LOUISIANA-PACIFIC CORP
Form 10-Q
May 06, 2008

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, 2008
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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x

Accelerated filer o

Non-accelerated filer o
(Do not check if a smaller reporting company)

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: 103,278,457 shares of Common Stock, $1 par value, outstanding as of May 6, 2008.

Except as otherwise specified and unless the context otherwise requires, references to LP , the Company , we , us , and our refer to Louisiana-Pacific Corporation and its subsidiaries.

ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

- changes in general economic conditions;
- changes in the cost and availability of capital;
- changes in the level of home construction activity;
- changes in competitive conditions and prices for our products;
- changes in the relationship between supply of and demand for building products, including the effects of industry-wide increases in manufacturing capacity;
- changes in the relationship between supply of and demand for raw materials, including wood fiber and resins, used in manufacturing our products;
- changes in the cost of and availability of energy, primarily natural gas, electricity and diesel fuel;
- changes in other significant operating expenses;

- changes in exchange rates between the U.S. dollar and other currencies, particularly the Canadian dollar, EURO 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 product-related litigation and other legal proceedings; and
- acts of God or public authorities, war, civil unrest, fire, floods, earthquakes and other matters beyond our control.

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

ABOUT THIRD PARTY INFORMATION

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

Item 1. Financial Statements.

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

	Quarter Ended March 31, 2008	2007
Net sales	$ 349.4	$ 394.6
Operating costs and expenses:		
Cost of sales	372.8	391.7
Depreciation, amortization and cost of timber harvested	26.6	28.5
Selling and administrative	40.1	40.3
(Gain) loss on sale or impairment of long-lived assets	(0.4)	5.5
Other operating credits and charges, net	(4.0)	
Total operating costs and expenses	435.1	466.0
Loss from operations	(85.7)	(71.4)
Non-operating income (expense):		
Foreign currency exchange gain (loss)	9.4	(2.8)
Other than temporary investment impairment	(0.8)	
Interest expense, net of capitalized interest	(11.2)	(10.3)
Investment income	12.8	20.4
Total non-operating income	10.2	7.3
Loss before taxes and equity in loss of unconsolidated affiliates	(75.5)	(64.1)
Benefit for income taxes	(35.9)	(31.3)
Equity in loss of unconsolidated affiliates	6.3	3.3
Loss from continuing operations	(45.9)	(36.1)
Discontinued operations:		
Loss from discontinued operations before taxes	(0.8)	(2.2)
Benefit for income taxes	(0.3)	(0.9)
Loss from discontinued operations	(0.5)	(1.3)
Net loss	$ (46.4)	$ (37.4)
Net loss per share of common stock (basic):		
Loss from continuing operations	$ (0.45)	$ (0.35)
Loss from discontinued operations		(0.01)
Net loss per share - basic	$ (0.45)	$ (0.36)
Net loss per share of common stock (diluted):		
Loss from continuing operations	$ (0.45)	$ (0.35)
Loss from discontinued operations		(0.01)
Net loss per share - diluted	$ (0.45)	$ (0.36)
Cash dividends per share of common stock	$ 0.15	$ 0.15
Average shares of stock outstanding - basic	102.9	104.1
Average shares of stock outstanding - diluted	102.9	104.1

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)

	March 31, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	$ 211.7	$ 352.1
Short-term investments	202.1	180.1
Receivables, net	305.7	243.1
Inventories	224.8	212.1
Prepaid expenses and other current assets	4.9	7.6
Deferred income taxes	0.5	0.5
Current portion of notes receivable from asset sales	74.4	74.4
Current assets of discontinued operations	4.5	6.0
Total current assets	1,028.6	1,075.9
Timber and timberlands	60.1	64.1
Property, plant and equipment	2,284.1	2,257.7
Accumulated depreciation	(1,206.1)	(1,180.9)
Net property, plant and equipment	1,078.0	1,076.8
Goodwill, net of amortization	273.5	273.5
Notes receivable from asset sales	258.6	258.6
Restricted cash	69.2	61.2
Long-term investments	128.2	152.9
Investments in and advances to affiliates	197.0	198.2
Other assets	59.7	63.1
Long-term assets of discontinued operations	5.0	5.0
Total assets	$ 3,157.9	$ 3,229.3
LIABILITIES AND EQUITY		
Current portion of long-term debt	$ 122.3	$ 127.6
Short-term notes payable	83.7	45.2
Accounts payable and accrued liabilities	188.0	222.1
Current portion of limited recourse notes payable	73.5	73.5
Current portion of deferred tax liabilities	4.4	4.4
Current portion of contingency reserves	15.8	15.8
Total current liabilities	487.7	488.6
Long-term debt, excluding current portion:		
Limited recourse notes payable	253.3	253.3
Other long-term debt	240.5	232.5
Total long-term debt, excluding current portion	493.8	485.8
Deferred income taxes	326.3	340.0
Other long-term liabilities	78.2	79.6
Contingency reserves, excluding current portion	12.6	15.8
Commitments and contingencies		
Stockholders equity:		
Common stock	116.9	116.9
Additional paid-in capital	436.3	439.0
Retained earnings	1,568.3	1,630.1
Treasury stock	(297.6)	(302.0)
Accumulated comprehensive loss	(64.6)	(64.5)
Total stockholders equity	1,759.3	1,819.5

