equivalents at beginning of period	324.7	169.4	97.7	352.1
Cash and cash equivalents at end of period	$ 439.8	$ 154.7	$ 439.8	$ 154.7

The accompanying notes are an integral part of these unaudited financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES

(AMOUNTS IN MILLIONS) (UNAUDITED)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Comprehensive Loss	Total Stockholders Equity	Redeemable Non Controlling Interest
	Shares	Amount	Shares	Amount					
Balance, December 31, 2008	116.9	$ 116.9	13.6	$ (297.3)	$ 441.3	$ 1,019.5	$ (98.1)	$ 1,182.3	$ 18.7
Net loss						(72.3)		(72.3)	(0.8)
Isuuance of shares for public offering	20.7	20.7			111.6			132.3	
Issuance of shares for employee stock plans and other purposes and warrants	1.1	1.1	(0.5)	11.2	(3.8)			8.5	
Amortization of restricted stock grants					1.2			1.2	
Issuance of stock warrants in connection with debt issuance					12.6			12.6	
Other comprehensive income attributed to LP							40.8	40.8	3.0
Balance, September 30, 2009	138.7	$ 138.7	13.1	$ (286.1)	$ 562.9	$ 947.2	$ (57.3)	$ 1,305.4	$ 20.9

The accompanying notes are an integral part of these unaudited financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES

(AMOUNTS IN MILLIONS) (UNAUDITED)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net loss	$ (12.9)	$ (111.1)	$ (73.1)	$ (238.3)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	5.5	(10.3)	21.9	(11.3)
Unrealized gain on derivative instruments	0.7	0.1	0.8	0.5
Unrealized gain on marketable securities	10.6	34.5	19.8	18.8
Defined benefit pension plans:				
Amortization of prior service cost		0.2		0.6
Amortization of net loss	0.4	0.5	1.3	1.4
Exchange gain on remeasurement		0.2		0.4
Other comprehensive income, net of tax	17.2	25.2	43.8	10.4
Comprehensive income (loss), net of tax	4.3	(85.9)	(29.3)	(227.9)
Net income attributable to noncontrolling interest	0.4		0.8	
Foreign currency translation adjustments attributed to noncontrolling interest	(1.6)		(3.0)	
Comprehensive income (loss) attributed to LP, net of tax	$ 3.1	$ (85.9)	$ (31.5)	$ (227.9)

The accompanying notes are an integral part of these unaudited financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS FOR PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments, except for other operating credits and charges, net referred to in Note 10) necessary to present fairly, in all material respects, the consolidated financial position, results of operations and cash flows of LP and its subsidiaries for the interim periods presented. Results of operations for interim periods are not necessarily indicative of results to be expected for an entire year. For those consolidated subsidiaries in which LP s ownership interest is less than 100%, the outside shareholders interests are shown as noncontrolling interest. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in LP s Annual Report on Form 10-K for the year ended December 31, 2008.

NOTE 2 STOCK-BASED COMPENSATION

For the quarters ended September 30, 2009 and 2008, the total compensation expense related to LP s stock-based compensation plans was $1.5 million and $2.5 million. For the nine month periods ended September 30, 2009 and 2008, the total compensation expense related to all of LP s stock-based compensation plans was $5.5 million and $7.4 million. At September 30, 2009, 7,603,275 shares were available under the current stock award plans for stock-based awards. For the nine month period ended September 30, 2009, the fair value of the options granted was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions: a risk free interest rate of 1.76%; an expected volatility factor for the market price of the Company s common stock of 49.8% (based upon historical volatility over the expected life); a dividend yield of 0.0%; and an expected life of 5 years (based upon historical experience). For the nine month period ended September 30, 2008, the fair value of the options granted was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions: a risk free interest rate of 2.97%; an expected volatility factor for the market price of the Company s common stock of 30.2% (based upon historical volatility over the expected life); a dividend yield of 4.0%; and an expected life of 5 years (based upon historical experience). The weighted-average fair value of each option or stock settled stock appreciation right (SSARs) granted during the nine month period ended September 30, 2009 and September 30, 2008 was $1.00 and $2.85.

