

LOUISIANA-PACIFIC CORP
Form 10-Q
July 27, 2007

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, 2007
Commission File Number 1-7107

LOUISIANA-PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

93-0609074

(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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 104,462,582 shares of Common Stock, \$1 par value, outstanding as of July 26, 2007.

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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

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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 negative 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

ABOUT FORWARD-LOOKING STATEMENTS

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

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Item 1. Financial Statements.

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

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--|------------------------|----------|---------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net sales | \$ 461.2 | \$ 636.6 | \$ 855.8 | \$ 1,292.2 |
| Operating costs and expenses: | | | | |
| Cost of sales | 437.6 | 491.3 | 829.3 | 956.6 |
| Depreciation, amortization and cost of timber harvested | 27.4 | 31.0 | 55.9 | 64.0 |
| Selling and administrative | 38.3 | 38.8 | 78.5 | 79.7 |
| (Gain) loss on sale or impairment of long-lived assets | (0.3) | 0.1 | 5.2 | |
| Other operating credits and charges, net | (19.2) | | (19.2) | 0.1 |
| Total operating costs and expenses | 483.8 | 561.2 | 949.7 | 1,100.4 |
| Income (loss) from operations | (22.6) | 75.4 | (93.9) | 191.8 |
| Non-operating income (expense): | | | | |
| Foreign currency exchange loss | (12.7) | (10.6) | (15.5) | (8.5) |
| Interest expense, net of capitalized interest | (9.7) | (14.3) | (20.0) | (27.7) |
| Investment income | 23.4 | 24.3 | 43.8 | 47.3 |
| Total non-operating income (expense) | 1.0 | (0.6) | 8.3 | 11.1 |
| Income (loss) before taxes and equity in earnings of unconsolidated affiliates | (21.6) | 74.8 | (85.6) | 202.9 |
| Provision (benefit) for income taxes | (10.9) | 19.0 | (42.2) | 63.3 |
| Equity in loss (earnings) of unconsolidated affiliates | 4.9 | (0.3) | 8.2 | (1.5) |
| Income (loss) from continuing operations | (15.6) | 56.1 | (51.6) | 141.1 |
| Discontinued operations: | | | | |
| Loss from discontinued operations before income taxes | (12.6) | (1.7) | (14.8) | (3.8) |
| Income tax benefit | (4.9) | (0.7) | (5.8) | (1.5) |
| Loss from discontinued operations | (7.7) | (1.0) | (9.0) | (2.3) |
| Net income (loss) | \$ (23.3) | \$ 55.1 | \$ (60.6) | \$ 138.8 |
| Net income (loss) per share of common stock (basic): | | | | |
| Income (loss) from continuing operations | \$ (0.15) | \$ 0.53 | \$ (0.50) | \$ 1.34 |
| Loss from discontinued operations | (0.07) | (0.01) | (0.08) | (0.03) |
| Net income (loss) per share - basic | \$ (0.22) | \$ 0.52 | \$ (0.58) | \$ 1.31 |
| Net income (loss) per share of common stock (diluted): | | | | |
| Income (loss) from continuing operations | \$ (0.15) | \$ 0.53 | \$ (0.50) | \$ 1.33 |
| Loss from discontinued operations | (0.07) | (0.01) | (0.08) | (0.02) |
| Net income (loss) per share - diluted | \$ (0.22) | \$ 0.52 | \$ (0.58) | \$ 1.31 |
| Cash dividends per share | \$ 0.15 | \$ 0.15 | \$ 0.30 | \$ 0.30 |
| Average shares of stock outstanding - basic | 104.2 | 105.3 | 104.1 | 105.6 |
| Average shares of stock outstanding - diluted | 104.2 | 105.8 | 104.1 | 106.2 |

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

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

| | June 30, 2007 | December 31, 2006 |
|--|---------------|-------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 255.7 | \$ 265.7 |
| Short-term investments | 645.9 | 797.0 |
| Receivables, net of allowance for doubtful accounts of \$1.2 million at June 30, 2007 and \$1.4 million at December 31, 2006 | 180.8 | 157.4 |
| Inventories | 232.3 | 221.6 |
| Prepaid expenses and other current assets | 10.1 | 9.3 |
| Deferred income taxes | 8.8 | 28.5 |
| Current portion of notes receivable from asset sales | 37.1 | |
| Current assets of discontinued operations | 18.5 | 24.5 |
| Total current assets | 1,389.2 | 1,504.0 |
| Timber and timberlands | 92.8 | 98.7 |
| Property, plant and equipment | 2,093.2 | 1,986.1 |
| Accumulated depreciation | (1,167.0) | (1,135.7) |
| Net property, plant and equipment | 926.2 | 850.4 |
| Goodwill | 273.5 | 273.5 |
| Notes receivable from asset sales | 295.9 | 333.0 |
| Long-term investments | 66.4 | 40.4 |
| Restricted cash | 62.6 | 51.8 |
| Investments in and advances to affiliates | 209.8 | 212.9 |
| Other assets | 31.9 | 27.1 |
| Long-term assets of discontinued operations | 33.9 | 44.6 |
| Total assets | \$ 3,382.2 | \$ 3,436.4 |
| LIABILITIES AND EQUITY | | |
| Current portion of long-term debt | \$ 0.2 | \$ 0.4 |
| Current portion of limited recourse notes payable | 36.5 | |
| Short-term notes payable | 32.6 | 3.0 |
| Accounts payable and accrued liabilities | 229.8 | 237.9 |
| Current portion of deferred tax liabilities | 14.6 | 14.6 |
| Current portion of contingency reserves | 9.0 | 9.0 |
| Total current liabilities | 322.7 | 264.9 |
| Long-term debt, excluding current portion: | | |
| Limited recourse notes payable | 290.3 | 326.8 |
| Other long-term debt | 340.3 | 317.8 |
| Total long-term debt, excluding current portion | 630.6 | 644.6 |
| Contingency reserves, excluding current portion | 20.1 | 25.6 |
| Other long-term liabilities | 83.9 | 70.0 |
| Deferred income taxes | 341.9 | 363.9 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock | 116.9 | 116.9 |
| Additional paid-in capital | 435.9 | 435.8 |
| Retained earnings | 1,780.3 | 1,870.2 |
| Treasury stock | (278.7) | (284.0) |
| Accumulated comprehensive loss | (71.4) | (71.5) |
| Total stockholders' equity | 1,983.0 | 2,067.4 |
| Total liabilities and equity | \$ 3,382.2 | \$ 3,436.4 |

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)**

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| | Six Months Ended June 30, | |
|--|---------------------------|---------------|
| | 2007 | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (60.6) | \$ 138.8 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation, amortization and cost of timber harvested | 57.7 | 66.9 |
| (Earnings) losses of unconsolidated affiliates | 8.1 | (1.5) |
| (Gain) loss on sale or impairment of long-lived assets | 14.2 | (0.4) |
| Stock based compensation expense related to stock plans | 3.3 | 3.2 |
| Excess tax benefits from stock based compensation | | (3.3) |
| Exchange loss on remeasurement | 19.1 | 15.8 |
| Cash settlement of contingencies | (6.9) | (7.7) |
| Pension (payments) expense, net | (2.1) | (2.2) |
| Other adjustments | (6.0) | 2.6 |
| (Increase) decrease in receivables | (20.2) | 20.5 |
| Increase in inventories | (0.7) | (16.6) |
| Increase in prepaid expenses | (1.9) | (2.0) |
| Decrease in accounts payable and accrued liabilities | (14.4) | (10.0) |
| Increase (decrease) in deferred income taxes | 0.5 | (48.0) |
| Net cash provided by (used in) operating activities | (9.9) | 156.1 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Property, plant, and equipment additions | (132.3) | (64.7) |
| Proceeds from asset sales | 2.0 | 1.5 |
| Investments in and advances to joint ventures | (4.9) | (8.8) |
| Receipt of proceeds from notes receivable | | 70.8 |
| Cash paid for purchase of investments | (1,538.1) | (3,602.3) |
| Proceeds from sales of investments | 1,669.4 | 3,439.3 |
| (Increase) decrease in restricted cash under letter of credit requirements | (10.8) | 16.0 |
| Net cash used in investing activities | (14.7) | (148.2) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings of long-term debt | 13.0 | |
| Repayment of debt | (0.2) | (189.1) |
| Net borrowings under revolving credit agreements | 29.6 | |
| Sale of common stock under equity plans | 2.7 | 5.5 |
| Purchase of treasury stock | | (22.3) |
| Payment of cash dividends | (31.4) | (31.8) |
| Excess tax benefits from stock-based compensation | | 3.3 |
| Net cash provided by (used in) financing activities | 13.7 | (234.4) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 0.9 | (5.0) |
| Net decrease in cash and cash equivalents | (10.0) | (231.5) |
| Cash and cash equivalents at beginning of period | 265.7 | 607.6 |
| Cash and cash equivalents at end of period | \$ 255.7 | \$ 376.1 |

