LOUISIANA-PACIFIC CORP
Form 10-Q
May 09, 2016

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 March 31, 2016
Commission File Number 1-7107

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

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

414 Union Street, Nashville, TN 37219
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code: (615) 986-5600

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

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 x No o

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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 143,748,332 shares of Common Stock, $1 par value, outstanding as of May 9, 2016.

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 (SEC) 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 and repair 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, Euro, 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 SEC that warn of risks or uncertainties associated with future results, events or circumstances identify important factors that could cause actual results, events and circumstances to differ materially from those reflected in the forward-looking statements.

ABOUT THIRD-PARTY INFORMATION

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

Item 1. Financial Statements.
CONSOLIDATED STATEMENTS OF INCOME
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
(AMOUNTS IN MILLIONS EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Quarter Ended March 31,	
	2016	2015
Net sales	$504.6	$471.7
Operating costs and expenses:		
Cost of sales	415.5	427.8
Depreciation and amortization	27.9	26.7
Selling and administrative	42.3	38.7
(Gain) loss on sale or impairment of long-lived assets, net	—	0.1
Other operating charges and credits, net	—	11.6
Total operating costs and expenses	485.7	504.9
Income (loss) from operations	18.9	(33.2)
Non-operating income (expense):		
Interest expense, net of capitalized interest	(8.0)	(7.5)
Interest income	1.8	1.4
Other non-operating items	0.5	(2.2)
Total non-operating income (expense)	(5.7)	(8.3)
Income (loss) from operations before taxes and equity in income of unconsolidated affiliates	13.2	(41.5)
Provision (benefit) for income taxes	4.4	(6.3)
Equity in income of unconsolidated affiliates	(1.5)	(0.7)
Net income (loss)	$10.3	$(34.5)
Income (loss) per share of common stock:		
Net income (loss) per share - basic	$0.07	$(0.24)
Net income (loss) per share - diluted	$0.07	$(0.24)
Average shares of stock outstanding - basic	142.9	142.0
Average shares of stock outstanding - diluted	145.2	142.0

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 March 31,	
	2016	2015
Net income (loss)	$10.3	$(34.5)
Other comprehensive income (loss)		
Foreign currency translation adjustments	6.1	(7.8)
Defined benefit pension and post retirement plans:		
Change benefit obligations, translation adjustment	(0.8)	0.5
Amortization of amounts included in net periodic benefit cost:		
Actuarial loss, net of tax	0.8	1.0
Prior service cost, net of tax	0.1	0.1
Other	—	0.1
	6.2	(6.1)
Comprehensive income (loss)	$16.5	$(40.6)

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

CONSOLIDATED BALANCE SHEETS
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
(AMOUNTS IN MILLIONS) (UNAUDITED)

	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$404.2	$ 434.7
Receivables, net of allowance for doubtful accounts of $1.0 million at March 31, 2016 and December 31, 2015	146.4	96.4
Inventories	250.1	222.0
Prepaid expenses and other current assets	5.9	7.0
Assets held for sale	9.0	9.0
Total current assets	815.6	769.1
Timber and timberlands	51.9	53.1
Property, plant and equipment, at cost	2,411.8	2,392.5
Accumulated depreciation	(1,554.5)	(1,530.1)
Net property, plant and equipment	857.3	862.4
Goodwill	9.7	9.7
Notes receivable from asset sales	432.2	432.2
Investments in and advances to affiliates	7.2	7.7
Restricted cash	14.4	14.3
Other assets	22.8	23.0
Long-term deferred tax asset	4.5	4.8
Total assets	$2,215.6	$ 2,176.3
LIABILITIES AND EQUITY		
Current portion of long-term debt	$2.1	$ 2.1
Accounts payable and accrued liabilities	161.9	139.6
Current portion of contingency reserves	1.3	1.3
Total current liabilities	165.3	143.0
Long-term debt, excluding current portion	751.8	751.8
Deferred income taxes	85.7	99.5
Contingency reserves, excluding current portion	15.2	15.5
Other long-term liabilities	145.8	149.5
Stockholders’ equity:		
Common stock, $1 par value, 200,000,000 shares authorized, 153,147,190, and 152,979,708 shares issued	153.1	153.0
Additional paid-in capital	492.7	496.5
Retained earnings	750.8	724.2
Treasury stock, 9,739,602 shares and 9,995,456 shares, at cost	(204.9)	(210.6)
Accumulated comprehensive loss	(139.9)	(146.1)
Total stockholders’ equity	1,051.8	1,017.0
Total liabilities and stockholders’ equity	$2,215.6	$ 2,176.3

