LOUISIANA-PACIFIC CORP
Form 10-Q
August 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934
For Quarterly Period Ended June 30, 2015
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: 142,674,258 shares of Common Stock, $1 par value, outstanding as of August 4, 2015.

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

ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

- changes in governmental fiscal and monetary policies and levels of employment;
- changes in general economic conditions;
- changes in the cost and availability of capital;
- changes in the level of home construction activity;
- changes in competitive conditions and prices for our products;
- changes in the relationship between supply of and demand for building products;
- changes in the relationship between supply of and demand for raw materials, including wood fiber and resins, used in manufacturing our products;
- changes in the cost of and availability of energy, primarily natural gas, electricity and diesel fuel;
- changes in the cost of and availability of transportation;
- changes in other significant operating expenses;
- changes in exchange rates between the U.S. dollar and other currencies, particularly the Canadian dollar, Australian dollar, 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 Commission that warn of risks or uncertainties associated with future results, events or circumstances identify important factors that could cause actual results, events and circumstances to differ materially from those reflected in the forward-looking statements.

ABOUT THIRD-PARTY INFORMATION

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

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net sales	$493.0	$518.5	$964.7	$963.2
Operating costs and expenses:				
Cost of sales	443.4	461.5	871.2	849.9
Depreciation and amortization	25.3	24.9	52.0	50.5
Selling and administrative	37.9	35.9	76.6	76.8
(Gain) loss on sale or impairment of long-lived assets, net	0.5	(0.5)	0.6	(0.5)
Other operating charges and credits, net	—	0.6	11.6	0.6
Total operating costs and expenses	507.1	522.4	1,012.0	977.3
Loss from operations	(14.1)	(3.9)	(47.3)	(14.1)
Non-operating income (expense):				
Interest expense, net of capitalized interest	(7.2)	(7.4)	(14.7)	(15.1)
Interest income	1.0	1.7	2.4	3.5
Other non-operating items	0.4	3.8	(1.8)	(0.5)
Total non-operating income (expense)	(5.8)	(1.9)	(14.1)	(12.1)
Loss from operations before taxes and equity in income of unconsolidated affiliates	(19.9)	(5.8)	(61.4)	(26.2)
Provision (benefit) for income taxes	1.0	(6.7)	(5.3)	(12.3)
Equity in income of unconsolidated affiliates	(1.4)	(1.2)	(2.1)	(1.8)
Net income (loss)	$(19.5)	$2.1	(54.0)	(12.1)
Income (loss) per share of common stock:				
Net income (loss) per share - basic	$(0.14)	$0.01	(0.38)	(0.09)
Net income (loss) per share - diluted	$(0.14)	$0.01	$(0.38)	$(0.09)
Average shares of stock outstanding - basic	142.3	140.8	142.1	140.8
Average shares of stock outstanding - diluted	142.3	144.0	142.1	140.8

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

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income (loss)	$(19.5)	$2.1	(54.0)	$(12.1)
Other comprehensive income (loss)				
Foreign currency translation adjustments	(0.1)	0.7	(7.9)	(1.1)
Unrealized gain on marketable securities	—	0.4	—	0.5
Defined benefit pension plans	1.0	0.5	2.6	1.8
Other	—	—	0.1	—
Other comprehensive income (loss), net of tax	0.9	1.6	(5.2)	1.2
Comprehensive income (loss)	$(18.6)	$3.7	$(59.2)	$(10.9)

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

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

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$481.0	$532.7
Receivables, net of allowance for doubtful accounts of $1.0 million at June 30, 2015 and at December 31, 2014	124.6	108.4
Inventories	224.9	229.8
Prepaid expenses and other current assets	7.0	25.0
Deferred income taxes	24.0	45.1
Assets held for sale	9.3	9.3
Total current assets	870.8	950.3
Timber and timberlands	53.5	67.1
Property, plant and equipment, at cost	2,327.4	2,315.1
Accumulated depreciation	(1,503.3)	(1,464.4)
Net property, plant and equipment	824.1	850.7
Goodwill	9.7	9.7
Notes receivable from asset sales	432.2	432.2
Investments in and advances to affiliates	7.1	5.0
Restricted cash	15.8	10.4
Other assets	22.5	22.8
Long-term deferred tax asset	0.6	0.6
Total assets	$2,236.3	$2,348.8
LIABILITIES AND EQUITY		
Current portion of long-term debt	$2.2	$2.4
Accounts payable and accrued liabilities	149.2	168.3
Current portion of contingency reserves	2.0	2.0
Total current liabilities	153.4	172.7
Long-term debt, excluding current portion	753.6	754.8
Deferred income taxes	117.3	139.5
Contingency reserves, excluding current portion	12.5	12.2
Other long-term liabilities	142.7	153.8
Stockholders’ equity:		
Common stock	152.8	152.8
Additional paid-in capital	495.2	507.0
Retained earnings	758.3	812.3
Treasury stock	(213.0)	(225.0)
Accumulated comprehensive loss	(136.5)	(131.3)
Total stockholders’ equity	1,056.8	1,115.8
Total liabilities and stockholders’ equity	$2,236.3	$2,348.8

