LOUISIANA-PACIFIC CORP
Form 10-Q
October 31, 2016

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

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934
For Quarterly Period Ended September 30, 2016
Commission File Number 1-7107

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 142,225,477 shares of Common Stock, $1 par value, outstanding as of October 31, 2016.

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

ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

- changes in governmental fiscal and monetary policies and levels of employment;
- changes in general economic conditions;
- changes in the cost and availability of capital;
- changes in the level of home construction and repair activity;
- changes in competitive conditions and prices for our products;
- changes in the relationship between supply of and demand for building products;
- changes in the relationship between supply of and demand for raw materials, including wood fiber and resins, used in manufacturing our products;
- changes in the cost of and availability of energy, primarily natural gas, electricity and diesel fuel;
- changes in the cost of and availability of transportation;
- changes in other significant operating expenses;
- changes in exchange rates between the U.S. dollar and other currencies, particularly the Canadian dollar, Australian dollar, Euro, Brazilian real and Chilean peso;
- changes in general and industry-specific environmental laws and regulations;
- changes in tax laws, and interpretations thereof;
- changes in circumstances giving rise to environmental liabilities or expenditures;
- the resolution of existing and future product related litigation and other legal proceedings;
- governmental gridlock and curtailment of government services and spending; and
- acts of public authorities, war, civil unrest, natural disasters, fire, floods, earthquakes, inclement weather and other matters beyond our control.

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

ABOUT THIRD-PARTY INFORMATION

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

Item 1. Financial Statements.
CONSOLIDATED BALANCE SHEETS
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
(AMOUNTS IN MILLIONS)(UNAUDITED)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 559.7	$ 434.7
Restricted cash for redemption of long-term debt	93.4	—
Receivables, net of allowance for doubtful accounts of $1.1 million at September 30, 2016 and December 31, 2015	138.0	96.4
Inventories	227.1	222.0
Prepaid expenses and other current assets	8.4	7.0
Current portion of notes receivable from assets sales	410.0	—
Assets held for sale	9.2	9.0
Total current assets	1,445.8	769.1
Timber and timberlands	50.6	53.1
Property, plant and equipment, at cost	2,459.2	2,392.5
Accumulated depreciation	(1,603.9)	(1,530.1)
Net property, plant and equipment	855.3	862.4
Goodwill	9.7	9.7
Notes receivable from asset sales	22.2	432.2
Investments in and advances to affiliates	7.4	7.7
Restricted cash	15.1	14.3
Other assets	22.4	23.0
Long-term deferred tax asset	3.9	4.8
Total assets	$ 2,432.4	$ 2,176.3
LIABILITIES AND EQUITY		
Current portion of long-term debt	$ 458.1	$ 2.1
Accounts payable and accrued liabilities	193.8	139.6
Current portion of contingency reserves	1.3	1.3
Total current liabilities	653.2	143.0
Long-term debt, excluding current portion	374.3	751.8
Deferred income taxes	86.8	99.5
Contingency reserves, excluding current portion	14.6	15.5
Other long-term liabilities	150.7	149.5
Stockholders’ equity:		
Common stock, $1 par value, 200,000,000 shares authorized, 153,147,190, and 152,979,708 shares issued	153.1	153.0
Additional paid-in capital	475.7	496.5
Retained earnings	848.1	724.2
Treasury stock, 9,071,639 shares and 9,995,456 shares, at cost	(189.6)	(210.6)
Accumulated comprehensive loss	(134.5)	(146.1)

Total stockholders’ equity	1,152.8	1,017.0
Total liabilities and stockholders’ equity	$ 2,432.4	$ 2,176.3

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

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	$596.4	$464.9	$1,683.4	$1,429.6
Operating costs and expenses:				
Cost of sales	442.6	416.2	1,301.2	1,287.4
Depreciation and amortization	29.6	25.9	86.0	77.9
Selling and administrative	47.0	38.3	135.8	114.9
Loss on sale or impairment of long-lived assets, net	0.3	0.9	1.0	1.5
Other operating credits and charges, net	—	1.0	11.4	12.6
Total operating costs and expenses	519.5	482.3	1,535.4	1,494.3
Income (loss) from operations	76.9	(17.4)	148.0	(64.7)
Non-operating income (expense):				
Interest expense, net of capitalized interest	(9.0)	(8.4)	(26.3)	(23.1)
Investment income	2.5	0.5	6.4	2.9
Loss on early debt extinguishment	(13.2)	—	(13.2)	—
Other non-operating items	(0.5)	(3.7)	1.4	(5.5)
Total non-operating income (expense)	(20.2)	(11.6)	(31.7)	(25.7)
Income (loss) from continuing operations before taxes and equity in income of unconsolidated affiliates	56.7	(29.0)	116.3	(90.4)
Provision (benefit) for income taxes	(7.5)	(2.4)	13.1	(7.7)
Equity in income of unconsolidated affiliates	(1.4)	(2.0)	(4.4)	(4.1)
Income (loss) from continuing operations	65.6	(24.6)	107.6	(78.6)
Loss from discontinued operations before taxes	—	(2.9)	—	(2.9)
Benefit for income taxes	—	(1.0)	—	(1.0)
Loss from discontinued operations	—	(1.9)	—	(1.9)
Net income (loss)	$65.6	$(26.5)	$107.6	$(80.5)
Net income (loss) per share of common stock (basic):				
Income (loss) from continuing operations	$0.46	$(0.17)	$0.75	$(0.55)
Loss from discontinued operations	—	(0.02)	—	(0.02)
Net income (loss) per share - basic	$0.46	$(0.19)	$0.75	$(0.57)
Net income (loss) per share of common stock (diluted):				
Income (loss) from continuing operations	$0.45	$(0.17)	$0.74	$(0.55)
Loss from discontinued operations	—	(0.02)	—	(0.02)
Net income (loss) per share - diluted	$0.45	$(0.19)	$0.74	$(0.57)
Weighted average shares of stock outstanding - basic	143.7	142.6	143.3	142.3
Weighted average shares of stock outstanding - diluted	145.4	142.6	145.2	142.3