Total liabilities and equity	$	3,157.9	$	3,229.3

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Quarter Ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (46.4)	$ (37.4)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and cost of timber harvested	26.6	29.3
Loss from unconsolidated affiliates	6.3	3.3
(Gain) loss on sale or impairment of long-lived assets	(0.4)	4.5
Other operating credits and charges, net	1.8	
Exchange (gain) loss on remeasurement	(7.8)	2.9
Cash settlement of contingencies	(6.1)	(3.7)
Pension (payments) expense, net	3.4	(5.3)
Net accretion on available for sale securities	(0.6)	(3.8)
Other than temporary impairment on investments	0.8	
Other adjustments, net	2.7	(0.9)
Increase in receivables	(62.4)	(55.6)
Increase in inventories	(6.6)	(33.9)
Decrease in prepaid expenses	2.0	5.8
Decrease in accounts payable and accrued liabilities	(15.7)	(9.7)
(Decrease) increase in deferred income taxes	(6.2)	0.2
Net cash used in operating activities	(108.6)	(104.3)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment additions	(36.8)	(57.9)
Investments and advances to joint ventures	(4.7)	(5.8)
Cash paid for purchase of investments	(102.0)	(703.3)
Proceeds from sale of investments	91.1	859.6
Increase in restricted cash under letters of credit and credit facility requirements	(8.0)	(6.5)
Other investing activities, net	1.0	1.5
Net cash (used in) provided by investing activities	(59.4)	87.6
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	8.0	8.0
Repayment of long-term debt	(0.1)	(0.1)
Net borrowings under revolving credit lines and short-term notes payable	38.5	66.0
Payment of cash dividends	(15.4)	(15.6)
Sale of common stock under equity plans		0.1
Net cash provided by financing activities	31.0	58.4
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS:	(3.4)	
Net increase (decrease) in cash and cash equivalents	(140.4)	41.7
Cash and cash equivalents at beginning of period	352.1	265.7
Cash and cash equivalents at end of period	$ 211.7	$ 307.4

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

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

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Comprehensive Loss	Total Stockholders Equity
Balance, December 31, 2007	116.9	$ 116.9	13.8	$ (302.0)	$ 439.0	$ 1,630.1	$ (64.5)	$ 1,819.5
Net loss						(46.4)		(46.4)
Issuance of shares for employee stock plans and other purposes and other transactions			(0.1)	4.5	(3.2)			1.3
Amortization of restricted stock grants					0.5			0.5
Purchase of shares for treasury				(0.1)				(0.1)
Cash dividends						(15.4)		(15.4)
Other comprehensive loss							(0.1)	(0.1)
Balance, March 31, 2008	116.9	$ 116.9	13.7	$ (297.6)	$ 436.3	$ 1,568.3	$ (64.6)	$ 1,759.3

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Quarter Ended March 31, 2008	2007
Net loss	$ (46.4)	$ (37.4)
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	7.2	(0.4)
Unrealized gain (loss) on derivative instruments	0.1	(0.1)
Unrealized loss on marketable securities	(8.1)	
Defined benefit pension plans:		
Amortization of prior service cost	0.2	0.2
Amortization of net loss	0.5	0.9
Other comprehensive income (loss), net of tax	(0.1)	0.6
Comprehensive loss, net of tax	$ (46.5)	$ (36.8)

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS FOR PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments, except for other operating credits and charges, net referred to in Note 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 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in LP s Annual Report on Form 10-K for the year ended December 31, 2007.

NOTE 2 STOCK-BASED COMPENSATION

At March 31, 2008, 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 $2.2 million for the quarter ended March 31, 2008.

Stock Compensation Plans

LP grants options and stock settled stock appreciation rights (SSARs) to key employees and directors to purchase LP common stock. At March 31, 2008, 2,667,557 shares were available under the current stock award plans for stock-based awards. On exercise or issuance, LP generally issues these shares from treasury. The options and SSARs are granted at market price at the date of grant. For employees, options and SSARs become exercisable over three years and expire ten years after the date of grant. For directors, these options become exercisable in 10% increments every three months, starting three months after the date of grant, and expire ten years after the date of grant.

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 quarter of the respective years noted:

	2008	**2007**
Expected stock price volatility	30.0%	29.6%
Expected dividend yield	3.9%	2.6%
Risk-free interest rate	3.0%	4.8%
Expected life of options	5.0 years	4.0 years
Weighted average fair value of options and SSARs granted	$ 2.84	$ 5.52

The following table summarizes stock options and SSARs outstanding as of March 31, 2008 as well as activity during the three month period then ended.

Share amounts in thousands	Options/ SSARs	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding options				
Options outstanding at January 1, 2008	2,993	$ 22.02		
Options granted	2,571	$ 15.27		
Options exercised	(1)	$ 7.30		
Options cancelled	(210)	$ 22.01		
Options outstanding at March 31, 2008	5,353	$ 18.90	8.05	0.4
Vested and expected to vest at March 31, 2008	4,287	$ 9.14	7.76	0.4
Options exercisable at March 31, 2008	1,871	$ 21.48	5.68	0.4

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 first quarter of 2008 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 March 31, 2008. This amount changes based on the market value of LP s stock as reported by the New York Stock Exchange.

As of March 31, 2008, there was $11.3 million of total unrecognized compensation costs related to stock options and SSARs. These costs are expected to be recognized over a weighted-average period of 2.54 years.

Incentive Share Awards

LP has granted incentive share stock awards (restricted stock units) to selected senior executives as allowed under LP s current stock award plans. The awards entitle the participant to receive a specified number of shares of LP common stock at no cost to the participant. For all years prior to 2005, these awards vest over a five-year period. For all the awards granted after 2005, employee awards vest three years from the date of grant. The market value of these grants approximates the fair value. LP recorded compensation expense related to these awards in the first quarter of 2008 of $0.3 million. As of March 31, 2008, there was $1.9 million of total unrecognized compensation cost related to unvested incentive share awards. This expense will be recognized over a weighted-average period of 2.07 years.