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$(19.5)	$2.1	$(54.0)	$(12.1)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	25.3	24.9	52.0	50.5
Income from unconsolidated affiliates	(1.4)	(1.2)	(2.1)	(1.8)
(Gain) loss on sale or impairment of long-lived assets, net	0.5	(0.5)	0.6	(0.5)
Other operating charges and credits, net	—	0.6	11.6	0.6
Stock-based compensation related to stock plans	2.7	2.4	5.1	4.5
Exchange loss on remeasurement	0.7	(3.9)	4.3	1.3
Increase in contingencies, net of cash payments	—	0.5	0.5	—
Cash settlements of warranties, net of accruals	(2.4)	(2.3)	(5.4)	(5.0)
Pension expense, net of contributions	2.4	0.7	4.4	1.3
Non-cash interest expense, net	(0.1)	0.1	(0.1)	0.6
Other adjustments, net	0.6	0.6	0.8	0.4
Changes in assets and liabilities:				
(Increase) decrease in receivables	14.3	(2.8)	(16.6)	(67.2)
(Increase) decrease in inventories	37.3	40.0	3.1	(11.3)
(Increase) decrease in prepaid expenses and other current assets	(1.2)	(1.8)	0.8	0.7
Decrease in accounts payable and accrued liabilities	(21.4)	(38.4)	(4.2)	(6.0)
Increase (decrease) in deferred income taxes	3.7	(5.8)	(3.3)	(13.8)
Net cash provided by (used in) operating activities	41.5	15.2	(2.5)	(57.8)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Property, plant and equipment additions	(18.6)	(18.2)	(33.5)	(42.2)
Proceeds from sales of assets	—	0.7	0.4	0.8
(Increase) decrease in restricted cash under letters of credit/credit facility	(5.4)	1.2	(5.4)	1.0
Net cash used in investing activities	(24.0)	(16.3)	(38.5)	(40.4)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of long-term debt	—	—	(1.4)	(1.1)
Sale of common stock under equity plans	0.3	—	0.4	—
Taxes paid related to net share settlement of equity awards	(2.9)	(0.1)	(5.3)	(1.5)
Net cash used in financing activities	(2.6)	(0.1)	(6.3)	(2.6)
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(2.2)	4.2	(4.4)	(1.3)
Net increase (decrease) in cash and cash equivalents	12.7	3.0	(51.7)	(102.1)
Cash and cash equivalents at beginning of period	$468.3	551.7	532.7	656.8
Cash and cash equivalents at end of period	$481.0	$554.7	$481.0	$554.7

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
(AMOUNTS IN MILLIONS) (UNAUDITED)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2014	152.8	$152.8	(10.6)	$(225.0)	$507.0	$812.3	$(131.3)	$1,115.8
Net loss	—	—	—	—	—	(54.0)	—	(54.0)
Issuance of shares for employee stock plans and stock-based compensation	—	—	0.8	17.3	(16.9)	—	—	0.4
Amortization of restricted stock grants	—	—	—	—	1.0	—	—	1.0
Taxes paid related to net share settlement of equity awards	—	—	(0.3)	(5.3)	—	—	—	(5.3)
Compensation expense associated with stock awards	—	—	—	—	4.1	—	—	4.1
Other comprehensive loss	—	—	—	—	—	—	(5.2)	(5.2)
Balance, June 30, 2015	152.8	$152.8	(10.1)	$(213.0)	$495.2	$758.3	$(136.5)	$1,056.8

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS FOR PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) 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, 2014.

NOTE 2 – STOCK-BASED COMPENSATION

At June 30, 2015, 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 $2.7 million for the quarter ended June 30, 2015, $2.4 million for the quarter ended June 30, 2014, $5.1 million for the six months ended June 30, 2015 and $4.5 million for the six months ended June 30, 2014.

SSARS and Options

LP grants stock settled stock appreciation rights (SSARs) to key employees and directors. On exercise, LP generally issues shares from treasury to settle these awards. The SSARs are granted at the market price at the date of grant. SSARs become exercisable annually ratably over a three year period and expire ten years after the date of grant. At June 30, 2015, 3.9 million shares were available to grant under the current stock award plans for stock-based awards.

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

	2015	2014
Expected stock price volatility	54.4%	57.5%
Expected dividend yield	—%	—%
Risk-free interest rate	1.5%	1.5%
Expected life of options (in years)	6 years	5 years
Weighted average fair value of options and SSARs granted	$8.80	$9.03

The following table summarizes stock options and SSARs outstanding as of June 30, 2015, as well as activity during the six month period then ended.