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 | Retained | Accumulated | Total |
|--|--------------|----------|----------------|------------|------------|------------|---------------|--------------|
| | Shares | Amount | Shares | Amount | Paid-in | Earnings | Comprehensive | Stockholders |
| | | | | | Capital | | Loss | Equity |
| Balance, December 31, 2006 | 116.9 | \$ 116.9 | 12.7 | \$ (284.0) | \$ 435.8 | \$ 1,870.2 | \$ (71.5) |)\$ 2,067.4 |
| Cumulative effect of adoption of accounting principle on prior years (see Notes 1 and 6) | | | | | | 2.1 | | 2.1 |
| Balance, December 31, 2006 (as adjusted) | 116.9 | 116.9 | 12.7 | (284.0) | 435.8 | 1,872.3 | (71.5) |)2,069.5 |
| Net income (loss) | | | | | | (60.6) |) | (60.6) |
| Issuance of shares for employee stock plans and other purposes and other transactions | | | (0.2) | 5.3 | (2.5) |) | | 2.8 |
| Amortization of restricted stock and other grants | | | | | 2.6 | | | 2.6 |
| Cash dividends | | | | | | (31.4) |) | (31.4) |
| Other comprehensive income | | | | | | | 0.1 | 0.1 |
| Balance, June 30, 2007 | 116.9 | \$ 116.9 | 12.5 | \$ (278.7) | \$ 435.9 | \$ 1,780.3 | \$ (71.4) |)\$ 1,983.0 |

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

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

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| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--|------------------------|---------|---------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income (loss) | \$ (23.3) | \$ 55.1 | \$ (60.6) | \$ 138.8 |
| Other comprehensive income (loss), net of tax | | | | |
| Foreign currency translation adjustments | (1.6) | (3.8) | (2.0) | (7.0) |
| Unrealized gain (loss) on derivative instruments | | 0.2 | (0.1) | 0.5 |
| Unrealized gain (loss) on marketable securities | | (0.2) | | (0.2) |
| Defined benefit pension plans: | | | | |
| Amortization of prior service cost | 0.2 | | 0.4 | |
| Amortization of net loss | 0.9 | | 1.8 | |
| Other comprehensive income (loss), net of tax | (0.5) | (3.8) | 0.1 | (6.7) |
| Comprehensive income (loss), net of tax | \$ (23.8) | \$ 51.3 | \$ (60.5) | \$ 132.1 |

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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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 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, 2006.

Adoption of New Accounting Standards

LP adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48) on January 1, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. See Note 6 below for additional information, including the effects of adoption on LP's Condensed Consolidated Balance Sheets and Consolidated Statement of Stockholders' Equity.

LP adopted FASB Staff Position AUG AIR-1, Accounting for Planned Major Maintenance Activities (FSP AUG AIR-1) on January 1, 2007. FSP AUG AIR-1 prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim reporting periods. Permitted methods include direct expensing, built-in overhaul and deferral. LP will follow the deferral method in future periods. As a result of this adoption, LP recorded an increase to the beginning balance of retained earnings of \$5.2 million or \$3.3 million after tax. The impact of the adoption of this standard was immaterial to prior years.

Reclassifications

LP has announced its intent to divest its decking operations. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, LP is required to account for the businesses anticipated to be sold within one year as discontinued operations. Accordingly, commencing with the quarter ended June 30, 2007, LP is classifying its decking operations as discontinued operations and has reclassified all periods presented in the same manner.

NOTE 2 STOCK-BASED COMPENSATION

For the quarters ended June 30, 2007 and 2006, the total compensation expense related to LP's stock-based compensation plans was \$1.8 million. For the six month periods ended June 30, 2007 and 2006, the total compensation expense related to all of LP's stock-based compensation plans was \$3.3 million and \$3.3 million. At June 30, 2007, 5,334,163 shares were available under the current stock award plans for stock-based awards. For the six month period ended June 30, 2007, the fair value of the options granted was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions: a risk free interest rate of 4.82%; an expected volatility factor for the market price of the Company's common stock of 29.7% (based upon historical volatility over the expected life); a dividend yield of 2.6%; and an expected life of 4 years (based upon historical experience). For the six month period ended June 30, 2006, the fair value of the options granted was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: a risk free interest rate of 4.5%; an expected volatility factor for the market price of the Company's common stock of 45.2% (based upon historical volatility over the expected life); a dividend yield of 1.9%; and an expected life of 4 years (based upon historical experience). The weighted-average fair value of each option or stock settled stock appreciation right (SSARs) granted during the six month period ended June 30, 2007 and June 30, 2006 was \$5.54 and \$10.26.

NOTE 3 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, SSARs, restricted stock units and restricted common stock.

Statement of Financial Accounting Standards (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 June 30, | | Six Months Ended June 30, | |
|--|------------------------|---------|---------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Numerator: | | | | |
| Income attributed to common shares: | | | | |
| Income (loss) from continuing operations | \$ (15.6) | \$ 56.1 | \$ (51.6) | \$ 141.1 |
| Loss from discontinued operations | (7.7) | (1.0) | (9.0) | (2.3) |
| Net income (loss) | \$ (23.3) | \$ 55.1 | \$ (60.6) | \$ 138.8 |
| Denominator: | | | | |
| Basic - weighted average common shares outstanding | 104.2 | 105.3 | 104.1 | 105.6 |
| Dilutive effect of stock plans | | 0.5 | | 0.6 |
| Diluted shares outstanding | 104.2 | 105.8 | 104.1 | 106.2 |
| Basic earnings per share: | | | | |
| Income (loss) from continuing operations | \$ (0.15) | \$ 0.53 | \$ (0.50) | \$ 1.34 |
| Loss from discontinued operations | (0.07) | (0.01) | (0.08) | (0.03) |
| Net income (loss) per share | \$ (0.22) | \$ 0.52 | \$ (0.58) | \$ 1.31 |
| Diluted earnings per share: | | | | |
| Income (loss) from continuing operations | \$ (0.15) | \$ 0.53 | \$ (0.50) | \$ 1.33 |
| Loss from discontinued operations | (0.07) | (0.01) | (0.08) | (0.02) |
| Net income (loss) per share | \$ (0.22) | \$ 0.52 | \$ (0.58) | \$ 1.31 |

Stock options and SSARs to purchase approximately 3.2 million shares for the quarter ended June 30, 2007 and the six month period ended June 30, 2007 were not included in the computation of diluted earnings (loss) per share due to LP's net loss position in continuing operations. Stock options and SSARS to purchase approximately 0.9 million shares at June 30, 2006 were considered anti-dilutive for purposes of LP's earnings per share calculation due to the exercise price being greater than the average fair market price.

