

LOUISIANA-PACIFIC CORP  
Form 10-Q  
November 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 September 30, 2014  
Commission File Number 1-7107

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

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

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: 142,211,522 shares of Common Stock, \$1 par value, outstanding as of November 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 the cost of and availability of transportation;
- 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.

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## Item 1. Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME  
 LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES  
 (AMOUNTS IN MILLIONS EXCEPT PER SHARE AMOUNTS)  
 (UNAUDITED)

|   | Quarter Ended |          | Nine Months Ended |           |
|---|---------------|----------|-------------------|-----------|
|   | September 30, |          | September 30,     |           |
|   | 2014          | 2013     | 2014              | 2013      |
| Net sales   | \$518.1       | \$507.4  | \$1,481.3         | \$1,605.5 |
| Operating costs and expenses:   |               |          |                   |           |
| Cost of sales   | 477.0         | 416.3    | 1,326.9           | 1,221.7   |
| Depreciation and amortization   | 26.9          | 25.8     | 77.4              | 65.0      |
| Selling and administrative  | 31.9          | 33.5     | 108.7             | 103.6     |
| (Gain) loss on sale or impairment of long-lived assets, net   | (3.6)         | ) 0.3    | (4.1)             | ) (0.4)   |
| Other operating credits and charges, net  | 0.5           | (16.1)   | ) 1.1             | (9.1)     |
| Total operating costs and expenses  | 532.7         | 459.8    | 1,510.0           | 1,380.8   |
| Income (loss) from operations   | (14.6)        | ) 47.6   | (28.7)            | ) 224.7   |
| Non-operating income (expense):   |               |          |                   |           |
| Interest expense, net of capitalized interest   | (8.3)         | ) (7.6)  | ) (23.4)          | ) (28.0)  |
| Investment income   | 0.9           | 1.7      | 4.4               | 8.3       |
| Other non-operating items   | (1.3)         | ) 0.2    | (1.8)             | ) 31.8    |
| Total non-operating income (expense)  | (8.7)         | ) (5.7)  | ) (20.8)          | ) 12.1    |
| Income (loss) from continuing operations before taxes and equity in income of unconsolidated affiliates | (23.3)        | ) 41.9   | (49.5)            | ) 236.8   |
| Provision (benefit) for income taxes  | (3.6)         | ) 4.4    | (15.9)            | ) 51.6    |
| Equity in income of unconsolidated affiliates   | (1.4)         | ) —      | (3.2)             | ) (11.3)  |
| Income (loss) from continuing operations  | (18.3)        | ) 37.5   | (30.4)            | ) 196.5   |
| Income (loss) from discontinued operations before taxes   | (3.2)         | ) 1.0    | (3.2)             | ) 1.6     |
| Provision (benefit) for income taxes  | (1.1)         | ) 0.4    | (1.1)             | ) 0.6     |
| Income (loss) from discontinued operations  | (2.1)         | ) 0.6    | (2.1)             | ) 1.0     |
| Net income (loss)   | \$(20.4)      | ) \$38.1 | \$(32.5)          | ) \$197.5 |
| Income (loss) per share of common stock (basic):  |               |          |                   |           |
| Income (loss) from continuing operations  | \$(0.13)      | ) \$0.27 | \$(0.22)          | ) \$1.41  |
| Income (loss) from discontinued operations  | (0.01)        | ) —      | (0.01)            | ) 0.01    |
| Net income (loss) per share   | \$(0.14)      | ) \$0.27 | \$(0.23)          | ) \$1.42  |
| Net income (loss) per share of common stock (diluted):  |               |          |                   |           |
| Income (loss) from continuing operations  | \$(0.13)      | ) \$0.26 | \$(0.22)          | ) \$1.36  |
| Income (loss) from discontinued operations  | (0.01)        | ) —      | (0.01)            | ) 0.01    |
| Net income (loss) per share   | \$(0.14)      | ) \$0.26 | \$(0.23)          | ) \$1.37  |
| Average shares of stock outstanding - basic   | 140.8         | 140.0    | 140.9             | 139.1     |
| Average shares of stock outstanding - diluted   | 140.8         | 144.0    | 140.9             | 144.1     |

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<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|---|--------------------------------|----------|------------------------------------|-----------|
|   | 2014                           | 2013     | 2014                               | 2013      |
| Net income (loss)                             | \$(20.4                        | ) \$38.1 | (32.5                              | ) \$197.5 |
| Other comprehensive income (loss)             |                                |          |                                    |           |
| Foreign currency translation adjustments      | (9.5                           | ) 0.3    | (10.6                              | ) (6.8    |
| Unrealized loss on derivative instruments     | —                              | (0.1     | ) —                                | (0.1      |
| Unrealized gain on marketable securities      | —                              | (0.2     | ) 0.5                              | 1.0       |
| Defined benefit pension plans                 | 1.4                            | 1.0      | 3.2                                | 4.0       |
| Other comprehensive income (loss), net of tax | (8.1                           | ) 1.0    | (6.9                               | ) (1.9    |
| Comprehensive income (loss)                   | \$(28.5                        | ) \$39.1 | \$(39.4                            | ) \$195.6 |

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,<br>2014 | December 31,<br>2013 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Cash and cash equivalents  | \$579.9               | \$656.8              |
| Receivables, net of allowance for doubtful accounts of \$1.1 million at September 30, 2014 and December 31, 2013 | 142.6                 | 78.1                 |
| Inventories  | 218.3                 | 224.4                |
| Other current assets   | 9.4                   | 7.7                  |
| Deferred income taxes  | 23.2                  | 50.9                 |
| Assets held for sale   | 9.3                   | 16.3                 |
| Total current assets   | 982.7                 | 1,034.2              |
| Timber and timberlands   | 67.1                  | 71.6                 |
| Property, plant and equipment, at cost   | 2,299.4               | 2,294.6              |
| Accumulated depreciation   | (1,443.4              | ) (1,407.8           |
| Net property, plant and equipment  | 856.0                 | 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  | 6.4                   | 3.2                  |
| Other assets   | 45.2                  | 44.3                 |
| Total assets   | \$2,409.6             | \$2,493.3            |
| <b>LIABILITIES AND EQUITY</b>  |                       |                      |
| Current portion of long-term debt  | \$2.3                 | \$2.3                |
| Accounts payable and accrued liabilities   | 171.9                 | 161.9                |
| Current portion of contingency reserves  | 2.0                   | 2.0                  |
| Total current liabilities  | 176.2                 | 166.2                |
| Long-term debt, excluding current portion  | 759.2                 | 762.7                |
| Contingency reserves, excluding current portion  | 12.6                  | 13.3                 |
| Other long-term liabilities  | 127.8                 | 136.1                |
| Deferred income taxes  | 142.1                 | 188.7                |
| Stockholders' equity:  |                       |                      |
| Common stock   | 152.0                 | 152.0                |
| Additional paid-in capital   | 506.3                 | 508.0                |
| Retained earnings  | 855.2                 | 887.7                |
| Treasury stock   | (225.7                | ) (232.2             |
| Accumulated comprehensive loss   | (96.1                 | ) (89.2              |
| Total stockholders' equity   | 1,191.7               | 1,226.3              |
| Total liabilities and stockholders' equity   | \$2,409.6             | \$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 |          | Nine Months Ended |           |
|--|---------------|----------|-------------------|-----------|
|  | September 30, |          | September 30,     |           |
|  | 2014          | 2013     | 2014              | 2013      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |               |          |                   |           |
| Net income (loss)  | \$(20.4       | ) \$38.1 | \$(32.5           | ) \$197.5 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |               |          |                   |           |
| Depreciation and amortization  | 26.9          | 25.8     | 77.4              | 65.0      |
| Income from unconsolidated affiliates  | (1.4          | ) —      | (3.2              | ) (11.3   |
| (Gain) loss on sale or impairment of long-lived assets, net  | (3.6          | ) 0.3    | (4.1              | ) (0.4    |
| Gain on acquisition  | —             | —        | —                 | (35.9     |
| Gain on sale of discontinued operation   | —             | (1.7     | ) —               | (1.7      |
| Early debt extinguishment  | —             | 0.8      | —                 | 0.8       |
| Payment of long-term deposit   | —             | (17.1    | ) —               | (17.1     |
| Other operating credits and charges, net   | 0.5           | (16.1    | ) 1.1             | (9.1      |
| Stock-based compensation related to stock plans  | 2.4           | 2.4      | 6.9               | 6.6       |
| Exchange loss on remeasurement   | (2.4          | ) (0.4   | ) (1.1            | ) (0.5    |
| Cash settlement of contingencies   | (1.2          | ) —      | (1.2              | ) (0.4    |
| Cash settlements of warranties, net of accruals  | 0.1           | (3.4     | ) (4.9            | ) (7.7    |
| Pension contributions, net of expense  | (5.1          | ) (0.1   | ) (3.8            | ) 2.5     |
| Non-cash interest expense, net   | 0.7           | 1.2      | 1.3               | 1.8       |
| Other adjustments, net   | —             | 0.3      | 0.4               | 1.2       |
| Changes in assets and liabilities, net of acquisition:   |               |          |                   |           |
| Increase in receivables  | (0.2          | ) (7.9   | ) (67.4           | ) (25.8   |
| (Increase) decrease in inventories   | 15.6          | 15.8     | 4.3               | (12.3     |
| (Increase) decrease in other current assets  | (2.5          | ) 1.7    | (1.8              | ) (4.3    |
| Increase in accounts payable and accrued liabilities   | 24.1          | 17.1     | 18.1              | 26.0      |
| Increase (decrease) in deferred income taxes   | (6.0          | ) 2.4    | (19.8             | ) 47.9    |
| Net cash provided by (used in) operating activities  | 27.5          | 59.2     | (30.3             | ) 222.8   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |               |          |                   |           |
| Property, plant and equipment additions  | (12.6         | ) (17.7  | ) (54.8           | ) (43.3   |
| Investments in and refunds from joint ventures   | —             | —        | —                 | 13.9      |
| Proceeds from sales of assets  | 12.0          | 15.0     | 12.8              | 16.7      |
| Acquisitions, net of cash  | —             | —        | —                 | (67.4     |
| Receipt of proceeds from notes receivable  | —             | 91.4     | —                 | 91.4      |
| (Increase) decrease in restricted cash under letters of credit/credit facility                     | (0.1          | ) (0.7   | ) 0.9             | 0.7       |
| Net cash provided by (used in) investing activities  | (0.7          | ) 88.0   | (41.1             | ) 12.0    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |               |          |                   |           |
| Repayment of long-term debt  | (1.1          | ) (109.5 | ) (2.2            | ) (113.1  |
| Taxes paid related to net share settlement of equity awards  | —             | —        | (1.5              | ) (12.0   |
| Other, net   | —             | (0.1     | ) —               | (0.1      |
| Net cash used in financing activities  | (1.1          | ) (109.6 | ) (3.7            | ) (125.2  |
| EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS   | (0.5          | ) 1.2    | (1.8              | ) (1.0    |



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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Net increase (decrease) in cash and cash equivalents | 25.2    | 38.8    | (76.9   | ) 108.6 |
| Cash and cash equivalents at beginning of period     | 554.7   | 630.7   | 656.8   | 560.9   |
| Cash and cash equivalents at end of period           | \$579.9 | \$669.5 | \$579.9 | \$669.5 |

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<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Comprehensive<br>Loss | Total<br>Stockholders'<br>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   | —            | —        | —              | —          | —                                | (32.5 )              | —                                    | (32.5 )                          |
| Issuance of shares for<br>employee stock plans and<br>stock-based compensation | —            | —        | 0.4            | 8.0        | (8.6 )                           | —                    | —                                    | (0.6 )                           |
| Taxes paid related to net share<br>settlement of equity awards                 | —            | —        | (0.1 )         | (1.5 )     | —                                | —                    | —                                    | (1.5 )                           |
| Compensation expense<br>associated with stock awards                           | —            | —        | —              | —          | 6.9                              | —                    | —                                    | 6.9                              |
| Other comprehensive income   | —            | —        | —              | —          | —                                | —                    | (6.9 )                               | (6.9 )                           |
| Balance, September 30, 2014  | 152.0        | \$ 152.0 | (10.6 )        | \$(225.7 ) | \$ 506.3                         | \$ 855.2             | \$ (96.1 )                           | \$ 1,191.7                       |

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 September 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 \$2.4 million for the quarter ended September 30, 2014 and 2013, and \$6.9 million for the nine months ended September 30, 2014 and \$6.6 million for the nine months ended September 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. Prior to January 1, 2013, options were granted to directors and became 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 September 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 nine 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 September 30, 2014, as well as activity during the nine 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   | (377 )            | 21.08                           |  |   |
| Options outstanding at September 30, 2014                        | 7,051             | \$ 14.17                        | 4.8  | \$21.5                                  |
| Vested and expected to vest at September 30, 2014 <sup>(1)</sup> | 6,698             | —                               | —  | \$20.4                                  |
| Options exercisable at September 30, 2014                        | 6,054             | \$ 13.91                        | —  | \$20.0                                  |

<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 third 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 September 30, 2014. This amount changes based on the market value of LP's stock as reported by the New York Stock Exchange.