Share amounts in thousands	Options and SSARs	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options and SSARs outstanding at January 1, 2015	7,004	$ 14.19		
Options and SSARs granted	379	17.04		
Options and SSARs exercised	(1,141)	11.45		
Options and SSARs canceled	(281)	26.41		
Options and SSARs outstanding at June 30, 2015	5,961	14.32	4.7	$28.3
Vested and expected to vest at June 30, 2015[(1)]	5,663	—	—	$26.9
Options and SSARs exercisable at June 30, 2015	5,185	$ 13.78	4.1	$28.3

(1) Options and SSARS expected to vest based upon historical forfeiture rate

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The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between LP's closing stock price on the last trading day of the second quarter of 2015 and the exercise price, multiplied by the number of in-the-money options and SSARs) that would have been received by the holders had all holders exercised their awards on June 30, 2015. This amount changes based on the market value of LP's stock as reported by the New York Stock Exchange.

As of June 30, 2015, there was $5.7 million of total unrecognized compensation costs related to stock options and SSARs. These costs are expected to be recognized over a weighted-average period of 1.8 years. LP recorded compensation expense related to these awards in the first six months of 2015 of $1.9 million.

Incentive Share Awards

LP has granted incentive share stock awards (restricted stock units) to certain key employees and directors. The employee awards vest three years from date of grant and awards to directors vest one year from date of grant. The awards entitle the participant to receive a specified number of shares of LP common stock at no cost to the participant. The market value at the time of grant approximates the fair value. LP recorded compensation expense related to these awards in the first six months of 2015 of $1.7 million. As of June 30, 2015, there was $6.1 million of total unrecognized compensation cost related to unvested incentive share awards. This expense will be recognized over a weighted-average period of 1.7 years.

The following table summarizes incentive share awards outstanding as of June 30, 2015 as well as activity during the six months then ended.

	Shares	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Incentive share awards outstanding at January 1, 2015	593,613		
Incentive share awards granted	250,129		
Incentive share awards vested	(273,995)		
Incentive share awards canceled	(15,083)		
Incentive shares outstanding at June 30, 2015	554,664	1.7	$9.5
Vested and expected to vest at June 30, 2015[1]	526,931	—	$9.0

[1] Incentive shares expected to vest based upon historical forfeiture rate

Restricted Stock

LP grants restricted stock to certain senior key 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 generally 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, which is generally three years. As of June 30, 2015, there was $2.7 million of total unrecognized compensation costs related to restricted stock. This expense will be recognized over the next 1.5 years.

The following table summarizes the restricted stock outstanding as of June 30, 2015 as well as activity during the six months then ended.

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock awards outstanding at January 1, 2015	453,146	$ 13.93
Restricted stock awards granted	69,744	17.04
Restrictions lapsing	(225,645)	8.71
Restricted stock canceled	(14,544)	19.29
Restricted stock awards at June 30, 2015	282,701	18.59

Compensation expense related to these awards recognized in the first six months of 2015 was $0.9 million.

Performance share awards

In connection with Mr. Stevens' appointment to Chief Executive Officer on May 4, 2012, he was awarded 300,000 performance shares. LP recorded compensation expense related to these awards of $0.2 million in the first six months of 2015. As of June 30, 2015, there was $0.3 million of total unrecognized compensation costs related to this award. This expense will be recognized over the next year.

In 2015, LP awarded performance shares to certain senior key employees. These performance shares are earned based upon LP attaining specified revenue growth rates associated with its SmartSide products as compared to the prior year and LP's overall revenue growth as compared to a predetermined peer group, in each case for 2015. The performance period is measured over 2015 with a subsequent two year vesting period. LP recorded compensation expense related to these awards of $0.3 million in the first six months of 2015. As of June 30, 2015, there was $1.4 million of total unrecognized compensation costs related to this award. This expense will be recognized over the next 2.5 years.

Phantom stock

During 2011 and 2012, LP made annual grants of phantom stock units to its directors. Subsequent to the approval of the 2013 Omnibus Plan, phantom stock units are no longer granted to directors. Holders of phantom stock units do not receive rights of a shareholder, nor is any stock transfered. The units will be paid out in cash at the end of the five year vesting period. The value of one unit is based on the market value of one share of common stock on the vesting date. The expense associated with these grants is recognized over the vesting period and is included in stock-based compensation expense. Since these awards are settled in cash, such awards are required to be remeasured based upon the changes in LP's stock price. As of June 30, 2015, LP had 66,339 shares outstanding under this program.