NOTE 3 INVESTMENTS

Short-term and long-term investments held by LP are debt securities designated as available for sale and are reported at fair market value using the specific identification method. The following table summarizes unrealized gains and losses related to these investments as of September 30, 2009 and December 31, 2008:

Dollar amounts in millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
September 30, 2009				
Corporate obligations	$ 6.0	$	$	$ 6.0
Auction rate securities	10.6	31.7		42.3
Total marketable securities	$ 16.6	$ 31.7	$	$ 48.3
December 31, 2008				
Corporate obligations	$ 28.9	$	$ 0.5	$ 28.4
Auction rate securities	12.3			12.3
Total marketable securities	$ 41.2	$	$ 0.5	$ 40.7

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2009, LP had $42.3 million ($151.8 million, par value) of principal invested in auction rate securities (ARS). The ARS held by LP are securities with long-term nominal maturities for which the interest rates were historically reset through a Dutch auction each month. These auctions historically have provided a liquid market for these securities. Since the auctions began failing in August 2007, interest rates have been reset at stipulated rates. LP s investments in ARS represent interests in collateralized debt obligations supported by pools of residential and commercial mortgages, credit linked notes and bank trust preferred notes.

The ARS investments held by the Company all had ratings consistent with the Company s investment policy guidelines at the time of purchase, the ARS investments held by the Company all had AAA or equivalent credit ratings (except for one corporate ARS rated AA). With the liquidity issues experienced in global credit and capital markets, the ARS held by LP at September 30, 2009 have experienced multiple failed auctions as the amount of securities submitted for sale has exceeded the amount of purchase orders. As of September 30, 2009, all but one of LP s ARS securities continue to pay interest according to their stated terms. One of the investments has been accelerated resulting in LP receiving no further interest payments on this security unless and until a more senior tranche is paid in full. This investment was fully written off as of September 30, 2009.

The estimated market value of the Company s ARS holdings at September 30, 2009 was $42.3 million, which reflects a $109.5 million adjustment to the par value of $151.8 million. Based upon LP s evaluation of the structure of LP s ARS holdings and current market estimates of fair value from issuing banks, LP recorded other-than-temporary impairments of $0.1 million ($0.1 million after tax) and $1.8 million ($1.1 million after tax) in the third quarter and first nine months of 2009, respectively, that were recorded as non-operating income (expense). During the third quarter and first nine months of 2009, LP recorded an unrealized gain on its ARS of $17.3 million ($10.8 million after tax) and $31.8 million ($19.8 million after tax) in other comprehensive income.

LP reviews its marketable securities routinely for other-than-temporary impairment. The primary factors LP used to determine if an impairment charge must be recorded, because a decline in value of the security is other than temporary, include (i) whether the fair value of the investment is significantly below its cost basis, (ii) the financial condition of the issuer of the security (including its credit rating) and the underlying collateral, (iii) the length of time that the cost of the security has exceeded its fair value and (iv) LP s intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value.

NOTE 4 FAIR VALUE MEASUREMENTS

Effective January 1, 2008, LP adopted guidance now codified as Financial Accounting Standard Board (FASB) Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures (ASC 820), for financial assets and liabilities and any other assets and liabilities carried at fair value. This pronouncement defines fair value (FV), provides guidance on how to measure FV under generally accepted accounting principles, and expands FV measurement disclosures. LP s adoption of ASC 820 did not have a material impact on its consolidated financial position and results of operations.

ASC 820 defines FV as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a FV hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Under this standard, LP is required to classify these financial assets and liabilities into two groups: recurring measured on a periodic basis and non-recurring measured on an as needed basis.

ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable or can be corroborated by observable market data.

Level 3 Valuations based on models where significant inputs are not observable. Unobservable inputs are used when little or no market data is available and reflect the Company s own assumptions about the assumptions market participants would use.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets measured at fair value on a recurring basis are summarized in the following table.