The following table summarizes incentive share awards outstanding as of March 31, 2008 as well as activity during the three months then ended.

	Shares	Weighted Average Contractual Term (in years)		Aggregate Intrinsic Value (in millions)
Incentive share awards outstanding at January 1, 2008	104,408			
Incentive shares awards granted	126,000			
Incentive share awards vested	(28,780)			
Incentive share awards cancelled	(4,509)			
Incentive share awards outstanding at March 31, 2008	197,119	2.07	$	1.8
Vested and expected to vest at March 31, 2008	122,261	2.01	$	1.1
Incentive share awards exercisable at March 31, 2008	0	0	$	

Restricted Stock

LP grants restricted stock to certain senior employees. The shares vest three years from the 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 March 31, 2008, there was $4.4 million of total unrecognized compensation costs related to restricted stock. This expense will be recognized over the next 2.24 years.

The following table summarizes the restricted stock outstanding as of March 31, 2008 as well as activity during the three months then ended.

	Quarter Ended March 31, 2008		
	Number of Shares		**Weighted Average Grant Date Fair Value**
Outstanding restricted shares			
Restricted stock awards outstanding at January 1, 2008	203,480	$	25.84
Restricted stock awards granted	192,880	$	15.27
Restrictions lapsing	(56,500)	$	27.04
Restricted stock awards cancelled	(1,730)	$	22.99
Restricted stock awards at March 31, 2008	338,130	$	19.63

LP recorded compensation expense related to these awards in the first quarter of 2008 of $0.5 million.

LP annually grants to each director restricted stock or restricted stock units. As of March 31, 2008, LP has 40,060 shares (or restricted stock units) outstanding under this program. Compensation expense recognized in 2008 related to these grants was $0.04 million.

NOTE 3 - INVESTMENTS

Short-term and long-term investments held by LP are debt securities designated as available for sale and are reported at fair market value using the specific identification method. The following table summarizes unrealized gains and losses related to these investments as of March 31, 2008 and December 31, 2007:

Dollar amounts in millions		**Amortized Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Fair Value**
March 31, 2008								
U.S. treasury and government agency securities	$	32.0	$		$		$	32.0
Commercial paper		78.2		0.1				78.3
Corporate obligations		135.2				1.2		134.0
Auction rate securities		130.1				44.1		86.0
Total marketable securities	$	375.5	$	0.1	$	45.3	$	330.3
December 31, 2007								
U.S. treasury and government agency securities	$	25.0	$		$		$	25.0
Commercial paper		66.1		0.1				66.2

Corporate obligations	142.7		0.4	142.3
Auction rate securities	130.9		31.4	99.5
Total marketable securities	$ 364.7	$ 0.1	$ 31.8	$ 333.0

As of March 31, 2008, LP had $130.1 million ($151.8 million, par value) invested in auction rate securities (ARS). The ARS held by LP are securities with long-term nominal maturities for which the interest rates are reset through a dutch auction each month. These auctions historically have provided a liquid market for these securities. LP s investments in ARS represent interests in collateralized debt obligations supported by pools of residential and commercial mortgages; credit linked notes and bank trust preferred notes.

Consistent with the company s investment policy guidelines, the ARS investments held by the company all had AAA or equivalent credit ratings (except for one corporate ARS rated AA) at the time of purchase. With the liquidity issues experienced in global credit and capital markets, the ARS held by LP at March 31, 2008 have experienced multiple failed auctions as the amount of securities submitted for sale has exceeded the amount of purchase orders. As of March 31, 2008 and May 6, 2008, all securities still maintained the original credit ratings from date of purchase and continue to pay interest according to their stated terms.

The estimated market value of the company s ARS holdings at March 31, 2008 was $86.0 million, which reflects a $65.8 million adjustment to the par value of $151.8 million. Based upon LP s evaluation of the structure of LP s ARS holdings and current market estimates of fair value from issuing banks, LP has recorded an unrealized pre-tax loss of $44.1 million ($27.0 million after-tax) as a temporary decline in value that has been recorded in other comprehensive income as a reduction in shareholders equity. Of this amount, LP recognized $12.7 million ($7.8 million after-tax) in the first quarter of 2008. LP also recorded in the first quarter of 2008, an other-than-temporary impairment of $0.8 million ($0.5 million after-tax) that was recorded as non-operating income (expense).

LP reviews its marketable securities routinely for other-than-temporary impairment. The primary factors LP used to determine if an impairment charge must be recorded because a decline in value of the security is other than temporary include whether (i) the fair value of the investment is significantly below its cost basis, (ii) the financial condition of the issuer of the security (including its credit rating), (iii) the length of time that the cost of the security has exceeded its fair value and (iv) LP s intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in market value. At March 31, 2008, since LP has the ability and intent to hold these investments until a recovery of fair value, which may be maturity; LP does not consider these investments to have further be other-than-temporarily impairment.

NOTE 4 FAIR VALUE MEASUREMENTS

Effective January 1, 2008, LP adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), for financial assets and liabilities and any other assets and liabilities carried at fair value. This pronouncement defines fair value (FV), provides guidance on how to measure FV under generally accepted accounting principles, and expands FV measurement disclosures. LP s adoption of SFAS 157 did not have an impact on its consolidated financial position and results of operations.

SFAS 157 defines FV as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a FV hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Under this standard, LP is required to classify these assets into two groups: recurring measured on a periodic basis and non-recurring measured on an as needed basis.