NOTE 3 – FAIR VALUE MEASUREMENTS

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

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

Dollar amounts in millions	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$4.6	$—	$—	$4.6
Trading securities	2.4	2.4	—	—
Contingent consideration	0.2	—	—	0.2

Dollar amounts in millions	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$4.6	$—	$—	$4.6
Trading securities	2.3	2.3	—	—
Contingent consideration	0.2	—	—	0.2

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

The following table summarizes changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2014. During the six months ended June 30, 2015, no adjustment was recognized associated with the fair value of these assets and liabilities.

Dollar amounts in millions	Available for sale securities	Contingent consideration
Balance at December 31, 2013	3.7	3.8
Adjustment to contingent consideration fair value		0.1
Total unrealized gains included in other comprehensive income	0.8	—
Foreign currency gain	—	(0.1)
Balance at June 30, 2014	$4.5	$3.8

LP estimated the Senior Notes maturing in 2020 to have a fair value of $374.5 million at June 30, 2015 and $371.0 million at December 31, 2014 based upon market quotations.

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

NOTE 4 – EARNINGS PER SHARE

Basic earnings per share are based on the weighted-average number of shares of common stock outstanding. Diluted earnings per share are based upon the weighted-average number of shares of common stock outstanding plus all potentially dilutive securities that were assumed to be converted into common shares at the beginning of the period under the treasury stock method. This method requires that the effect of potentially dilutive common stock equivalents (stock options, 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. Performance share awards are included in the calculation of earnings per share using the contingently issuable method. The following table sets forth the computation of basic and diluted earnings per share:

Dollar and share amounts in millions, except per share amounts	Quarter Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Numerator:				
Income (loss) common shares:				
Net income (loss)	$(19.5)	$2.1	$(54.0)	$(12.1)
Denominator:				
Basic - weighted average common shares outstanding	142.3	140.8	142.1	140.8
Dilutive effect of stock warrants	—	1.3	—	—
Dilutive effect of stock plans	—	1.9	—	—
Diluted shares outstanding	142.3	144.0	142.1	140.8
Basic and diluted earnings per share:	$(0.14)	$0.01	$(0.38)	$(0.09)

For the quarter ended ended June 30, 2015, stock options, warrants and SSARs relating to approximately 5.1 million shares of LP common stock were considered anti-dilutive for purposes of LP's earnings per share calculation due to LP's loss position from continuing operations. For the quarter ended June 30, 2014, stock options, warrants and SSARs relating to approximately 4.1 million shares of LP common stock were considered not in-the-money for purposes of LP's earnings per share calculation. For the six months ended June 30, 2015 and June 30, 2014, stock options, warrants and SSARs relating to approximately 5.1 million and 3.5 million shares of LP common stock were considered anti-dilutive for purposes of LP's earnings per share calculation due to LP's loss position from continuing operations.

At June 30, 2015, outstanding warrants were exercisable to purchase approximately 573,521 shares.

NOTE 5 – RECEIVABLES

Receivables consist of the following:

Dollar amounts in millions	June 30, 2015	December 31, 2014
Trade receivables	$113.1	$96.1
Interest receivables	0.2	0.2
Income tax receivable	3.4	1.4
Other receivables	8.9	11.7
Allowance for doubtful accounts	(1.0)	(1.0)
Total	$124.6	$108.4

Other receivables at June 30, 2015 and December 31, 2014 primarily consist of sales and other value-added tax receivables, a receivable from a former partner, receivables associated with LP's sales arrangements with contract manufacturers 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	June 30, 2015	December 31, 2014
Logs	$45.8	$39.6
Other raw materials	19.6	21.3
Semi-finished inventory	19.1	19.3
Finished products	140.4	149.6
Total	$224.9	$229.8

Included in finished products inventory as of June 30, 2015 and December 31, 2014 is $8.5 million and $18.1 million related to the lower of cost or market inventory valuation reserves.

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 six months ended June 30, 2015, LP's overall estimated annual effective tax rate is computed by excluding anticipated losses in Canada for which no deferred tax asset is expected to be recognizable due to the need for valuation allowances. Tax benefit for the period is 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 is 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 six 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 foreign tax rates, Canadian and state valuation allowances and a reduction in the reserve for unrecognized tax benefits. For the first six months of 2014, the primary differences between the U.S. statutory rate of 35% and the effective rate applicable to LP’s continuing operations relate to state income taxes, the effect of foreign tax rates and the effects of foreign exchange on functional currencies.

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 future years' earnings 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.

Certain deferred tax assets as of June 30, 2015 are not recognized in relation to amounts of tax deductions for equity compensation that are greater than the compensation expense recognized for financial reporting. Equity will be increased by $16.5 million if and when such deferred tax assets are ultimately realized. LP uses the "with and without" method for determining when excess tax benefits have been realized.