Dollar amounts in millions	September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 48.3	$	$ 6.0	$ 42.3
Trading securities	2.2	2.2		
Total	$ 50.5	$ 2.2	$ 6.0	$ 42.3

Available for sale securities measured at fair value are recorded in cash and cash equivalents, short-term investments, long-term investments and restricted cash on LP s condensed consolidated balance sheets. Included in available for sale securities are money market funds, U.S. government agency securities, commercial paper, corporate debt obligations and auction rate securities.

The values of government agency securities, commercial paper and corporate obligations are determined by evaluations based on observable market information from broker or dealer quotations, which represent Level 2 inputs.

Due to the lack of observable market quotes on LP s auction rate securities (ARS) portfolio, LP evaluates the structure of its ARS holdings and current market estimates of fair value, including fair value estimates from issuing banks that rely exclusively on Level 3 inputs. These inputs include those that are based on expected cash flow streams and collateral values, including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity. The valuation of LP s ARS investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact LP s valuation include changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity.

Trading securities consist of rabbi trust and grantor trust financial assets which are recorded in other assets in LP s condensed consolidated balance sheets. The rabbi trust holds the assets of the Louisiana-Pacific Corporation 2004 Executive Deferred Compensation Plan (EDC), a non-qualified deferred compensation plan which allows certain management employees to defer receipt of a portion of their compensation and contribute such amounts to one or more investment funds. The assets of the rabbi trust are invested in mutual funds and are reported at fair value based on active market quotes, which represent Level 1 inputs.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period.

Dollar amounts in millions	**Available for sale securities**
Balance at January 1, 2009	$ 12.3
Total realized/unrealized gains (losses)	
Included in other-than-temporary investment impairment	(1.8)
Included in investment income	
Included in other comprehensive income	31.8
Balance at September 30, 2009	$ 42.3
The amount of total losses for the period included in net loss attributable to the fair value of changes in assets still held at the reporting date	$ (1.8)

Carrying amounts reported on the balance sheet for cash, cash equivalents, receivables and accounts payable approximate fair value due to the short-term maturity of these instruments.

NOTE 5 EARNINGS PER SHARE

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares primarily consist of employee stock options, stock settled stock appreciation rights (SSARs), restricted stock units, warrants and restricted common stock.

The Earnings Per Share Topic of the FASB ASC requires that employee equity share options, non-vested shares, warrants and similar equity instruments granted by the Company be treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options, which is calculated, based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

Dollar and share amounts in millions, except per share amounts	**Quarter Ended September 30, 2009**	**2008**	**Nine Months Ended September 30, 2009**	**2008**
Numerator:				
Income attributed to LP common shares:				
Loss from continuing operations	$ (12.3)	$ (100.4)	$ (69.4)	$ (225.7)
Loss from discontinued operations	(0.2)	(10.7)	(2.9)	(12.6)
Net loss	$ (12.5)	$ (111.1)	$ (72.3)	$ (238.3)
Denominator:				
Basic - weighted average common shares outstanding	103.4	102.9	103.2	102.9
Dilutive effect of stock plans				
Diluted shares outstanding	103.4	102.9	103.2	102.9

Basic and diluted earnings per share:				
Loss from continuing operations	$ (0.12)	$ (0.98)	$ (0.67)	$ (2.19)
Loss from discontinued operations		(0.10)	(0.03)	(0.13)
Net loss per share	$ (0.12)	$ (1.08)	$ (0.70)	$ (2.32)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock options, warrants and SSARs to purchase approximately 19.6 million shares and 14.3 million shares for the third quarter and nine months ended September 30, 2009 were considered anti-dilutive for purposes of LP s earnings per share calculation due to LP s net loss position in continuing operations. Stock options and SSARs to purchase approximately 5.3 million shares and 5.0 million shares for the third quarter and nine months ended September 30, 2008 were considered anti-dilutive for purposes of LP s earnings per share calculation due to LP s net loss position in continuing operations.