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 March 31, 2016	Quarter Ended March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$10.3	$(34.5)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	27.9	26.7
Income from unconsolidated affiliates, including dividends	0.5	(0.7)
(Gain) loss on sale or impairment of long-lived assets, net	—	0.1
Other operating charges and credits, net	—	11.6
Stock-based compensation related to stock plans	3.0	2.4
Exchange loss on remeasurement	0.1	3.6
Cash settlements of contingencies, net of accruals	(0.3)	0.5
Cash settlements of warranties, net of accruals	(3.5)	(3.0)
Pension expense, net of contributions	0.4	2.0
Non-cash interest expense, net	0.4	(0.1)
Other adjustments, net	—	0.3
Changes in assets and liabilities:		
Increase in receivables	(47.8)	(30.9)
Increase in inventories	(26.9)	(34.2)
Decrease in prepaid expenses	1.1	2.0
Increase in accounts payable and accrued liabilities	26.0	17.2
Increase (decrease) in income taxes	3.9	(7.0)
Net cash used in operating activities	(4.9)	(44.0)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment additions	(26.3)	(14.9)
Proceeds from sales of assets	—	0.4
Other investing activities	0.1	—
Net cash used in investing activities	(26.2)	(14.5)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(1.1)	(1.4)
Sale of common stock under equity plans	0.1	0.1
Taxes paid related to net share settlement of equity awards	(0.9)	(2.4)
Net cash used in financing activities	(1.9)	(3.7)
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	2.5	(2.2)
Net decrease in cash and cash equivalents	(30.5)	(64.4)
Cash and cash equivalents at beginning of period	434.7	532.7
Cash and cash equivalents at end of period	$404.2	$468.3

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) 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, 2015.

NOTE 2 - STOCK-BASED COMPENSATION

LP has a Management Incentive Plan (MIP) which is administered by the Compensation Committee of the Board of Directors. The Compensation Committee authorizes the grants of restricted stock, restricted stock units, performance share awards payable in stock upon the attainment of specified performance goals, stock options, stock settled stock appreciation rights (SSAR), other stock-based awards and cash-based awards at the discretion of the Committee. A detailed discussion of this is presented in Note 15 to the consolidated financial statements included in LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. As of March 31, 2016, 3.1 million shares were available for grant under the plan.

Dollar amounts in millions	March 31, 2016	March 31, 2015
Total stock-based compensation expense (costs of sales and general and administrative)	$ 3.0	$ 2.4
Income tax provision related to stock-based compensation	$ 1.9	$ —
Impact on cash flow due to taxes paid related to net share settlement of equity awards	$ 0.9	$ 2.4

At March 31, 2016, $18.3 million of compensation cost related to unvested restricted performance shares, restricted stock and SSARs attributable to future service had not yet been recognized. This amount will be recognized in expense over a weighted-average period of 1.78 years.

LP adopted Accounting Standards Update (ASU) No. 2016-09, Improvements to Employee Share-based Payment Accounting as of January 1, 2016. This standard is required to be adopted using the modified retrospective approach. As such, LP recorded a cumulative-effect adjustment of $16.3 million during the quarter ended March 31, 2016 to increase LP's December 31, 2015 retained earnings and increase LP's December 31, 2015 deferred tax asset balance. Additionally, ASU 2016-09 addresses the presentation of excess tax benefits and employee taxes paid on the statement of cash flows. LP is now required to present excess tax benefits as an operating activity (combined with other income tax cash flows) on the statement of cash flows rather than as a financing activity, and LP has adopted this change prospectively. ASU 2016-09 also requires the presentation of employee taxes as a financing activity on the statement of cash flows, which is where LP has previously classified this item.

