

LOUISIANA-PACIFIC CORP  
Form 10-Q  
August 05, 2014

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 June 30, 2014  
Commission File Number 1-7107

LOUISIANA-PACIFIC CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization) 414 Union Street, Nashville, TN 37219 (Address of principal executive offices) (Zip Code) Registrant's telephone number, including area code: (615) 986-5600	93-0609074 (IRS Employer Identification No.)
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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  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  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):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 141,409,990 shares of Common Stock, \$1 par value, outstanding as of August 5, 2014.

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,” “po,” “continue” or “future” or the negative or other variations 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 governmental fiscal and monetary policies and levels of employment;
- 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 of 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, Australian dollar, Brazilian real and the Chilean peso;
- 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;
- governmental gridlock and curtailment of government services and spending; and
- acts of public authorities, war, civil unrest, natural disasters, fire, floods, earthquakes, inclement weather 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales	\$518.5	\$567.0	\$963.2	\$1,098.1
Operating costs and expenses:				
Cost of sales	461.5	418.0	849.9	805.2
Depreciation and amortization	24.9	20.6	50.5	39.2
Selling and administrative	35.9	35.0	76.8	70.2
Gain on sale or impairment of long-lived assets, net	(0.5 )	(0.7 )	(0.5 )	(0.7 )
Other operating credits and charges, net	0.6	5.4	0.6	7.0
Total operating costs and expenses	522.4	478.3	977.3	920.9
Income (loss) from operations	(3.9 )	88.7	(14.1 )	177.2
Non-operating income (expense):				
Interest expense, net of capitalized interest	(7.4 )	(9.8 )	(15.1 )	(20.4 )
Investment income	1.7	3.1	3.5	6.6
Other non-operating items	3.8	32.3	(0.5 )	31.6
Total non-operating income (expense)	(1.9 )	25.6	(12.1 )	17.8
Income (loss) from continuing operations before taxes and equity in income of unconsolidated affiliates	(5.8 )	114.3	(26.2 )	195.0
Provision (benefit) for income taxes	(6.7 )	24.3	(12.3 )	47.2
Equity in income of unconsolidated affiliates	(1.2 )	(4.1 )	(1.8 )	(11.3 )
Income (loss) from continuing operations	2.1	94.1	(12.1 )	159.1
Income from discontinued operations before taxes	—	0.2	—	0.5
Provision for income taxes	—	—	—	0.2
Income from discontinued operations	—	0.2	—	0.3
Net income (loss)	\$2.1	\$94.3	\$(12.1 )	\$159.4
Income (loss) per share of common stock (basic):				
Income (loss) from continuing operations	\$0.01	\$0.67	\$(0.09 )	\$1.14
Income from discontinued operations	—	0.01	—	0.01
Net income (loss) per share	\$0.01	\$0.68	\$(0.09 )	\$1.15
Net income (loss) per share of common stock (diluted):				
Income (loss) from continuing operations	\$0.01	\$0.65	\$(0.09 )	\$1.10
Income from discontinued operations	—	—	—	—
Net income (loss) per share	\$0.01	\$0.65	\$(0.09 )	\$1.10
Average shares of stock outstanding - basic	140.8	139.1	140.8	138.8
Average shares of stock outstanding - diluted	144.0	144.1	140.8	144.3

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income (loss)	\$2.1	\$94.3	(12.1 )	\$159.4
Other comprehensive income (loss)				
Foreign currency translation adjustments	0.7	(9.0 )	(1.1 )	(7.1 )
Unrealized gain on marketable securities	0.4	0.9	0.5	1.2
Defined benefit pension plans	0.5	1.6	1.8	3.0
Other comprehensive income (loss), net of tax	1.6	(6.5 )	1.2	(2.9 )
Comprehensive income (loss)	\$3.7	\$87.8	\$(10.9 )	\$156.5

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)

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Cash and cash equivalents	\$554.7	\$656.8
Receivables, net of allowance for doubtful accounts of \$1.1 million at June 30, 2014 and December 31, 2013	145.4	78.1
Inventories	235.6	224.4
Other current assets	7.1	7.7
Deferred income taxes	23.2	50.9
Assets held for sale	16.3	16.3
Total current assets	982.3	1,034.2
Timber and timberlands	68.8	71.6
Property, plant and equipment, at cost	2,311.1	2,294.6
Accumulated depreciation	(1,432.8	) (1,407.8
Net property, plant and equipment	878.3	886.8
Goodwill	9.7	9.7
Notes receivable from asset sales	432.2	432.2
Restricted cash	10.3	11.3
Investments in and advances to affiliates	5.0	3.2
Other assets	45.7	44.3
Total assets	\$2,432.3	\$2,493.3
<b>LIABILITIES AND EQUITY</b>		
Current portion of long-term debt	\$2.3	\$2.3
Accounts payable and accrued liabilities	154.1	161.9
Current portion of contingency reserves	2.0	2.0
Total current liabilities	158.4	166.2
Long-term debt, excluding current portion	761.3	762.7
Contingency reserves, excluding current portion	13.8	13.3
Other long-term liabilities	133.9	136.1
Deferred income taxes	147.1	188.7
Stockholders' equity:		
Common stock	152.0	152.0
Additional paid-in capital	503.9	508.0
Retained earnings	875.6	887.7
Treasury stock	(225.7	) (232.2
Accumulated comprehensive loss	(88.0	) (89.2
Total stockholders' equity	1,217.8	1,226.3
Total liabilities and stockholders' equity	\$2,432.3	\$2,493.3

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 June		Six Months Ended	
	30,		June 30,	
	2014	2013	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income (loss)	\$2.1	\$94.3	\$(12.1 )	\$159.4
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	24.9	20.6	50.5	39.2
Income from unconsolidated affiliates	(1.2 )	(4.1 )	(1.8 )	(11.3 )
Gain on sale or impairment of long-lived assets	(0.5 )	(0.7 )	(0.5 )	(0.7 )
Gain on acquisition	—	(35.9 )	—	(35.9 )
Other operating credits and charges, net	0.6	5.4	0.6	7.0
Stock-based compensation related to stock plans	2.4	2.1	4.5	4.2
Exchange gain (loss) on remeasurement	(3.9 )	0.2	1.3	(0.1 )
Cash settlement of contingencies	0.5	(0.3 )	—	(0.4 )
Cash settlements of warranties, net of accruals	(2.3 )	(2.3 )	(5.0 )	(4.3 )
Pension expense, net of cash payments	0.7	1.1	1.3	2.6
Non-cash interest expense, net	0.1	0.2	0.6	0.6
Other adjustments, net	0.6	0.1	0.4	0.9
Changes in assets and liabilities, net of acquisition:				
(Increase) decrease in receivables	(2.8 )	34.5	(67.2 )	(17.9 )
(Increase) decrease in inventories	40.0	20.5	(11.3 )	(28.1 )
(Increase) decrease in other current assets	(1.8 )	(7.4 )	0.7	(6.0 )
Increase (decrease) in accounts payable and accrued liabilities	(38.4 )	(3.2 )	(6.0 )	8.9
Increase (decrease) in deferred income taxes	(5.8 )	21.7	(13.8 )	45.5
Net cash provided by (used in) operating activities	15.2	146.8	(57.8 )	163.6
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Property, plant and equipment additions	(18.2 )	(12.4 )	(42.2 )	(25.6 )
Investments in and refunds from joint ventures	—	7.1	—	13.9
Proceeds from sales of assets	0.7	1.7	0.8	1.7
Acquisitions, net of cash	—	(67.4 )	—	(67.4 )
(Increase) decrease in restricted cash under letters of credit/credit facility	1.2	(0.1 )	1.0	1.4
Net cash used in investing activities	(16.3 )	(71.1 )	(40.4 )	(76.0 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Repayment of long-term debt	—	(2.6 )	(1.1 )	(3.6 )
Short term borrowings, net of repayments	—	(0.1 )	—	(0.1 )
Taxes paid related to net share settlement of equity awards	(0.1 )	(0.2 )	(1.5 )	(12.0 )
Other, net	—	—	—	0.1
Net cash used in financing activities	(0.1 )	(2.9 )	(2.6 )	(15.6 )
<b>EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>	4.2	(2.6 )	(1.3 )	(2.2 )
Net increase (decrease) in cash and cash equivalents	3.0	70.2	(102.1 )	69.8
Cash and cash equivalents at beginning of period	551.7	560.5	656.8	560.9
Cash and cash equivalents at end of period	\$554.7	\$630.7	\$554.7	\$630.7

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

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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
	Shares	Amount	Shares	Amount				
Balance, December 31, 2013	152.0	\$ 152.0	(10.9 )	\$(232.2 )	\$ 508.0	\$ 887.7	\$ (89.2 )	\$ 1,226.3
Net loss	—	—	—	—	—	(12.1 )	—	(12.1 )
Issuance of shares for employee stock plans and stock-based compensation	—	—	0.4	8.0	(8.5 )	—	—	(0.5 )
Taxes paid related to net share settlement of equity awards	—	—	(0.1 )	(1.5 )	—	—	—	(1.5 )
Compensation expense associated with stock awards	—	—	—	—	4.4	—	—	4.4
Other comprehensive income	—	—	—	—	—	—	1.2	1.2
Balance, June 30, 2014	152.0	\$ 152.0	(10.6 )	\$(225.7 )	\$ 503.9	\$ 875.6	\$ (88.0 )	\$ 1,217.8

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

## NOTES TO UNAUDITED 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 9) 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. These 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, 2013.