SFAS 157 describes three levels of inputs that may be used to measure fair value:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2	Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable or can be corroborated by observable market data.
Level 3	Valuations based on models where significant inputs are not observable. Unobservable inputs are used when little or no market data is available and reflect the Company s own assumptions about the assumptions market participants would use.

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

Dollar amounts in millions	March 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 567.3	$ 68.6	$ 412.7	$ 86.0
Trading securities	18.3	2.0		16.3
Derivatives	1.3		1.3	
Total	$ 586.9	$ 70.6	$ 414.0	$ 102.3

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

Money market funds are valued at quoted market price from broker or dealer quotations or transparent pricing sources at the reporting date which represent Level 1 inputs. Government agency securities, commercial paper and corporate obligations are determined by evaluations based on observable market information from broker or dealer quotations which represent Level 2 inputs.

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

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

The grantor trust provides funds for benefits payable under LP s Supplemental Executive Retirement Plan (SERP), an unfunded, non-qualified defined benefit plan that provides supplemental retirement benefits to key executives. The assets of the grantor trust, which are the cash surrender value of corporate-owned life insurance, are invested in index funds which are reported at fair value based on the underlying share prices provided by the third party insurance carrier which represents Level 3 inputs.

Derivatives are valued using quoted forward foreign exchange prices or quoted commodity index prices, depending upon the derivative, at the reported date which represent Level 2 inputs. These derivatives are included within the balances shown under Investments in and advances to affiliates or Accounts payable and accrued liabilites on LP s condensed consolidated balance sheets as of March 31, 2008 and December 31, 2007.

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

Dollar amounts in millions	Available for sale securities	Trading securities	Total
Balance at January 1, 2008	$ 99.5	$ 17.1	$ 116.6
Total realized/unrealized losses			
Included in other-than-temporary investment impairment	(0.8)		(0.8)
Included in investment income		(0.8)	(0.8)
Included in other comprehensive loss	(12.7)		(12.7)
Balance at March 31, 2008	$ 86.0	$ 16.3	$ 102.3
The amount of total losses for the period included in net loss attributable to the fair value of changes in assets still held at the reporting date	$ (0.8)	$ (0.8)	$ (1.6)

NOTE 5 EARNINGS PER SHARE

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

SFAS No. 128, Earnings per Share, requires that employee equity share options, non-vested shares and similar equity instruments granted by the Company be treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options, which is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

Dollar and share amounts in millions, except per share amounts	Quarter Ended March 31, 2008	2007
Numerator:		
Income attributed to common shares:		
Loss from continuing operations	$ (45.9)	$ (36.1)
Loss from discontinued operations	(0.5)	(1.3)
Net loss	$ (46.4)	$ (37.4)
Denominator:		
Basic - weighted average common shares outstanding	102.9	104.1
Dilutive effect of stock plans		
Diluted shares outstanding	102.9	104.1
Basic earnings per share:		
Loss from continuing operations	$ (0.45)	$ (0.35)
Loss from discontinued operations		(0.01)
Net loss per share	$ (0.45)	$ (0.36)
Diluted earnings per share:		
Loss from continuing operations	$ (0.45)	$ (0.35)
Loss from discontinued operations		(0.01)
Net loss per share	$ (0.45)	$ (0.36)

Stock options and SSARs to purchase approximately 4.2 million shares at March 31, 2008 and 3.6 million shares at March 31, 2007 were considered anti-dilutive for purposes of LP s earnings per share calculation due to LP s net loss position in continuing operations.

NOTE 6 INVENTORIES

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

Dollar amounts in millions	March 31, 2008	December 31, 2007
Logs	$ 61.8	$ 47.4
Other raw materials	27.5	27.5
Finished products	131.0	132.3
Supplies	7.7	8.1
LIFO reserve	(3.2)	(3.2)
Total	$ 224.8	$ 212.1
Inventory included in current assets of discontinued operations		
Logs	$	$
Other raw materials	0.2	0.2
Finished products	4.2	5.7
Supplies	0.1	0.1
Total	$ 4.5	$ 6.0

NOTE 7 BUSINESSES HELD FOR SALE AND DIVESTITURES

At March 31, 2008 and 2007, LP s discontinued operations included its decking operations and residual charges from previously discontinued operations.

Sales and losses for these businesses are as follows:

Dollar amounts in millions	Quarter Ended March 31, 2008	2007
Sales	$ 1.0	$ 11.4
Loss from discontinued operations, net of tax	$ (0.5)	$ (1.3)

The assets of the discontinued operations included in the accompanying condensed consolidated balance sheets as of March 31, 2008 and December 31, 2007 are as follows:

Dollar amounts in millions	March 31, 2008	December 31, 2007
Inventories	$ 4.5	$ 6.0
Property, plant and equipment	11.9	11.9
Accumulated depreciation	(6.9)	(6.9)
Net, property, plant and equipment	5.0	5.0
Total assets of discontinued operations	$ 9.5	$ 11.0

NOTE 8 INCOME TAXES

Accounting standards require that income tax expense for interim periods be determined by applying the estimated annual effective income tax rate, by income component, to year-to-date income or loss at the end of each quarter, then adding or subtracting the impact of any changes in reserve requirements or statutory tax rate changes, if any. Each quarter the income tax accrual is adjusted to the latest estimate and the difference from the previously accrued year-to-date balance is adjusted to the current quarter. For the quarters ended March 31, 2008 and 2007, the primary differences between the U.S. statutory rate of 35% and the effective rate on continuing operations relate to our foreign debt structure, state income taxes and deductible foreign income taxes.