As of September 30, 2014, there was \$5.4 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 1.5 years. LP recorded compensation expense related to these awards in the first nine months of 2014 of \$2.8 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 nine months of 2014 of \$2.2 million. As of September 30, 2014, there was \$3.8 million of total unrecognized compensation cost related to unvested incentive share awards. This expense will be recognized over a weighted-average period of 1.0 years.

The following table summarizes incentive share awards outstanding as of September 30, 2014 as well as activity during the nine 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                                   | 183,890    |  |   |
| Incentive share awards vested                                    | (290,912 ) |  |   |
| Incentive share awards canceled                                  | (19,474 )  |  |   |
| Incentive shares outstanding at September 30, 2014               | 626,099    | 1.0  | \$8.5                                   |
| Vested and expected to vest at September 30, 2014 <sup>(1)</sup> | 594,794    | —  | \$8.1                                   |

<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 September 30, 2014, there was \$2.9 million of total unrecognized compensation costs related to restricted stock. This expense will be recognized over the next 1.1 years.

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

|  | Number of Shares | Weighted Average<br>Grant Date<br>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 September 30, 2014          | 463,146          | \$ 13.80                                     |

Compensation expense related to these awards recognized in the first nine months of 2014 was \$1.6 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 \$0.3 million in the first nine months of 2014. As of September 30, 2014, there was \$0.6 million of total unrecognized compensation costs related to this award. This expense will be recognized over the next 1.6 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 expense associated with these grants is 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 September 30, 2014, LP had 66,339 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    | September 30,<br>2014 | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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,<br>2013 | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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 nine months ended September 30, 2014 and 2013.

| Dollar amounts in millions                                    | Available for<br>sale securities | Contingent<br>consideration |
|---|----------------------------------|-----------------------------|
| Balance at December 31, 2012                                  | \$2.0                            | \$—                         |
| Contingent consideration pursuant to business combination     | —                                | 24.3                        |
| Adjustment to contingent consideration fair value             | —                                | (17.3)                      |
| Total unrealized gains included in other comprehensive income | 1.8                              | —                           |
| Foreign currency gain   | —                                | 0.2                         |
| Balance at September 30, 2013                                 | \$3.8                            | \$7.2                       |
| 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 September 30, 2014                                 | \$4.5                            | \$3.8                       |

LP estimated the Senior Notes maturing in 2020 to have a fair value of \$372.8 million at September 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.

During the third quarter of 2013, LP recognized a gain of \$17.3 million as a fair value adjustment to the contingent consideration payable in connection with a business combination. The fair value of the contingent consideration payable was reduced during the third quarter of 2013 due to the decline in projected OSB prices and resulting reduction in the estimated payment obligation. The fair value adjustment is recorded in Other operating credits and charges, net. This fair value was determined based upon the income approach using significant non-observable inputs such as projected OSB pricing taking into consideration the volatility of such projections. The contingent consideration is payable in Canadian dollars and a gain on remeasurement of \$0.1 million was recorded during the nine month period ended September 30, 2014.

#### 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 September 30, |           | Nine Months Ended September 30, |            |
|--|-----------------------------|-----------|---------------------------------|------------|
|  | 2014                        | 2013      | 2014                            | 2013       |
| Numerator:   |                             |           |                                 |            |
| Income (loss) common shares:                                   |                             |           |                                 |            |
| Income (loss) from continuing operations                       | \$ (18.3                    | ) \$ 37.5 | \$ (30.4                        | ) \$ 196.5 |
| Income (loss) from discontinued operations                     | (2.1                        | ) 0.6     | (2.1                            | ) 1.0      |
| Net income (loss)  | \$ (20.4                    | ) \$ 38.1 | \$ (32.5                        | ) \$ 197.5 |
| Denominator:   |                             |           |                                 |            |
| Basic - weighted average common shares outstanding             | 140.8                       | 140.0     | 140.9                           | 139.1      |
| Dilutive effect of stock warrants                              | —                           | 1.8       | —                               | 2.5        |
| Dilutive effect of stock plans                                 | —                           | 2.2       | —                               | 2.5        |
| Diluted shares outstanding                                     | 140.8                       | 144.0     | 140.9                           | 144.1      |
| Basic earnings per share:                                      |                             |           |                                 |            |
| Income (loss) from continuing operations                       | \$ (0.13                    | ) \$ 0.27 | \$ (0.22                        | ) \$ 1.41  |
| Income (loss) from discontinued operations                     | (0.01                       | ) —       | (0.01                           | ) 0.01     |
| Net income (loss) per share                                    | \$ (0.14                    | ) \$ 0.27 | \$ (0.23                        | ) \$ 1.42  |
| Diluted earnings per share:                                    |                             |           |                                 |            |
| Income (loss) from continuing operations                       | \$ (0.13                    | ) \$ 0.26 | \$ (0.22                        | ) \$ 1.36  |
| Income (loss) from discontinued operations                     | (0.01                       | ) —       | (0.01                           | ) 0.01     |
| Net income (loss) per share                                    | \$ (0.14                    | ) \$ 0.26 | \$ (0.23                        | ) \$ 1.37  |

For the quarter and nine months ended September 30, 2014, stock options, warrants and SSARs relating to approximately 3.8 million and 2.5 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 nine months ended September 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 September 30, 2014, outstanding warrants were exercisable to purchase approximately 1,462,119 shares. Subsequent to September 30, 2014, additional warrants were exercised reducing the outstanding warrants exercisable to purchase approximately 573,521 shares.

**NOTE 5 – RECEIVABLES**

Receivables consist of the following:

| Dollar amounts in millions      | September 30,<br>2014 | December 31,<br>2013 |
|---------------------------------|-----------------------|----------------------|
| Trade receivables               | \$ 130.6              | \$ 69.2              |
| Interest receivables            | 0.6                   | 0.2                  |
| Income tax receivable           | 2.5                   | 1.2                  |
| Other receivables               | 10.0                  | 8.6                  |
| Allowance for doubtful accounts | (1.1                  | ) (1.1               |
| Total                           | \$ 142.6              | \$ 78.1              |

Other receivables at September 30, 2014 and December 31, 2013 primarily consist of sales tax receivables, receivables from out 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 | September 30,<br>2014 | December 31,<br>2013 |
|----------------------------|-----------------------|----------------------|
| Logs                       | \$ 29.3               | \$ 46.9              |
| Other raw materials        | 20.5                  | 27.8                 |
| Semi finished inventory    | 24.3                  | 11.1                 |
| Finished products          | 144.2                 | 138.6                |
| Total                      | \$ 218.3              | \$ 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 September 30, 2014, LP included an OSB mill and various non-operating sites in its held for sale category. During the third quarter ended September 30, 2014, LP sold the assets of one of its non-operating locations for \$11.9 million. The current book values of assets held for sale by category is as follows:

| Dollars in millions   | September 30, 2014 | December 31,<br>2013 |
|---|--------------------|----------------------|
| Property, plant and equipment, at cost:                             |                    |                      |
| Land, land improvements and logging roads, net of road amortization | \$ 4.5             | \$ 6.9               |
| Buildings   | 2.9                | 6.2                  |
| Machinery and equipment   | 52.0               | 99.1                 |
|   | 59.4               | 112.2                |
| Accumulated depreciation  | (50.1              | ) (95.9              |
| Net property, plant and equipment                                   | \$ 9.3             | \$ 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. Changes in the profitability estimates in various jurisdictions will impact our quarterly effective income tax rates.

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

|                         | Quarter Ended September 30,     |          |               |          |  |   |
|-------------------------|---------------------------------|----------|---------------|----------|--|---|
|                         | 2014                            |          | 2013          |          |  |   |
|                         | Tax Benefit                     | Tax Rate | Tax Provision | Tax Rate |  |   |
| Continuing operations   | \$(3.6)                         | (16)%    | \$4.4         | 11       |  | % |
| Discontinued operations | (1.1)                           | 35       | 0.4           | 35       |  | % |
|                         | \$(4.7)                         | (19)%    | \$4.8         | 11       |  | % |
|                         | Nine Months Ended September 30, |          |               |          |  |   |
|                         | 2014                            |          | 2013          |          |  |   |
|                         | Tax Benefit                     | Tax Rate | Tax Provision | Tax Rate |  |   |
| Continuing operations   | \$(15.9)                        | (34)%    | \$51.6        | 21       |  | % |
| Discontinued operations | (1.1)                           | 35       | 0.6           | 35       |  | % |
|                         | \$(17.0)                        | (34)%    | \$52.2        | 21       |  | % |

For the first nine 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 and the effect of foreign tax rates. For the first nine 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 September 30, 2014 are not recognized in relation to amounts of tax deductions for equity compensation that are greater than the compensation expense 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 2011 through 2013, as well as state and local tax examinations for the tax years 2007 through 2013. 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 September 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 nine months ended September 30, 2014 and September 30, 2013 is reflected in the table below and is described in the paragraphs following the table:

| Dollar amounts in millions   | Quarter Ended September |        | Nine Months Ended |         |
|--|-------------------------|--------|-------------------|---------|
|  | 30,                     | 2013   | September 30,     | 2013    |
|  | 2014                    |        | 2014              | 2013    |
| Other operating charges and credits net:                                       |                         |        |                   |         |
| Adjustment related to prior year inventory                                     | \$—                     | \$—    | \$—               | \$(1.6) |
| Adjustment related to prior year depreciation                                  | —                       | —      | —                 | (1.5)   |
| Refundable value added tax receivable  | —                       | 1.4    | —                 | 1.4     |
| Additions to environmental related contingency reserve                         | —                       | —      | (0.5)             | —       |
| Contingent consideration fair value adjustment                                 | —                       | 17.3   | (0.1)             | 17.3    |
| Additions to workers compensation reserve                                      | (1.0)                   | (1.0)  | (1.0)             | (1.0)   |
| Adjustment to product related warranty reserves                                | —                       | (2.0)  | —                 | (6.1)   |
| Other  | 0.5                     | 0.4    | 0.5               | 0.6     |
|  | \$(0.5)                 | \$16.1 | \$(1.1)           | \$9.1   |
| Other operating charges and credits associated with unconsolidated affiliates: |                         |        |                   |         |
| Valuation allowance associated with deferred taxes                             | \$—                     | \$—    | \$—               | \$(1.8) |
| Addition to contingency reserves   | —                       | —      | —                 | (0.9)   |
|  | \$—                     | \$—    | \$—               | \$(2.7) |

During the third quarter of 2014, LP recorded a loss of \$1.0 million associated with a workers compensation reserve adjustment.