LP and its domestic subsidiaries are subject to U.S. federal income tax as well as income taxes of multiple state jurisdictions. Its foreign subsidiaries are subject to income tax in Canada, Chile, Peru and Brazil. In June 2015 LP finalized its settlement agreement with the US Internal Revenue Service (IRS) regarding their examination of tax years 2007-2009. Accordingly, we recorded a second quarter income tax benefit of $1.6 million and applied a $17.1 million tax deposit (previously recorded in Prepaid and other current assets) against the taxes payable plus estimated accrued interest, creating a $1.4 million overpayment that is reflected in current income taxes receivable at June 30, 2015. Primarily as a result of the IRS settlement, LP's liability for unrecognized tax benefits has been reduced as of June 30, 2015 by $34.4 million from its 2014 balance. U.S. tax years are now closed through 2010, and no examinations are currently in progress.

LP remains subject to U.S. federal examinations of tax years 2011 through 2013, as well as state and local tax examinations for the tax years 2007- 2013. Canadian federal income tax years are closed through 2010. During the second quarter of 2015, the Canada Revenue Agency notified LP of its intention to audit the tax returns of LP’s Canadian subsidiaries for tax years 2012-2013. Preliminary exchanges of accounting data and tax information have recently begun. Quebec provincial audits have been effectively settled through 2012. Chilean returns for years 2010 - 2012 tax years are under review by the Chilean Tax Office. Brazilian returns for years 2009 - 2013 are subject to audit, but no examinations are currently in progress.

NOTE 8 – TRANSACTIONS WITH AFFILIATES

LP has an equity investment in Abitibi-LP, a manufacturer of I-joists with Resolute Forest Products. LP sells products and raw materials to Abitibi-LP and purchases products for resale from Abitibi-LP. LP eliminates profits on these sales and purchases, to the extent the inventory has not been sold through to third parties, on the basis of its 50% interest. For the quarters ended June 30, 2015 and 2014, LP sold $2.5 million and $2.7 million of products to Abitibi-LP and purchased $13.4 million and $16.0 million of I-joists from Abitibi-LP. For the six months ended June 30, 2015 and 2014, LP sold $4.2 million and $5.2 million of products to Abitibi-LP and purchased $23.8 million and $28.2 million of I-joists from Abitibi-LP. Included in LP’s Consolidated Balance Sheets at June 30, 2015 and December 31, 2014 are $1.2 million and $0.7 million in accounts receivable and $0.6 million and $0.4 million in accounts payable associated with Abitibi-LP.

NOTE 9 - 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 was 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.
During the second quarter of 2014, LP recorded a loss of $0.5 million related to an environmental contingency reserve. LP also recorded a loss of $0.1 million related to the fair market value adjustment of the contingent consideration payable in connection with a business combination.

NOTE 10 – 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 11 – SELECTED SEGMENT DATA

LP operates in four segments: Oriented Strand Board (OSB), Siding, Engineered Wood Products (EWP) and South America. LP’s business units have been aggregated into these four segments based upon the similarity of economic characteristics, customers and distribution methods. LP’s results of operations are summarized below for each of these segments separately as well as for the “other” category which comprises other products that are not individually significant. Segment information was prepared in accordance with the same accounting principles as those described in Note 1 of the Notes to the financial statements included in LP’s Annual Report on Form 10-K for the year ended December 31, 2014.

Dollar amounts in millions	Quarter Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Net sales:				
OSB	$211.0	$223.7	$401.2	$418.6
Siding	163.9	169.7	337.4	313.2
Engineered Wood Products	72.0	75.9	136.8	138.1
South America	38.7	41.9	74.6	78.5
Other	7.4	8.7	14.7	16.6
Intersegment Sales	—	(1.4)	—	(1.8)
	$493.0	$518.5	$964.7	$963.2
Operating profit (loss):				
OSB	$(18.1)	$(5.5)	$(46.5)	$(7.4)
Siding	29.2	25.9	62.1	45.1
Engineered Wood Products	(2.3)	(5.3)	(6.4)	(8.4)
South America	2.0	4.0	4.4	8.2
Other	(1.0)	(1.0)	(1.9)	(1.7)
Other operating charges and credits, net	—	(0.6)	(11.6)	(0.6)
Gain (loss) on sale or impairment of long-lived assets	(0.5)	0.5	(0.6)	0.5
General corporate and other expenses, net	(22.0)	(20.7)	(44.7)	(48.0)
Other non-operating income (expense)	0.4	3.8	(1.8)	(0.5)
Interest income	1.0	1.7	2.4	3.5
Interest expense, net of capitalized interest	(7.2)	(7.4)	(14.7)	(15.1)
Loss from operations before taxes	(18.5)	(4.6)	(59.3)	(24.4)
Benefit for income taxes	1.0	(6.7)	(5.3)	(12.3)
Net income (loss)	$(19.5)	$2.1	$(54.0)	$(12.1)

NOTE 12 – 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. During the first quarter of 2015, there was an indication of impairment associated with the company's indefinitely curtailed OSB facility in Quebec, Canada. See Note 9 for discussion of the write off of the timber license associated with this facility. LP is currently evaluating various options associated with this mill. Based upon the weighted probability of the future cash flows associated with various options for this facility as of June 30, 2015, no impairment was required. If the weighting of the probabilities changes or the projected cash flow changes from those included in the calculation, LP may be required to record impairments in the future. As of June 30, 2015, the fair value of facilities that have not been indefinitely curtailed are substantially in excess of its carrying value and supports the conclusion that no impairment is necessary for those facilities.