## NOTE 2 – STOCK-BASED COMPENSATION

At June 30, 2014, LP had stock-based employee compensation plans as described below. The total compensation expense related to all of LP's stock-based compensation plans was \$4.5 million for the six months ended June 30, 2014 and \$4.2 million for the six months ended June 30, 2013.

## Stock Compensation Plans

LP grants options to purchase LP common stock and stock settled stock appreciation rights (SSARs) to key employees and directors. On exercise, LP generally issues shares from treasury to settle these awards. The options and SSARs are granted at market price at the date of grant. For employees, SSARs become exercisable ratably over a three year period and expire ten years after the date of grant. For directors, these options historically have become exercisable in 10% increments every three months, starting three months after the date of grant, and expire ten years after the date of grant. At June 30, 2014, 5.2 million shares were available under the current stock award plans for stock-based awards.

The following table sets out the weighted average assumptions used to estimate the fair value of the options and SSARs granted using the Black-Scholes option-pricing model in the first six months of the respective years noted:

	2014	2013
Expected stock price volatility	57.5%	69.2%
Expected dividend yield	—%	—%
Risk-free interest rate	1.5%	0.9%
Expected life of options (in years)	5 years	5 years
Weighted average fair value of options and SSARs granted	\$9.03	\$11.68

The following table summarizes stock options and SSARs outstanding as of June 30, 2014, as well as activity during the six month period then ended.

Share amounts in thousands	Options and SSARs	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1, 2014	6,937	\$ 14.26		
Options granted	494	18.09		
Options exercised	(3	) 15.27		
Options canceled	(375	) 21.05		
Options outstanding at June 30, 2014	7,053	\$ 14.17	5.0	\$26.2
Vested and expected to vest at June 30, 2014 <sup>(1)</sup>	6,701	—	—	\$24.8
Options exercisable at June 30, 2014	6,051	\$ 13.91	—	\$24.2

<sup>(1)</sup> Options or SSARS expected to vest based upon historical forfeiture rate

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between LP's closing stock price on the last trading day of the second quarter of 2014 and the exercise price, multiplied by the number of in-the-money options and SSARs) that would have been received by the holders had all holders exercised their awards on June 30, 2014. This amount changes based on the market value of LP's stock as reported by the New York Stock Exchange.

As of June 30, 2014, there was \$6.3 million of total unrecognized compensation costs related to stock options and SSARs. These costs are expected to be recognized over a weighted-average period of 1.8 years. LP recorded compensation expense related to these awards in the first six months of 2014 of \$1.9 million.

#### Incentive Share Awards

LP has granted incentive share stock awards (restricted stock units) to certain key employees and directors. The employee awards vest three years from date of grant and awards to directors vest one year from date of grant. The awards entitle the participant to receive a specified number of shares of LP common stock at no cost to the participant. The market value at the time of grant approximates the fair value. LP recorded compensation expense related to these awards in the first six months of 2014 of \$1.4 million. As of June 30, 2014, there was \$4.2 million of total unrecognized compensation cost related to unvested incentive share awards. This expense will be recognized over a weighted-average period of 1.3 years.

The following table summarizes incentive share awards outstanding as of June 30, 2014 as well as activity during the six months then ended.

	Shares	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Incentive share awards outstanding at January 1, 2014	752,595		
Incentive share awards granted	146,095		
Incentive share awards vested	(287,912	)	
Incentive share awards canceled	(13,456	)	
Incentive shares outstanding at June 30, 2014	597,322	1.3	\$9.0
Vested and expected to vest at June 30, 2014 <sup>(1)</sup>	567,456	—	\$8.5

<sup>(1)</sup> Incentive shares expected to vest based upon historical forfeiture rate

### Restricted Stock

LP grants restricted stock to certain senior employees. The shares for employees vest three years from the date of grant and for directors vest five years from date of grant. During the vesting period, the participants have voting rights and receive dividends, but the shares may not be sold, assigned, transferred, pledged or otherwise encumbered. Additionally, granted but unvested shares are forfeited upon termination of employment. The fair value of the restricted shares on the date of the grant is amortized ratably over the vesting period. As of June 30, 2014, there was \$3.5 million of total unrecognized compensation costs related to restricted stock. This expense will be recognized over the next 1.4 years.

The following table summarizes the restricted stock outstanding as of June 30, 2014 as well as activity during the six months then ended.

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock awards outstanding at January 1, 2014	512,085	\$ 11.48
Restricted stock awards granted	122,649	17.93
Restrictions lapsed	(160,567)	) 9.64
Restricted stock canceled	(11,021)	) 12.35
Restricted stock awards at June 30, 2014	463,146	\$ 13.80

Compensation expense related to these awards recognized in the first six months of 2014 was \$1.0 million.

### Performance share awards

In connection with Mr. Stevens' appointment to Chief Executive Officer on May 4, 2012, he was awarded 300,000 performance shares. LP recorded compensation expense related to these awards of \$0.2 million in the first six months of 2014. As of June 30, 2014, there was \$0.7 million of total unrecognized compensation costs related to this award. This expense will be recognized over the next 1.8 years.

### Phantom stock

During 2011 and 2012, LP made annual grants of phantom stock units to its directors. Subsequent to the approval of the 2013 Omnibus Plan, phantom stock units are no longer granted to directors. The director does not receive rights of a shareholder, nor is any stock transferred. The units will be paid out in cash at the end of the five year vesting period. The value of one unit is based on the market value of one share of common stock on the vesting date. The cost of the grants are recognized over the vesting period and is included in stock-based compensation expense. Since these awards are settled in cash, such awards are required to be remeasured based upon the changes in LP's stock price. As of June 30, 2014, LP had 75,816 shares outstanding under this program.

### NOTE 3 – FAIR VALUE MEASUREMENTS

LP's investments that are measured at fair value on a recurring basis are categorized below using the fair value hierarchy. LP also measures the contingent consideration associated with the business combination using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant non-observable inputs.

The following table summarizes assets and liabilities measured on a recurring basis for each of the three hierarchy levels presented below.

Dollar amounts in millions	June 30, 2014	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	\$4.5	\$—	\$—	\$4.5
Trading securities	2.2	2.2	—	—
Contingent consideration	3.8	—	—	3.8

Dollar amounts in millions	December 31, 2013	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	\$3.7	\$—	\$—	\$3.7
Trading securities	2.0	2.0	—	—
Contingent consideration	3.8	—	—	3.8

Due to the lack of observable market quotations on a portion of 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.

The following table summarizes changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2014 and 2013.

Dollar amounts in millions	Available for sale securities	Contingent consideration
Balance at December 31, 2012	\$2.0	\$—
Contingent consideration pursuant to business combination	—	24.3
Total unrealized gains included in other comprehensive income	2.0	—
Balance at June 30, 2013	\$4.0	\$24.3
Balance at December 31, 2013	\$3.7	\$3.8
Adjustment to contingent consideration fair value	—	0.1
Total unrealized gains included in other comprehensive income	0.8	—
Foreign exchange rate changes	—	(0.1 )
Balance at June 30, 2014	\$4.5	\$3.8

LP estimated the Senior Notes maturing in 2020 to have a fair value of \$386.8 million at June 30, 2014 and \$390.3 million at December 31, 2013 based upon market quotations.

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 items.



## NOTE 4 – EARNINGS PER SHARE

Basic earnings per share are based on the weighted-average number of shares of common stock outstanding. Diluted earnings per share are based upon the weighted-average number of shares of common stock outstanding plus all potentially dilutive securities that were assumed to be converted into common shares at the beginning of the period under the treasury stock method. This method requires that the effect of potentially dilutive common stock equivalents (stock options, stock settled stock appreciation rights, incentive shares and warrants) be excluded from the calculation of diluted earnings per share for the periods in which LP recognizes losses from continuing operations or at such time that the exercise prices of such awards are in excess of the weighted average market price of LP's common stock during these periods because the effect is anti-dilutive. Performance share awards are included in the calculation of earnings per share using the contingently issuable method. The following table sets forth the computation of basic and diluted earnings per share:

Dollar and share amounts in millions, except per share amounts	Quarter Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Income (loss) common shares:				
Income (loss) from continuing operations	\$2.1	\$94.1	\$(12.1)	) \$159.1
Income from discontinued operations	—	0.2	—	0.3
Net income (loss)	\$2.1	\$94.3	\$(12.1)	) \$159.4
Denominator:				
Basic - weighted average common shares outstanding	140.8	139.1	140.8	138.8
Dilutive effect of stock warrants	1.3	2.7	—	2.9
Dilutive effect of stock plans	1.9	2.3	—	2.6
Diluted shares outstanding	144.0	144.1	140.8	144.3
Basic earnings per share:				
Income (loss) from continuing operations	\$0.01	\$0.67	\$(0.09)	) \$1.14
Income from discontinued operations	—	0.01	—	0.01
Net income (loss) per share	\$0.01	\$0.68	\$(0.09)	) \$1.15
Diluted earnings per share:				
Income (loss) from continuing operations	\$0.01	\$0.65	\$(0.09)	) \$1.10
Income from discontinued operations	—	—	—	—
Net income (loss) per share	\$0.01	\$0.65	\$(0.09)	) \$1.10

For the quarter ended June 30, 2014, stock options, warrants and SSARs relating to approximately 4.1 million shares of LP common stock were considered not in-the-money for purposes of LP's earnings per share calculation. For the six months ended June 30, 2014, stock options, warrants and SSARs relating to approximately 3.5 million shares of LP common stock were considered anti-dilutive for purposes of LP's earnings per share calculation due to LP's loss position from continuing operations. For the quarter and six months ended June 30, 2013, stock options and SSARs related to approximately 2.4 million and 2.3 million shares of LP common stock were considered not in-the-money for purposes of LP's earnings per share calculation.