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 third quarter of 2013, LP recorded a \$17.3 million reduction in the fair value of the contingent consideration payable in connection with a business combination. LP also recorded a loss of \$1.0 million associated with a workers compensation reserve adjustment and a loss of \$2.0 million during the quarter related to an increase

in product related warranty reserves associated with CanExel products sold in certain geographic areas from 2004 through 2008. LP recorded a receivable of \$1.4 million related to value added taxes.

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.

During the first quarter of 2013, LP recorded a loss of \$1.6 million related to a prior year inventory adjustment. 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 September 30, 2014 and 2013, LP sold \$2.7 million and \$3.3 million of products to Abitibi-LP and purchased \$14.7 million and \$13.9 million of I-joists from Abitibi-LP. For the nine month period ended September 30, 2014 and 2013, LP sold \$8.0 million and \$10.7 million of products to Abitibi-LP and purchased \$42.9 million and \$38.4 million of I-joists from Abitibi-LP. Included in LP's Consolidated Balance Sheets at September 30, 2014 and December 31, 2013 are \$1.1 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 \$98.2 million of OSB from Canfor-LP during the nine months ended September 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 September 30, |          | Nine Months Ended September 30, |           |
|---|-----------------------------|----------|---------------------------------|-----------|
|   | 2014                        | 2013     | 2014                            | 2013      |
| Net sales:  |                             |          |                                 |           |
| OSB   | \$233.4                     | \$245.4  | \$652.0                         | \$838.3   |
| Siding  | 163.2                       | 149.0    | 476.4                           | 435.5     |
| Engineered Wood Products  | 82.1                        | 71.8     | 229.1                           | 196.1     |
| South America   | 36.0                        | 41.5     | 114.5                           | 130.9     |
| Other   | 3.5                         | 3.9      | 11.2                            | 10.3      |
| Intersegment Sales  | (0.1                        | ) (4.2   | ) (1.9                          | ) (5.6    |
|   | \$518.1                     | \$507.4  | \$1,481.3                       | \$1,605.5 |
| Operating profit (loss):  |                             |          |                                 |           |
| OSB   | \$(16.4                     | ) \$30.2 | \$(23.8                         | ) \$223.7 |
| Siding  | 20.8                        | 22.5     | 65.9                            | 70.3      |
| Engineered Wood Products  | (0.3                        | ) (2.0   | ) (8.4                          | ) (10.6   |
| South America   | 0.3                         | 5.3      | 8.5                             | 17.8      |
| Other   | (2.2                        | ) (2.1   | ) (4.2                          | ) (6.1    |
| Other operating credits and charges, net                                      | (0.5                        | ) 16.1   | (1.1                            | ) 9.1     |
| Other operating credits and charges associated with unconsolidated affiliates | —                           | —        | —                               | (2.7      |
| Gain (loss) on sale or impairment of long-lived assets                        | 3.6                         | (0.3     | ) 4.1                           | 0.4       |
| General corporate and other expenses, net                                     | (18.5                       | ) (22.1  | ) (66.5                         | ) (65.9   |
| Foreign currency gains (losses)   | (1.3                        | ) 1.0    | (1.8                            | ) (3.3    |
| Gain on acquisition   | —                           | —        | —                               | 35.9      |
| Early debt extinguishment   | —                           | (0.8     | ) —                             | (0.8      |
| Investment income   | 0.9                         | 1.7      | 4.4                             | 8.3       |
| Interest expense, net of capitalized interest                                 | (8.3                        | ) (7.6   | ) (23.4                         | ) (28.0   |
| Income (loss) from continuing operations before taxes                         | (21.9                       | ) 41.9   | (46.3                           | ) 248.1   |
| Provision (benefit) for income taxes  | (3.6                        | ) 4.4    | (15.9                           | ) 51.6    |
| Income (loss) from continuing operations                                      | \$(18.3                     | ) \$37.5 | \$(30.4                         | ) \$196.5 |

## 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 September 30, 2014, there were no indications of impairment for the asset grouping that includes the company's indefinitely curtailed facilities. As of September 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                | September 30, 2014 | December 31, 2013 |
|---|--------------------|-------------------|
| Environmental reserves                    | \$13.8             | \$14.9            |
| Other reserves                            | 0.8                | 0.4               |
| Total contingency reserves                | 14.6               | 15.3              |
| Current portion of contingency reserves   | (2.0               | ) (2.0            |
| Long-term portion of contingency reserves | \$12.6             | \$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 nine months ended September 30, 2014 and 2013. The net periodic pension cost included the following components:

| Dollar amounts in millions         | Quarter Ended September 30, |        | Nine Months Ended September 30, |         |
|------------------------------------|-----------------------------|--------|---------------------------------|---------|
|                                    | 2014                        | 2013   | 2014                            | 2013    |
| Service cost                       | \$0.9                       | \$0.8  | \$2.8                           | \$2.5   |
| Interest cost                      | 3.7                         | 3.2    | 11.0                            | 9.7     |
| Expected return on plan assets     | (4.2                        | ) (4.1 | ) (12.7                         | ) (12.4 |
| Amortization of prior service cost | —                           | 0.1    | —                               | 0.2     |
| Amortization of net loss           | 1.4                         | 1.8    | 4.2                             | 5.5     |
| Net periodic pension cost          | \$1.8                       | \$1.8  | \$5.3                           | \$5.5   |

During the nine months ended September 30, 2014 and 2013, LP recognized \$5.3 million and \$5.5 million of pension expense for all of LP's defined benefit pension plans.

During the nine months ended September 30, 2014, LP made \$9.1 million in pension contributions for LP's benefit plans. LP expects to contribute between \$11.0 million and \$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 nine months of 2014 and 2013 are summarized in the following table:

| Dollar amounts in millions             | Quarter Ended September 30, |         | Nine Months Ended September 30, |         |
|--|-----------------------------|---------|---------------------------------|---------|
|  | 2014                        | 2013    | 2014                            | 2013    |
| Beginning balance                      | \$24.3                      | \$21.0  | \$29.3                          | \$21.4  |
| Accrued to expense                     | 3.2                         | 2.4     | 3.5                             | 6.8     |
| Foreign currency translation           | (0.8                        | ) —     | (0.7                            | ) —     |
| Payments made                          | (3.0                        | ) (3.8  | ) (8.4                          | ) (8.6  |
| Total warranty reserves                | 23.7                        | 19.6    | 23.7                            | 19.6    |
| Current portion of warranty reserves   | (12.0                       | ) (12.0 | ) (12.0                         | ) (12.0 |
| Long-term portion of warranty reserves | \$11.7                      | \$7.6   | \$11.7                          | \$7.6   |

During the quarter and nine months ended September 30, 2014, LP increased the warranty reserves associated with discontinued composite decking products by \$3.0 million. LP continues to monitor warranty and other claims associated with these products and believes as of September 30, 2014 that the reserves associated with these matters are adequate. However, it is possible that additional charges may be required in the future. See Note 19 for further discussion.

LP increased the warranty reserves related to CanExel siding products by \$2.0 million and \$6.1 million for the third quarter and the first nine months of 2013, which was recorded in Other Operating Credits and Charges, Net. 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 September 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 September 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 nine months ended September 30, 2014:

| Dollar amounts in millions                                 | Foreign<br>currency<br>translation<br>adjustments | Pension<br>adjustments | Unrealized<br>gain (loss)<br>on<br>investments | Other  | Total     |
|--|---|------------------------|--|--------|-----------|
| Balance at June 30, 2014                                   | \$(20.3   | ) \$(68.5              | ) \$2.5  | \$(1.7 | ) \$(88.0 |
| Other comprehensive income before reclassifications        | (9.5  | ) 2.6                  | —  | 0.1    | (6.8      |
| Amounts reclassified from accumulated comprehensive income | —   | (1.3                   | ) —  | —      | (1.3      |
| Net current-period other comprehensive income              | (9.5  | ) 1.3                  | —  | 0.1    | (8.1      |
| Balance at September 30, 2014                              | \$(29.8   | ) \$(67.2              | ) \$2.5  | \$(1.6 | ) \$(96.1 |



| Dollar amounts in millions                                 | Foreign<br>currency<br>translation<br>adjustments | Pension<br>adjustments | Unrealized<br>gain (loss)<br>on<br>investments | Other     | Total      |
|--|---|------------------------|--|-----------|------------|
| Balance at December 31, 2013                               | \$ (19.2 )  | \$ (70.3 )             | \$ 2.0   | \$ (1.7 ) | \$ (89.2 ) |
| Other comprehensive income (loss) before reclassifications | (10.6 )   | 6.9                    | 0.5  | 0.1       | (3.1 )     |
| Amounts reclassified from accumulated comprehensive income | —   | (3.8 )                 | —  | —         | (3.8 )     |
| Net current-period other comprehensive income (loss)       | (10.6 )   | 3.1                    | 0.5  | 0.1       | (6.9 )     |
| Balance at September 30, 2014                              | \$ (29.8 )  | \$ (67.2 )             | \$ 2.5   | \$ (1.6 ) | \$ (96.1 ) |

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

| Dollar amounts in millions                                 | Foreign<br>currency<br>translation<br>adjustments | Pension<br>adjustments | Unrealized<br>gain (loss)<br>on derivative<br>instruments | Unrealized<br>gain (loss)<br>on<br>investments | Other     | Total       |
|--|---|------------------------|---|--|-----------|-------------|
| Balance at June 30, 2013                                   | \$ (14.7 )  | \$ (96.0 )             | \$ (0.3 )   | \$ 2.2   | \$ (2.0 ) | \$ (110.8 ) |
| Other comprehensive income (loss) before reclassifications | 0.3   | 2.3                    | (0.1 )  | (0.2 )   | —         | 2.3         |
| Amounts reclassified from accumulated comprehensive income | —   | (1.3 )                 | —   | —  | —         | (1.3 )      |
| Net current-period other comprehensive income (loss)       | 0.3   | 1.0                    | (0.1 )  | (0.2 )   | —         | 1.0         |
| Balance at September 30, 2013                              | \$ (14.4 )  | \$ (95.0 )             | \$ (0.4 )   | \$ 2.0   | \$ (2.0 ) | \$ (109.8 ) |

| Dollar amounts in millions                                 | Foreign<br>currency<br>translation<br>adjustments | Pension<br>adjustments | Unrealized<br>gain (loss)<br>on<br>derivative<br>instruments | Unrealized<br>gain (loss)<br>on<br>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 | (6.8 )  | 8.0                    | (0.1 )   | 1.0  | —         | 2.1         |
| Amounts reclassified from accumulated comprehensive income | —   | (4.0 )                 | —  | —  | —         | (4.0 )      |
| Net current-period other comprehensive income (loss)       | (6.8 )  | 4.0                    | (0.1 )   | 1.0  | —         | (1.9 )      |
| Balance at September 30, 2013                              | \$ (14.4 )  | \$ (95.0 )             | \$ (0.4 )  | \$ 2.0   | \$ (2.0 ) | \$ (109.8 ) |

Reclassifications from accumulated other comprehensive loss for the quarter and nine months ended September 30, 2014 and September 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 September 30,                             |       | Nine Months Ended September 30, |       |  |
|   | 2014  | 2013  | 2014                            | 2013  |  |
| Amortization of defined benefit pension plans                   |   |       |                                 |       |  |
| Prior service cost  | \$—   | \$0.1 | \$—                             | \$0.2 | (a)  |
| Actuarial loss  | 1.4   | 1.8   | 4.2                             | 5.5   | (a)  |
| Transition obligation   | 0.4   | (0.1) | 1.1                             | (0.2) | (a)  |
|   | 1.8   | 1.8   | 5.3                             | 5.5   | Total before tax   |
|   | 0.5   | 0.5   | 1.5                             | 1.5   | Tax benefit  |
| Total reclassifications   | \$1.3   | \$1.3 | \$3.8                           | \$4.0 | 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 nine months ended September 30, 2014 and September 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                                   | September 30, 2014 | December 31, 2013 |
|--|--------------------|-------------------|
| Timber licenses (recorded as part of Timber and timberlands) | \$65.7             | \$68.2            |
| Other  | 0.1                | 0.1               |
| Total  | \$65.8             | \$68.3            |

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 nine months ended September 30, 2014 and 2013 are as follows:

| Dollars amounts in millions | Quarter Ended September |       | Nine Months Ended     |        |
|-----------------------------|-------------------------|-------|-----------------------|--------|
|                             | 30,<br>2014             | 2013  | September 30,<br>2014 | 2013   |
| Sales                       | \$—                     | \$4.1 | \$—                   | \$16.1 |
| Operating profit            | (3.2                    | ) 1.0 | (3.2                  | ) 1.6  |

Included in the operating losses of discontinued operations for the quarter and nine months ended September 30, 2014 is an increase in warranty reserves associated with discontinued composite decking products of \$3.0 million.