NOTE 4 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 | June 30, 2007 | | December 31, 2006 | |
|---|---------------|-------|-------------------|-------|
| Logs | \$ | 35.5 | \$ | 54.9 |
| Other raw materials | | 31.7 | | 28.9 |
| Finished products | | 160.7 | | 133.6 |
| Supplies | | 7.2 | | 7.0 |
| LIFO reserve | | (2.8 |) | (2.8 |
| Total | \$ | 232.3 | \$ | 221.6 |
| Inventory included in current assets of discontinued operations | | | | |
| Logs | \$ | | \$ | |
| Other raw materials | | 2.4 | | 4.3 |
| Finished products | | 15.8 | | 19.7 |
| Supplies | | 0.3 | | 0.5 |
| Total | \$ | 18.5 | \$ | 24.5 |

NOTE 5 BUSINESSES HELD FOR SALE AND DIVESTITURES

At June 30, 2007 and 2006 and for the first six months of 2007 and 2006, 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 June 30, | | Six Months Ended June 30, | | | | | | | | | |
|---|------------------------|------|---------------------------|------|------|------|----|------|---|----|------|---|
| | 2007 | 2006 | 2007 | 2006 | | | | | | | | |
| Sales | \$ | 11.7 | \$ | 16.5 | \$ | 23.2 | \$ | 38.5 | | | | |
| Loss from discontinued operations, net of tax | \$ | (7.7 |) | \$ | (1.0 |) | \$ | (9.0 |) | \$ | (2.3 |) |

In the second quarter of 2007, LP recorded a loss of \$9.5 million associated with impairment charges on assets held for sale to reduce the carrying value of these assets to their estimated sales price, which approximates the estimated fair market value of such assets, net of related selling expenses.

The assets of the discontinued operations included in the accompanying condensed consolidated balance sheets as of June 30, 2007 and December 31, 2006 are as follows:

| Dollar amounts in millions | June 30, 2007 | December 31, 2006 |
|---|---------------|-------------------|
| Inventories | \$ 18.5 | \$ 24.5 |
| Property, plant and equipment | 53.4 | 59.4 |
| Accumulated depreciation | (19.5) | (18.1) |
| Net, property, plant and equipment | 33.9 | 41.3 |
| Other long-term assets | | 3.3 |
| Total long-term assets of discontinued operations | 33.9 | 44.6 |
| Total assets of discontinued operations | \$ 52.4 | \$ 69.1 |

NOTE 6 INCOME TAXES

Accounting standards require that income tax expense be determined by applying the estimated annual effective tax rate (based upon estimated annual amounts of taxable income and expense) by income component for the year to year-to-date income or loss at the end of each quarter, further adjusted by any changes in reserve requirements or the impact of 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.

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------|------------------------|---------|---------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Continuing operations | \$ (26.5) | \$ 75.1 | \$ (93.8) | \$ 204.4 |
| Discontinued operations | (12.6) | (1.7) | (14.8) | (3.8) |
| | (39.1) | 73.4 | (108.6) | 200.6 |
| Total tax provision (benefit) | (15.8) | 18.3 | (48.0) | 61.8 |
| Net income (loss) | \$ (23.3) | \$ 55.1 | \$ (60.6) | \$ 138.8 |

For the six months ended June 30, 2007, the primary differences between the U.S. statutory rate of 35% and the effective rate on continuing operations relates to the Company's foreign debt structure, state income taxes and the favorable resolution of an outstanding state tax contingency. For the six months ended June 30, 2006, the primary differences between the U.S. statutory rate of 35% and the effective rate on continuing operations relates to the Company's foreign debt structure, state income taxes, and a second quarter reduction in LP's Canadian deferred tax liabilities due to an enacted decrease in the statutory income tax rate.

The components and associated estimated effective income tax rates applied to the six month periods ended June 30, 2007 and 2006 are as follows:

| | Six Months Ended June 30, | | 2006 | |
|-------------------------|---------------------------|----------|-------------------------|----------|
| | 2007 | | | |
| | Tax Benefit | Tax Rate | Tax Provision (Benefit) | Tax Rate |
| Continuing operations | \$ (42.2) | 45 % | \$ 63.3 | 31 % |
| Discontinued operations | (5.8) | 39 % | (1.5) | 39 % |
| | \$ (48.0) | 44 % | \$ 61.8 | 31 % |

LP adopted FIN 48 on January 1, 2007. As a result of the implementation, LP recorded \$12.9 million as a FIN 48 liability for unrecognized tax positions of which \$0.3 million (net of federal benefit on state issues) would impact

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LP's effective tax rate if recognized. This FIN 48 liability is recorded in Other long-term liabilities in the Condensed Consolidated Balance Sheets as of June 30, 2007. The implementation also resulted in a \$1.2 million decrease to LP's January 1, 2007 balance of retained earnings. LP does not expect to recognize any decrease in unrecognized tax benefits in the ensuing twelve months.

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. U.S. federal income tax examinations for the years through 2004 have been effectively settled. LP has been advised that a U.S. federal audit for 2005 and 2006 will begin in the fourth quarter of 2007. LP is 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 began an examination of the years 2002 through 2004 during the second quarter of 2007.

LP's policy is to record interest paid or received with respect to income taxes as interest expense or interest income, respectively, in the Consolidated Statements of Income. Penalties related to unrecognized tax benefits or assessments are charged to income tax expense. Upon the adoption of FIN 48, LP recorded \$0.9 million of interest expense (net of tax benefit) as a reduction to retained earnings and no penalties. During the first six months of 2007, an additional \$0.6 million was accrued as interest expense.

NOTE 7 OTHER OPERATING CREDITS AND CHARGES, NET

The major components of Other operating credits and charges, net in the Consolidated Statements of Income for the quarter and six months periods ended June 30, 2007 and 2006 are reflected in the table below and are described in the paragraphs following the table:

| Dollar amounts in millions | Quarter Ended June 30, | | Six Months Ended June 30, | |
|----------------------------|------------------------|------|---------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Timber recovery | \$ 1.5 | \$ | \$ 1.5 | \$ |
| Insurance settlement | 17.7 | | 17.7 | |
| Other | | | | (0.1) |
| | \$ 19.2 | \$ | \$ 19.2 | \$ (0.1) |

In the second quarter of 2007, LP recorded a gain of \$17.7 million associated with a gain from a favorable verdict on a legal suit associated with our insurance on hardboard siding and a gain of \$1.5 million associated with a settlement with the Canadian government on the reduction of certain of LP's timber licenses in British Columbia.

NOTE 8 GAIN (LOSS) ON SALE OR IMPAIRMENT OF LONG-LIVED ASSETS

The major components on Gain (loss) on sale or impairment of long-lived assets in the Consolidated Statements of Income for the quarter and six months period ended June 30, 2007 and 2006 are reflected in the following table:

| Dollar amounts in millions | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--|------------------------|----------|---------------------------|------|
| | 2007 | 2006 | 2007 | 2006 |
| Gain (loss) on sale of long-lived assets | \$ 0.3 | \$ (0.1) | \$ (0.2) | \$ |
| Impairment charges on long-term assets | | | (5.0) | |
| | \$ 0.3 | \$ (0.1) | \$ (5.2) | \$ |

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, which approximates the estimated fair market value, net of related selling expenses.

NOTE 9 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 | June 30, 2007 | December 31, 2006 |
|---|---------------|-------------------|
| Investments accounted for under the equity method | \$ 165.3 | \$ 168.4 |
| Investments accounted for under the cost method | 44.5 | 44.5 |
| Total | \$ 209.8 | \$ 212.9 |

At June 30, 2007, 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 |
| Abitibi LP | 50% | Established to construct and operate I-Joist facilities in Quebec, 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 Abitibi-LP entity and purchases products for resale from the Abitibi-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 June 30, 2007 and 2006, LP sold \$4.1 million and \$8.7 million of products to Abitibi-LP and purchased \$22.0 million and \$30.1 million of I-joist from Abitibi-LP. LP also purchased \$19.0 million and \$28.1 million of OSB from Canfor-LP during the quarters ended June 30, 2007 and 2006. For the six months ended June 30, 2007 and 2006, LP sold \$7.3 million and \$17.6 million of products to Abitibi-LP and purchased \$36.9 million and \$53.7 million of I-joist from Abitibi-LP. LP also purchased \$36.8 million and \$44.8 million of OSB from Canfor-LP during the six months ended June 30, 2007 and 2006.