The components and associated estimated effective income tax rates applied to the quarters ended March 31, 2008 and 2007 are as follows:

Quarter Ended March 31,

	2008		2007	
Dollar amounts in millions	**Tax Benefit**	**Tax Rate**	**Tax Benefit**	**Tax Rate**
Continuing operations	$ (35.9)	44%	$ (31.3)	46%
Discontinued operations	(0.3)	39%	(0.9)	39%
	$ (36.2)	44%	$ (32.2)	46%

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 and Chile. Federal income tax examinations for the years through 2004 have been effectively settled and audits for 2005 and 2006 began in the fourth quarter of 2007. We are subject to state and local income tax examinations for the tax years 2000 through

2006. Canadian returns have been audited through 1999 and Revenue Canada commenced an examination of the years 2002 through 2004 in the second quarter of 2007.

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 ended March 31 are reflected in the table below and are described in the paragraphs following the table:

Dollar amounts in millions	Quarter Ended March 31, 2008		2007	
Gain on insurance recovery	$	5.8	$	
Insurance settlement		0.7		
Additions to product related contingency reserves		(2.5)		
	$	4.0	$	

In the first quarter of 2008, LP recorded a net gain of $4.0 million associated with product related warranty reserves and insurance settlements associated with LP s hardboard class action suit and other associated hardboard siding liabilities.

NOTE 10 GAINS (LOSSES) ON SALE OR IMPAIRMENT OF LONG-LIVED ASSETS

The major components on Gain (loss) on sale or impairment of long-lived assets in the Condensed Consolidated Statements of Income for the quarters ended March 31, 2008 and 2007 are reflected in the following table:

Dollar amounts in millions	Quarter Ended March 31, 2008		2007	
Gain (loss) on sale of long-lived assets	$	0.4	$	(0.5)
Impairment charges on long-term assets				(5.0)
	$	0.4	$	(5.5)

In the first quarter of 2007, LP recorded an impairment charge of $5.0 million on a sawmill located in Quebec that is held for sale to reduce the carrying value of this equipment to its estimated sales price, net of related selling expenses.

NOTE 11 INVESTMENTS IN AND ADVANCES TO AFFILIATES

LP has investments in affiliates that are either accounted for under the equity method or the cost method based upon the specific terms of the agreement as well as advances to affiliates. The significant components of these investments and advances are as follows:

Dollar amounts in millions	**March 31, 2008**	**December 31, 2007**
Investments accounted for under the equity method	$ 152.5	$ 153.7
Investments accounted for under the cost method	44.5	44.5
Total	$ 197.0	$ 198.2

At March 31, 2008, LP s significant equity method investees and its ownership interest and principal business activity in each investee, were as follows:

	Ownership%	-
U.S. GreenFiber	50%	Established to manufacture and sell cellulose insulation products
AbitibiBowater LP	50%	Established to construct and operate I-Joist facilities in Eastern Canada
Canfor LP	50%	Established to construct and operate an OSB facility in British Columbia, Canada

These investments do not meet the Regulation S-X significance test requiring the inclusion of the separate investee financial statements or summarized financial information.

LP sells products and raw materials to the AbitibiBowater-LP entity and purchases products for resale from the AbitibiBowater-LP and Canfor-LP entities. 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 March 31, 2008 and 2007, LP sold $1.6 million and $3.2 million of products to AbitibiBowater-LP and purchased $8.5 million and $14.9 million of I-joist from AbitibiBowater-LP. LP also purchased $13.4 million and $17.8 million of OSB from Canfor-LP during the quarters ended March 31, 2008 and 2007.

NOTE 12 LEGAL AND ENVIRONMENTAL MATTERS

Certain environmental matters and legal proceedings are discussed below.

Environmental Matters

LP is involved in a number of environmental proceedings and activities, and it may be wholly or partially responsible for known or unknown contamination existing at a number of other sites at which we have conducted operations or disposed of wastes. Based on the information currently available, LP believes that any fines, penalties or other costs or losses resulting from these matters will not have a material adverse effect on our financial position, results of operations, cash flows or liquidity.

Siding Matters

On October 15, 2002, a jury returned a verdict of $29.6 million against LP in a Minnesota State Court action entitled *Lester Building Systems, a division of Butler Manufacturing Company, and Lester s of Minnesota, Inc., v. Louisiana-Pacific Corporation and Canton Lumber Company*. On December 13, 2002, the United States District Court for the District of Oregon, which maintains jurisdiction over a previously settled nationwide class action suit involving OSB siding manufactured by LP and installed prior to January 1, 1996, permanently enjoined the Minnesota state trial court from entering judgment against LP with respect to $11.2 million of the verdict that related to siding that was subject to the nationwide OSB siding settlement. LP satisfied this verdict, less the enjoined amount, during the second quarter of 2004. Lester s appealed the District Court s injunction to the Ninth Circuit Court of Appeals and, on October 24, 2005, the Court of Appeals vacated the District Court s injunction. As a result of this decision, the injunction was lifted and the state court judgment of $11.2 million was entered on December 22, 2006. We timely filed our notice of appeal to the Minnesota State Court of Appeals. On February 5, 2008, the Minnesota State Court of Appeals reversed the $11.2 million judgment entered against LP on December 22, 2006. Lesters timely appealed the Minnesota State Court of Appeals decision, and the Minnesota State Supreme Court has granted review. Based upon the information currently available, LP believes that any further liability related to this case is remote and, accordingly, has not recorded any accrual with respect to its potential exposure.