During the third quarter of 2013, LP sold its moulding operations. Sales and operating profit included in discontinued operations related to its moulding operations are included in the table above.

A gain of \$1.7 million on the sale of the moulding operations was recognized in the third quarter of 2013, and is included in discontinued operations in the Consolidated Statements of Income.

#### 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 cyclicality. For the quarter and first nine months of 2014, the U.S. Department of Census reported that actual U.S. single and multi-family housing starts were 15% higher than for the third quarter of 2013 and 10% higher than the comparable nine 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 14% lower for the third quarter of 2014 than for the same period in 2013 and 35% lower for the first nine months of 2014 as compared to 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 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 September 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 September 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, early debt extinguishment, 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 September 30, 2014<br>(Dollar amounts in millions)                                    | OSB      | Siding  | EWP     | South<br>America | Other   | Corporate | Total    |
|--|----------|---------|---------|------------------|---------|-----------|----------|
| Sales  | \$233.4  | \$163.2 | \$82.1  | \$36.0           | \$3.5   | \$(0.1)   | \$518.1  |
| Depreciation and amortization  | 15.4     | 4.5     | 4.2     | 2.0              | —       | 0.8       | 26.9     |
| Cost of sales and selling and administrative   | 234.4    | 137.9   | 79.6    | 33.7             | 5.7     | 17.6      | 508.9    |
| Gain on sale or impairment of long lived assets  | —        | —       | —       | —                | —       | (3.6)     | (3.6)    |
| Other operating credits and charges, net   | —        | —       | —       | —                | —       | 0.5       | 0.5      |
| Total operating costs  | 249.8    | 142.4   | 83.8    | 35.7             | 5.7     | 15.3      | 532.7    |
| Income (loss) from operations  | (16.4)   | 20.8    | (1.7)   | 0.3              | (2.2)   | (15.4)    | (14.6)   |
| Total non-operating expense  | —        | —       | —       | —                | —       | (8.7)     | (8.7)    |
| Income (loss) before income taxes and equity in income of unconsolidated affiliates                      | (16.4)   | 20.8    | (1.7)   | 0.3              | (2.2)   | (24.1)    | (23.3)   |
| Income tax benefit   | —        | —       | —       | —                | —       | (3.6)     | (3.6)    |
| Equity in income of unconsolidated affiliates  | —        | —       | (1.4)   | —                | —       | —         | (1.4)    |
| Income (loss) from continuing operations   | \$(16.4) | \$20.8  | \$(0.3) | \$0.3            | \$(2.2) | \$(20.5)  | \$(18.3) |
| Reconciliation of income (loss) from continuing operations to Adjusted EBITDA from continuing operations |          |         |         |                  |         |           |          |
| Income (loss) from continuing operations   | \$(16.4) | \$20.8  | \$(0.3) | \$0.3            | \$(2.2) | \$(20.5)  | \$(18.3) |
| Income tax benefit   | —        | —       | —       | —                | —       | (3.6)     | (3.6)    |
| Interest expense, net of capitalized interest  | —        | —       | —       | —                | —       | 8.3       | 8.3      |
| Depreciation and amortization  | 15.4     | 4.5     | 4.2     | 2.0              | —       | 0.8       | 26.9     |
| EBITDA from continuing operations  | (1.0)    | 25.3    | 3.9     | 2.3              | (2.2)   | (15.0)    | 13.3     |
| Stock based compensation expense   | 0.2      | 0.2     | 0.1     | —                | —       | 1.9       | 2.4      |
| Gain on sale or impairment of long lived assets  | —        | —       | —       | —                | —       | (3.6)     | (3.6)    |
| Investment income  | —        | —       | —       | —                | —       | (0.9)     | (0.9)    |
| Expenses associated with proposed acquisition of Ainsworth Lumber Co. Ltd.                               | —        | —       | —       | —                | —       | (0.1)     | (0.1)    |
| Other operating credits and charges, net   | —        | —       | —       | —                | —       | 0.5       | 0.5      |
| Adjusted EBITDA from continuing operations   | \$(0.8)  | \$25.5  | \$4.0   | \$2.3            | \$(2.2) | \$(17.2)  | \$11.6   |

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| Three Months Ended September 30, 2013<br>(Dollar amounts in millions)  | OSB     | Siding  | EWP      | South<br>America | Other    | Corporate | Total   |
|--|---------|---------|----------|------------------|----------|-----------|---------|
| Sales  | \$245.4 | \$149.0 | \$71.8   | \$41.5           | \$3.9    | \$(4.2 )  | \$507.4 |
| Depreciation and amortization  | 15.2    | 4.1     | 3.1      | 3.0              | —        | 0.4       | 25.8    |
| Cost of sales and selling and administrative   | 200.0   | 122.4   | 71.3     | 33.2             | 5.4      | 17.5      | 449.8   |
| Loss on sale or impairment of long lived<br>assets   | —       | —       | —        | —                | —        | 0.3       | 0.3     |
| Other operating credits and charges, net   | —       | —       | —        | —                | —        | (16.1 )   | (16.1 ) |
| Total operating costs  | 215.2   | 126.5   | 74.4     | 36.2             | 5.4      | 2.1       | 459.8   |
| Income (loss) from operations  | 30.2    | 22.5    | (2.6 )   | 5.3              | (1.5 )   | (6.3 )    | 47.6    |
| Total non-operating expense  | —       | —       | —        | —                | —        | (5.7 )    | (5.7 )  |
| Income (loss) before income taxes and<br>equity in (income) loss of unconsolidated<br>affiliates               | 30.2    | 22.5    | (2.6 )   | 5.3              | (1.5 )   | (12.0 )   | 41.9    |
| Provision for income taxes   | —       | —       | —        | —                | —        | 4.4       | 4.4     |
| Equity in (income) loss of unconsolidated<br>affiliates  | —       | —       | (0.6 )   | —                | 0.6      | —         | —       |
| Income (loss) from continuing operations   | \$30.2  | \$22.5  | \$(2.0 ) | \$5.3            | \$(2.1 ) | \$(16.4 ) | \$37.5  |
| Reconciliation of income (loss) from<br>continuing operations to Adjusted<br>EBITDA from continuing operations |         |         |          |                  |          |           |         |
| Income (loss) from continuing operations   | \$30.2  | \$22.5  | \$(2.0 ) | \$5.3            | \$(2.1 ) | \$(16.4 ) | \$37.5  |
| Provision for income taxes   | —       | —       | —        | —                | —        | 4.4       | 4.4     |
| Interest expense, net of capitalized interest  | —       | —       | —        | —                | —        | 7.6       | 7.6     |
| Depreciation and amortization  | 15.2    | 4.1     | 3.1      | 3.0              | —        | 0.4       | 25.8    |
| EBITDA from continuing operations  | 45.4    | 26.6    | 1.1      | 8.3              | (2.1 )   | (4.0 )    | 75.3    |
| Stock based compensation expense   | 0.2     | 0.2     | 0.2      | —                | —        | 1.8       | 2.4     |
| Loss on sale or impairment of long lived<br>assets   | —       | —       | —        | —                | —        | 0.3       | 0.3     |
| Investment income  | —       | —       | —        | —                | —        | (1.7 )    | (1.7 )  |
| Other operating credits and charges, net   | —       | —       | —        | —                | —        | (16.1 )   | (16.1 ) |
| Early debt extinguishment  | —       | —       | —        | —                | —        | 0.8       | 0.8     |
| Expenses associated with proposed<br>acquisition of Ainsworth Lumber co. Ltd.                                  | —       | —       | —        | —                | —        | 3.0       | 3.0     |
| Depreciation included in equity in income<br>(loss) of unconsolidated affiliates                               | —       | —       | —        | —                | 0.8      | —         | 0.8     |
| Adjusted EBITDA from continuing<br>operations  | \$45.6  | \$26.8  | \$1.3    | \$8.3            | \$(1.3 ) | \$(15.9 ) | \$64.8  |

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| Nine Months Ended September 30, 2014<br>(Dollar amounts in millions)                                     | OSB      | Siding  | EWP     | South<br>America | Other   | Corporate | Total     |
|--|----------|---------|---------|------------------|---------|-----------|-----------|
| Sales  | \$652.0  | \$476.4 | \$229.1 | \$114.5          | \$11.2  | \$(1.9)   | \$1,481.3 |
| Depreciation and amortization  | 42.5     | 13.0    | 12.7    | 6.9              | —       | 2.3       | 77.4      |
| Cost of sales and selling and administrative   | 633.3    | 397.5   | 228.0   | 99.1             | 15.4    | 62.3      | 1,435.6   |
| Gain on sale or impairment of long lived assets  | —        | —       | —       | —                | —       | (4.1)     | (4.1)     |
| Other operating credits and charges, net   | —        | —       | —       | —                | —       | 1.1       | 1.1       |
| Total operating costs  | 675.8    | 410.5   | 240.7   | 106.0            | 15.4    | 61.6      | 1,510.0   |
| Income (loss) from operations  | (23.8)   | 65.9    | (11.6)  | 8.5              | (4.2)   | (63.5)    | (28.7)    |
| Total non-operating expense  | —        | —       | —       | —                | —       | (20.8)    | (20.8)    |
| Income (loss) before income taxes and equity in income of unconsolidated affiliates                      | (23.8)   | 65.9    | (11.6)  | 8.5              | (4.2)   | (84.3)    | (49.5)    |
| Benefit for income taxes   | —        | —       | —       | —                | —       | (15.9)    | (15.9)    |
| Equity in income of unconsolidated affiliates  | —        | —       | (3.2)   | —                | —       | —         | (3.2)     |
| Income (loss) from continuing operations   | \$(23.8) | \$65.9  | \$(8.4) | \$8.5            | \$(4.2) | \$(68.4)  | \$(30.4)  |
| Reconciliation of income (loss) from continuing operations to adjusted EBITDA from continuing operations |          |         |         |                  |         |           |           |
| Income (loss) from continuing operations   | \$(23.8) | \$65.9  | \$(8.4) | \$8.5            | \$(4.2) | \$(68.4)  | \$(30.4)  |
| Benefit for income taxes   | —        | —       | —       | —                | —       | (15.9)    | (15.9)    |
| Interest expense, net of capitalized interest  | —        | —       | —       | —                | —       | 23.4      | 23.4      |
| Depreciation and amortization  | 42.5     | 13.0    | 12.7    | 6.9              | —       | 2.3       | 77.4      |
| EBITDA from continuing operations  | 18.7     | 78.9    | 4.3     | 15.4             | (4.2)   | (58.6)    | 54.5      |
| Stock based compensation expense   | 0.7      | 0.5     | 0.4     | —                | —       | 5.3       | 6.9       |
| Gain on sale or impairment of long lived assets  | —        | —       | —       | —                | —       | (4.1)     | (4.1)     |
| Investment income  | —        | —       | —       | —                | —       | (4.4)     | (4.4)     |
| Expenses associated with proposed acquisition of Ainsworth Lumber Co. Ltd.                               | —        | —       | —       | —                | —       | 6.8       | 6.8       |
| Other operating credits and charges, net   | —        | —       | —       | —                | —       | 1.1       | 1.1       |
| Depreciation included in equity in (income) loss of unconsolidated affiliates                            | —        | —       | 0.1     | —                | —       | —         | 0.1       |
| Adjusted EBITDA from continuing operations   | \$19.4   | \$79.4  | \$4.8   | \$15.4           | \$(4.2) | \$(53.9)  | \$60.9    |