At June 30, 2014, outstanding warrants were exercisable to purchase approximately 1,462,119 shares.

## NOTE 5 – RECEIVABLES

Receivables consist of the following:

Dollar amounts in millions	June 30, 2014	December 31, 2013
Trade receivables	\$ 135.6	\$ 69.2
Interest receivables	0.3	0.2
Income tax receivable	2.6	1.2
Other receivables	8.0	8.6
Allowance for doubtful accounts	(1.1	) (1.1
Total	\$ 145.4	\$ 78.1

Other receivables at June 30, 2014 and December 31, 2013 primarily consist of sales tax receivables, receivables from our joint venture, miscellaneous receivables and other items.

## NOTE 6 – INVENTORIES

Inventories are valued at the lower of cost or market. Inventory cost includes materials, labor and operating overhead. The major types of inventories are as follows (work in process is not material):

Dollar amounts in millions	June 30, 2014	December 31, 2013
Logs	\$ 29.3	\$ 46.9
Other raw materials	21.7	27.8
Semi finished inventory	22.8	11.1
Finished products	161.8	138.6
Total	\$ 235.6	\$ 224.4

## NOTE 7 – ASSETS HELD FOR SALE

Over the last several years, LP has adopted and implemented plans to sell selected assets in order to improve its operating results. LP is required to classify assets held for sale which are not part of a discontinued business separately on the face of the financial statements outside of "Property, plant and equipment." As of June 30, 2014 and December 31, 2013, LP included two OSB mills and various non-operating sites in its held for sale category. Subsequent to June 30, 2014, LP sold its Athens, Georgia facility for \$11.9 million, which is included in "Assets held for sale" as of June 30, 2014. The current book values of assets held for sale by category is as follows:

Dollars in millions	June 30, 2014	December 31, 2013
Property, plant and equipment, at cost:		
Land, land improvements and logging roads, net of road amortization	\$ 6.9	\$ 6.9
Buildings	6.2	6.2
Machinery and equipment	99.1	99.1
	112.2	112.2
Accumulated depreciation	(95.9	) (95.9
Net property, plant and equipment	\$ 16.3	\$ 16.3



## NOTE 8 – INCOME TAXES

Accounting standards state that companies 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 basis of assets and liabilities. This method also requires the recognition of future tax benefits, such as net operating loss carryforwards 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, considering the future reversal of existing deferred tax liabilities 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 to year-to-date results unless this method does not result in a reliable estimate of year-to-date income tax expense. 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.

The income tax components and associated effective income tax rates for the six months ended June 30, 2014 and 2013 are as follows:

	Six Months Ended June 30,					
	2014		2013			
	Tax Benefit	Tax Rate	Tax Provision	Tax Rate		
Continuing operations	\$(12.3 )	(50 )%	\$47.2	23		%
Discontinued operations	—	35	% 0.2	35		%
	\$(12.3 )	(50 )%	\$47.4	23		%

For the first six months of 2014, the primary differences between the U.S. statutory rate of 35% and the effective rate applicable to LP's continuing operations relate to state income taxes, the effect of foreign tax rates and the effects of foreign exchange on functional currencies. For the first six months of 2013, the primary differences between the U.S. statutory rate of 35% and the effective rate applicable to LP's continuing operations relate to the effect of foreign tax rates and decreases in valuation allowances attributed to net operating loss carryforwards in various jurisdictions.

LP periodically reviews the need for valuation allowances against deferred tax assets and recognizes these deferred tax assets to the extent that the realization is more likely than not. Based upon its review of available positive and negative evidence, LP believes that the valuation allowances provided are appropriate. If LP were to determine that it would not be able to realize a portion of an existing net deferred tax asset in excess of an existing valuation allowance, an adjustment to the net deferred tax asset would be charged to earnings in the period in which such determination was made. Conversely, if it were to make a determination that it is more likely than not that an existing deferred tax asset for which there is currently a valuation allowance would be realized, the related valuation allowance would be reduced and a benefit to earnings would be recorded in the period in which such determination was made.

As a result of certain recognition requirements of ASC 718 Compensation -- Stock Compensation, certain deferred tax assets as of June 30, 2014 are not recognized in relation to amounts of tax deductions for equity compensation that are greater than the compensation recognized for financial reporting. Equity will be increased by \$13.2 million if and when such deferred tax assets are ultimately realized. LP uses the "with and without" method for determining when excess tax benefits have been realized.

LP and its domestic subsidiaries are subject to U.S. federal income tax as well as income taxes of multiple state jurisdictions. Its foreign subsidiaries are subject to income tax in Canada, Chile, Peru and Brazil. The U.S. Internal Revenue Service (IRS) has proposed certain adjustments to the federal returns for tax years 2007 - 2009, and LP is currently engaged in settlement discussions with the IRS Appeals Office. During the third quarter of 2013, LP

deposited \$17.1 million with the IRS to suspend the accrual of interest pending the resolution of these matters. The deposit is included within other assets on the Consolidated Balance Sheet. LP remains subject to U.S. federal examinations of tax years 2010 through 2012, as well as state and local tax examinations for the tax years 2007 through 2012. Canadian federal income tax returns for years 2010 through 2013 are subject to examination and no examinations are currently in progress. Quebec provincial returns have been audited and effectively settled through 2012. As of June 30, 2014, Chilean returns for years 2010 - 2012 are under review by the Chilean Tax Office. Brazilian returns for years 2009 - 2013 are subject to audit, but no examinations are currently in progress.

#### NOTE 9 – OTHER OPERATING CREDITS AND CHARGES, NET

The major components of “Other operating credits and charges, net” in the Consolidated Statements of Income for the quarter and six months ended June 30, 2014 and June 30, 2013 is reflected in the table below and is described in the paragraphs following the table:

Dollar amounts in millions	Quarter Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Other operating charges and credits net:				
Adjustment related to prior year inventory	\$—	\$—	\$—	\$(1.6 )
Adjustment related to prior year depreciation	—	(1.5 )	—	(1.5 )
Additions to environmental related contingency reserve	(0.5 )	—	(0.5 )	—
Contingent consideration fair value adjustment	(0.1 )	—	(0.1 )	—
Adjustment to product related warranty reserves	—	(4.1 )	—	(4.1 )
Other	—	0.2	—	0.2
	\$(0.6 )	\$(5.4 )	\$(0.6 )	\$(7.0 )
Other operating charges and credits associated with unconsolidated affiliates:				
Valuation allowance associated with deferred taxes	\$—	\$(1.8 )	\$—	\$(1.8 )
Addition to contingency reserves	—	(0.9 )	—	(0.9 )
	\$—	\$(2.7 )	\$—	\$(2.7 )

During the second quarter of 2014, LP recorded a loss of \$0.5 million related to an environmental contingency reserve. LP also recorded a loss of \$0.1 million related to the fair market value adjustment of the contingent consideration payable in connection with a business combination.

During the first quarter of 2013, LP recorded a loss of \$1.6 million related to a prior year inventory adjustment.

During the second quarter of 2013, LP recorded a loss of \$1.5 million related to a correction of prior years depreciation amounts associated with LP's South American operations and a loss of \$4.1 million related to adjustments in product related warranty reserves associated with Canexel products sold in certain geographic areas from 2004 to 2008.

Additionally, during 2013, other operating charges and credits included in Equity in (income) loss from unconsolidated affiliates is a charge of \$1.8 million related to a valuation allowance on the joint venture's books associated with deferred tax assets, as well as a loss of \$0.9 million associated with the recording of a contingent liability from prior years.

**NOTE 10 – TRANSACTIONS WITH AFFILIATES**

LP has an equity investment in Abitibi-LP, a manufacturer of I-joists with Resolute Forest Products. LP sells products and raw materials to Abitibi-LP and purchases products for resale from Abitibi-LP. LP eliminates profits on these sales and purchases, to the extent the inventory has not been sold through to third parties, on the basis of its 50% interest. For the quarters ended June 30, 2014 and 2013, LP sold \$2.7 million and \$3.9 million of products to Abitibi-LP and purchased \$16.0 million and \$13.5 million of I-joists from Abitibi-LP. For the six month period ended June 30, 2014 and 2013, LP sold \$5.2 million and \$7.4 million of products to Abitibi-LP and purchased \$28.2 million and \$24.5 million of I-joists from Abitibi-LP. Included in LP's Consolidated Balance Sheets at June 30, 2014 and December 31, 2013 are \$0.7 million and \$0.8 million in accounts receivable from this affiliate.