Grants of awards

During the first three months of 2016, the Company granted 90,444 performance units at an average grant date fair value of $20.45 per share, 509,127 stock settled stock appreciation rights at an average grant date fair value of $6.99 per share and 409,506 restricted stock awards (shares or units) at an average grant date fair value of $15.75 per share.

NOTE 3 – FAIR VALUE MEASUREMENTS

LP estimated its Senior Notes maturing in 2020 to have a fair value of $364.5 million at March 31, 2016 and $366.2 million at December 31, 2015 based upon market quotations.

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

NOTE 4 – EARNINGS PER SHARE

Basic earnings per share are based on the weighted-average number of shares of common stock outstanding. Diluted earnings per share are based upon the weighted-average number of shares of common stock outstanding plus all potentially dilutive securities that were assumed to be converted into common shares at the beginning of the period under the treasury stock method. This method requires that the effect of potentially dilutive common stock equivalents (stock options, SSARs, performance shares, 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.

Dollar and share amounts in millions, except per share amounts	Three Months Ended March 31,	
	2016	2015
Numerator:		
Net income (loss)	$10.3	$(34.5)
Denominator:		
Denominator for basic earnings per share:		
Weighted average common shares outstanding	142.9	142.0
Effect of dilutive securities:		
Dilutive effect of stock warrants	0.3	—
Dilutive effect of employee stock plans	2.0	—
Dilutive potential common shares	2.3	—
Denominator for diluted earnings per share:		
Adjusted weighted average shares	145.2	142.0
Basic earnings per share:		
Net income (loss) per share	$0.07	$(0.24)
Diluted earnings per share:		
Net income (loss) per share	$0.07	$(0.24)

For the three months ended March 31, 2016, stock options, warrants and SSARs relating to approximately 2.6 million shares of LP common stock were considered not in-the-money for purposes of LP's earnings per share calculation. For the three months ended March 31, 2015, stock options, warrants and SSARs relating to approximately 5.2 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.

At March 31, 2016, outstanding warrants were exercisable to purchase approximately 227,129 shares.

NOTE 5 – RECEIVABLES

Receivables consist of the following:

Dollar amounts in millions	March 31, 2016	December 31, 2015
Trade receivables	$ 129.7	$ 82.6
Income tax receivable	1.6	2.0
Other receivables	16.1	12.8
Allowance for doubtful accounts	(1.0)	(1.0)
Total	$ 146.4	$ 96.4

Other receivables at March 31, 2016 and December 31, 2015 primarily consist of non-income tax receivables, vendor rebates, interest receivables and other miscellaneous receivables.

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	March 31, 2016	December 31, 2015
Logs	$ 72.9	$ 58.6
Other raw materials	21.9	21.6
Semi-finished inventory	17.2	18.5
Finished products	138.1	123.3
Total	$ 250.1	$ 222.0

NOTE 7 – 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. An exception is provided for situations in which an enterprise anticipates a loss in a separate jurisdiction for which no tax benefit can be recognized. For the three months ended March 31, 2015, LP's overall estimated annual effective tax rate was computed by excluding anticipated losses in Canada for which no deferred tax asset was expected to be recognizable due to the need for valuation allowances. Tax benefit for the period was then computed using the rate so derived applied to year-to-date pre-tax losses excluding those from Canada, and no additional Canadian tax benefit was added.

Each period 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.

For the first three months of 2016, the primary differences between the U.S. statutory rate of 35% and the effective rate applicable to LP’s continuing operations relate to foreign tax rates, changes in Canadian valuation allowances and a charge for excess tax deficiencies in connection with LP's stock-based compensation plans. For the first three months of 2015, the primary differences between the U.S. statutory rate of 35% and the effective rate applicable to LP's continuing operations relates to state income taxes, Canadian valuation allowances and a reduction in the reserve for unrecognized tax benefits.