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| Nine Months Ended September 30, 2013<br>(Dollar amounts in millions)                                     | OSB     | Siding  | EWP      | South<br>America | Other   | Corporate | Total     |
|--|---------|---------|----------|------------------|---------|-----------|-----------|
| Sales  | \$838.3 | \$435.5 | \$196.1  | \$130.9          | \$10.3  | \$(5.6)   | \$1,605.5 |
| Depreciation and amortization  | 34.2    | 12.4    | 9.0      | 8.1              | —       | 1.3       | 65.0      |
| Cost of sales and selling and administrative   | 595.8   | 352.8   | 196.1    | 105.0            | 13.9    | 61.7      | 1,325.3   |
| Gain on sale or impairment of long lived assets  | —       | —       | —        | —                | —       | (0.4)     | (0.4)     |
| Other operating credits and charges, net   | —       | —       | —        | —                | —       | (9.1)     | (9.1)     |
| Total operating costs  | 630.0   | 365.2   | 205.1    | 113.1            | 13.9    | 53.5      | 1,380.8   |
| Income (loss) from operations  | 208.3   | 70.3    | (9.0)    | 17.8             | (3.6)   | (59.1)    | 224.7     |
| Total non-operating expense  | —       | —       | —        | —                | —       | 12.1      | 12.1      |
| Income (loss) before income taxes and equity in (income) loss of unconsolidated affiliates               | 208.3   | 70.3    | (9.0)    | 17.8             | (3.6)   | (47.0)    | 236.8     |
| Provision for income taxes   | —       | —       | —        | —                | —       | 51.6      | 51.6      |
| Equity in (income) loss of unconsolidated affiliates   | (15.4)  | —       | 1.6      | —                | 2.5     | —         | (11.3)    |
| Income (loss) from continuing operations   | \$223.7 | \$70.3  | \$(10.6) | \$17.8           | \$(6.1) | \$(98.6)  | \$196.5   |
| Reconciliation of income (loss) from continuing operations to adjusted EBITDA from continuing operations |         |         |          |                  |         |           |           |
| Income (loss) from continuing operations   | \$223.7 | \$70.3  | \$(10.6) | \$17.8           | \$(6.1) | \$(98.6)  | \$196.5   |
| Provision for income taxes   | —       | —       | —        | —                | —       | 51.6      | 51.6      |
| Interest expense, net of capitalized interest  | —       | —       | —        | —                | —       | 28.0      | 28.0      |
| Depreciation and amortization  | 34.2    | 12.4    | 9.0      | 8.1              | —       | 1.3       | 65.0      |
| EBITDA from continuing operations  | 257.9   | 82.7    | (1.6)    | 25.9             | (6.1)   | (17.7)    | 341.1     |
| Stock based compensation expense   | 0.7     | 0.5     | 0.4      | —                | —       | 5.0       | 6.6       |
| Gain on sale or impairment of long lived assets  | —       | —       | —        | —                | —       | (0.4)     | (0.4)     |
| Investment income  | —       | —       | —        | —                | —       | (8.3)     | (8.3)     |
| Other operating credits and charges, net   | —       | —       | —        | —                | —       | (9.1)     | (9.1)     |
| Other operating credits and charges associated with joint ventures                                       | —       | —       | —        | —                | —       | 2.7       | 2.7       |
| Expenses associated with proposed acquisition of Ainsworth Lumber co. Ltd.                               | —       | —       | —        | —                | —       | 3.0       | 3.0       |
| Early debt extinguishment  | —       | —       | —        | —                | —       | 0.8       | 0.8       |
| Gain on acquisition  | —       | —       | —        | —                | —       | (35.9)    | (35.9)    |
| Depreciation included in equity in loss of unconsolidated affiliates                                     | 3.4     | —       | 0.1      | —                | 2.4     | —         | 5.9       |
| Adjusted EBITDA from continuing operations   | \$262.0 | \$83.2  | \$(1.1)  | \$25.9           | \$(3.7) | \$(59.9)  | \$306.4   |

RESULTS OF OPERATIONS

(Dollar amounts in millions, except per share amounts)

Our net loss for the third quarter of 2014 was \$20.4 million, or \$0.14 per diluted share, on sales of \$518.1 million, compared to net income for the third quarter of 2013 of \$38.1 million, or \$0.26 per diluted shares, on sales of \$507.4 million. For the third quarter of 2014, loss from continuing operations was \$18.3 million, or \$0.13 per diluted share, compared to income from continuing operations of \$37.5 million, or \$0.26 per diluted share, for the third quarter of 2013. Reductions in OSB pricing had a negative impact of \$44 million in both operating results and adjusted EBITDA

from continuing operations.

Our net loss for the first nine months of 2014 was \$32.5 million, or \$0.23 per diluted share, on sales of \$1,481.3 million, compared to net income for the first nine months of 2013 of \$197.5 million, or \$1.37 per diluted share, on sales of \$1,605.5 million. For the first nine months of 2014, loss from continuing operations was \$30.4 million, or \$0.22 per diluted share, compared to income of \$196.5 million, or \$1.36 per diluted share for the first nine months of 2013. Reductions in OSB pricing had a negative impact of \$282 million on both operating results and adjusted EBITDA from continuing operations.

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 September 30, |         |         | Nine Months Ended September 30, |         |         |
|--|-----------------------------|---------|---------|---------------------------------|---------|---------|
|  | 2014                        | 2013    | Change  | 2014                            | 2013    | Change  |
| Net sales                                  | \$233.4                     | \$245.4 | (5 )%   | \$652.0                         | \$838.3 | (22 )%  |
| Operating income (loss)                    | (16.4 )                     | 30.2    | (154 )% | (23.8 )                         | 223.7   | (111 )% |
| Adjusted EBITDA from continuing operations | (0.8 )                      | 45.6    | (102 )% | 19.4                            | 262.0   | (93 )%  |

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

|     | Quarter Ended September 30,<br>2014 versus 2013 |                   | Nine Months Ended September<br>30,<br>2014 versus 2013 |                   |
|-----|---|-------------------|--|-------------------|
|     | Average Net<br>Selling Price                    | Unit<br>Shipments | Average Net<br>Selling Price                           | Unit<br>Shipments |
| OSB | (16 )%  | 13 %              | (30 )%   | 10 %              |

For both the quarter and nine months ended September 30, 2014, OSB prices decreased as compared to the corresponding periods in 2013. The decline in OSB prices was likely due to lower housing demand than forecasted and continued increased supply in the market. The decrease in selling price unfavorably impacted operating results and Adjusted EBITDA from continuing operations by approximately \$44.1 million for the quarter and \$278.3 million for the nine months ended September 30, 2014 as compared to the same periods in 2013. Sales volumes for the quarter and nine month periods showed an increase over the comparable periods of 2013, consistent with the increase in housing starts and repair and remodeling activities.

#### SIDING

Our siding segment produces and markets wood-based siding and related accessories, together with commodity OSB products from one mill through the second quarter of 2014.

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

|  | Quarter Ended September 30, |         |        | Nine Months Ended September 30, |         |        |
|--|-----------------------------|---------|--------|---------------------------------|---------|--------|
|  | 2014                        | 2013    | Change | 2014                            | 2013    | Change |
| Net sales                                  | \$163.2                     | \$149.0 | 10 %   | \$476.4                         | \$435.5 | 9 %    |
| Operating income                           | 20.8                        | 22.5    | (8 )%  | 65.9                            | 70.3    | (6 )%  |
| Adjusted EBITDA from continuing operations | 25.5                        | 26.8    | (5 )%  | 79.4                            | 83.2    | (5 )%  |

Sales in this segment by product line are as follows:

|                  | Quarter Ended September 30, |         |        | Nine Months Ended September 30, |         |        |
|------------------|-----------------------------|---------|--------|---------------------------------|---------|--------|
|                  | 2014                        | 2013    | Change | 2014                            | 2013    | Change |
| SmartSide Siding | \$149.4                     | \$124.1 | 20 %   | \$429.7                         | \$353.0 | 22 %   |
| Commodity OSB    | 0.3                         | 10.6    | (97 )% | 9.1                             | 40.3    | (77 )% |
| CanExel siding   | 13.5                        | 14.3    | (6 )%  | 37.6                            | 42.2    | (11 )% |
| Total            | \$163.2                     | \$149.0 | 10 %   | \$476.4                         | \$435.5 | 9 %    |



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

|                  | Quarter Ended September 30,<br>2014 versus 2013 |                   |    | Nine Months Ended September<br>30,<br>2014 versus 2013 |                   |    |
|------------------|---|-------------------|----|--|-------------------|----|
|                  | Average Net<br>Selling Price                    | Unit<br>Shipments |    | Average Net<br>Selling Price                           | Unit<br>Shipments |    |
| SmartSide Siding | 1   | % 20              |    | % 5  | % 16              | %  |
| Commodity OSB    | (12   | )% (97            | )% | (31  | )% (63            | )% |
| CanExel siding   | 2   | % 3               |    | % (4   | )% 2              | %  |

For the quarter and nine months ended September 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 nine month periods ended September 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 increased during the quarter and first nine months of 2014 as compared to the corresponding periods in 2013 due to increased demand in Canada and Europe. Sales prices were flat for the quarter and decreased for the nine month period of 2014 as compared to the corresponding periods in 2013 due to the impact of the Canadian dollar weakening as these sales are generally denominated in Canadian dollars. Based upon Canadian dollar selling prices, prices were 6% higher for the quarter and 2% higher for the nine month periods due to a price increase as well as changes in product mix.