Prior to LP's purchase of the remaining joint venture interest from Canfor-LP in May 2013, LP purchased \$38.0 million and \$98.2 million of OSB from Canfor-LP during the quarter and six months ended June 30, 2013.

**NOTE 11 – LEGAL AND ENVIRONMENTAL MATTERS**

Certain environmental matters and legal proceedings are discussed below.

**Environmental Matters**

LP maintains a reserve for undiscounted estimated environmental loss contingencies. This reserve is primarily for estimated future costs of remediation of hazardous or toxic substances at numerous sites currently or previously owned by the Company. LP's estimates of its environmental loss contingencies are based on various assumptions and judgments, the specific nature of which varies in light of the particular facts and circumstances surrounding each environmental loss contingency. These estimates typically reflect assumptions and judgments as to the probable nature, magnitude and timing of required investigation, remediation and/or monitoring activities and the probable cost of these activities, and in some cases reflect assumptions and judgments as to the obligation or willingness and ability of third parties to bear a proportionate or allocated share of the cost of these activities. Due to the numerous uncertainties and variables associated with these assumptions and judgments, and the effects of changes in governmental regulation and environmental technologies, both the precision and reliability of the resulting estimates of the related contingencies are subject to substantial uncertainties. LP regularly monitors its estimated exposure to environmental loss contingencies and, as additional information becomes known, may change its estimates significantly.

**Other Proceedings**

LP and its subsidiaries are parties to other legal proceedings. Based on the information currently available, management believes that the resolution of such proceedings will not have a material adverse effect on the financial position, results of operations, cash flows or liquidity of LP.

**NOTE 12 – SELECTED SEGMENT DATA**

LP operates in four segments: Oriented Strand Board (OSB), Siding, Engineered Wood Products (EWP) and South America. LP's business units have been aggregated into these four segments based upon the similarity of economic characteristics, customers and distribution methods. LP's results of operations are summarized below for each of these segments separately as well as for the "other" category which comprises other products that are not individually significant. Segment information was prepared in accordance with the same accounting principles as those described in Note 1 of the Notes to the financial statements included in LP's Annual Report on Form 10-K for the year ended December 31, 2013.

Dollar amounts in millions	Quarter Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales:				
OSB	\$223.7	\$306.2	\$418.6	\$592.9
Siding	169.7	152.7	313.2	286.5
Engineered Wood Products	80.6	60.9	147.0	124.3
South America	41.9	44.3	78.5	89.4
Other	4.0	3.7	7.7	6.4
Intersegment Sales	(1.4	) (0.8	) (1.8	) (1.4
	\$518.5	\$567.0	\$963.2	\$1,098.1
Operating profit (loss):				
OSB	\$(5.5	) \$95.4	\$(7.4	) \$193.5
Siding	25.9	27.1	45.1	47.8
Engineered Wood Products	(5.0	) (5.1	) (8.1	) (8.6
South America	4.0	6.3	8.2	12.5
Other	(1.3	) (2.2	) (2.0	) (3.8
Other operating credits and charges, net	(0.6	) (5.4	) (0.6	) (7.0
Other operating credits and charges associated with unconsolidated affiliates	—	(2.7	) —	(2.7
Gain on sale or impairment of long-lived assets	0.5	0.7	0.5	0.7
General corporate and other expenses, net	(20.7	) (21.3	) (48.0	) (43.9
Foreign currency gains (losses)	3.8	(3.6	) (0.5	) (4.3
Gain on acquisition	—	35.9	—	35.9
Investment income	1.7	3.1	3.5	6.6
Interest expense, net of capitalized interest	(7.4	) (9.8	) (15.1	) (20.4
Income (loss) from continuing operations before taxes	(4.6	) 118.4	(24.4	) 206.3
Provision (benefit) for income taxes	(6.7	) 24.3	(12.3	) 47.2
Income (loss) from continuing operations	\$2.1	\$94.1	\$(12.1	) \$159.1

## NOTE 13 – POTENTIAL IMPAIRMENTS

LP continues to review certain operations and investments for potential impairments. LP's management currently believes it has adequate support for the carrying value of each of these operations and investments based upon the anticipated cash flows that result from estimates of future demand, pricing and production costs assuming certain levels of planned capital expenditures. As of June 30, 2014, there were no indications of impairment for the asset grouping that includes the company's indefinitely curtailed facilities. As of June 30, 2014, the fair value of facilities that have not been indefinitely curtailed are substantially in excess of its carrying value and supports the conclusion that no impairment is necessary for those facilities.

LP also reviews from time to time possible dispositions of various assets in light of current and anticipated economic and industry conditions, its strategic plan and other relevant circumstances. Because a determination to dispose of particular assets can require management to make assumptions regarding the transaction structure of the disposition and to estimate the net sales proceeds, which may be less than previous estimates of undiscounted future net cash flows, LP may be required to record impairment charges in connection with decisions to dispose of assets.

**NOTE 14 – CONTINGENCY RESERVES**

LP maintains reserves for various contingent liabilities as follows:

Dollar amounts in millions	June 30, 2014	December 31, 2013
Environmental reserves	\$15.0	\$14.9
Other reserves	0.8	0.4
Total contingency reserves	15.8	15.3
Current portion of contingency reserves	(2.0	) (2.0
Long-term portion of contingency reserves	\$13.8	\$13.3

See Note 11 for discussion of legal and environmental matters.

**NOTE 15 – DEFINED BENEFIT PENSION PLANS**

The following table sets forth the net periodic pension cost for LP's defined benefit pension plans during the quarter and six months ended June 30, 2014 and 2013. The net periodic pension cost included the following components:

Dollar amounts in millions	Quarter Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Service cost	\$0.9	\$0.8	\$1.9	\$1.6
Interest cost	3.6	3.3	7.3	6.5
Expected return on plan assets	(4.2	) (4.1	) (8.5	) (8.2
Amortization of prior service cost	—	—	—	0.1
Amortization of net loss	1.4	1.9	2.8	3.7
Net periodic pension cost	\$1.7	\$1.9	\$3.5	\$3.7

During the six months ended June 30, 2014 and 2013, LP recognized \$3.5 million and \$3.7 million of pension expense for all of LP's defined benefit pension plans.

During the six months ended June 30, 2014, LP made \$2.2 million in pension contributions for LP's Canadian benefit plans. LP expects to contribute \$11.0 million to \$13.0 million to its pension plans in 2014.

**NOTE 16 – GUARANTEES AND INDEMNIFICATIONS**

LP is a party to contracts in which LP agrees to indemnify third parties for certain liabilities that arise out of or relate to the subject matter of the contract. In some cases, this indemnity extends to liabilities arising out of the negligence of the indemnified parties, but usually excludes any liabilities caused by gross negligence or willful misconduct of the indemnified parties. LP cannot estimate the potential amount of future payments under these agreements until events arise that would trigger the liability. See Note 21 of the Notes to the financial statements included in LP's Annual Report on Form 10-K for the year ended December 31, 2013 for further discussion of LP's guarantees and indemnifications.

LP provides warranties on the sale of most of its products and records an accrual for estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims. The activity in warranty reserves for the quarter and six months of 2014 and 2013 are summarized in the following table:

Dollar amounts in millions	Quarter Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Beginning balance	\$26.2	\$19.4	\$29.3	\$21.4
Accrued to expense	0.1	—	0.3	0.3
Adjusted to other operating credits and charges	—	4.1	—	4.1
Foreign currency translation	0.5	—	0.1	—
Payments made	(2.5	) (2.5	) (5.4	) (4.8
Total warranty reserves	24.3	21.0	24.3	21.0
Current portion of warranty reserves	(12.0	) (12.0	) (12.0	) (12.0
Long-term portion of warranty reserves	\$12.3	\$9.0	\$12.3	\$9.0

During the second quarter of 2013, LP increased the warranty reserves related to CanExel siding products by \$4.1 million. The additional reserves reflect revised estimates of future claim payments based upon an increase in CanExel warranty claims related to a specific geographic location and for a specific time period. LP continues to monitor warranty and other claims associated with these products and believes as of June 30, 2014 that the reserves associated with these matters are adequate. However, it is possible that additional charges may be required in the future.

LP believes that the warranty reserve balances as of June 30, 2014 are adequate to cover future warranty payments.

However, it is possible that additional charges may be required.

The current portion of the warranty reserve is included in the caption "Accounts payable and accrued liabilities" and the long-term portion is included in the caption "Other long-term liabilities" on LP's Consolidated Balance Sheets.