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

NOTE 13 – DEFINED BENEFIT PENSION PLANS

The following table sets forth the net periodic pension cost for LP's defined benefit pension plans during the quarter and six months ended June 30, 2015 and 2014. The net periodic pension cost included the following components:

Dollar amounts in millions	Quarter Ended June 30, 2015	Quarter Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Service cost	$1.0	$0.9	$2.0	$1.9
Interest cost	3.4	3.6	6.8	7.3
Expected return on plan assets	(3.8)	(4.2)	(7.6)	(8.5)
Amortization of prior service cost	0.1	—	0.2	—
Amortization of net loss	1.8	1.4	3.6	2.8
Net periodic pension cost	$2.5	$1.7	$5.0	$3.5

During the six months ended June 30, 2015 and 2014, LP recognized $5.0 million and $3.5 million of pension expense for all of LP's defined benefit pension plans.

During the six months ended June 30, 2015, LP made $1.4 million in pension contributions to its defined benefit pension plans. LP expects to contribute between $2.0 million and $5.0 million to its defined benefit pension plans in 2015.

NOTE 14 – 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, 2014 for further discussion of LP’s guarantees and indemnifications.

LP provides warranties on the sale of most of its products and records an accrual for estimated future claims. Such accruals are based upon historical experience and management’s estimate of the level of future claims. The activity in warranty reserves for the quarter and six months ended June 30, 2015 and 2014 are summarized in the following table:

Dollar amounts in millions	Quarter Ended June 30, 2015	Quarter Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Beginning balance	$27.1	$26.2	$31.4	$29.3
Accrued to expense	0.2	0.1	0.3	0.3
Foreign currency translation	0.3	0.5	(1.0)	0.1
Payments made	(2.6)	(2.5)	(5.7)	(5.4)
Total warranty reserves	25.0	24.3	25.0	24.3
Current portion of warranty reserves	(10.0)	(12.0)	(10.0)	(12.0)
Long-term portion of warranty reserves	$15.0	$12.3	$15.0	$12.3

LP continues to monitor warranty and other claims associated with these products and believes as of June 30, 2015 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 15 - OTHER COMPREHENSIVE INCOME

Other comprehensive income activity, net of tax, is provided in the following table for the quarter and six months ended June 30, 2015:

Dollar amounts in millions	Foreign currency translation adjustments	Pension adjustments	Unrealized gain (loss) on investments	Other	Total
Balance at March 31, 2015	$(41.5)	$(97.4)	$2.6	$(1.1)	$(137.4)
Other comprehensive income before reclassifications	(0.1)	—	—	—	(0.1)
Amounts reclassified from accumulated comprehensive income	—	1.0	—	—	1.0
Net current-period other comprehensive income	(0.1)	1.0	—	—	0.9
Balance at June 30, 2015	$(41.6)	$(96.4)	$2.6	$(1.1)	$(136.5)

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 before reclassifications	(7.9)	0.3	—	0.1	(7.5)
Amounts reclassified from accumulated comprehensive income	—	2.3	—	—	2.3
Net current-period other comprehensive income	(7.9)	2.6	—	0.1	(5.2)
Balance at June 30, 2015	(41.6)	(96.4)	2.6	(1.1)	(136.5)

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

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

Dollar amounts in millions	Foreign currency translation adjustments	Pension adjustments	Unrealized gain (loss) on investments	Other	Total
Balance at December 31, 2013	(19.2)	(70.3)	2.0	(1.7)	(89.2)
Other comprehensive income (loss) before reclassifications	(1.1)	4.3	0.5	—	3.7
	—	(2.5)	—	—	(2.5)

Amounts reclassified from accumulated comprehensive income					
Net current-period other comprehensive income (loss)	(1.1)	1.8	0.5	—	1.2
Balance at June 30, 2014	(20.3)	(68.5)	2.5	(1.7)	(88.0)

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Reclassifications from accumulated other comprehensive loss for the quarter and six months ended June 30, 2015 and June 30, 2014 are summarized, in millions of dollars, in the following table:

	Amount reclassified from accumulated comprehensive loss				
	Quarter Ended June 30,		Six Months Ended June 30,		
Details about accumulated other comprehensive income components	2015	2014	2015	2014	Affected line item in the statement where net income (loss) is presented
Amortization of defined benefit pension plans					
Prior service cost	$0.1	$—	$0.2	—	[a]
Actuarial loss	1.8	1.4	3.6	2.8	[a]
Transition obligation	—	0.3	—	0.7	[a]
	1.9	1.7	3.8	3.5	Total before tax
	0.8	0.5	1.5	1.0	Tax benefit
Total reclassifications	$1.1	$1.2	$2.3	$2.5	Net of tax

[a] These accumulated other comprehensive loss components are included in the computation of net periodic pension cost, see Note 13 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 16 - RECENT AND PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standard Board issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.AUS 2015-03 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within the reporting periods and it applied retrospectively. Early adoption is permitted for financial statements that have not been previously issued. LP early adopted this standard as of June 30, 2015. Prior to ASU 2015-03, deferred debt costs were reported on the balance sheet as assets and amortized as interest expense. The Consolidated Balance Sheet as of December 31, 2014 has been adjusted to apply the change in accounting principle retrospectively. There is no effect on the income statement as a result of the change in accounting principle. Debt issuance costs of $4.7 million previously reported as assets on the Consolidated Balance Sheet as of December 31, 2014 have been reclassified as a direct deduction from the carrying amount of the related debt liability.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective on January 1, 2018. LP is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations and financial position.

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

GENERAL

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

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

Demand for our products correlates to a significant degree to the level of residential construction activity in North America, which historically has been characterized by significant cyclicality. For the quarter and first six months of 2015, the U.S. Department of Census reported that U.S. single and multi-family housing starts were 17% higher than for the second quarter of 2014 and 11% higher than the comparable six month period. OSB is sold as a commodity for which sales prices fluctuate daily based on market factors over which we have little or no control. We cannot predict whether the prices of our OSB products will remain at current levels or increase or decrease in the future. OSB prices (NC 7/16"), as reported by Random Lengths, were 11% lower for both the second quarter of 2015 and the first six months of 2015 compared to the corresponding periods of 2014.

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, 2014 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, 2014 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 2015, these significant accounting estimates and judgments include:

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

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

contingencies are subject to substantial uncertainties. We regularly monitor our estimated exposure to environmental loss contingencies and, as additional information becomes known, may change our estimates significantly. At June 30, 2015, we excluded from our estimates approximately $2.4 million of potential environmental liabilities that we estimate will be allocated to third parties pursuant to existing and anticipated future cost sharing arrangements.

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

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

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

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

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

Judgment is also applied in determining whether deferred tax assets will be realized in full or in part. When we consider it to be more likely than not that all or some portion of a deferred tax asset will not be realized, a valuation allowance is established for the amount of the deferred tax asset that is estimated not to be realizable. As of June 30, 2015, we had established valuation allowances against certain deferred tax assets, primarily related to Canadian and state carryovers of net operating losses, credits and capital losses. We have not established valuation allowances against other deferred tax assets based upon our review of the evidence supporting their realization. Accordingly, changes in facts or circumstances affecting the likelihood of realizing a deferred tax asset could result in the need to record additional valuation allowances.

Pension Plans. Most of our U.S. employees and many of our Canadian employees participate in defined benefit pension plans sponsored by LP. We account for the consequences of our sponsorship of these plans in accordance with accounting principles generally accepted in the U.S. (GAAP), 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. We periodically assess the adequacy of our recorded warranty liability for each product and adjust the amounts as necessary. While we believe we have a reasonable basis for these assumptions, actual warranty costs in the future could differ from our estimates.

NON-GAAP FINANCIAL MEASURES

In evaluating our business, we utilize several non-GAAP financial measures. A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so excluded or included under applicable GAAP guidance. In this report on Form 10-Q, we disclose earnings (loss) before interest expense, taxes, depreciation and amortization (“EBITDA”) which is a non-GAAP financial measure. Additionally, we disclose "Adjusted EBITDA" which further adjusts EBITDA to exclude stock based compensation expense, (gain) loss on sales or impairment of long lived assets, other operating charges and credits, net, certain acquisition-related expenses, depreciation included in equity in (income) loss of unconsolidated affiliates and investment income. Neither EBITDA nor Adjusted EBITDA 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 and Adjusted EBITDA in this report on Form 10-Q because we use them as important supplemental measures of our performance and believe that they are frequently used by securities analysts, investors and other interested persons in the evaluation of companies in our industry, some of which present EBITDA when reporting their results. We use EBITDA and Adjusted EBITDA to evaluate our performance as compared to other companies in our industry that have different financing and capital structures and/or tax rates. It should be noted that companies calculate EBITDA and Adjusted EBITDA differently and, therefore, our EBITDA and Adjusted EBITDA measures may not be comparable to EBITDA and Adjusted EBITDA reported by other companies. Our EBITDA and Adjusted EBITDA measures have material limitations as performance measures because they exclude interest expense, income tax (benefit) expense, depreciation and amortization and other costs and expenses, which are necessary to operate our business or which we otherwise incurred or experienced in connection with the operation of our business.