For the quarter and first nine 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 \$4.1 million for the nine months ended September 30, 2014 as compared to the corresponding period of 2013. Volumes of commodity OSB were lower for the quarter and nine months ended September 30, 2014 as compared to the comparable periods of 2013 due to increases in siding volume, which reduced the production capacity available for OSB, and log outages. Overall, the reduction in operating results for our siding segment for the quarter ended September 30, 2014 compared to the same period in 2013 was primarily due to increased log and transportation costs partially offset by higher siding sales. For the nine month period ended September 30, 2014 compared to the same period in 2013, the reduction was primarily due to decreased OSB pricing and higher raw material and transportation costs which were 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 September 30, |        |        | Nine Months Ended September 30, |         |         |       |   |
|--|-----------------------------|--------|--------|---------------------------------|---------|---------|-------|---|
|  | 2014                        | 2013   | Change | 2014                            | 2013    | Change  |       |   |
| Net sales                                  | \$82.1                      | \$71.8 | 14     | %                               | \$229.1 | \$196.1 | 17    | % |
| Operating losses                           | (0.3                        | ) (2.0 | ) 85   | %                               | (8.4    | ) (10.6 | ) 21  | % |
| Adjusted EBITDA from continuing operations | 4.0                         | 1.3    | 208    | %                               | 4.8     | (1.1    | ) 536 | % |

Sales in this segment by product line are as follows:

|                  | Quarter Ended September 30, |        |        |   | Nine Months Ended September 30, |         |        |   |
|------------------|-----------------------------|--------|--------|---|---------------------------------|---------|--------|---|
|                  | 2014                        | 2013   | Change |   | 2014                            | 2013    | Change |   |
| LVL/LSL          | \$39.4                      | \$34.9 | 13     | % | \$107.4                         | 93.8    | 14     | % |
| I-Joist          | 26.0                        | 24.5   | 6      | % | 74.7                            | 65.9    | 13     | % |
| Related products | 16.7                        | 12.4   | 35     | % | 47.0                            | 36.4    | 29     | % |
| Total            | \$82.1                      | \$71.8 | 14     | % | \$229.1                         | \$196.1 | 17     | % |

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

|         | Quarter Ended September 30, |   |                |   | Nine Months Ended September 30, |   |                |   |
|---------|-----------------------------|---|----------------|---|---------------------------------|---|----------------|---|
|         | 2014 versus 2013            |   |                |   | 2014 versus 2013                |   |                |   |
|         | Average Net Selling Price   |   | Unit Shipments |   | Average Net Selling Price       |   | Unit Shipments |   |
| LVL/LSL | 3                           | % | 13             | % | 3                               | % | 14             | % |
| I-Joist | 7                           | % | 3              | % | 7                               | % | 11             | % |

For the quarter and nine months ended September 30, 2014, sales volumes of LVL/LSL and I-joists increased over the prior year due to improved market demand due to increased housing starts. Sales prices for LVL/LSL and I-joists for the quarter and nine months ended September 30, 2014 increased due to implemented 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 nine months ended September 30, 2014, compared to the same periods in 2013, the results of operations increased due primarily to improved market demand as well as increased pricing.

#### 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 September 30, |        |        |    | Nine Months Ended September 30, |         |        |    |
|--|-----------------------------|--------|--------|----|---------------------------------|---------|--------|----|
|  | 2014                        | 2013   | Change |    | 2014                            | 2013    | Change |    |
| Net sales                                  | \$36.0                      | \$41.5 | (13)   | )% | \$114.5                         | \$130.9 | (13)   | )% |
| Operating income                           | 0.3                         | 5.3    | (94)   | )% | 8.5                             | 17.8    | (52)   | )% |
| Adjusted EBITDA from continuing operations | 2.3                         | 8.3    | (72)   | )% | 15.4                            | 25.9    | (41)   | )% |

Sales in this segment by production location were as follows:

|        | Quarter Ended September 30, |        |        | Nine Months Ended September 30, |         |        |
|--------|-----------------------------|--------|--------|---------------------------------|---------|--------|
|        | 2014                        | 2013   | Change | 2014                            | 2013    | Change |
| Chile  | \$20.3                      | \$26.8 | (24)%  | \$66.3                          | \$89.3  | (26)%  |
| Brazil | 15.7                        | 14.7   | 7%     | 48.2                            | 41.6    | 16%    |
| Total  | \$36.0                      | \$41.5 | (13)%  | \$114.5                         | \$130.9 | (13)%  |

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

|        | Quarter Ended September 30,<br>2014 versus 2013 |                   | Nine Months Ended September<br>30,<br>2014 versus 2013 |                   |
|--------|---|-------------------|--|-------------------|
|        | Average Net<br>Selling Price                    | Unit<br>Shipments | Average Net<br>Selling Price                           | Unit<br>Shipments |
| Chile  | (12)%   | (14)%             | (14)%  | (14)%             |
| Brazil | 3%  | —                 | (1)%   | 16%               |

For the quarter and nine months ended September 30, 2014, compared to the prior year periods, sales volumes in Chile were lower due to issues related to a political transition in Chile which has slowed housing activity and increased imports. Sales volumes in Brazil were flat for the quarter ended September 30, 2014, compared to the prior year quarter, and increased for nine months ended September 30, 2014, compared to the same period in 2013, due to increased export sales.

Sales prices in Chile declined for the quarter and nine month periods ended September 30, 2014 as compared to the corresponding periods in 2013. Sales prices in Chile declined due to pricing pressure from increased imports and the impact of the fluctuations in the Chilean Peso relative to the U.S. dollar as a majority of these sales are in local markets. Sales prices in Brazil increased during the quarter ended September 30, 2014, compared to the prior year quarter and declined in the nine months ended September 30, 2014, compared to the same period in 2013, due to the impact of the fluctuations in the Brazilian Real relative to the U.S. dollar as a majority of these sales are in local markets. Local currency selling prices in Chile were flat for the quarter and decreased 2% for the nine month period and local currency selling prices in Brazil increased by 3% for the quarter and 11% for the nine month period as compared to the corresponding periods in 2013.

#### OTHER PRODUCTS

Our other products segment includes our remaining timber and timberlands, trucking operations and other minor products, services and closed operations which are not classified as discontinued operations. Additionally, our other products category included our U.S. Greenfiber joint venture interest which was sold during the fourth quarter of 2013.

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

|  | Quarter Ended September 30, |       |        | Nine Months Ended September 30, |        |        |
|--|-----------------------------|-------|--------|---------------------------------|--------|--------|
|  | 2014                        | 2013  | Change | 2014                            | 2013   | Change |
| Net sales                                  | \$3.5                       | \$3.9 | (10)%  | \$11.2                          | \$10.3 | 9%     |
| Operating losses                           | (2.2)                       | (2.1) | (5)%   | (4.2)                           | (6.1)  | 31%    |
| Adjusted EBITDA from continuing operations | (2.2)                       | (1.3) | (69)%  | (4.2)                           | (3.7)  | (14)%  |

For the quarter ended September 30, 2014 compared to the same period in 2013, operating results in our other products businesses remained flat. For the nine months ended September 30, 2014 as compared to the same period in 2013, operating results improved due to the elimination of the losses associated with our previous joint venture interest in U.S. Greenfiber.

## GENERAL CORPORATE AND OTHER EXPENSE, NET

For the quarter and nine months ended September 30, 2014, compared to the same periods in 2013, general corporate expenses decreased by 16% for the quarter and were flat for the nine month period. General corporate and other expenses primarily consist of corporate overhead such as wages and benefits for corporate and sales personnel, professional fees, insurance and other expenses. For the quarter ended September 30, 2014, the decline in general corporate expenses is primarily due to lower management incentive accruals due to lower operating results and the elimination of costs associated with the efforts to acquire Ainsworth. For the nine months ended September 30, 2014, general corporate and other expenses were flat with the same period in the prior year. We did experience increases in the support and maintenance costs related to our information technology system upgrade, expenses associated with our efforts to acquire Ainsworth; however these were offset by lower management incentive accruals due to lower operating performance.

## INTEREST EXPENSE AND INVESTMENT INCOME

Components of interest expense, net of investment income, are as follows:

|   | Quarter Ended September 30, |          | Nine Months Ended September 30, |          |
|---|-----------------------------|----------|---------------------------------|----------|
| Dollar amounts in millions                    | 2014                        | 2013     | 2014                            | 2013     |
| Investment income                             | \$1.1                       | \$1.5    | \$4.3                           | \$7.8    |
| SERP market adjustments                       | (0.2                        | ) 0.2    | 0.1                             | 0.5      |
| Investment income                             | 0.9                         | 1.7      | 4.4                             | 8.3      |
| Interest expense                              | (8.1                        | ) (7.7   | ) (23.7                         | ) (27.9  |
| Amortization of debt charges                  | (0.3                        | ) (0.3   | ) (0.8                          | ) (1.1   |
| Capitalized interest                          | 0.1                         | 0.4      | 1.1                             | 1.0      |
| Interest expense, net of capitalized interest | (8.3                        | ) (7.6   | ) (23.4                         | ) (28.0  |
| Gain on acquisition                           | —                           | —        | —                               | 35.9     |
| Early debt extinguishment                     | —                           | (0.8     | ) —                             | (0.8     |
| Foreign currency gain (loss)                  | (1.3                        | ) 1.0    | (1.8                            | ) (3.3   |
| Total non-operating income (expense)          | \$(8.7                      | ) \$(5.7 | ) \$(20.8                       | ) \$12.1 |

## INCOME TAXES

For the first nine months of 2014, we recorded an income tax benefit on continuing operations of 34% as compared to an income tax provision of 21% in the comparable period of 2013. The primary differences between the U.S. statutory rate of 35% and the effective rate applied to continuing operations for the first nine months of 2014 relate to state income taxes and the effect of foreign tax rates. For the first nine months of 2013, the primary differences between the U.S. statutory rate of 35% and the effective rate applicable to our continuing operations relate to the effect of foreign tax rates and decreases in valuation allowances associated with net operating loss carryforwards in various jurisdictions. 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 recorded in the current quarter.

## DEFINED BENEFIT PENSION PLANS

We maintain several qualified and non-qualified defined benefit pension plans in the U.S. and Canada that cover a substantial portion of our employees. See Note 13 of the Notes to financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013 for further information on our plans. We estimate that our net periodic pension cost for 2014 will be approximately \$5.6 million. If a curtailment or settlement occurs in 2014, this estimate may change significantly. We estimate that we will contribute approximately \$11.0 million to \$13.0 million



to our defined benefit pension plans in 2014, of which \$9.1 million has been contributed through September 30, 2014.

#### LEGAL AND ENVIRONMENTAL MATTERS

For a discussion of legal and environmental matters involving us and the potential impact thereof on our financial position, results of operations and cash flows, see Items 3, 7 and 8 in our Annual Report on Form 10-K for the year ended December 31, 2013 and Note 11 to the Notes to the financial statements contained herein.

#### LIQUIDITY AND CAPITAL RESOURCES

##### OVERVIEW

Our principal sources of liquidity are existing cash and investment balances, cash generated by our operations and our ability to borrow under credit facilities. We may also from time to time issue and sell equity, debt or hybrid securities or engage in other capital market transactions.

Our principal uses of liquidity are paying the costs and expenses associated with our operations, servicing outstanding indebtedness and making capital expenditures. We may also from time to time prepay or repurchase outstanding indebtedness, repurchase shares of our common stock and acquire assets or businesses that are complementary to our operations. Any such repurchases may be commenced, suspended, discontinued or resumed, and the method or methods of effecting any such repurchases may be changed, at any time or from time to time without prior notice.

We expect to be able to meet the future cash requirements of our existing businesses through cash expected to be generated from operations, existing cash and investment balances, existing credit facilities and other capital resources. The following discussion provides further details of our liquidity and capital resources.

##### OPERATING ACTIVITIES

During the first nine months of 2014, operating activities used \$30.3 million of cash compared to providing \$222.8 million of cash during the first nine months of 2013. This change was primarily related to declines in operating results (largely OSB pricing) as well as reductions in our inventories.

During the first nine months of 2014, our accounts receivable balance increased due primarily to higher sales volumes across all product lines. No substantial change occurred in credit terms or number of days outstanding as of September 30, 2014 .