Lockhart Wood Treatment Facility

In 2004, LP received a pre-litigation settlement demand letter from a law firm purporting to represent more than 1,400 potential plaintiffs who allegedly experienced various personal injuries and property damages as a result of the alleged release of chemical substances from LP s wood treatment facility in Lockhart, Alabama during the period from 1953 to 1998. The letter was also addressed to Pactiv Corporation (Pactiv), from whom LP acquired the facility in 1983. LP, Pactiv, and the potential plaintiffs agreed to exchange information and enter into non-binding mediation, which failed in December 2005. In the first quarter of 2006, plaintiffs attorneys filed 19 separate lawsuits on behalf of 1,429 plaintiffs. Each of these cases was filed in, or removed to, the United States District Court for the Middle District of Alabama, which court has designated a lead case under the caption *Melanie Chambers v. Pactiv Corp et al,* CV 2:06-CV-00083-LES-CSC. After extensive motion practice and the beginning of discovery, Pactiv and plaintiffs have agreed to a tentative settlement. In addition, LP has agreed to a tentative settlement pursuant to which LP would make a payment of $7.75 million to resolve this matter subject to reaching agreement on the terms of a full and final release of all claims by all plaintiffs. LP accrued the amount of this tentative settlement in the fourth quarter of 2007.

Antitrust Litigation

LP has been named as one of a number of defendants in multiple class action complaints filed on or after February 26, 2006 in the United States District Court for the Eastern District of Pennsylvania. These complaints have been dismissed or consolidated into two complaints under one caption: *In Re OSB Anti-Trust Litigation,* Master File No. 06-CV-00826 (PD). The first complaint is a consolidated amended class action complaint filed on March 31, 2006 on behalf of plaintiffs who directly purchased OSB from the defendants from May 1, 2002 through the date the complaint was filed (the direct purchaser complaint). The second complaint is a consolidated amended class action complaint, filed on June 15, 2006, on behalf of plaintiffs who indirectly purchased OSB from the defendants from May 1, 2002 through the date the complaint was filed (the indirect purchaser complaint).

The plaintiffs in both amended and consolidated complaints described above moved for and received class certification and seek treble damages in unspecified amounts alleged to have resulted from a conspiracy among the defendants to fix, raise, maintain and stabilize the prices at which OSB is sold in the United States, in violation of Section 1 of the Sherman Act, 15 U.S.C. §1. The plaintiffs in the indirect purchaser complaint also seek similar remedies under individual state anti-trust and competition laws as well as consumer protection laws. LP believes that the claims asserted are without merit, and intends to defend this matter vigorously. LP is unable to predict the potential financial impact of these actions.

Other Proceedings

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

NOTE 13 SELECTED SEGMENT DATA

LP operates in three segments: Oriented Strand Board (OSB); Siding; and Engineered Wood Products (EWP). LP s business units have been aggregated into these three 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, 2007.

Dollar amounts in millions	Quarter Ended March 31, 2008	2007
Net sales:		
OSB	$ 154.9	$ 188.9
Siding	107.1	104.1
Engineered Wood Products	60.6	80.2
Other	28.6	23.8
Less: Intersegment sales	(1.8)	(2.4)
	$ 349.4	$ 394.6
Operating profit (loss):		
OSB	$ (62.1)	$ (64.5)
Siding	0.3	9.4
Engineered Wood Products	(8.1)	6.4
Other	(2.5)	2.4
Other operating credits and charges, net	4.0	
Gain (loss) on sales or impairment of long-lived assets	0.4	(5.5)
General corporate and other expenses, net	(24.0)	(22.9)
Foreign currency gains (losses)	9.4	(2.8)
Other than temporary impairment of investments	(0.8)	
Investment income	12.8	20.4
Interest expense, net of capitalized interest	(11.2)	(10.3)
Loss from operations before income taxes	(81.8)	(67.4)
Benefit for income taxes	(35.9)	(31.3)
Loss from continuing operations	$ (45.9)	$ (36.1)

NOTE 14 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 assets based upon the anticipated cash flows that result from estimates of future demand, pricing and production costs assuming certain levels of planned capital expenditures. However, should the markets for the relevant products continue to remain at levels significantly below cycle average pricing or should LP decide to invest capital in alternative projects, it is possible that impairment charges will be required.

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.

Subsequent to March 31, 2008, LP entered into substantive discussions with a buyer to sell a non operating manufacturing complex in Quebec, Canada. Should these discussions result in the sale of this permanently curtailed complex, LP may be required to record an impairment on these assets.

NOTE 15 CONTINGENCY RESERVES

LP is involved in various legal proceedings incidental to LP s business and is subject to a variety of environmental and pollution control laws and regulations in all jurisdictions in which it operates. LP maintains reserves for these various contingencies as follows:

Dollar amounts in millions	March 31, 2008	December 31, 2007
Environmental reserves	$ 8.5	$ 9.4
Hardboard siding reserves	12.0	12.8
Other reserves	7.9	9.4
Total contingency reserves	28.4	31.6
Current portion of contingency reserves	(15.8)	(15.8)
Long-term portion of contingency reserves	$ 12.6	$ 15.8

Hardboard Siding Reserves

LP has established reserves relating to certain liabilities associated a settlement agreement relating to a nationwide class action lawsuit involving hardboard siding manufactured or sold by corporations acquired by LP in 1999 and installed prior to May 15, 2000 which was approved by the applicable courts in 2000. This settlement is discussed in greater detail in the Notes to the financial statements included in LP s Annual Report on Form 10-K for the year ended December 31, 2007.