NOTE 6 RECEIVABLES

Receivables consist of the following:

Dollar amounts in millions	**September 30, 2009**	**December 31, 2008**
Trade receivables	$ 60.8	$ 27.4
Interest receivables	6.6	2.8
Other receivables	13.8	14.8
Allowance for doubtful accounts	(1.6)	(1.2)
Total	$ 79.6	$ 43.8

Other receivables at September 30, 2009 and December 31, 2008 primarily consist of short-term notes receivable, settlements, Canadian sales tax receivables and other items.

NOTE 7 INVENTORIES

Inventories are valued at the lower of cost or market. Inventory cost includes materials, labor and operating overhead. The LIFO (last-in, first-out) method is used for certain log inventories with remaining inventories valued at FIFO (first-in, first-out) or average cost. The major types of inventories are as follows (work in process is not material):

Dollar amounts in millions	**September 30, 2009**	**December 31, 2008**
Logs	$ 16.0	$ 34.7
Other raw materials	21.5	23.9
Finished products	107.3	122.6
Supplies	8.7	7.9
LIFO reserve	(1.8)	(1.8)
Total	$ 151.7	$ 187.3
Inventory included in current assets of discontinued operations		
Other raw materials	$ 0.2	$ 0.2
Finished products	2.7	2.8
Supplies	0.1	0.1
Total	$ 3.0	$ 3.1

NOTE 8 BUSINESSES HELD FOR SALE AND DIVESTITURES

At September 30, 2009 and 2008, LP s discontinued operations included its decking operations and residual charges from previously discontinued operations.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The assets of the discontinued operations included in the accompanying condensed consolidated balance sheets as of September 30, 2009 and December 31, 2008 are as follows:

Dollar amounts in millions	September 30, 2009	December 31, 2008
Inventories	$ 3.0	$ 3.1
Property, plant and equipment	11.8	11.9
Accumulated depreciation	(6.8)	(6.9)
Net, property, plant and equipment	5.0	5.0
Total assets of discontinued operations	$ 8.0	$ 8.1

NOTE 9 INCOME TAXES

Accounting standards require that LP account for income taxes using the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. This method also requires the recognition of future tax benefits, such as net operating loss carry forwards and other tax credits. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. Valuation allowances are recorded as necessary to reduce deferred tax assets to the amount thereof that is more likely than not to be realized. The likelihood of realizing deferred tax assets is evaluated by, among other things, estimating future taxable income to which the deferred tax assets may be applied and assessing the impact of tax planning strategies.

For interim periods, accounting standards require that income tax expense be determined by applying the estimated annual effective income tax rate, by income component, to year-to-date income or loss at the end of each quarter, then adding or subtracting the impact of changes in reserve requirements or statutory tax rates, if any. Each quarter the income tax accrual is adjusted to the latest estimate and the difference from the previously accrued year-to-date balance is adjusted to the current quarter. Losses and resulting income tax benefits for the respective periods are shown below.

	Quarter Ended September 30,		Nine Months Ended September 30,	
Dollars in millions	2009	2008	2009	2008
Continuing operations	$ (23.2)	$ (161.4)	$ (115.9)	$ (379.4)
Discontinued operations	(0.4)	(17.4)	(4.8)	(20.5)
	(23.6)	(178.8)	(120.7)	(399.9)
Total tax benefit	(10.7)	(67.7)	(47.6)	(161.6)
Net loss	$ (12.9)	$ (111.1)	$ (73.1)	$ (238.3)

For the third quarter and first nine months of 2009, the primary differences between the U.S. statutory rate of 35% and the effective rate applicable to LP s continuing operations relate to the Company s foreign debt structure, state income taxes and the effect of foreign tax rates. For the third quarter and first nine months of 2008, the primary differences between the U.S. statutory rate of 35% and the effective rate applicable to LP s continuing operations relate to the Company s foreign debt structure and state income taxes.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components and associated estimated effective income tax rates applied to the third quarter and nine month periods ended September 30, 2009 and 2008 are as follows:

	Quarter Ended September 30,			
	2009		2008	
Dollars in millions	**Tax Benefit**	**Tax Rate**	**Tax Benefit**	**Tax Rate**
Continuing operations	$ (10.5)	45%	$ (61.0)	38%
Discontinued operations	(0.2)	38%		