#### NOTE 17 - OTHER COMPREHENSIVE INCOME

Other comprehensive income activity, net of tax, is provided in the following table for the quarter and six months ended June 30, 2014:

Dollar amounts in millions	Foreign currency translation adjustments	Pension adjustments	Unrealized gain (loss) on investments	Other	Total
Balance at March 31, 2014	\$(21.0	) \$(69.0	) \$2.1	\$(1.7	) \$(89.6
Other comprehensive income before reclassifications	0.7	1.7	0.4	—	2.8
Amounts reclassified from accumulated comprehensive income	—	(1.2	) —	—	(1.2
Net current-period other comprehensive income	0.7	0.5	0.4	—	1.6
Balance at June 30, 2014	\$(20.3	) \$(68.5	) \$2.5	\$(1.7	) \$(88.0

Dollar amounts in millions	Foreign currency translation adjustments	Pension adjustments	Unrealized gain (loss) on investments	Other	Total
Balance at December 31, 2013	\$ (19.2 )	\$ (70.3 )	\$ 2.0	\$ (1.7 )	\$ (89.2 )
Other comprehensive income (loss) before reclassifications	(1.1 )	4.3	0.5	—	3.7
Amounts reclassified from accumulated comprehensive income	—	(2.5 )	—	—	(2.5 )
Net current-period other comprehensive income (loss)	(1.1 )	1.8	0.5	—	1.2
Balance at June 30, 2014	\$ (20.3 )	\$ (68.5 )	\$ 2.5	\$ (1.7 )	\$ (88.0 )

Other comprehensive income activity, net of tax, is provided in the following table for the quarter and six months ended June 30, 2013:

Dollar amounts in millions	Foreign currency translation adjustments	Pension adjustments	Unrealized gain (loss) on derivative instruments	Unrealized gain (loss) on investments	Other	Total
Balance at March 31, 2013	\$ (5.7 )	\$ (97.6 )	\$ (0.3 )	\$ 1.3	\$ (2.0 )	\$ (104.3 )
Other comprehensive income (loss) before reclassifications	(9.0 )	3.0	—	0.9	—	(5.1 )
Amounts reclassified from accumulated comprehensive income	—	(1.4 )	—	—	—	(1.4 )
Net current-period other comprehensive income (loss)	(9.0 )	1.6	—	0.9	—	(6.5 )
Balance at June 30, 2013	\$ (14.7 )	\$ (96.0 )	\$ (0.3 )	\$ 2.2	\$ (2.0 )	\$ (110.8 )
Dollar amounts in millions	Foreign currency translation adjustments	Pension adjustments	Unrealized gain (loss) on derivative instruments	Unrealized gain (loss) on investments	Other	Total
Balance at December 31, 2012	\$ (7.6 )	\$ (99.0 )	\$ (0.3 )	\$ 1.0	\$ (2.0 )	\$ (107.9 )
Other comprehensive income (loss) before reclassifications	(7.1 )	5.7	—	1.2	—	(0.2 )
Amounts reclassified from accumulated comprehensive income	—	(2.7 )	—	—	—	(2.7 )
Net current-period other comprehensive income (loss)	(7.1 )	3.0	—	1.2	—	(2.9 )
Balance at June 30, 2013	\$ (14.7 )	\$ (96.0 )	\$ (0.3 )	\$ 2.2	\$ (2.0 )	\$ (110.8 )

Reclassifications from accumulated other comprehensive loss for the quarter and six months ended June 30, 2014 and June 30, 2013 are summarized, in millions of dollars, in the following table:

Details about accumulated other comprehensive income components	Amount reclassified from accumulated comprehensive loss				Affected line item in the statement where net income (loss) is presented
	Quarter Ended June 30,		Six Months Ended June 30,		
	2014	2013	2014	2013	
Amortization of defined benefit pension plans					
Prior service cost	\$—	\$—	\$—	\$0.1	(a)
Actuarial loss	1.4	1.9	2.8	3.7	(a)
Transition obligation	0.3	—	0.7	(0.1)	(a)
	1.7	1.9	3.5	3.7	Total before tax
	0.5	0.5	1.0	1.0	Tax benefit
Total reclassifications	\$ 1.2	\$ 1.4	\$ 2.5	\$ 2.7	Net of tax

(a) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost, see Note 15 for additional details. The net periodic pension cost is included in Cost of sales and Selling and administrative line items in the Consolidated Statements of Income.

#### NOTE 18 - GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in goodwill for the six months ended June 30, 2014 and June 30, 2013 are provided in the following table:

Dollar amounts in millions	2014	2013
Beginning balance, January 1,	\$9.7	\$—
Additions	—	9.7
Total goodwill	\$9.7	\$9.7

LP has recorded other intangible assets in its Consolidated Balance Sheets, as follows:

Dollar amounts in millions	June 30, 2014	December 31, 2013
Timber licenses (recorded as part of Timber and timberlands)	\$66.7	\$68.2
Other	0.1	0.1
Total	\$66.8	\$68.3

Customer relationships and other intangibles are included in Other assets in the Consolidated Balance Sheet.

Amortization of the above intangible assets over the next five years is as follows:

Dollar amounts in millions	
2014	\$ 3.4
2015	3.4
2016	4.2
2017	4.2
2018	4.2





During the second quarter of 2013, LP completed the acquisition of the Peace Valley OSB joint venture. The acquisition resulted in the recognition of \$9.7 million of goodwill and included timber licenses of \$34.1 million.

#### NOTE 19 - DISCONTINUED OPERATIONS

Over the last several years, LP has adopted and implemented plans to sell selected businesses and assets in order to improve its operating results. For all periods presented, these operations include residual losses of mills divested in past years and associated warranty and other liabilities associated with these operations.

Sales and operating profit included in discontinued operations for the quarter and six months ended June 30, 2014 and 2013 are as follows:

Dollars amounts in millions	Quarter Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Sales	\$—	\$5.7	\$—	\$12.0
Operating profit	—	0.2	—	0.5

#### NOTE 20 - RECENT AND PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2016. LP is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations and financial position.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This guidance states that the disposal of a component of an entity is to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The pronouncement also requires additional disclosures regarding individually significant disposals of components that do not meet the criteria to be recognized as a discontinued operation as well as additional and expanded disclosures. The guidance is effective for all disposals (or classifications as held for sale) of components of an entity and all businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015; it is applied prospectively. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The adoption of this standard will impact presentation only and will not have an effect on LP's consolidated results of operations and financial position.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### GENERAL

Our products are used primarily in new home construction, repair and remodeling, and manufactured housing. We also market and sell our products in light industrial and commercial construction and we have a modest export business. Our manufacturing facilities are primarily located in the U.S. and Canada, but we also operate two facilities in Chile and one facility in Brazil.

To serve our markets, we operate in four segments: Oriented Strand Board (OSB), Siding, Engineered Wood Products (EWP) and South America.

Demand for our products correlates to a significant degree to the level of residential construction activity in North America, which historically has been characterized by significant cyclicity. For the quarter and first six months of 2014, the U.S. Department of Census reported that actual U.S. single and multi-family housing starts were 12% higher than for the second quarter of 2013 and 6% higher than the comparable six month period. OSB is sold as a commodity for which sales prices fluctuate daily based on market factors over which we have little or no control. We cannot predict whether the prices of our OSB products will remain at current levels or increase or decrease in the future. OSB prices (NC 7/16"), as reported by Random Lengths, were 37% lower for the second quarter of 2014 than for the same period in 2013.

For additional factors affecting our results, refer to the Management Discussion and Analysis overview contained in our Annual Report on Form 10-K for the year ended December 31, 2013 and to "About Forward-Looking Statements" and "Risk Factors" in this report.

### CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Presented in Note 1 of the Notes to the financial statements included in LP's Annual Report on Form 10-K for the year ended December 31, 2013 is a discussion of our significant accounting policies and significant accounting estimates and judgments. Throughout the preparation of the financial statements, we employ significant judgments in the application of accounting principles and methods. These judgments are primarily related to the assumptions used to arrive at various estimates. For the second quarter of 2014, these significant accounting estimates and judgments include:

**Legal Contingencies.** Our estimates of loss contingencies for legal proceedings are based on various judgments and assumptions regarding the potential resolution or disposition of the underlying claims and associated costs. In making judgments and assumptions regarding legal contingencies for ongoing class action settlements, we consider, among other things, discernible trends in the rate of claims asserted and related damage estimates and information obtained through consultation with statisticians and economists, including statistical analysis of potential outcomes based on experience to date and the experience of third parties who have been subject to product-related claims judged to be comparable. Due to the numerous variables associated with these judgments and assumptions, both the precision and reliability of the resulting estimates of the related loss contingencies are subject to substantial uncertainties. We regularly monitor our estimated exposure to these contingencies and, as additional information becomes known, may change our estimates significantly.

**Environmental Contingencies.** Our estimates of loss contingencies for environmental matters are based on various judgments and assumptions. These estimates typically reflect judgments and assumptions relating to the probable nature, magnitude and timing of required investigation, remediation and/or monitoring activities and the probable cost of these activities, and in some cases reflect judgments and assumptions relating to the obligation or willingness and ability of third parties to bear a proportionate or allocated share of the cost of these activities, including third parties who purchased assets from us subject to environmental liabilities. We consider the ability of third parties to pay their apportioned cost when developing our estimates. In making these judgments and assumptions related to the development of our loss contingencies, we consider, among other things, the activity to date at particular sites, information obtained through consultation with applicable regulatory authorities and third-party consultants and contractors and our historical experience at other sites that are judged to be comparable. Due to the numerous variables associated with these judgments and assumptions, and the effects of changes in governmental regulation and environmental technologies, both the precision and reliability of the resulting estimates of the related



contingencies are subject to substantial uncertainties. We regularly monitor our estimated exposure to environmental loss contingencies and, as additional information becomes known, may change our estimates significantly. At June 30, 2014, we excluded from our estimates approximately \$2.4 million of potential environmental liabilities that we estimate will be allocated to third parties pursuant to existing and anticipated future cost sharing arrangements.