NOTE 16 DEFINED BENEFIT PENSION PLANS

The following table sets forth the net periodic pension cost for LP s defined benefit pension plans during the quarters ended March 31, 2008 and 2007. The net periodic pension cost included the following components:

	Quarter Ended March 31,	
Dollar amounts in millions	2008	2007
Service cost	$ 2.5	$ 2.5
Interest cost	4.5	4.0
Expected return on plan assets	(5.4)	(4.7)
Amortization of prior service cost	0.3	0.3
Amortization of net loss	0.7	1.5
Net periodic pension cost	$ 2.6	$ 3.6

Through March 31, 2008, LP recognized $2.6 million of pension expense for all of LP s defined benefit plans. LP presently anticipates recognizing an additional $7.8 million of pension expense in the remainder of 2008 for a total of $10.4 million.

Through March 31, 2008, LP made $0.4 million of pension contributions for all of LP s defined benefit plans. LP presently anticipates making up to $0.9 million of additional pension contributions for the plans during the remainder of 2008 for a total of $1.3 million.

NOTE 17 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 20 of the Notes to the financial statements included in LP s Annual Report on Form 10-K for the year ended December 31, 2007 for further discussion of LP s guarantees and indemnifications.

Additionally, 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 first quarter of 2008 and 2007 are summarized in the following table:

Dollar amounts in millions	March 31, 2008	March 31, 2007
Beginning balance, December 31,	$ 26.2	$ 28.8
Accrued to expense	0.4	0.9
Payments made	(1.5)	(1.2)
Total warranty reserves	25.1	28.5
Current portion of warranty reserves	(7.0)	(7.0)
Long-term portion of warranty reserves	$ 18.1	$ 21.5

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 Condensed Consolidated Balance Sheets.

NOTE 18 - RECENT AND PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standard Board (FASB) finalized SFAS No. 157, Fair Value Measurements (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements; however, it does not require any new fair value measurements. The provisions of SFAS 157 were applied prospectively to fair value measurements and disclosures in the first quarter of 2008 to recurring financial assets and liabilities and did not have an impact on the company s Consolidated Financial Statements. The provisions of SFAS 157 related to nonrecurring nonfinancial assets and liabilities will be applied prospectively to fair value measurements and disclosures in the first quarter of 2009 and is not expected to have a material effect on the company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115, (SFAS 159). SFAS 159 permits entities to measure eligible financial assets, financial liabilities and firm commitments at fair value, on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other generally accepted accounting principles. The fair value measurement election is irrevocable and subsequent changes in fair value must be recorded in earnings. The company adopted this Statement as of January 1, 2008 and it did not have an impact on the company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires that noncontrolling interests in subsidiaries be reported in the equity section of the controlling company s balance sheet. It also changes the manner in which the net income of the subsidiary is reported and disclosed in the controlling company s income statement. SFAS 160 is effective on a prospective basis for annual periods beginning after December 15, 2008, except for the presentation and disclosure requirements which are to be applied retrospectively for all periods presented. LP is currently evaluating the impact of adopting SFAS 160 on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)). SFAS 141(R) addresses the recognition and accounting for identifiable assets acquired, liabilities assumed, and noncontrolling interests in business combinations. SFAS 141(R) also establishes expanded disclosure requirements for business combinations. SFAS 141(R) is effective for annual periods beginning after December 15, 2008 and should be applied prospectively for all business combinations entered into after the date of adoption.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends and expands the disclosure requirements of Statement 133 to provide a better understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and their effect on an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. LP is currently evaluating the impact of adopting SFAS 161 on its consolidated financial statements.

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 for some of our specialty building products. Our manufacturing facilities are primarily located in the U.S. and Canada, but we also operate two facilities in Chile.

To serve these markets, we operate in three segments: Oriented Strand Board (OSB), Siding, and Engineered Wood Products (EWP). OSB is the most significant segment, accounting for about 44% of sales during the quarter ended March 31, 2008 and about 48% of sales in the quarter ended March 31, 2007.

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. In the first quarter of 2008, the U.S. Department of Census reported that actual single and multi-family housing starts were about 30% lower than the first quarter of 2007.We believe that the reduced level of building is due to the increase in the inventory of homes for sale coupled with a much more restrictive mortgage market. Additionally, the reduction in home values and the large amount of variable rate mortgages that are resetting has increased the number of foreclosures, which add to the stock of homes for sale. Building activity is unlikely to improve until the number of homes available for sale is reduced and the rate of purchases increases.

Our most significant product, 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 products will remain at current levels or increase or decrease in the future. However, industry analysts have predicted that the expectation of new capacity coupled with significantly lower new housing activity will likely lead to continued lower pricing for the next twelve to eighteen months.

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, 2007.

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, 2007 is a discussion of our significant accounting policies and significant accounting estimates and judgments. The discussion of each of the policies and estimates outlines the specific accounting treatment related to each of these accounting areas.

Accounting Policies

There are several policies that we have adopted and implemented from among acceptable alternatives that could lead to different financial results had another policy been chosen:

Inventory valuation. We use the LIFO (last-in, first-out) method for some of our log inventories with the remaining inventories valued at FIFO (first-in, first-out) or average cost. Our inventories would have been approximately $3.2 million higher if the LIFO inventories were valued at average cost as of March 31, 2008.

Property, plant and equipment. We principally use the units of production method of depreciation for machinery and equipment. This method amortizes the cost of machinery and equipment over the estimated units that will be produced during its estimated useful life.

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 2008, these significant accounting estimates and judgments include:

Auction Rate Securities: Auction-rate securities represent interests in collateralized debt obligations, a portion of which are collateralized by pools of residential and commercial mortgages, interest-bearing corporate debt obligations, a dividend-yielding preferred stock or other similar instruments. Liquidity for these auction-rate securities is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually every 7, 28, 35 or 90 days. Because of the short interest rate reset period, we have historically recorded auction-rate securities in current available-for-sale securities. As of March 31, 2008 we held auction-rate securities which had experienced a failed reset process. Consequently, we have classified $86 million ($151.8 million, par value) of auction-rate securities as long-term available-for-sale securities.