NOTE 10 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, 2006.

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| Dollar amounts in millions | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|------------------------|----------|----------|---------------------------|------------|----------|
| | 2007 | 2006 | % change | 2007 | 2006 | % change |
| Net sales: | | | | | | |
| OSB | \$ 223.3 | \$ 354.6 | (37) | \$ 412.2 | \$ 752.3 | (45) |
| Siding | 131.0 | 148.6 | (12) | 235.1 | 269.4 | (13) |
| Engineered Wood Products | 85.7 | 110.0 | (22) | 166.0 | 222.4 | (25) |
| Other | 23.9 | 23.4 | 2 | 47.5 | 48.1 | (1) |
| Less: Intersegment sales | (2.7) | | | (5.0) | | |
| | \$ 461.2 | \$ 636.6 | (28) | \$ 855.8 | \$ 1,292.2 | (34) |
| Operating profit (loss): | | | | | | |
| OSB | \$ (44.6) | \$ 62.4 | (171) | \$ (109.1) | \$ 173.3 | (163) |
| Siding | 17.2 | 22.9 | (25) | 26.6 | 41.5 | (36) |
| Engineered Wood Products | 3.9 | 9.1 | (57) | 10.3 | 20.3 | (49) |
| Other | (2.7) | 4.5 | (160) | (0.6) | 9.8 | (106) |
| Other operating credits and charges, net | 19.2 | | | 19.2 | (0.1) | |
| Gain (loss) on sales of and impairment of long-lived assets | 0.3 | (0.1) | (400) | (5.2) | | |
| General corporate and other expenses, net | (20.8) | (23.1) | 10 | (43.3) | (51.5) | 16 |
| Foreign currency losses | (12.7) | (10.6) | (20) | (15.5) | (8.5) | (82) |
| Investment income | 23.4 | 24.3 | (4) | 43.8 | 47.3 | (7) |
| Interest expense, net of capitalized interest | (9.7) | (14.3) | 32 | (20.0) | (27.7) | 28 |
| Income (loss) from operations before taxes | (26.5) | 75.1 | (135) | (93.8) | 204.4 | (146) |
| Provision (benefit) for income taxes | (10.9) | 19.0 | | (42.2) | 63.3 | |
| Income (loss) from continuing operations | \$ (15.6) | \$ 56.1 | (128) | \$ (51.6) | \$ 141.1 | (137) |

NOTE 11 POTENTIAL IMPAIRMENTS

LP continues to review certain operations and investments for potential impairments. LP's management currently believes it has adequate support for the carrying value of each of these 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.

NOTE 12 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 | June 30, 2007 | December 31, 2006 |
|---|---------------|-------------------|
| Environmental reserves | \$ 8.8 | \$ 7.7 |
| Hardboard siding reserves | 18.9 | 25.3 |
| Other reserves | 1.4 | 1.6 |
| Total contingency reserves | 29.1 | 34.6 |
| Current portion of contingency reserves | (9.0) | (9.0) |
| Long-term portion of contingency reserves | \$ 20.1 | \$ 25.6 |

Hardboard Siding Reserves

LP has established reserves relating to certain liabilities associated with products manufactured that were the subject of a nationwide class action lawsuit. This settlement agreement relates to a nationwide class action suit involving hardboard siding manufactured or sold by corporations acquired by LP in 1999 and installed prior to May 15, 2000 and 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, 2006.

Additional 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 District of Oregon, which maintains jurisdiction over a previously settled nationwide class action suit involving OSB siding manufactured by us and installed prior to January 1, 1996, permanently enjoined the Minnesota state trial court from entering judgment against us 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 decided in a 2 to 1 decision to vacate 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. On January 19, 2007, LP filed its notice of appeal to the Minnesota State Court of Appeals. Based upon the information currently available, LP believes that any further liability related to this case is remote and, accordingly, have not recorded any accrual with respect to our potential exposure.

Lockhart Wood Treatment Facility

During the third quarter of 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 months following the failed mediation, plaintiffs' attorneys filed 19 separate lawsuits purporting to represent a total of 1,429 plaintiffs. Each of these cases was filed in, or removed to, the Federal District Court 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. Due to the numerous uncertainties associated with the matters alleged in the letter and subsequent lawsuits, including uncertainties regarding the existence, nature, magnitude and causation of the alleged wrongful death, injuries and property damage, responsibility therefore and defenses thereto, LP is not presently able to quantify LP's financial exposure, if any, relating to such matters. LP intends to defend these suits vigorously.

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 in which plaintiffs seek to certify a class consisting of persons and entities 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, in which the plaintiffs seek to certify a class consisting of persons and entities 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, 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 whether the court will declare these actions to be class actions, and likewise is unable to predict the potential financial impact of these actions.

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 13 DEFINED BENEFIT PENSION PLANS

The following table sets forth the net periodic pension cost for LP's defined benefit pension plans during the quarters and six months periods ended June 30, 2007 and 2006. The net periodic pension cost included the following components:

| Dollar amounts in millions | Quarter Ended June 30, | | Six Months Ended June 30, | |
|------------------------------------|------------------------|--------|---------------------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 2.4 | \$ 2.5 | \$ 4.9 | \$ 5.0 |
| Interest cost | 3.9 | 3.9 | 7.9 | 7.8 |
| Expected return on plan assets | (4.8) | (4.6) | (9.5) | (9.2) |
| Amortization of prior service cost | 0.3 | 0.3 | 0.6 | 0.6 |
| Amortization of net loss | 1.5 | 1.9 | 3.0 | 3.8 |
| Net periodic pension cost | \$ 3.3 | \$ 4.0 | \$ 6.9 | \$ 8.0 |

Through June 30, 2007, LP recognized \$6.9 million of pension expense for all of LP's defined benefit plans. LP presently anticipates recognizing, assuming no curtailment or settlement expenses are required, an additional \$6.9 million of pension expense in the remainder of 2007 for a total of \$13.8 million.

Through June 30, 2007, LP made \$9 million of pension contributions for all of LP's defined benefit plans. LP presently anticipates making up to \$1 million of additional pension contributions for the plans during the remainder of 2007.

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, 2006 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 six months of 2007 and 2006 are summarized in the following table:

| Dollar amounts in millions | June 30, 2007 | June 30, 2006 |
|--|---------------|---------------|
| Beginning balance, December 31, | \$ 28.8 | \$ 32.3 |
| Accrued to expense | 1.8 | 2.8 |
| Payments made | (1.8) | (3.6) |
| Total warranty reserves | 28.8 | 31.5 |
| Current portion of warranty reserves | (7.0) | (7.0) |
| Long-term portion of warranty reserves | \$ 21.8 | \$ 24.5 |

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 15 RECENT AND PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB finalized SFAS 157, "Fair Value Measurements" (SFAS 157) which will become effective in 2008. 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 will be applied prospectively to fair value measurements and disclosures beginning in the first quarter of 2008 and is not expected to have a material effect on LP's Consolidated Financial Statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115," (SFAS 159) which will become effective in 2008. 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. LP will adopt this Statement in fiscal year 2008 and is currently evaluating if it will elect the fair value option for any of its eligible financial instruments and other items.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). This statement requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in Accumulated Comprehensive Loss, net of tax effects, until they are amortized as a component of net periodic benefit cost. In addition, the measurement date (the date at which plan assets and the benefit obligation are measured) is required to be the Company's fiscal year end. Presently, LP uses an October 31 measurement date for a majority of its pension and postretirement benefit plans. LP adopted the recognition and disclosure provisions of SFAS 158 effective December 31, 2006, except for the measurement date provisions, which are not required until fiscal years ending after December 15, 2008.

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 building products. Our manufacturing facilities are primarily located in the U.S. and Canada, but we also operate a facility in Chile and are in the process of completing construction of a second facility 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 more than 45% of sales during the six month period ended June 30, 2007 and more than 55% of sales in the six month period ended June 30, 2006.