##### INVESTING ACTIVITIES

During the first nine months of 2014, cash used in investing activities was approximately \$41.1 million. Capital expenditures in the first nine months of 2014 were \$54.8 million. We received \$12.8 million proceeds from the sale of assets from the sale of one of our non-operating sites that had been included in assets held for sale. Included in "Accounts payable" is \$4.5 million related to capital expenditures that had not yet been paid as of September 30, 2014. During the first nine months of 2013, cash provided by investing activities was approximately \$12.0 million. Capital expenditures in the first nine months of 2013 were \$43.3 million. Acquisitions, net of cash acquired used \$67.4 million in the first nine months of 2013. Additionally, we received \$13.9 million from our joint ventures and \$16.7 million proceeds from the sale of assets. Included in "Accounts payable" was \$2.2 million related to capital expenditures that had not yet been paid as of September 30, 2013.

Capital expenditures for 2014 are expected to be approximately \$80 million related to projects for productivity improvements and maintenance projects.

#### FINANCING ACTIVITIES

During the first nine months of 2014 cash used by financing activities was \$3.7 million. We used \$2.2 million to repay outstanding debt in the first nine months of 2014 and \$1.5 million to repurchase stock from employees in connection with income tax withholding requirements associated with our employee equity plans. On October 31, 2014, LP's Board of Directors authorized LP to repurchase up to \$100 million of LP's common stock. The purchases may be made from time to time as market conditions warrant and subject to regulatory considerations.

During the first nine months of 2013, cash used by financing activities was \$125.2 million. We made payments of \$113.1 million on the loans during the first nine months of 2013. We used \$12.0 million to repurchase stock in connection with income tax withholding requirements associated with our employee equity plans.

#### POTENTIAL IMPAIRMENTS

We continue to review several mills and investments for potential impairments. Management currently believes we have adequate support for the carrying value of each of these assets based upon the anticipated cash flows that result from our estimates of future demand, pricing and production costs assuming certain levels of planned capital expenditures. As of September 30, 2014, there were no indications of impairment for the asset grouping that included the company's indefinitely curtailed facilities. As of September 30, 2014, the fair value of facilities that have not been indefinitely curtailed was substantially in excess of its carrying value and supports the conclusion that no impairment is necessary for those facilities.

We also review from time to time possible dispositions of various assets in light of current and anticipated economic and industry conditions, our strategic plan and other relevant factors. 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, we may be required to record impairment charges in connection with decisions to dispose of assets.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

A portion of our outstanding debt bears interest at variable rates and accordingly is sensitive to changes in interest rates. Interest rate changes would result in gains or losses in the market value of our debt portfolio due to differences in market interest rates and the rates at the inception of the debt agreements. Offsetting the variable rate debt are variable rate notes receivable from asset sales. Based upon the balances of the variable rate notes receivable from asset sales and the variable rate debt at September 30, 2014, a 100 basis point interest rate change would impact pre-tax net income and cash flows by \$0.4 million annually.

Our international operations have exposure to foreign currency rate risks, primarily due to fluctuations in the Canadian dollar, Brazilian real and the Chilean peso. Although we have in the past entered into foreign exchange contracts associated with certain of our indebtedness and may continue to enter into foreign exchange contracts associated with major equipment purchases to manage a portion of the foreign currency rate risk, we historically have not entered into material currency rate hedges with respect to our exposure from operations, although we may do so in the future.

Some of our products are sold as commodities and therefore sales prices fluctuate daily based on market factors over which we have little or no control. The most significant commodity product we sell is OSB. Based upon an assumed annual production capacity of 5.8 billion square feet ( 3/8" basis) or 5.0 billion square feet ( 7/16" basis), a \$1 change in the annual average price per square foot on 7/16" basis would change annual pre-tax profits by approximately \$5.0 million. Until the housing market more fully recovers, we expect that our near term volumes will be below our capacity.

We historically have not entered into material commodity futures and swaps, although we may do so in the future.



Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have carried out, as of September 30, 2014, with the participation of LP's management, an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act (the "Act"). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that LP's disclosure controls and procedures are effective to provide reasonable assurance that material information required to be disclosed by us in reports we file under the Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that information required to be disclosed by us in the reports we file or submit under the Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During 2013, we began implementation of a new Enterprise Resource Planning (ERP), system for financial reporting and logistics and as of January 1, 2014, we began to fully utilize this system. As a result, our financial and operating transactions utilize the functionality provided by the new ERP system. This new system is not in response to any identified deficiency or weakness in our internal control over financial reporting. The system implementation was designed, in part, to enhance the overall system of internal control over financial reporting through further automation of various business processes.

LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES  
SUMMARY OF PRODUCTION VOLUMES <sup>(1)</sup>

The following table sets forth production volumes for the quarter and nine months ended September 30, 2014 and 2013.

|   | Quarter Ended |       | Nine Months Ended |       |
|---|---------------|-------|-------------------|-------|
|   | September 30, |       | September 30,     |       |
|   | 2014          | 2013  | 2014              | 2013  |
| Oriented strand board, million square feet 3/8" basis(1)  | 1,141         | 996   | 3,172             | 2,888 |
| Oriented strand board, million square feet 3/8" basis<br>(produced by wood-based siding mills)                  | —             | 42    | 45                | 126   |
| Wood-based siding, million square feet 3/8" basis   | 295           | 251   | 835               | 768   |
| Engineered I-Joist, million lineal feet(1)  | 19            | 19    | 60                | 56    |
| Laminated veneer lumber (LVL), thousand cubic feet(1) and<br>laminated strand lumber (LSL), thousand cubic feet | 2,340         | 1,976 | 7,011             | 5,838 |

(1) Includes volumes produced by joint venture operations and sold to LP or through sales arrangements.

INDUSTRY PRODUCT TRENDS

The following table sets forth the average wholesale price of OSB in the United States for the periods specified in dollars per 1,000 square feet.

|                    | OSB<br>Western Canada<br>7/16" Basis | OSB<br>Southwest<br>7/16" Basis | OSB<br>N. Central<br>7/16" Basis |
|--------------------|--------------------------------------|---------------------------------|----------------------------------|
| Annual Average     |                                      |                                 |                                  |
| 2010               | \$214                                | \$210                           | \$220                            |
| 2011               | \$154                                | \$172                           | \$186                            |
| 2012               | \$269                                | \$260                           | \$271                            |
| 2013 1st Qtr. Avg. | \$419                                | \$420                           | \$417                            |
| 2013 2nd Qtr. Avg. | \$328                                | \$320                           | \$347                            |
| 2013 3rd Qtr. Avg. | \$232                                | \$220                           | \$252                            |
| 2014 1st Qtr. Avg. | \$219                                | \$228                           | \$219                            |
| 2014 2nd Qtr. Avg. | \$206                                | \$217                           | \$219                            |
| 2014 3rd Qtr. Avg. | \$189                                | \$193                           | \$216                            |

Source: Random Lengths

## PART II -OTHER INFORMATION

### Item 1. Legal Proceedings.

The description of certain legal and environmental matters involving LP set forth in Part I of this report under “Note 14 – Contingency Reserves” is incorporated herein by reference.

### Item 1A. Risk Factors.

You should be aware that the occurrence of any of the events described in this Risk Factors section and elsewhere in this report or in any other of our filings with the SEC could have a material adverse effect on our business, financial position, results of operations and cash flows. In evaluating us, you should consider carefully, among other things, the risks described below and the matters described in “About Forward-Looking Statements.”

Cyclical industry conditions and commodity pricing have and may continue to adversely affect our financial condition and results of operations. Our operating results reflect the general cyclical pattern of the building products industry. 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. This cyclicity is influenced by a number of factors, including the supply of new and existing homes on the market, the level of unemployment, longer-term interest rates, and mortgage foreclosure rates. The cyclicity is also influenced by the availability of mortgage financing, which is currently more restrictive than normal and which could be adversely affected by the implementation of one or more proposals to eliminate or reduce the mortgage market roles of or levels of support for government-sponsored enterprises such as Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. A significant increase in longer-term interest rates, a prolonged decline in the availability of mortgage financing, or the occurrence of other events that reduce levels of residential construction activity could have a material adverse effect on our financial condition, results of operations and cash flows. Our primary product, OSB, and a significant portion of our raw materials are globally traded commodity products. In addition, our products are subject to competition from manufacturers worldwide. Historical prices for our products have been volatile, and we, like other participants in the building products industry, have limited influence over the timing and extent of price changes for our products. Product pricing is significantly affected by the relationship between supply and demand in the building products industry. Product supply is influenced primarily by fluctuations in available manufacturing capacity. Demand is affected by the state of the economy in general and a variety of other factors. The level of new residential construction activity and home repair and remodeling activity primarily affects the demand for our building products. Demand is also subject to fluctuations due to changes in economic conditions, interest rates, population growth, weather conditions and other factors. We are not able to predict with certainty market conditions and selling prices for our products. In this competitive environment with so many variables for which we do not control, we cannot assure you that prices for our products will not decline from current levels. A prolonged and severe weakness in the markets for one or more of our principal products, particularly OSB, could seriously harm our financial condition and results of operations and our ability to satisfy our cash requirements, including the payment of interest and principal on our debt.

We have a high degree of product concentration. OSB accounted for about 48% of our North American sales in the first nine months of 2014 compared to 57% in the comparable period of 2013 and we expect OSB sales to continue to account for a substantial portion of our revenues and profits in the future. Concentration of our business in the OSB market further increases our sensitivity to commodity pricing and price volatility. In this competitive environment with so many variables for which we do not control, we cannot assure you that pricing for OSB or our other products will not decline from current levels.

Intense competition in the building products industry could prevent us from increasing or sustaining our net sales and profitability. The markets for our products are highly competitive. Our competitors range from very large, fully integrated forest and building products firms to smaller firms that may manufacture only one or a few types of products. We also compete less directly with firms that manufacture substitutes for wood building products. Many of



our competitors have greater financial and other resources than we do, and certain of the mills operated by our competitors may be lower-cost producers than the mills operated by us.

Our results of operations may be harmed by potential shortages of raw materials and increases in raw material costs. The most significant raw material used in our operations is wood fiber. We currently obtain about 71% (as of December 31, 2013) of our wood fiber requirements in the open market. Wood fiber is subject to commodity pricing, which fluctuates on the basis of market factors over which we have no control. In addition, the cost of various types of wood fiber that we purchase in the market has at times fluctuated greatly because of governmental, economic or industry conditions, and may be affected by increased demand resulting from initiatives to increase the use of biomass materials in the production of heat, power, biobased products and biofuels. In addition to wood fiber, we also use a significant quantity of various resins in our manufacturing processes. Resin product costs are influenced by changes in the prices or availability of raw materials used to produce resins, primarily petroleum products, as well as demand for and availability of resin products. Selling prices of our products have not always increased in response to raw material cost increases. We are unable to determine to what extent, if any, we will be able to pass any future raw material cost increases through to our customers through product price increases. Our inability to pass increased costs through to our customers could have a material adverse effect on our financial condition, results of operations and cash flows.

Many of the Canadian forestlands from which we obtain wood fiber also are subject to the constitutionally protected treaty or common-law rights of the aboriginal peoples of Canada. Many aboriginal groups are actively engaged in treaty discussions with the government of Canada. Final or interim resolution of claims brought by aboriginal groups are expected to result in additional restrictions on the sale or harvest of timber and may increase operating costs and affect timber supply and prices in Canada.