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. As part of our review, we consider all positive and negative evidence, including earnings history, the future reversal of deferred tax liabilities, and the relevant expirations of carry forwards. LP believes that the valuation allowances provided are appropriate. If in future periods, our earnings estimates differ from the estimates used to establish these valuation allowances or other objective positive or negative evidence arises, LP may be required to record an adjustment resulting in an impact on tax expense (benefit) for that period.

NOTE 8 - OTHER OPERATING CHARGES AND CREDITS

During the first quarter of 2015, LP was notified by the Ministry of Forestry in Quebec that LP's forest license associated with an indefinitely curtailed OSB mill in Quebec has been terminated. Based upon this notification, LP was required to write off the remaining unamortized value associated with this intangible forest license of $11.6 million.

NOTE 9 – 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. However, no estimate of the range of any such change can be made at this time.

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 10 – SELECTED SEGMENT DATA

LP operates in four segments: North America 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, 2015.

Dollar amounts in millions	Three Months Ended March 31, 2016	2015
Net sales:		
OSB	$217.0	$190.2
Siding	181.3	173.5
EWP	71.8	64.8
South America	30.5	35.9
Other	6.1	7.3
Intersegment sales	(2.1)	—
	$504.6	$471.7
Operating profit (loss):		
OSB	$15.3	$(28.4)
Siding	26.9	32.9
EWP	(2.5)	(4.1)
South America	5.1	2.4
Other	(0.4)	(0.9)
Other operating charges and credits, net	—	(11.6)
Gain (loss) on sale or impairment of long-lived assets	—	(0.1)
General corporate and other expenses, net	(24.0)	(22.7)
Other non-operating income (expense)	0.5	(2.2)
Investment income	1.8	1.4
Interest expense, net of capitalized interest	(8.0)	(7.5)
Income (loss) from operations before taxes	14.7	(40.8)
Provision (benefit) for income taxes	4.4	(6.3)
Income (loss) from operations	$10.3	$(34.5)

NOTE 11 – 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.

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 12 – DEFINED BENEFIT PENSION PLANS

The following table sets forth the net periodic pension cost for LP’s defined benefit pension plans during the three months ended March 31, 2016 and 2015. The net periodic pension cost included the following components:

	Three Months Ended March 31,	
Dollar amounts in millions	2016	2015
Service cost	$1.2	$1.0
Interest cost	3.3	3.4
Expected return on plan assets	(3.3)	(3.8)
Amortization of prior service cost	0.1	0.1
Amortization of net loss	1.4	1.8
Net periodic pension cost	$2.7	$2.5

During the three months ended March 31, 2016 and 2015, LP recognized $2.7 million and $2.5 million of pension expense for all of LP's defined benefit pension plans.

During the three months ended March 31, 2016, LP made $2.0 million in pension contributions to its defined benefit pension plans. LP expects to contribute between $6.0 million and $8.0 million to its defined benefit pension plans in 2016.

NOTE 13 – PRODUCT WARRANTY

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 three months ended March 31, 2016 and 2015 are summarized in the following table:

	Three Months Ended March 31,	
Dollar amounts in millions	2016	2015
Beginning balance	$21.0	$31.4
Accrued to expense	0.1	0.1
Foreign currency translation	0.6	(1.3)
Payments made	(3.6)	(3.1)
Total warranty reserves	18.1	27.1
Current portion of warranty reserves	(6.0)	(12.0)
Long-term portion of warranty reserves	$12.1	$15.1

LP continues to monitor warranty and other claims associated with these products and believes as of March 31, 2016 that the reserves associated with these matters are adequate. However, it is possible that additional charges may be required in the future.

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 14 - OTHER COMPREHENSIVE INCOME

Other comprehensive income activity, net of tax, is provided in the following table for the three months ended March 31, 2016:

Dollar amounts in millions	Foreign currency translation adjustments	Pension adjustments	Unrealized gain (loss) on investments	Other	Total
Balance at December 31, 2015	$ (55.1)	$ (93.3)	$ 3.3	$(1.0)	$(146.1)
Other comprehensive income before reclassifications	6.1	(0.8)	—	—	5.3
Amounts reclassified from accumulated comprehensive income	—	0.9	—	—	0.9
Net current-period other comprehensive income	6.1	0.1	—	—	6.2
Balance at March 31, 2016	$ (49.0)	$ (93.2)	$ 3.3	$(1.0)	$(139.9)