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 lower new housing activity will likely lead to continued low pricing for at least the next twelve months. During the first six months of 2007, commodity OSB prices were significantly lower as compared to the same period in the prior year.

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, 2006.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

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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, 2006 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 \$2.8 million higher if the LIFO inventories were valued at average cost as of June 30, 2007.

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

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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 2007, 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 analyses of potential outcomes

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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, 2007, 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 partially 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.

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Judgment is also applied in determining whether deferred tax assets will be realized in full or in part. When we consider it to be more likely than not that all or some portion of a deferred tax asset will not be realized, a valuation allowance is established for the amount of the deferred tax asset that is estimated not to be realizable. As of June 30, 2007, we had established valuation allowances against certain deferred tax assets, primarily related to foreign tax credit carryovers 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, 2006.

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

Our net loss for the second quarter of 2007 was \$23 million, or \$0.22 per diluted share, on sales of \$461 million, compared to net income for the second quarter of 2006 of \$55 million, or \$0.52 per diluted share, on sales of \$637 million. For the second quarter of 2007, loss from continuing operations was \$16 million, or \$0.15 per diluted share, compared to income from continuing operations of \$56 million, or \$0.53 per diluted share, for the second quarter of 2006.

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Our net loss for the six months ended June 30, 2007 was \$61 million, or \$0.58 per diluted share, on sales of \$856 million, compared to net income for the six months ended June 30, 2006 of \$139 million, or \$1.31 per diluted share, on sales of \$1.3 billion. For the six months ended June 30, 2007, loss from continuing operations was \$52 million,

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or \$0.50 per diluted share, compared to income from continuing operations of \$141 million, or \$1.33 per diluted share, for the six months ended June 30, 2006.

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

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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 June 30, | | Change | Six Months Ended June 30, | | Change | | |
|---|------------------------|--------|--------|---------------------------|-----------|--------|------|---|
| | 2007 | 2006 | | 2007 | 2006 | | | |
| Net sales | \$ 223 | \$ 355 | -37 | % | \$ 412 | \$ 752 | -45 | % |
| Operating profits (losses) | \$ (45) | \$ 62 | -172 | % | \$ (109) | \$ 173 | -163 | % |
| Depreciation, amortization and cost of timber harvested | \$ 17 | \$ 21 | | | \$ 33 | \$ 43 | | |

Percent changes in average sales prices and unit shipments for the quarter and six months ended June 30, 2007 compared to the quarter and six months ended June 30, 2006 are as follows:

| | Quarter Ended June 30, 2007 versus 2006 | | Six Months Ended June 30, 2007 versus 2006 | |
|---------------|--|-------------------|---|-------------------|
| | Average Net Selling Price | Unit Shipments | Average Net Selling Price | Unit Shipments |
| Commodity OSB | (38)% | (2)% | (42)% | (8)% |

OSB prices declined for the second quarter and first six months of 2007 as compared to the corresponding periods of 2006 due to weakening of housing demand coupled with increased industry capacity. The impact of the reduction in selling price accounted for a decrease in net sales and operating profits of approximately \$123 million for the quarter and \$274 million for the six month period. For the quarter and six month periods ended June 30, 2007 as compared to the corresponding periods of 2006, the decline in sales volume is due to three factors: our St. Michel, Quebec OSB mill was curtailed throughout the first six months of 2007 (and likely will not run in 2007), production outages caused by wood shortages and maintenance aberrations, and the effect of the CN Railroad strike (primarily in the first quarter). These declines were partially offset by higher production from our Peace Valley joint venture mill.

SIDING

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

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

| | Quarter Ended June 30, | | Change | | Six Months Ended June 30, | | Change | |
|---|------------------------|--------|--------|---|---------------------------|--------|--------|---|
| | 2007 | 2006 | | | 2007 | 2006 | | |
| Net sales | \$ 131 | \$ 149 | -12 | % | \$ 235 | \$ 269 | -13 | % |
| Operating profits | \$ 17 | \$ 23 | -25 | % | \$ 27 | \$ 42 | -36 | % |
| Depreciation, amortization and cost of timber harvested | \$ 5 | \$ 5 | | | \$ 10 | \$ 10 | | |

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Sales in this segment by product line are as follows:

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|-----------------------------|------------------------|--------|--------|---------------------------|--------|--------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| OSB-based exterior products | \$ 76 | \$ 91 | (16)% | \$ 136 | \$ 154 | (12)% |
| Commodity OSB | 9 | 14 | (36)% | 14 | 31 | (55)% |
| Hardboard siding | 46 | 44 | 5 % | 85 | 84 | 1 % |
| Total | \$ 131 | \$ 149 | (12)% | \$ 235 | \$ 269 | (13)% |

Percent changes in average sales prices and unit shipments for the quarter and six month period ended June 30, 2007 compared to the quarter and six month period ended June 30, 2006 are as follows:

| | Quarter Ended June 30, 2007 versus 2006 | | Six Months Ended June 30, 2007 versus 2006 | |
|-----------------------------|--|-------------------|---|-------------------|
| | Average Net Selling Price | Unit Shipments | Average Net Selling Price | Unit Shipments |
| OSB-based exterior products | 5 % | (20)% | 3 % | (15)% |
| Commodity OSB | (36)% | 5 % | (43)% | (17)% |
| Hardboard siding | 1 % | 2 % | 4 % | (5)% |

For the second quarter and first six months of 2007 compared to the corresponding periods in the prior year, sales volume decreased in our OSB-based exterior products as well as for commodity OSB produced at one of our siding mills. These declines were a result of reduced demand due to significantly lower housing starts. Sales prices in our OSB-based siding product line increased slightly as compared to the corresponding periods in the prior year due to changes in product mix, as well as a price increase implemented in August of 2006. In our hardboard product line, sales volume declined and sales prices increased due to a change in product mix that included more siding and less industrial board.

Overall, declines in operating results for our siding segment for the second quarter and the first six months of 2007 compared to the same periods of 2006 were primarily due to lower sales volumes and prices in the OSB commodity products sold from this segment.

ENGINEERED WOOD PRODUCTS

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Our engineered wood products (EWP) segment manufactures and distributes laminated veneer lumber (LVL), I-Joists and other related products.

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

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|------------------------|--------|--------|---------------------------|--------|--------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| Net sales | \$ 86 | \$ 110 | (22)% | \$ 166 | \$ 222 | (25)% |
| Operating profits | \$ 4 | \$ 9 | (57)% | \$ 10 | \$ 20 | (49)% |
| Depreciation, amortization and cost of timber harvested | \$ 3 | \$ 3 | | \$ 7 | \$ 7 | |

Sales in this segment by product line are as follows:

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|------------------|------------------------|--------|--------|---------------------------|--------|--------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| LVL | \$ 37 | \$ 48 | (23)% | \$ 72 | \$ 99 | (27)% |
| I-Joist | 38 | 55 | (31)% | 70 | 103 | (32)% |
| Related products | 11 | 7 | 57 % | 24 | 20 | 20 % |
| Total | \$ 86 | \$ 110 | (22)% | \$ 166 | \$ 222 | (25)% |

Percent changes in average sales prices and unit shipments for the quarter and six months ended June 30, 2007 compared to the quarter and six months ended June 30, 2006 are as follows:

| | Quarter Ended June 30, 2007 versus 2006 | | Six Months Ended June 30, 2007 versus 2006 | |
|---------|--|-------------------|---|-------------------|
| | Average Net Selling Price | Unit Shipments | Average Net Selling Price | Unit Shipments |
| LVL | (13)% | (17)% | (11)% | (21)% |
| I-Joist | (10)% | (17)% | (12)% | (21)% |

During the second quarter and the first six months of 2007 as compared to the corresponding periods of 2006, we saw reductions in sales volumes in both LVL and I-Joist. These declines are attributed to the continuing slowdown in the housing market. For the quarter and six months ended June 30, 2007, net average selling prices declined as we continued to see price pressure caused by lower demand.