Our estimates of the valuation of our current holdings of auction rate securities are based upon our evaluation of the structure of our auction rate securities and current market estimates of fair value, including fair value estimates from issuing banks. During the quarter ended March 31, 2008, we recorded a temporary unrealized holding loss on these securities of $12.7 million that is recorded, net of tax, as a separate component of accumulated other comprehensive income and we recorded an other-than-temporary impairment of $0.8 million that is recorded as non-operating income (expense). In accordance with EITF 03-1 and FSP FAS 115-1 and 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,* we review several factors to determine whether a loss is other-than-temporary. These factors include but are not limited to: (i) the length of time a security is in an unrealized loss position, (ii) the extent to which fair value is less than cost, (iii) the financial condition and near term prospects of the issuer, and (iv) our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. Due to the numerous variables associated with these judgments, both the precision and reliability of the resulting estimates of the related valuation allowance are subject to substantial uncertainties. We regularly monitor our estimated exposure to these investments and, as additional information becomes known, may change our estimates significantly.

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 analyses 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 March 31, 2008, we excluded from our estimates approximately $0.6 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. 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, on assets held and used, impairments are recognized when the book values exceed our estimate of the undiscounted future net cash flows associated with the affected assets. The key assumptions in estimating these cash flows include future production volumes and pricing of commodity or specialty products and future estimates of expenses to be incurred. 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. These prices are estimated from information gathered from industry research firms, research reports published by investment analysts and other published forecasts. Our estimates of expenses are based upon our long-range internal planning models and our expectation that we will continue to reduce product costs that will offset inflationary impacts.

When impairment is indicated, the book values of the assets to be held and used are written down to their estimated fair value, which is generally based upon discounted future cash flows. Assets to be disposed of 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.

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, 2008, we had established valuation allowances against certain deferred tax assets, primarily related to foreign tax credit carryovers, state net operating loss and credit carryovers and foreign capital loss carryovers. We have not established valuation allowances against other deferred tax assets based upon expected future taxable income and/or tax strategies planned to mitigate the risk of impairment of these assets. 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.

Goodwill. Goodwill and other intangible assets that are deemed to have an indefinite life are no longer amortized. However, these indefinite life assets are tested for impairment on an annual basis, and otherwise when indicators of impairment are determined to exist, by applying a fair value based test. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgments at many points during the analysis. In testing for potential impairment, the estimated fair value of the reporting unit, as determined based upon cash flow forecasts, is compared to the book value of the reporting unit. The key assumptions in estimating these cash flows include future production volumes and pricing of commodity products and future estimates of expenses to be incurred. 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. These prices are estimated from information gathered from industry research firms, research reports published by investment analysts and other published forecasts. Our estimates of expenses are based upon our long-range internal planning models and our expectation that we will reduce product costs that will offset inflationary impacts.

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, if any, are subject to substantial uncertainties. Consequently, as additional information becomes known, we may change our estimates significantly.

Pension Plans. Most of our U.S. employees and some 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. See further discussion related to pension plans below under the heading Defined Benefit Pension Plans and in Note 13 of the Notes to the financial statements included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007.

Workers Compensation. We are self-insured for workers compensation in most U.S. states. 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.

RESULTS OF OPERATIONS

(Dollar amounts in tables in millions)

Our net loss for the first quarter of 2008 was $46.4 million, or $0.45 per diluted share, on sales of $349.4 million, compared to net loss for the first quarter of 2007 of $37.4 million, or $0.36 per diluted share, on sales of $394.6 million. For the first quarter of 2008, loss from continuing operations was $45.9 million, or $0.45 per diluted share, compared to loss from continuing operations of $36.1 million, or $0.35 per diluted share, for the first quarter of 2007.

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, profits and depreciation, amortization and cost of timber harvested for this segment are as follows:

	Quarter Ended March 31, 2008	2007	Change
Net sales	$ 154.9	$ 188.9	(18)%
Operating losses	$ (62.1)	$ (64.5)	4%
Depreciation, amortization and cost of timber harvested	$ 14.1	$ 16.7	

Percent changes in average sales prices and unit shipments for the quarter ended March 31, 2008 compared to the quarter ended March 31, 2007 are as follows:

	Quarter Ended March 31, 2008 versus 2007 Average Net Selling Price	Unit Shipments
Commodity OSB	(4)%	(15)%

OSB prices were relatively consistent between the first quarter of 2008 and the corresponding period of 2007. The weakened price as compared to cycle average pricing is due to dramatically lower housing demand coupled with increased industry capacity in OSB. The impact of the reduction in selling price accounted for a decrease in net sales and operating profits of approximately $6 million for the quarter. As compared to the corresponding period of 2007, the decline in sales volume was primarily due to the curtailment of our Silsbee, TX operation in the fourth quarter of 2007 (which likely will not run in 2008 or 2009) as well as other production curtailments to balance supply and demand.

Compared to the first quarter of 2007, the primary factors, along with the reduced sales price, for decreased operating profits was the increase in our Canadian dollar denominated manufacturing costs and curtailed operations. The Canadian dollar has strengthened significantly since the first quarter 2007, which causes our Canadian production costs stated in U.S. dollars to increase. Offsetting this increase was reduction of wood costs in certain regions and improvement of wood yields.

SIDING

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

Segment sales, profits and depreciation, amortization and cost of timber harvested for this segment are as follows:

	Quarter Ended March 31, 2008	2007	Change
Net sales	$ 107.1	$ 104.1	3%
Operating profits	$ 0.3		