Other comprehensive income activity, net of tax, is provided in the following table for the three months ended March 31, 2015:

Dollar amounts in millions	Foreign currency translation adjustments	Pension adjustments	Unrealized gain (loss) on investments	Other	Total
Balance at December 31, 2014	$ (33.7)	$ (99.0)	$ 2.6	$(1.2)	$(131.3)
Other comprehensive income (loss) before reclassifications	(7.8)	0.5	—	0.1	(7.2)
Amounts reclassified from accumulated comprehensive income	—	1.1	—	—	1.1
Net current-period other comprehensive income (loss)	(7.8)	1.6	—	0.1	(6.1)
Balance at March 31, 2015	$ (41.5)	$ (97.4)	$ 2.6	$(1.1)	$(137.4)

Reclassifications from accumulated other comprehensive loss for the three months ended March 31, 2016 and March 31, 2015 are summarized, in millions of dollars, in the following table:

	Amount reclassified from accumulated comprehensive loss Three Months Ended March 31,		Affected line item in the statement where net income (loss) is presented
Details about accumulated other comprehensive income components	2016	2015	
Amortization of defined benefit pension plans			
Prior service cost	$ 0.1	$ 0.1	[a]
Actuarial loss	1.4	1.8	[a]
	1.5	1.9	Total before tax
	0.6	0.8	Tax benefit
Total reclassifications	$ 0.9	$ 1.1	Net of tax

[a] These accumulated other comprehensive loss components are included in the computation of net periodic pension cost, see Note 12 for additional details. The net periodic pension cost is included in Cost of sales and Selling and administrative expense in the Consolidated Statements of Income.

NOTE 15 - RECENT AND PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), which supersedes the lease accounting requirements in Accounting Standards Codification (ASC) Topic 840, Leases. The new standard requires entities to recognize, separately from each other, an asset for its right to use (ROU) the underlying asset equal to the liability for its finance and operating lease obligations. Further, the entity is required to present separately the current and non current portion of the ROU asset and corresponding lease liability. The new standard is effective on January 1, 2019. LP is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations and financial position.

In March 2016, FASB issued ASU No. 2016-09, Improvements to Employee Share-based Payment Accounting. This ASU simplifies the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU requires that excess tax benefits and deficiencies be recognized as income tax benefit or expense in the income statement, and therefore, the Company anticipates increased income tax expense volatility after adoption of this ASU. The new standard is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. Early adoption will be permitted in any interim or annual period for which financial statements have not yet been issued or have not been made available for issuance.

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 outdoor structures. 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 these markets, we operate in four segments: North America 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 first three months of 2016, the U.S. Department of Census reported that U.S. single and multi-family housing starts were 15% higher than for the same three months of 2015. 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 16% higher for the first three months of 2016 than for the same period in 2015.

For additional factors affecting our results, refer to the Management Discussion and Analysis of Financial Condition and Results of Operations overview contained in our Annual Report on Form 10-K for the year ended December 31, 2015 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, 2015 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 2016, 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

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March 31, 2016, we excluded from our estimates approximately $2.2 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. (GAAP), 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 March 31, 2016, we had established valuation allowances against certain deferred tax assets, primarily related to state and foreign carryovers of net operating losses, credits and capital losses. We have not established valuation allowances against other deferred tax assets based upon positive evidence such as recent earnings history, generally improving economic conditions and deferred tax liabilities which we anticipate to reverse within the carry forward period. 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.