For the second quarter and first six months of 2007 compared to the corresponding periods in the prior year, the results of operations for EWP were lower primarily due to lower volume and reductions in sales prices, which were partially offset by lower raw material costs (primarily OSB and lumber).

OTHER PRODUCTS

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Our other products category includes our moulding business, Chilean operations and our joint venture that produces and sells cellulose insulation. Additionally, this category includes our remaining timber and timberlands and other minor products, services and operations closed prior to January 1, 2002.

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

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | |
|---|------------------------|-------|---------|---------------------------|-------|---------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| Net sales | \$ 24 | \$ 23 | 2 % | \$ 48 | \$ 48 | 1 % |
| Operating profits | \$ (3) | \$ 5 | (160)% | \$ (1) | \$ 10 | (106)% |
| Depreciation, amortization and cost of timber harvested | \$ 1 | \$ 1 | | \$ 2 | \$ 2 | |

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Sales in this segment by product line are as follows:

| | Quarter Ended June 30, | | | Six Months Ended June 30, | | | Change | |
|----------|------------------------|-------|--------|---------------------------|-------|--------|--------|--|
| | 2007 | 2006 | Change | 2007 | 2006 | Change | | |
| Moulding | \$ 10 | \$ 10 | 0 | % \$ 21 | \$ 22 | -5 | % | |
| Chile | 10 | 10 | 0 | % 18 | 19 | -5 | % | |
| Other | 4 | 3 | 33 | % 9 | 7 | 29 | % | |
| Total | \$ 24 | \$ 23 | 5 | % \$ 48 | \$ 48 | 0 | % | |

For the second quarter and first six months of 2007 compared to the corresponding periods of 2006, we saw a decline in sales volumes for our moulding business due to the prior loss of a home center customer. In our Chilean operations, sales pricing as well as volumes remained relatively flat.

Overall, the operating profits of this category were lower compared to the second quarter and first six months of 2006, primarily due to the low sales volumes in our moulding operations and increased residual costs associated with several non operating facilities.

GENERAL CORPORATE AND OTHER EXPENSE, NET

For the second quarter and first six months of 2007 compared to the same periods in 2006, general corporate expenses declined. General corporate and other expenses primarily consist of corporate overhead such as wages and benefits for corporate and sales personnel, professional fees, insurance and other expenses. The decline in the second quarter and first six months of 2007 as compared to the same periods in 2006 resulted from reduced legal expenses associated with a resolved lawsuit as well as lower accruals for management incentives based on continued weak market conditions.

INTEREST EXPENSE AND INVESTMENT INCOME

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Interest expense in the second quarter and first six months of 2007 was lower compared to the corresponding periods of 2006 due to higher capitalized interest associated with on-going capital projects. For the second quarter of 2007, we capitalized \$4.1 million in interest expense as compared to \$0.8 million in the second quarter 2006. For the first six months of 2007 we capitalized \$7.0 million of interest expense as compared to \$1.4 million in the same period in 2006. Additionally, during the second quarter of 2006, we repaid \$110 million Canadian on our term loan and therefore generated less expense in the second quarter and first six months of 2007 on this loan.

DISCONTINUED OPERATIONS

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Included in discontinued operations for the second quarter and first six months of 2007 and 2006 are the results of the operations of mills that have been or are to be divested. At June 30, 2007, LP classified its composite decking operations as discontinued.

For the second quarter and first six months of 2007 compared to the corresponding periods of 2006, we saw a decline in sales volumes for our decking business. Lower sales volumes in our decking operations are related to slower shipments to our distributors due to lower end user demand as well as our decision not to enter into any special selling programs in the winter months as we have in past years.

Included in the operating losses of discontinued operations for the second quarter of 2007 is a \$9.5 million impairment charge on assets held for sale to reduce the carrying value to the estimated sales price less selling costs.

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INCOME TAXES

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Income (loss) before taxes and tax provision (benefit) for the quarter and six month periods ended June 30, 2007 and 2006 were as follows:

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------|------------------------|---------|---------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Continuing operations | \$ (26.5) | \$ 75.1 | \$ (93.8) | \$ 204.4 |
| Discontinued operations | (12.6) | (1.7) | (14.8) | (3.8) |
| | (39.1) | 73.4 | (108.6) | 200.6 |
| Total tax provision (benefit) | (15.8) | 18.3 | (48.0) | 61.8 |
| Net income (loss) | \$ (23.3) | \$ 55.1 | \$ (60.6) | \$ 138.8 |

Accounting standards require that income tax expense be determined using the estimated annual effective tax rate (based upon estimated annual amounts of taxable income and expense) by income component for the year applied to year-to-date income or loss at the end of each quarter, further adjusted by any changes in reserve requirements or the impact of 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 six months ended June 30, 2007, the primary differences between the U.S. statutory rate of 35% and the effective rate on continuing operations relates to the Company's foreign debt structure, state income taxes and the favorable resolution of an outstanding state tax contingency. For the six months ended June 30, 2006, the primary differences between the U.S. statutory rate of 35% and the effective rate on continuing operations relates to the Company's foreign debt structure, state income taxes, and a second quarter reduction in LP's Canadian deferred tax liabilities due to an enacted decrease in the statutory income tax rate.

The components and associated estimated effective income tax rates applied to the six month periods ended June 30, 2007 and 2006 are as follows:

| | Six Months Ended June 30, | | | 2006 | | |
|-------------------------|---------------------------|-------------|----------|-------------------------|----------|---|
| | 2007 | Tax Benefit | Tax Rate | Tax Provision (Benefit) | Tax Rate | % |
| Continuing operations | \$ (42.2) | 45 | % | \$ 63.3 | 31 | % |
| Discontinued operations | (5.8) | 39 | % | (1.5) | 39 | % |
| | \$ (48.0) | 44 | % | \$ 61.8 | 31 | % |

DEFINED BENEFIT PENSION PLANS

We maintain several qualified and non-qualified defined benefit pension plans in the U.S. and Canada that cover a substantial portion of our employees. We account for all of these plans and provide aggregated disclosures about these plans in the Notes to our financial statements as required by SFAS No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158), the recognition and disclosure requirements of which were adopted as of December 31, 2006. See Note 13 of the Notes to financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006. We estimate that our net periodic pension cost for 2007 will be approximately \$13.8 million. This estimate assumes that we will have no curtailment or settlement expenses in 2007. If a curtailment or settlement does occur in 2007, this estimate may change significantly. We estimate that we will contribute approximately \$10 million to these plans in 2007. As of June 30, 2007, we had contributed approximately \$9 million to these plans. At December 31, 2006, we had \$76.7 million of net actuarial loss and \$6.2 million of prior service cost included in accumulated other comprehensive loss. Of these amounts, we expect to recognize a net actuarial loss of \$6.0 million and prior service cost of \$1.2 million as components of net periodic pension cost in 2007, which will account for approximately 52% of our estimated 2007 net periodic pension cost.

LEGAL AND ENVIRONMENTAL MATTERS

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For a discussion of legal and environmental matters involving us and the potential impact thereof on our financial position, results of operations and cash flows, see Items 3, 7 and 8 in our Annual Report on Form 10-K for the year ended December 31, 2006, Note 18 to the Notes to the financial statements contained therein and Item 1, Legal Proceedings, in Part II of this report.

HARDBOARD SIDING LITIGATION UPDATE

The following discussion updates should be read in conjunction with the discussion of our hardboard siding litigation set forth in Note 18 of the Notes to financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

Cumulative statistics under hardboard settlements are as follows:

| | June 30, 2007 | March 31, 2007 | December 31, 2006 |
|---------------------------|---------------|----------------|-------------------|
| Requests for claims | 59,800 | 57,300 | 55,300 |
| Completed claims received | 45,300 | 43,000 | 40,700 |
| Completed claims pending | 1,200 | 1,600 | 2,100 |
| Claims dismissed | 9,900 | 9,800 | 9,600 |
| Claims settled | 34,200 | 31,600 | 29,000 |

The average payment amount for settled claims as of June 30, 2007, March 31, 2007 and December 31, 2006 was \$1,100. Dismissal of claims is typically the result of claims for product not produced by LP or predecessor companies or claims that lack sufficient information or documentation after repeated efforts to correct those deficiencies.