**Impairment of Long-Lived Assets.** We review the long-lived assets held and used by us (primarily property, plant and equipment and timber and timberlands) for impairment when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. We consider the necessity of undertaking such a review at least quarterly, and also when certain events or changes in circumstances occur. Events and changes in circumstances that may necessitate such a review include, but are not limited to: a significant decrease in the market price of a long-lived asset or group of long-lived assets; a significant adverse change in the extent or manner in which a long-lived asset or group of long-lived assets is being used or in its physical condition; a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset or group of long-lived assets, including an adverse action or assessment by a regulator; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset or group of long-lived assets; current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or group of long-lived assets; and current expectation that, more likely than not, a long-lived asset or group of long-lived assets will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. Identifying these events and changes in circumstances, and assessing their impact on the appropriate valuation of the affected assets under accounting principles generally accepted in the U.S., requires us to make judgments, assumptions and estimates.

In general, for assets held and used in our operations, impairments are recognized when the carrying amount of the long-lived asset or groups of long-lived assets is not recoverable and exceeds the fair value of the asset or group of assets. The carrying amount of a long-lived asset or groups of long-lived assets is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets or group of assets. The key assumptions in estimating these cash flows relate to future production volumes, pricing of commodity or specialty products and future estimates of expenses to be incurred as reflected in our long-range internal planning models. Our assumptions regarding pricing are based upon the average pricing over the commodity cycle (generally five years) due to the inherent volatility of commodity product pricing, and reflect our assessment of information gathered from industry research firms, research reports published by investment analysts and other published forecasts. Our assumptions regarding expenses reflect our expectation that we will continue to reduce production costs to offset inflationary impacts.

When impairment is indicated for assets held and used in our operations, the book values of the affected assets are written down to their estimated fair value, which is generally based upon discounted future cash flows associated with the affected assets. When impairment is indicated for assets to be disposed of, the book values of the affected assets are written down to their estimated fair value, less estimated selling costs. Consequently, a determination to dispose of particular assets can require us to estimate the net sales proceeds expected to be realized upon such disposition, which may be less than the estimated undiscounted future net cash flows associated with such assets prior to such determination, and thus require an impairment charge. In situations where we have experience in selling assets of a similar nature, we may estimate net sales proceeds on the basis of that experience. In other situations, we hire independent appraisers to estimate net sales proceeds.

Due to the numerous variables associated with our judgments and assumptions relating to the valuation of assets in these circumstances, and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates of the related impairment charges are subject to substantial uncertainties and, as additional information becomes known, we may change our estimates significantly.

**Income Taxes.** The determination of the provision for income taxes, and the resulting current and deferred tax assets and liabilities, involves significant management judgment, and is based upon information and estimates available to management at the time of such determination. The final income tax liability to any taxing jurisdiction with respect to any calendar year will ultimately be determined long after our financial statements have been published for that year. We maintain reserves for known estimated tax exposures in federal, state and international jurisdictions; however,

actual results may differ materially from our estimates.

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Judgment is also applied in determining whether deferred tax assets will be realized in full or in part. When we consider it to be more likely than not that all or some portion of a deferred tax asset will not be realized, a valuation allowance is established for the amount of the deferred tax asset that is estimated not to be realizable. As of June 30, 2014, we had established valuation allowances against certain deferred tax assets, primarily related to state carryovers of net operating losses and credits and capital losses in state and foreign jurisdictions. We have not established valuation allowances against other deferred tax assets based upon our review of the evidence supporting their realization. Accordingly, changes in facts or circumstances affecting the likelihood of realizing a deferred tax asset could result in the need to record additional valuation allowances.

**Pension Plans.** Most of our U.S. employees and many of our Canadian employees participate in defined benefit pension plans sponsored by LP. We account for the consequences of our sponsorship of these plans in accordance with accounting principles generally accepted in the U.S., which require us to make actuarial assumptions that are used to calculate the related assets, liabilities and expenses recorded in our financial statements. While we believe we have a reasonable basis for these assumptions, which include assumptions regarding long-term rates of return on plan assets, life expectancies, rates of increase in salary levels, rates at which future values should be discounted to determine present values and other matters, the amounts of our pension related assets, liabilities and expenses recorded in our financial statements would differ if we used other assumptions.

**Workers' Compensation.** We are self insured for most of our U.S. employees' workers compensation claims. We account for these plans in accordance with accounting principles generally accepted in the U.S., which require us to make actuarial assumptions that are used to calculate the related assets, liabilities and expenses recorded in our financial statements. While we believe we have a reasonable basis for these assumptions, which include assumptions regarding rates at which future values should be discounted to determine present values, expected future health care costs and other matters, the amounts of our liabilities and related expenses recorded in our financial statements would differ if we used other assumptions.

**Warranty Obligations.** Customers are provided with a limited warranty against certain defects associated with our products for periods of up to fifty years. We estimate the costs to be incurred under these warranties and record a liability in the amount of such costs at the time product revenue is recognized. Factors that affect our warranty liability include the historical and anticipated rates of warranty claims and the cost of resolving such. We periodically assess the adequacy of our recorded warranty liability for each product and adjust the amounts as necessary. While we believe we have a reasonable basis for these assumptions, actual warranty costs in the future could differ from our estimates.

#### NON-GAAP FINANCIAL MEASURES

In evaluating our business, we utilize several non-GAAP financial measures. A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so excluded or included under applicable GAAP guidance. In this report on Form 10-Q, we disclose earnings (loss) from continuing operations before interest expense, taxes, depreciation and amortization ("EBITDA from continuing operations") which is a non-GAAP financial measure. Additionally, we disclose "Adjusted EBITDA from continuing operations" which further adjusts EBITDA from continuing operations to exclude stock based compensation expense, (gain) loss on sales or impairment of long lived assets, other operating charges and credits, net, other operating charges and credits associated with joint ventures, certain acquisition-related expenses, gain on acquisitions, depreciation included in equity in (income) loss of unconsolidated affiliates and investment income. Neither EBITDA from continuing operations nor Adjusted EBITDA from continuing operations is a substitute for the GAAP measures of net income or operating cash flows or for any other GAAP measures of operating performance or liquidity.

We have included EBITDA from continuing operations and Adjusted EBITDA from continuing operations in this report on Form 10-Q because we use them as important supplemental measures of our performance and believe that they are frequently used by securities analysts, investors and other interested persons in the evaluation of companies in our industry, some of which present EBITDA when reporting their results. We use EBITDA from continuing operations and Adjusted EBITDA from continuing operations to evaluate our performance as compared to other companies in our industry that have different financing and capital structures and/or tax rates. It should be noted that

companies calculate EBITDA and Adjusted EBITDA differently and, therefore, our EBITDA and Adjusted EBITDA measures may not be comparable to EBITDA and Adjusted EBITDA reported by other companies. Our EBITDA



and Adjusted EBITDA measures have material limitations as performance measures because they exclude interest expense, income tax (benefit) expense, depreciation and amortization and other costs and expenses, which are necessary to operate our business or which we otherwise incurred or experienced in connection with the operation of our business.

The following table represents significant items by operating segment and reconciles income (loss) from continuing operations to Adjusted EBITDA from continuing operations:

Three Months Ended June 30, 2014 (Dollar amounts in millions)	OSB	Siding	EWP	South America	Other	Corporate	Total
Sales	\$223.7	\$169.7	\$80.6	\$41.9	\$4.0	\$(1.4 )	\$518.5
Depreciation and amortization	13.5	4.3	3.9	2.6	—	0.6	24.9
Cost of sales and selling and administrative	215.7	139.5	82.9	35.3	5.3	18.7	497.4
Gain on sale or impairment of long lived assets	—	—	—	—	—	(0.5 )	(0.5 )
Other operating credits and charges, net	—	—	—	—	—	0.6	0.6
Total operating costs	229.2	143.8	86.8	37.9	5.3	19.4	522.4
Income (loss) from operations	(5.5 )	25.9	(6.2 )	4.0	(1.3 )	(20.8 )	(3.9 )
Total non-operating expense	—	—	—	—	—	(1.9 )	(1.9 )
Income (loss) before income taxes and equity in income of unconsolidated affiliates	(5.5 )	25.9	(6.2 )	4.0	(1.3 )	(22.7 )	(5.8 )
Income tax benefit	—	—	—	—	—	(6.7 )	(6.7 )
Equity in income of unconsolidated affiliates	—	—	(1.2 )	—	—	—	(1.2 )
Income (loss) from continuing operations	\$(5.5 )	\$25.9	\$(5.0 )	\$4.0	\$(1.3 )	\$(16.0 )	\$2.1
Reconciliation of income (loss) from continuing operations to Adjusted EBITDA from continuing operations							
Income (loss) from continuing operations	\$(5.5 )	\$25.9	\$(5.0 )	\$4.0	\$(1.3 )	\$(16.0 )	\$2.1
Income tax benefit	—	—	—	—	—	(6.7 )	(6.7 )
Interest expense, net of capitalized interest	—	—	—	—	—	7.4	7.4
Depreciation and amortization	13.5	4.3	3.9	2.6	—	0.6	24.9
EBITDA from continuing operations	8.0	30.2	(1.1 )	6.6	(1.3 )	(14.7 )	27.7
Stock based compensation expense	0.3	0.1	0.2	—	—	1.8	2.4
Gain on sale or impairment of long lived assets	—	—	—	—	—	(0.5 )	(0.5 )
Investment income	—	—	—	—	—	(1.7 )	(1.7 )
Expenses associated with proposed acquisition of Ainsworth Lumber Co. Ltd.	—	—	—	—	—	(2.3 )	(2.3 )
Other operating credits and charges, net	—	—	—	—	—	0.6	0.6
Depreciation included in equity in (income) loss of unconsolidated affiliates	—	—	0.1	—	—	—	0.1
Adjusted EBITDA from continuing operations	\$8.3	\$30.3	\$(0.8 )	\$6.6	\$(1.3 )	\$(16.8 )	\$26.3