We depend on our senior management team and other key employees, and significant attrition within our management team could adversely affect our business. Our success depends in part on our ability to attract, retain and motivate senior management and other key employees. Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, competitors' hiring practices, cost reduction activities, and the effectiveness of our compensation programs. Competition for qualified personnel can be very intense. We must continue to recruit, retain and motivate senior management and other key employees sufficient to maintain our current business and support our future projects. A loss of any such personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

Our operations require substantial capital. Capital expenditures for expansion or replacement of existing facilities or equipment or to comply with future changes in environmental laws and regulations may be substantial. Although we maintain our production equipment with regular periodic and scheduled maintenance, we cannot assure you that key pieces of equipment in our various production processes will not need to be repaired or replaced or that we will not incur significant additional costs associated with environmental compliance. The costs of repairing or replacing such equipment and the associated downtime of the affected production line could have a material adverse effect on our financial condition, results of operations and cash flow. If for any reason we are unable to provide for our operating needs, capital expenditures and other cash requirements on economic terms, we could experience a material adverse effect on our business, financial condition, results of operations and cash flows.

Our pension and health care costs are subject to numerous factors which could cause these costs to change. We have defined benefit pension plans covering substantially all U.S. and Canadian employees. We provide retiree health care benefits to certain of our U.S. salaried and certain hourly employees. Our pension costs are dependent upon numerous pension plan provisions that are subject to interpretations and factors resulting from actual plan experience and assumptions of future experience. Pension plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity market returns; changes in general interest rates and changes in the number of retirees may result in increased pension costs in future periods. Likewise, changes in assumptions regarding current discount

rates and expected rates of return on plan assets could also increase pension and health care costs. We are subject to market risk on pension plan assets as well as discount rates on long-term obligations.

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Significant adverse changes in the factors affecting our pension and health care costs could adversely affect our cash flows, financial condition and results of operations.

Our pension plans are currently underfunded, and over time we will be required to make cash payments to the plans, reducing the cash available for our business. We record a liability associated with our pension plans equal to the excess of the benefit obligation over the fair value of plan assets. The benefit liability recorded under the provisions of Accounting Standards Codification (ASC) 715, "Compensation—Retirement Benefits," at December 31, 2013 was \$51.8 million. Although we expect to contribute between \$11.0 million and \$13.0 million to our plans in 2014, we continually reassess the amount and timing of any discretionary contributions. Over the next several years we may make significant contributions to the plans. The amount of such contributions will depend upon a number of factors, principally the actual earnings and changes in values of plan assets and changes in interest rates.

We depend on third parties for transportation services and increases in costs and the availability of transportation could materially and adversely affect our business and operations. Our business depends on the transportation of a large number of products, both domestically and internationally. We rely primarily on third parties for transportation of the products we manufacture and/or distribute as well as for delivery of our raw materials. In particular, a significant portion of the goods we manufacture and raw materials we use are transported by railroad or trucks, which are highly regulated. If any of our third-party transportation providers were to fail to deliver the goods we manufacture or distribute in a timely manner, we may be unable to sell those products at full value or at all. Similarly, if any of these providers were to fail to deliver raw materials to us in a timely manner, we may be unable to manufacture our products in response to customer demand. In addition, if any of these third parties were to cease operations or cease doing business with us, we may be unable to replace them at reasonable cost. Any failure of a third-party transportation provider to deliver raw materials or finished products in a timely manner could harm our reputation, negatively affect our customer relationships and have a material adverse effect on our financial condition and results of operation. In addition, an increase in transportation rates or fuel surcharges could materially and adversely affect our sales and profitability.

We are subject to significant environmental regulation and environmental compliance expenditures and liabilities. Our businesses are subject to many environmental laws and regulations, particularly with respect to discharges of pollutants and other emissions on or into land, water and air, and the disposal and remediation of hazardous substances or other contaminants and the restoration and reforestation of timberlands. Compliance with these laws and regulations is a significant factor in our business. We have incurred and expect to continue to incur significant expenditures to comply with applicable environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which we are subject could become more stringent in the future. Our failure to comply with applicable environmental laws and regulations and permit requirements could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of pollution control equipment or remedial actions.

Some environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at such facilities and sites without regard to causation or knowledge of contamination. In addition, we occasionally evaluate various alternatives with respect to our facilities, including possible dispositions or closures. Investigations undertaken in connection with these activities may lead to discoveries of contamination that must be remediated, and closures of facilities may trigger compliance requirements that are not applicable to operating facilities. Consequently, we cannot assure you that existing or future circumstances or developments with respect to contamination will not require significant expenditures by us.

We are involved in various environmental matters, product liability and other legal proceedings. The outcome of these matters and proceedings and the magnitude of related costs and liabilities are subject to uncertainties. The conduct of our business involves the use of hazardous substances and the generation of contaminants and pollutants. In addition,

the end-users of many of our products are members of the general public. We currently are and from time to time in the future may be involved in a number of environmental matters and legal proceedings, including legal proceedings involving anti-trust, warranty or non-warranty product liability claims, negligence and other claims, including claims for wrongful death, personal injury and property damage alleged to have arisen out of the use by others of our or our predecessors' products or the release by us or our predecessors of hazardous substances.

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Environmental matters and legal matters and proceedings, including class action settlements relating to certain of our products, have in the past caused and in the future may cause us to incur substantial costs. We have established contingency reserves in our consolidated financial statements with respect to the estimated costs of existing environmental matters and legal proceedings to the extent that our management has determined that such costs are both probable and reasonably estimable as to amount. However, such reserves are based upon various estimates and assumptions relating to future events and circumstances, all of which are subject to inherent uncertainties. We regularly monitor our estimated exposure to environmental and litigation loss contingencies and, as additional information becomes known, may change our estimates significantly. However, no estimate of the range of any such change can be made at this time. We may incur costs in respect of existing and future environmental matters and legal proceedings as to which no contingency reserves have been established. We cannot assure you that we will have sufficient resources available to satisfy the related costs and expenses associated with these matters and proceedings.

Settlements of tax exposures may exceed the amounts we have established for known estimated tax exposures. We maintain reserves for known estimated tax exposures in federal, state and international jurisdictions and uncertain tax positions. Significant income tax exposures may include potential challenges to intercompany pricing and loans, the treatment of financing, acquisition and disposition transactions, the use of hybrid entities and other matters. These exposures are settled primarily through the closure of audits with the taxing jurisdictions and, on occasion, through the judicial process, either of which may produce a result inconsistent with past estimates. We believe that we have established appropriate reserves for estimated exposures; however, if actual results differ materially from our estimates we could experience a material adverse effect on our financial condition, results of operations and cash flows. In addition, our deferred tax liabilities include substantial amounts related to installment sales of timber lands in 1998 and 2003 for which we have previously monetized most of the installment receivable. As a result of these monetizations, we will be required to fund these liabilities from sources other than such installments, potentially including such tax loss and credit carryovers as may then be available.

Fluctuations in foreign currency exchange rates could result in currency exchange losses and reductions in stockholder's equity. A significant portion of our operations are conducted through foreign subsidiaries. The functional currency for our Canadian subsidiary is the U.S. dollar. The financial statements of this foreign subsidiary are remeasured into U.S. dollars using the historical exchange rate for property, plant and equipment, timber and timberlands, equity and certain other non-monetary assets and liabilities and related depreciation and amortization on these assets and liabilities. These transaction and translation gains or losses are recorded in foreign exchange gains (losses) in the income statement. The functional currency of our Chilean subsidiary is the Chilean peso and the functional currency in our Brazil subsidiary is the Brazilian real. Translation adjustments, which are based upon the exchange rate at the balance sheet date for assets and liabilities and the weighted average rate for the income statement, are recorded in the Accumulated Comprehensive Income (Loss) section of Stockholders' Equity. Therefore, changes in the Canadian dollar, the Chilean peso or the Brazilian real relative to the U.S. dollar may have a material adverse effect on our financial condition and results of operations.

Our ability to service our indebtedness, to refinance our indebtedness or to fund our other liquidity needs is subject to various risks. Our ability to make scheduled payments on and to refinance our indebtedness depends on and is subject to our financial and operating performance, which in turn is affected by general and regional economic, financial, competitive, business and other factors, including the availability of financing in the banking and capital markets as well as the other risks described herein. In particular, 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 cyclicality. Over the last several years, housing starts remained below "normal" levels. This reduced level of building was caused, in part, by an increase in the inventory of homes for sale, a more restrictive mortgage market and a slowed economy. There can be no assurance as to when, or if the housing market, will rebound to "normal" levels. We have experienced significant losses from operations and significant net cash used in operating activities in recent periods. Accordingly, we cannot assure you that our business will generate sufficient cash flows from operations or

that future borrowings will be available to us in an amount sufficient to enable us to service our debt, to refinance our debt or to fund our other liquidity needs. If we are unable to service our debt obligations or to fund our other liquidity needs, we could be forced to curtail our operations, reorganize our

capital structure or liquidate some or all of our assets in a manner that could cause the holders of our securities to experience a partial or total loss of their investment in us.

We have not independently verified the results of third-party research or confirmed assumptions or judgments upon which it may be based, and the forecasted and other forward-looking information contained therein is subject to inherent uncertainties. We refer in this report and other documents that we file with the SEC to historical, forecasted and other forward-looking information published by sources such as RISI, FEA, Random Lengths and the U.S. Census Bureau that we believe to be reliable. However, we have not independently verified this information and, with respect to the forecasted and forward-looking information, have not independently confirmed the assumptions and judgments upon which it is based. Forecasted and other forward looking information is necessarily based on assumptions regarding future occurrences, events, conditions and circumstances and subjective judgments relating to various matters, and is subject to inherent uncertainties. Actual results may differ materially from the results expressed or implied by, or based upon, such forecasted and forward-looking information.

Initiatives to upgrade our information technology infrastructure involve many risks. We regularly implement business process improvement initiatives to optimize our performance. Our current initiatives include plans to further standardize the business processes and technology that support our strategies through implementation of an new software solution over the next few years. We may experience difficulties as we transition to these new or upgraded systems and processes, including loss of data and decreases in productivity as our personnel become familiar with new systems. In addition, transitioning to these new or upgraded systems requires significant capital investments and personnel resources. Difficulties in implementing new or upgraded information systems or significant system failures could disrupt our operations and have a material adverse effect on our business, financial condition, results of operations or cash flows. In addition, we will experience significant changes in our internal controls over financial reporting as our implementation progresses. If we are unable to manage these changes successfully, our ability to timely and accurately process transactions and report our results of operations could be adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

N/A

Item 5. Other Information

None.

Item 6. Exhibits

|         |  |
|---------|--|
| 31.1    | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a). |
| 31.2    | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a). |
| 32.1    | Certifications pursuant to § 906 of the Sarbanes-Oxley Act of 2002.  |
| 100.INS | XBRL Instance Document   |
| 100.SCH | XBRL Taxonomy Extension Schema Document                              |
| 100.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                |
| 100.DEF | XBRL Taxonomy Extension Definition Linkbase Document                 |
| 100.LAB | XBRL Taxonomy Extension Label Linkbase Document                      |
| 100.PRE | XBRL Taxonomy Extension Presentation Linkbase Document               |

LP hereby agrees to furnish supplementally to the SEC upon its request any schedules and similar documents omitted pursuant to Item 601(b)(2) of Regulation S-K and any instruments omitted pursuant to Item 601 (b)(4)(iii) of Regulation S-K.

**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**LOUISIANA-PACIFIC CORPORATION**

Date: November 5, 2014

**BY: /S/ CURTIS M. STEVENS**  
Curtis M. Stevens  
Chief Executive Officer

Date: November 5, 2014

**BY: /S/ SALLIE B. BAILEY**  
Sallie B. Bailey  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)