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

Three Months Ended June 30, 2015 (Dollar amounts in millions)	OSB	Siding	EWP	South America	Other	Corporate	Total
Sales	$211.0	$163.9	$72.0	$38.7	$7.4	$—	$493.0
Depreciation and amortization	14.2	5.0	2.7	2.1	0.5	0.8	25.3
Cost of sales and selling and administrative	214.9	129.7	73.0	34.6	7.9	21.2	481.3
Gain on sale or impairment of long lived assets	—	—	—	—	—	0.5	0.5
Other operating credits and charges, net	—	—	—	—	—	—	—
Total operating costs	229.1	134.7	75.7	36.7	8.4	22.5	507.1
Income (loss) from operations	(18.1)	29.2	(3.7)	2.0	(1.0)	(22.5)	(14.1)
Total non-operating expense	—	—	—	—	—	(5.8)	(5.8)
Income (loss) before income taxes and equity in income of unconsolidated affiliates	(18.1)	29.2	(3.7)	2.0	(1.0)	(28.3)	(19.9)
Income tax provision	—	—	—	—	—	1.0	1.0
Equity in income of unconsolidated affiliates	—	—	(1.4)	—	—	—	(1.4)
Net income (loss)	$(18.1)	$29.2	$(2.3)	$2.0	$(1.0)	$(29.3)	$(19.5)
Reconciliation of net income (loss) to Adjusted EBITDA							
Net income (loss)	$(18.1)	$29.2	$(2.3)	$2.0	$(1.0)	$(29.3)	$(19.5)
Income tax benefit	—	—	—	—	—	1.0	1.0
Interest expense, net of capitalized interest	—	—	—	—	—	7.2	7.2
Depreciation and amortization	14.2	5.0	2.7	2.1	0.5	0.8	25.3
EBITDA	(3.9)	34.2	0.4	4.1	(0.5)	(20.3)	14.0
Stock based compensation expense	0.2	0.4	0.2	—	—	1.9	2.7
Gain on sale or impairment of long lived assets	—	—	—	—	—	0.5	0.5
Investment income	—	—	—	—	—	(1.0)	(1.0)
Other operating credits and charges, net	—	—	—	—	—	—	—
Adjusted EBITDA	$(3.7)	$34.6	$0.6	$4.1	$(0.5)	$(18.9)	$16.2

Three Months Ended June 30, 2014 (Dollar amounts in millions)	OSB	Siding	EWP	South America	Other	Corporate	Total
Sales	$223.7	$169.7	$75.9	$41.9	$8.7	$(1.4)	$518.5
Depreciation and amortization	13.5	4.3	3.7	2.6	0.2	0.6	24.9
Cost of sales and selling and administrative	215.7	139.5	78.7	35.3	9.5	18.7	497.4
Loss on sale or impairment of long lived assets	—	—	—	—	—	(0.5)	(0.5)
Other operating credits and charges, net	—	—	—	—	—	0.6	0.6
Total operating costs	229.2	143.8	82.4	37.9	9.7	19.4	522.4
Income (loss) from operations	(5.5)	25.9	(6.5)	4.0	(1.0)	(20.8)	(3.9)
Total non-operating expense	—	—	—	—	—	(1.9)	(1.9)
Income (loss) before income taxes and equity in (income) loss of unconsolidated affiliates	(5.5)	25.9	(6.5)	4.0	(1.0)	(22.7)	(5.8)
Benefit for income taxes	—	—	—	—	—	(6.7)	(6.7)
Equity in (income) loss of unconsolidated affiliates	—	—	(1.2)	—	—	—	(1.2)
Net income (loss)	$(5.5)	$25.9	$(5.3)	$4.0	$(1.0)	$(16.0)	$2.1
Reconciliation of net income (loss) to Adjusted EBITDA							
Net income (loss)	$(5.5)	$25.9	$(5.3)	$4.0	$(1.0)	$(16.0)	$2.1
Benefit for income taxes	—	—	—	—	—	(6.7)	(6.7)
Interest expense, net of capitalized interest	—	—	—	—	—	7.4	7.4
Depreciation and amortization	13.5	4.3	3.7	2.6	0.2	0.6	24.9
EBITDA	8.0	30.2	(1.6)	6.6	(0.8)	(14.7)	27.7
Stock based compensation expense	0.3	0.1	0.2	—	—	1.8	2.4
Loss on sale or impairment of long lived assets	—	—	—	—	—	(0.5)	(0.5)
Investment income	—	—	—	—	—	(1.7)	(1.7)
Other operating credits and charges, net	—	—	—	—	—	0.6	0.6
Expenses associated with proposed acquisition of Ainsworth Lumber co. Ltd.	—	—	—	—			