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Three Months Ended June 30, 2013 (Dollar amounts in millions)	OSB	Siding	EWP	South America	Other	Corporate	Total
Sales	\$306.2	\$152.7	\$60.9	\$44.3	\$3.7	\$(0.8 )	\$567.0
Depreciation and amortization	10.6	4.4	2.6	2.5	—	0.5	20.6
Cost of sales and selling and administrative	206.7	121.2	61.4	35.5	5.5	22.7	453.0
Gain on sale or impairment of long lived assets	—	—	—	—	—	(0.7 )	(0.7 )
Other operating credits and charges, net	—	—	—	—	—	5.4	5.4
Total operating costs	217.3	125.6	64.0	38.0	5.5	27.9	478.3
Income (loss) from operations	88.9	27.1	(3.1 )	6.3	(1.8 )	(28.7 )	88.7
Total non-operating expense	—	—	—	—	—	25.6	25.6
Income (loss) before income taxes and equity in (income) loss of unconsolidated affiliates	88.9	27.1	(3.1 )	6.3	(1.8 )	(3.1 )	114.3
Provision for income taxes	—	—	—	—	—	24.3	24.3
Equity in (income) loss of unconsolidated affiliates	(6.5 )	—	2.0	—	0.4	—	(4.1 )
Income (loss) from continuing operations	\$95.4	\$27.1	\$(5.1 )	\$6.3	\$(2.2 )	\$(27.4 )	\$94.1
Reconciliation of income (loss) from continuing operations to Adjusted EBITDA from continuing operations							
Income (loss) from continuing operations	\$95.4	\$27.1	\$(5.1 )	\$6.3	\$(2.2 )	\$(27.4 )	\$94.1
Provision for income taxes	—	—	—	—	—	24.3	24.3
Interest expense, net of capitalized interest	—	—	—	—	—	9.8	9.8
Depreciation and amortization	10.6	4.4	2.6	2.5	—	0.5	20.6
EBITDA from continuing operations	106.0	31.5	(2.5 )	8.8	(2.2 )	7.2	148.8
Stock based compensation expense	0.3	0.2	0.1	—	—	1.5	2.1
Gain on sale or impairment of long lived assets	—	—	—	—	—	(0.7 )	(0.7 )
Investment income	—	—	—	—	—	(3.1 )	(3.1 )
Other operating credits and charges, net	—	—	—	—	—	5.4	5.4
Other operating credit and charges associated with unconsolidated affiliates	—	—	—	—	—	2.7	2.7
Gain on acquisition	—	—	—	—	—	(35.9 )	(35.9 )
Depreciation included in equity in income (loss) of unconsolidated affiliates	1.4	—	0.1	—	0.8	—	2.3
Adjusted EBITDA from continuing operations	\$107.7	\$31.7	\$(2.3 )	\$8.8	\$(1.4 )	\$(22.9 )	\$121.6

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Six Months Ended June 30, 2014 (Dollar amounts in millions)	OSB	Siding	EWP	South America	Other	Corporate	Total
Sales	\$418.6	\$313.2	\$147.0	\$78.5	\$7.7	\$(1.8)	\$963.2
Depreciation and amortization	27.1	8.5	8.5	4.9	—	1.5	50.5
Cost of sales and selling and administrative	398.9	259.6	148.4	65.4	9.7	44.7	926.7
Gain on sale or impairment of long lived assets	—	—	—	—	—	(0.5)	(0.5)
Other operating credits and charges, net	—	—	—	—	—	0.6	0.6
Total operating costs	426.0	268.1	156.9	70.3	9.7	46.3	977.3
Income (loss) from operations	(7.4)	45.1	(9.9)	8.2	(2.0)	(48.1)	(14.1)
Total non-operating expense	—	—	—	—	—	(12.1)	(12.1)
Income (loss) before income taxes and equity in income of unconsolidated affiliates	(7.4)	45.1	(9.9)	8.2	(2.0)	(60.2)	(26.2)
Benefit for income taxes	—	—	—	—	—	(12.3)	(12.3)
Equity in income of unconsolidated affiliates	—	—	(1.8)	—	—	—	(1.8)
Income (loss) from continuing operations	\$(7.4)	\$45.1	\$(8.1)	\$8.2	\$(2.0)	\$(47.9)	\$(12.1)
Reconciliation of income (loss) from continuing operations to adjusted EBITDA from continuing operations							
Income (loss) from continuing operations	\$(7.4)	\$45.1	\$(8.1)	\$8.2	\$(2.0)	\$(47.9)	\$(12.1)
Benefit for income taxes	—	—	—	—	—	(12.3)	(12.3)
Interest expense, net of capitalized interest	—	—	—	—	—	15.1	15.1
Depreciation and amortization	27.1	8.5	8.5	4.9	—	1.5	50.5
EBITDA from continuing operations	19.7	53.6	0.4	13.1	(2.0)	(43.6)	41.2
Stock based compensation expense	0.5	0.3	0.3	—	—	3.4	4.5
Gain on sale or impairment of long lived assets	—	—	—	—	—	(0.5)	(0.5)
Investment income	—	—	—	—	—	(3.5)	(3.5)
Expenses associated with proposed acquisition of Ainsworth Lumber Co. Ltd.	—	—	—	—	—	6.8	6.8
Other operating credits and charges, net	—	—	—	—	—	0.6	0.6
Depreciation included in equity in (income) loss of unconsolidated affiliates	—	—	0.1	—	—	—	0.1
Adjusted EBITDA from continuing operations	\$20.2	\$53.9	\$0.8	\$13.1	\$(2.0)	\$(36.8)	\$49.2

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Six Months Ended June 30, 2013 (Dollar amounts in millions)	OSB	Siding	EWP	South America	Other	Corporate	Total
Sales	\$592.9	\$286.5	\$124.3	\$89.4	\$6.4	\$(1.4)	\$1,098.1
Depreciation and amortization	19.0	8.3	5.9	5.1	—	0.9	39.2
Cost of sales and selling and administrative	394.9	230.4	124.8	71.8	9.2	44.3	875.4
Gain on sale or impairment of long lived assets	—	—	—	—	—	(0.7)	(0.7)
Other operating credits and charges, net	—	—	—	—	—	7.0	7.0
Total operating costs	413.9	238.7	130.7	76.9	9.2	51.5	920.9
Income (loss) from operations	179.0	47.8	(6.4)	12.5	(2.8)	(52.9)	177.2
Total non-operating expense	—	—	—	—	—	17.8	17.8
Income (loss) before income taxes and equity in (income) loss of unconsolidated affiliates	179.0	47.8	(6.4)	12.5	(2.8)	(35.1)	195.0
Provision for income taxes	—	—	—	—	—	47.2	47.2
Equity in (income) loss of unconsolidated affiliates	(14.5)	—	2.2	—	1.0	—	(11.3)
Income (loss) from continuing operations	\$193.5	\$47.8	\$(8.6)	\$12.5	\$(3.8)	\$(82.3)	\$159.1
Reconciliation of income (loss) from continuing operations to adjusted EBITDA from continuing operations							
Income (loss) from continuing operations	\$193.5	\$47.8	\$(8.6)	\$12.5	\$(3.8)	\$(82.3)	\$159.1
Provision for income taxes	—	—	—	—	—	47.2	47.2
Interest expense, net of capitalized interest	—	—	—	—	—	20.4	20.4
Depreciation and amortization	19.0	8.3	5.9	5.1	—	0.9	39.2
EBITDA from continuing operations	212.5	56.1	(2.7)	17.6	(3.8)	(13.8)	265.9
Stock based compensation expense	0.5	0.3	0.2	—	—	3.2	4.2
Gain on sale or impairment of long lived assets	—	—	—	—	—	(0.7)	(0.7)
Investment income	—	—	—	—	—	(6.6)	(6.6)
Other operating credits and charges, net	—	—	—	—	—	7.0	7.0
Other operating credits and charges associated with joint ventures	—	—	—	—	—	2.7	2.7
Gain on acquisition	—	—	—	—	—	(35.9)	(35.9)
Depreciation included in equity in loss of unconsolidated affiliates	3.4	—	0.1	—	1.6	—	5.1
Adjusted EBITDA from continuing operations	\$216.4	\$56.4	\$(2.4)	\$17.6	\$(2.2)	\$(44.1)	\$241.7

**RESULTS OF OPERATIONS**

(Dollar amounts in millions, except per share amounts)

Our net income for the second quarter of 2014 was \$2.1 million, or \$0.01 per diluted share, on sales of \$518.5 million, compared to net income for the second quarter of 2013 of \$94.3 million, or \$0.65 per diluted shares, on sales of \$567.0 million. For the second quarter of 2014, income from continuing operations was \$2.1 million, or \$0.01 per diluted share, compared to income from continuing operations of \$94.1 million, or \$0.65 per diluted share, for the second quarter of 2013. Sales and operating results were negatively impacted by a 36% decrease in OSB prices in the second quarter of 2014 as compared to the year ago quarter.