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 claims. 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. 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 sale or impairment of long-lived assets, other operating charges and credits 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 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, and depreciation and amortization, which are necessary to operate our business or which we otherwise incur or experience 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 March 31, 2016 (Dollar amounts in millions)	OSB	Siding	EWP	South America	Other	Corporate	Total
Sales	$217.0	$181.3	$71.8	$ 30.5	$6.1	$ (2.1)	$504.6
Depreciation and amortization	14.5	7.2	3.1	1.9	0.4	0.8	27.9
Cost of sales and selling and administrative	187.2	147.2	72.7	23.5	6.1	21.1	457.8
Total operating costs	201.7	154.4	75.8	25.4	6.5	21.9	485.7
Income (loss) from operations	15.3	26.9	(4.0)	5.1	(0.4)	(24.0)	18.9
Total non-operating expense	—	—	—	—	—	(5.7)	(5.7)
Income (loss) before income taxes and equity in income of unconsolidated affiliates	15.3	26.9	(4.0)	5.1	(0.4)	(29.7)	13.2
Income tax provision	—	—	—	—	—	4.4	4.4
Equity in income of unconsolidated affiliates	—	—	(1.5)	—	—	—	(1.5)
Income (loss) from continuing operations	$15.3	$26.9	$(2.5)	$ 5.1	$(0.4)	$ (34.1)	$10.3
Reconciliation of income (loss) from continuing operations to Adjusted EBITDA from continuing operations							—
Income (loss) from continuing operations	$15.3	$26.9	$(2.5)	$ 5.1	$(0.4)	$ (34.1)	$10.3
Income tax benefit	—	—	—	—	—	4.4	4.4
Interest expense, net of capitalized interest	—	—	—	—	—	8.0	8.0
Depreciation and amortization	14.5	7.2	3.1	1.9	0.4	0.8	27.9
EBITDA from continuing operations	29.8	34.1	0.6	7.0	—	(20.9)	50.6
Stock based compensation expense	0.2	0.3	0.2	—	—	2.3	3.0
Investment income	—	—	—	—	—	(1.8)	(1.8)
Adjusted EBITDA from continuing operations	$30.0	$34.4	$0.8	$ 7.0	$—	$ (20.4)	$51.8

Three Months Ended March 31, 2015 (Dollar amounts in millions)	OSB	Siding	EWP	South America	Other	Corporate	Total
Sales	$190.2	$173.5	$64.8	$ 35.9	$7.3	$ —	$471.7
Depreciation and amortization	14.8	5.1	3.6	2.1	0.4	0.7	26.7
Cost of sales and selling and administrative	203.8	135.5	66.0	31.4	7.8	22.0	466.5
Loss on sale or impairment of long lived assets	—	—	—	—	—	0.1	0.1
Other operating credits and charges, net	—	—	—	—	—	11.6	11.6
Total operating costs	218.6	140.6	69.6	33.5	8.2	34.4	504.9
Income (loss) from operations	(28.4)	32.9	(4.8)	2.4	(0.9)	(34.4)	(33.2)
Total non-operating expense	—	—	—	—	—	(8.3)	(8.3)
Income (loss) before income taxes and equity in (income) loss of unconsolidated affiliates	(28.4)	32.9	(4.8)	2.4	(0.9)	(42.7)	(41.5)
Income tax benefit	—	—	—	—	—	(6.3)	(6.3)
Equity in income of unconsolidated affiliates	—	—	(0.7)	—	—	—	(0.7)
Income (loss) from continuing operations	$(28.4)	$32.9	$(4.1)	$ 2.4	$(0.9)	$ (36.4)	$(34.5)
Reconciliation of income (loss) from continuing operations to Adjusted EBITDA from continuing operations							
Income (loss) from continuing operations	$(28.4)	$32.9	$(4.1)	$ 2.4	$(0.9)	$ (36.4)	$(34.5)
Income tax benefit	—	—	—	—	—	(6.3)	(6.3)
Interest expense, net of capitalized interest	—	—	—	—	—	7.5	7.5
Depreciation and amortization	14.8	5.1	3.6	2.1	0.4	0.7	26.7
EBITDA from continuing operations	(13.6)	38.0	(0.5)	4.5	(0.5)	(34.5)	(6.6)
Stock based compensation expense	0.2	0.1	0.1	—	—	2.0	2.4
Gain on sale or impairment of long lived assets	—	—	—	—	—	0.1	0.1
Investment income	—	—	—	—	—	(1.4)	(1.4)
Other operating credits and charges, net	—	—	—	—	—	11.6	11.6
Adjusted EBITDA from continuing operations	$(13.4)						