ENVIRONMENTAL COMPLIANCE

The U.S. government has recently modified its position with respect to the enacted regulations related to Maximum Achievable Control Technology (MACT). MACT regulations govern the manner in which we measure and control the emissions from our manufacturing facilities into the air. Based upon the current interpretation of these regulations, we anticipate, based upon our current facilities; that we could be required to spend between \$7 million and \$10 million by October 2008 to comply with these regulations.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

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

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

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

OPERATING ACTIVITIES

During the first six months of 2007, we used \$10 million of cash from operations compared to net cash provided by operating activities of \$156 million in the first six months of 2006. The decrease in cash provided by operations in the first six months of 2007 was primarily a result of lower operating profits from our OSB business compared to the same period of 2006.

INVESTING ACTIVITIES

During the first six months of 2007, we used approximately \$15 million in investing activities of cash. Capital expenditures for the first six months of 2007 were \$132 million and related primarily to the costs associated with our OSB mill in Alabama and OSL (oriented strand lumber) facility in Houlton, Maine that are under construction. Additionally, we contributed \$5 million to our joint ventures with Canfor Corporation and Abitibi Consolidated for working capital requirements. We also used approximately \$1.5 billion to purchase investments with maturities in excess of 90 days and received \$1.7 billion on the sale of these types of investments.

During the first six months of 2006, we used approximately \$148 million of cash in investing activities. Capital expenditures in the first six months of 2006 were \$65 million and related primarily to the initial costs associated with our OSB mill in Alabama and improvements in our hardboard facilities to expand our siding capacities. Additionally, we contributed \$9 million to our OSB joint ventures with Canfor Corporation and Abitibi Consolidated for working capital requirements. We also used approximately \$3.6 billion to purchase investments with maturities in excess of 90 days and received \$3.4 billion on the sale of these types of investments. We received \$71 million in proceeds from our notes receivable from asset sales.

Capital expenditures for 2007 are expected to total between \$280 to \$300 million for new mills under construction, projects to reduce our energy, raw materials and resin costs in our current OSB mills and for expansion projects in our OSB, EWP and siding operations.

FINANCING ACTIVITIES

In the first six months of 2007, net cash provided by financing activities was \$14 million. In the first six months of 2007, we borrowed \$30 million under a revolving credit facility to support general operating requirements in our Canadian locations and borrowed \$13 million under a secured long term credit facility to fund our Chilean expansion. Additionally, in the first six months of 2007, we paid cash dividends of \$31 million.

In the first six months of 2006, net cash used in financing activities was \$234 million. In the first six months of 2006, we generated \$6 million in proceeds from the sale of common stock under our various equity compensation plans, received a tax benefit of \$3 million related to these sales and paid cash dividends of \$32 million. Additionally, in the first six months of 2006, we repaid \$189 million of our debt and repurchased one million shares of stock at a cost of \$22 million.

CREDIT FACILITIES

We have a revolving line of credit, expiring in September 2009, which provides for a committed borrowing capacity of \$150 million. Subject to the willingness of existing or new lenders under the credit facility to advance additional funds, we may increase our borrowing capacity under the facility by up to an additional \$100 million. The facility allows us to cash collateralize the facility, at our option, in order to lower the cost of letters of credit. If cash collateralized, this facility requires LP to pledge, as security for its reimbursement obligations under the facility, cash collateral in an amount equal to 105% of the face amount of the letters of credit outstanding under the facility at any time. At June 30, 2007, we had no borrowings outstanding under the facility. Letters of credit issued and outstanding, which reduce our borrowing capacity, totaled approximately \$33.2 million as of June 30, 2007 and were cash collateralized with \$34.9 million.

We also have a \$10 million (Canadian) line of credit facility in Canada. Our ability to obtain letters of credit under this facility ends in December 2007. The facility allows us to cash collateralize the facility, at our option, in order to lower the cost of such borrowings. If cash collateralized, this facility requires LP to pledge, as security for its reimbursement obligations under the facility, cash collateral in an amount equal to 105% of the face amount of the

letters of credit outstanding under the facility at any time. Letters of credit issued and outstanding totaled approximately \$0.8 million as of June 30, 2007 and were cash collateralized with \$0.8 million.

We have a \$100 million (Canadian or US) credit facility in Canada. The facility allows us to finance general operating requirements. At June 30, 2007, we had \$32.6 million outstanding under this facility. This amount is included in LP's Condensed Consolidated Balance Sheet under the caption short-term notes payable.

Louisiana Pacific Chile SA (LP Chile) has a committed term credit facility with a Chilean bank for up to \$40 million. LP Chile's ability to draw from this facility ends in December 2008, with the final maturity in March 2015. The proceeds from the facility are being used to fund construction of an additional OSB plant in Chile. At June 30, 2007, there was \$16 million outstanding under this facility. Borrowings under the facility were secured.

The following details our debt ratings as of July 15, 2007:

| | Moody's Investor Service | Standard & Poor's |
|--------------|-----------------------------|----------------------|
| Senior Notes | Baa3 | BBB- |

POTENTIAL IMPAIRMENTS

We continue to review several mills and investments for potential impairments. Management currently believes we have adequate support for the carrying value of each of these assets based upon the anticipated cash flows that result from our estimates of future demand, pricing and production costs assuming certain levels of planned capital expenditures. However, should the markets for our products deteriorate to levels significantly below cycle average pricing or should we decide to invest capital in alternative projects, it is possible that we will be required to record further impairment charges.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

A portion of our outstanding debt bears interest at variable rates and accordingly is sensitive to changes in interest rates. Interest rate changes would result in gains or losses in the market value of our debt portfolio due to differences in market interest rates and the rates at the inception of the debt agreements. Based upon our indebtedness at June 30, 2007, a 100 basis point interest rate change would impact the pre-tax net income and cash flow by \$1.3 million annually.

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

Some of our products are sold as commodities and therefore sales prices fluctuate daily based on market factors over which we have little or no control. The most significant commodity product we sell is OSB. Based upon an assumed annual production capacity (including our joint venture operation) of 6.5 billion square feet (3/8 basis) or 5.6 billion square feet (7/16 basis), a \$1 change in the annual average price on 7/16 basis would change annual pre-tax profits by approximately \$5.6 million.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have carried out, as of June 30, 2007, with the participation of LP's management, an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act (the Act). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that LP's disclosure controls and procedures are effective to provide reasonable assurance that material information required to be disclosed by us in reports we file under the Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that information required to be disclosed by us in the reports we file or submit under the Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
SUMMARY OF PRODUCTION VOLUMES (1)

The following table sets forth production volumes for the quarter and six month periods ended June 30, 2007 and 2006.

| | Quarter Ended June 30 2007 | 2006 | Six Months Ended June 30 2007 | 2006 |
|---|-------------------------------|-------|----------------------------------|-------|
| Oriented strand board, million square feet 3/8 basis (1) | 1,458 | 1,542 | 2,808 | 3,035 |
| Oriented strand board, million square feet 3/8 basis (produced by wood-based siding mills) | 72 | 65 | 114 | 133 |
| Wood-based siding, million square feet 3/8 basis | 247 | 263 | 489 | 514 |
| Engineered I-Joist, million lineal feet (1) | 36 | 42 | 71 | 85 |
| Laminated veneer lumber (LVL), thousand cubic feet | 2,165 | 3,026 | 4,331 | 5,989 |
| Composite Decking, million lineal feet | 5 | 16 | 10 | 31 |

(1) Includes volumes produced by joint venture operations and sold to LP.