Our net loss for the first six months of 2014 was \$12.1 million, or \$0.09 per diluted share, on sales of \$963.2 million, compared to net income for the first six months of 2013 of \$159.4 million, or \$1.10 per diluted share, on sales of

\$1,098.1 million. For the first six months of 2014, loss from continuing operations was \$12.1 million, or \$0.09 per diluted share, compared to income of \$159.1 million, or \$1.10 per diluted share for the first six months of 2013. Sales and operating results were negatively impacted by a 37% decrease in OSB prices in the first six months of 2014 as compared to the first six months of 2013.

Our results of operations for each of our segments are discussed below as well as for the “other” category, which comprises products that are not individually significant.

## OSB

Our OSB segment manufactures and distributes commodity and value-added OSB structural panels.

Segment sales, operating income, and Adjusted EBITDA from continuing operations for this segment are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2014	2013	Change	2014	2013	Change
Net sales	\$223.7	\$306.2	(27 )%	\$418.6	\$592.9	(29 )%
Operating income (loss)	(5.5 )	95.4	(106 )%	(7.4 )	193.5	(104 )%
Adjusted EBITDA from continuing operations	8.3	107.7	(92 )%	20.2	216.4	(91 )%

Percent changes in average sales prices and unit shipments for the quarter and six months ended June 30, 2014 compared to the quarter and six months ended June 30, 2013 are as follows:

	Quarter Ended June 30, 2014 versus 2013		Six Months Ended June 30, 2014 versus 2013	
	Average Net Selling Price	Unit Shipments	Average Net Selling Price	Unit Shipments
OSB	(36 )%	11 %	(37 )%	9 %

For both the quarter and six months ended June 30, 2014, OSB prices decreased as compared to the corresponding periods in 2013. The decline in OSB prices was likely due, in part, to a slower than anticipated U.S. housing market recovery. The decrease in selling price unfavorably impacted operating results and Adjusted EBITDA from continuing operations by approximately \$118.1 million for the quarter and \$231.0 million for the six months ended June 30, 2014 as compared to the same periods in 2013. Sales volumes for the quarter and six month periods showed an increase over the comparable periods of 2013, consistent with industry shipments.

## SIDING

Our siding segment produces and markets wood-based siding and related accessories, together with commodity OSB products from one mill.

Segment sales, operating income and Adjusted EBITDA from continuing operations for this segment are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2014	2013	Change	2014	2013	Change
Net sales	\$169.7	\$152.7	11 %	\$313.2	\$286.5	9 %
Operating income	25.9	27.1	(4 )%	45.1	47.8	(6 )%
Adjusted EBITDA from continuing operations	30.3	31.7	(4 )%	53.9	56.4	(4 )%

Sales in this segment by product line are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2014	2013	Change	2014	2013	Change
SmartSide Siding	\$155.5	\$122.6	27 %	\$280.3	\$228.9	22 %
Commodity OSB	3.6	16.6	(78 )%	8.8	29.7	(70 )%
CanExel siding	10.6	13.5	(21 )%	24.1	27.9	(14 )%
Total	\$169.7	\$152.7	11 %	\$313.2	\$286.5	9 %

Percent changes in average sales prices and unit shipments for the quarter and six months ended June 30, 2014 compared to the quarter and six months ended June 30, 2013 are as follows:

	Quarter Ended June 30, 2014 versus 2013			Six Months Ended June, 2014 versus 2013		
	Average Net Selling Price	Unit Shipments		Average Net Selling Price	Unit Shipments	
SmartSide Siding	9	% 15		% 8	% 13	%
Commodity OSB	(37	)% (60	)%	(37	)% (47	)%
CanExel siding	(6	)% (10	)%	(7	)% 2	%

For the quarter and six months ended June 30, 2014 compared to the corresponding periods in 2013, sales volumes increased in our SmartSide siding line due to continued penetration in several key focus markets including retail, repair and remodel markets and sheds. Sales prices in our SmartSide siding product line for the quarter and six month periods ended June 30, 2014 as compared to the corresponding periods in 2013 were higher due to a price increase as well as changes in product mix.

For CanExel, sales volumes decreased during the second quarter of 2014 as compared to the corresponding period in 2013 due to reduced housing starts in Canada and lower European sales. Sales volumes increased in the first six months of 2014 as compared to the corresponding period in 2013 due to customers increasing the volumes purchased through our annual winter promotional program which encourages customers to buy products in advance of the building season at a discounted price. Sales prices were lower for the quarter and six month periods of 2014 as compared to the corresponding periods in 2013 due to the impact of the Canadian dollar weakening as a majority of these sales are made in Canada.

For the quarter and first six months of 2014, sales prices decreased as compared to the same period in the prior year for our commodity OSB products as discussed in the OSB segment above. The decrease in selling price unfavorably impacted operating results and Adjusted EBITDA from continuing operations by approximately \$2.1 million for the quarter and \$5.2 million for the six months ended June 30, 2014 as compared to the corresponding periods of 2013. Volumes of commodity OSB were lower for the quarter and six months ended June 30, 2014 as compared to the comparable periods of 2013 due to increases in siding volume which reduced the production capacity available for OSB.

Overall, the reduction in operating results for our siding segment for the quarter and six month periods ended June 30, 2014, compared to the same periods in 2013, was primarily due to decreased OSB pricing which was partially offset by higher siding sales.

#### ENGINEERED WOOD PRODUCTS

Our engineered wood products (EWP) segment manufactures and distributes laminated veneer lumber (LVL), I-Joists, laminated strand lumber (LSL) and other related products. This segment also includes the sale of I-Joist and LVL products produced by Abitibi-LP or under a sales arrangement with a third party producer.

Segment sales, operating losses and Adjusted EBITDA from continuing operations for this segment are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,				
	2014	2013	Change	2014	2013	Change		
Net sales	\$80.6	\$60.9	32	%	\$147.0	\$124.3	18	%
Operating losses	(5.0	) (5.1	) 2	%	(8.1	) (8.6	) 6	%
Adjusted EBITDA from continuing operations	(0.8	) (2.3	) 65	%	0.8	(2.4	) 133	%

Sales in this segment by product line are as follows:

	Quarter Ended June 30,				Six Months Ended June 30,			
	2014	2013	Change		2014	2013	Change	
LVL/LSL	\$37.7	\$30.3	24	%	\$67.7	58.9	15	%
I-Joist	27.8	21.6	29	%	49.0	41.4	18	%
Related products	15.1	9.0	68	%	30.3	24.0	26	%
Total	\$80.6	\$60.9	32	%	\$147.0	\$124.3	18	%

Percent changes in average sales prices and unit shipments for the quarter and six months ended June 30, 2014 compared to the quarter and six months ended June 30, 2013 are as follows:

	Quarter Ended June 30, 2014 versus 2013				Six Months Ended June, 2014 versus 2013			
	Average Net Selling Price	Unit Shipments			Average Net Selling Price	Unit Shipments		
LVL/LSL	4	% 26	%		6	% 14	%	
I-Joist	8	% 27	%		9	% 15	%	

For the quarter and six months ended June 30, 2014, sales volumes of LVL/LSL and I-joists increased over the prior year due to improved market demand. Sales prices for LVL/LSL and I-joists for the quarter and six months ended June 30, 2014 increased due to price increases.

Our focus in the EWP segment continues to be on reductions in conversion costs, better geographic manufacturing and distribution, and maintaining key customer relationships. Included in this segment is a plywood operation, which primarily produces plywood as a by-product from the LVL production process.

For the quarter and six months ended June 30, 2014, compared to the same periods in 2013, the results of operations were relatively flat with higher production at our Houlton mill resulting in an increase in depreciation expense of approximately \$1.7 million.

#### SOUTH AMERICA

Our South America segment manufactures and distributes OSB panels and siding products in South America and selected export markets. This segment operates in two countries, Chile and Brazil.

Segment sales, operating income and Adjusted EBITDA from continuing operations for this segment are as follows:

	Quarter Ended June 30,				Six Months Ended June 30,			
	2014	2013	Change		2014	2013	Change	
Net sales	\$41.9	\$44.3	(5)	)%	\$78.5	\$89.4	(12)	)%
Operating income	4.0	6.3	(37)	)%	8.2	12.5	(34)	)%
Adjusted EBITDA from continuing operations	6.6	8.8	(25)	)%	13.1	17.6		