INDUSTRY PRODUCT TRENDS

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

| | OSB |
|--------------------|-----------------------|
| | N. Central 7/16 Basis |
| Annual Average | |
| 1993 | \$ 236 |
| 1994 | 265 |
| 1995 | 245 |
| 1996 | 184 |
| 1997 | 142 |
| 1998 | 205 |
| 1999 | 260 |
| 2000 | 206 |
| 2001 | 159 |
| 2002 | 160 |
| 2003 | 293 |
| 2004 | 370 |
| 2005 | 320 |
| 2006 1st Qtr. Avg. | 285 |
| 2006 2nd Qtr. Avg. | 238 |
| 2007 1st Qtr. Avg. | 146 |
| 2007 2nd Qtr. Avg. | 151 |

Source: *Random Lengths*

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The description of certain legal and environmental matters involving LP set forth in Part I of this report under Note 12 Contingency Reserves is incorporated herein by reference.

Item 1A. Risk Factors.

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

Cyclical industry conditions and commodity pricing have and may continue to adversely affect our financial condition and results of operations. Our operating results reflect the general cyclical pattern of the building products industry. Demand for our products correlates to a significant degree to the level of residential construction activity in North America, which historically has been characterized by significant cyclicity. This cyclicity is influenced by a number of factors, including longer-term interest rates, which in recent years have been at relatively low levels. A significant increase in longer-term interest rates, or the occurrence of other events that reduce levels of residential construction activity, could have a material adverse effect on our financial condition, results of operations and cash flows. Our primary product, OSB, and a significant portion of our raw materials are globally traded commodity products. In addition, our products are subject to competition from manufacturers worldwide. Historical prices for our products have been volatile, and we, like other participants in the building products industry, have limited influence over the timing and extent of price changes for our products. Product pricing is significantly affected by the relationship between supply and demand in the building products industry. Product supply is influenced primarily by fluctuations in available manufacturing capacity. Demand is affected by the state of the economy in general and a variety of other factors. The level of new residential construction activity and home repair and remodeling activity primarily affects the demand for our building products. Demand is also subject to fluctuations due to changes in economic conditions, interest rates, population growth, weather conditions and other factors. We are not able to predict with certainty market conditions and selling prices for our products. We cannot assure you that prices for our products will not decline from current levels. A prolonged and severe weakness in the markets for one or more of our principal products, particularly OSB, could seriously harm our financial condition and results of operations and our ability to satisfy our cash requirements, including the payment of interest and principal on our debt.

We have a high degree of product concentration. OSB accounted for about 48% of our sales in the first six months of 2007 and 58% of our sales in 2006 and we expect OSB sales to continue to account for a substantial portion of our revenues and profits in the future. Concentration of our business in the OSB market further increases our sensitivity to commodity pricing and price volatility. We cannot assure you that pricing for OSB or our other products will not decline from current levels.

Increased industry production capacity for OSB could constrain our operating margins for the foreseeable future. According to Resource Information Systems, Inc. (RISI), an industry market research organization, total North American OSB annual production capacity increased by about 6 billion square feet from 2000 to 2006 on a 3/8-inch equivalent basis and is projected to increase by approximately 12 billion square feet in the 2007 to 2011 period. RISI has projected that total North American demand for OSB will increase by about 13 billion square feet during the same 2007 to 2011 period. If increases in OSB production capacity exceed increases in OSB demand, OSB could have constrained operating margins for the foreseeable future.

Intense competition in the building products industry could prevent us from increasing or sustaining our net sales and profitability. The

markets for our products are highly competitive. Our competitors range from very large, fully integrated forest and building products firms to smaller firms that may manufacture only one or a few types of products. We also compete less directly with firms that manufacture substitutes for wood building products. Many of our competitors have greater financial and other resources than we do, and certain of the mills operated by our competitors may be lower-cost producers than the mills operated by us.

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Our results of operations may be harmed by potential shortages of raw materials and increases in raw material costs. The most significant raw material used in our operations is wood fiber. We currently obtain about 63% of our wood fiber requirements in the open market. Wood fiber is subject to commodity pricing, which fluctuates on the basis of market factors over which we have no control. In addition, the cost of various types of wood fiber that we purchase in the market has at times fluctuated greatly because of governmental, economic or industry conditions. In addition to wood fiber, we also use a significant quantity of various resins in our manufacturing processes. Resin product costs are influenced by changes in the prices or availability of raw materials used to produce resins, primarily petroleum products, as well as demand for and availability of resin products. Selling prices of our products have not always increased in response to raw material cost increases. We are unable to determine to what extent, if any, we will be able to pass any future raw material cost increases through to our customers through product price increases. Our inability to pass increased costs through to our customers could have a material adverse effect on our financial condition, results of operations and cash flows.

Many of the Canadian forestlands also are subject to the constitutionally protected treaty or common-law rights of the aboriginal peoples of Canada. Most of British Columbia is not covered by treaties and, as a result, the claims of British Columbia's aboriginal peoples relating to forest resources are largely unresolved, although many aboriginal groups are actively engaged in treaty discussions with the governments of British Columbia and Canada. Final or interim resolution of claims brought by aboriginal groups are expected to result in additional restrictions on the sale or harvest of timber and may increase operating costs and affect timber supply and prices in Canada. It is possible that, over the long term, such claims could have an adverse effect on our business, financial condition and results of operations.

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

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

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

We are involved in various environmental matters and product liability and other legal proceedings. The outcome of these matters and proceedings and the magnitude of related costs and liabilities are subject to uncertainties. The conduct of our business involves the use of hazardous substances and the generation of contaminants and pollutants. In addition, the end-users of many of our products are members of the general public. We currently are and from

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time to time in the future will be involved in a number of environmental matters and legal proceedings, including legal proceedings involving warranty or non-warranty product liability claims and other claims, including claims for wrongful death, personal injury and property damage alleged to have arisen out of the use or release by us or our predecessors of hazardous substances. Environmental matters and legal matters and proceedings, including class action settlements relating to certain of our products, have in the past caused and in the future may cause us to incur substantial costs. We have established contingency reserves in our consolidated financial statements with respect to the estimated costs of existing environmental matters and legal proceedings to the extent that our management has determined that such costs are both probable and reasonably estimable as to amount. However, such reserves are based upon various estimates and assumptions relating to future events and circumstances, all of which are subject to inherent uncertainties. We regularly monitor our estimated exposure to environmental and litigation loss contingencies and, as additional information becomes known, may change our estimates significantly. However, no estimate of the range of any such change can be made at this time. We may incur costs in respect of existing and future environmental matters and legal proceedings as to which no contingency reserves have been established. We cannot assure you that we will have sufficient resources available to satisfy the related costs and expenses associated with these matters and proceedings.

Settlements of tax exposures may exceed the amounts we have established for known estimated tax exposures. We maintain reserves for known estimated tax exposures in federal, state and international jurisdictions and uncertain tax positions. Significant income tax exposures may include potential challenges to intercompany pricing, the treatment of financing, acquisition and disposition transactions, the use of hybrid entities and other matters. These exposures are settled primarily through the closure of audits with the taxing jurisdictions and, on occasion, through the judicial process, either of which may produce a result inconsistent with past estimates. We believe that we have established appropriate reserves for estimated exposures; however, if actual results differ materially from our estimates we could experience a material adverse effect on our financial condition, results of operations and cash flows.

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

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Item 6. Exhibits

- 10.29 Second Amendment to the Credit Agreement, dated July 24, 2007, among Louisiana-Pacific Limited Partnership and Louisiana-Pacific Canada Ltd., as Borrowers, Bank of America, N.A., as Administrative Agent, The Bank of Nova Scotia, as Syndication Agent, and the other lenders party thereto.
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
- 32.1 Certifications pursuant to § 906 of the Sarbanes-Oxley Act of 2002.

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

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SIGNATURES

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

LOUISIANA-PACIFIC CORPORATION

Date: July 27, 2007

By: /s/ Richard W. Frost
Richard W. Frost
Chief Executive Officer

Date: July 27, 2007

By: /s/ Curtis M. Stevens
Curtis M. Stevens
Executive Vice President Administration and Chief Financial
Officer
(Principal Financial Officer)

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