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

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$65.6	$(26.5)	$107.6	$(80.5)
Other comprehensive income (loss):				
Foreign currency translation adjustments	0.1	(12.0)	10.3	(19.9)
Unrealized loss on investments, net of tax	(0.5)	(0.1)	(0.7)	(0.1)
Defined benefit pension plans:				
Change benefit obligations, translation adjustment	0.1	1.2	(0.6)	1.7
Amortization of amounts included in net periodic benefit cost:				
Actuarial loss, net of tax	0.9	1.1	2.5	3.1
Prior service cost, net of tax	—	0.1	0.1	0.2
Other	—	(0.1)	—	—
Other comprehensive income (loss)	0.6	(9.8)	11.6	(15.0)
Comprehensive income (loss)	$66.2	$(36.3)	$119.2	$(95.5)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
(AMOUNTS IN MILLIONS) (UNAUDITED)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss)	$65.6	$(26.5)	$107.6	$(80.5)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	29.6	25.9	86.0	77.9
Equity in income of unconsolidated affiliates, including dividends	—	(2.0)	0.3	(4.1)
Loss on sale or impairment of long-lived assets, net	0.3	0.9	1.0	1.5
Loss on early debt extinguishment	13.2	—	13.2	—
Other operating credits and charges, net	—	1.0	11.4	12.6
Stock-based compensation related to stock plans	3.2	2.2	9.4	7.3
Exchange (gain) loss on remeasurement	(0.2)	1.2	(0.9)	5.5
Cash settlements of contingencies, net of accruals	(0.3)	(1.0)	(1.0)	(0.5)
Cash settlements of warranties, net of accruals	(4.6)	(0.3)	(11.4)	(5.7)
Pension expense, net of contributions	—	1.1	1.4	5.5
Non-cash interest expense, net	1.4	0.8	1.6	0.7
Other adjustments, net	(0.3)	0.5	(0.3)	1.3
Changes in assets and liabilities:				
(Increase) decrease in receivables	14.1	0.6	(37.0)	(16.0)
(Increase) decrease in inventories	4.8	(8.5)	(3.2)	(5.4)
(Increase) decrease in prepaid expenses	0.7	(1.8)	(1.9)	(1.0)
Increase in accounts payable and accrued liabilities	17.0	14.6	53.3	10.4
Increase (decrease) in income taxes	(9.2)	(7.5)	4.6	(10.8)
Increase in other liabilities	0.8	—	6.2	—
Net cash provided by (used in) operating activities	136.1	1.2	240.3	(1.3)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Property, plant and equipment additions	(27.6)	(33.6)	(78.7)	(67.1)
Investments in and refunds from joint ventures	—	1.7	—	1.7
(Increase)/decrease in restricted cash under letters of credit/credit facility	0.2	(0.5)	(0.1)	(5.9)
Increase in restricted cash for redemption of long-term debt	(93.4)	—	(93.4)	—
Other investing activities	(0.1)	0.1	(0.2)	0.5
Net cash used in investing activities	(120.9)	(32.3)	(172.4)	(70.8)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings of long-term debt	350.0	—	350.0	—
Repayment of long-term debt	(274.8)	(0.8)	(282.7)	(2.2)
Payment of debt issuance fees	(5.0)	—	(5.0)	—
Sale of common stock, net of cash payments under equity plans	—	—	(0.1)	0.4
Taxes paid related to net share settlement of equity awards	(0.8)	(0.1)	(8.9)	(5.4)
Net cash provided by (used in) financing activities	69.4	(0.9)	53.3	(7.2)
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	0.3	(1.3)	3.8	(5.7)
Net increase (decrease) in cash and cash equivalents	84.9	(33.3)	125.0	(85.0)
Cash and cash equivalents at beginning of period	474.8	481.0	434.7	532.7
Cash and cash equivalents at end of period	$559.7	$447.7	$559.7	$447.7

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS FOR PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) necessary to present fairly, in all material respects, the consolidated financial position, results of operations and cash flows of LP and its subsidiaries for the interim periods presented. Results of operations for interim periods are not necessarily indicative of results to be expected for an entire year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in LP’s Annual Report on Form 10-K for the year ended December 31, 2015.

NOTE 2 - STOCK-BASED COMPENSATION

LP has a Management Incentive Plan (MIP) that is administered by the Compensation Committee of the Board of Directors. The Compensation Committee authorizes the grants of restricted stock, restricted stock units, performance share awards payable in stock upon the attainment of specified performance goals, stock options, stock settled stock appreciation rights (SSAR), other stock-based awards and cash-based awards at the discretion of the Compensation Committee. A detailed discussion of this is presented in Note 15 to the consolidated financial statements included in LP's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. As of September 30, 2016, 3.2 million shares were available for grant under the 2013 Omnibus Plan.

	Quarter Ended September 30,		Nine Months Ended September 30,	
Dollar amounts in millions	2016	2015	2016	2015
Total stock-based compensation expense (costs of sales and general and administrative)	$3.2	$2.2	$9.4	$7.3
Income tax benefit related to stock-based compensation	$(0.4)		$(3.2)	
Impact on cash flow due to taxes paid related to net share settlement of equity awards	$0.8	$0.1	$8.9	$5.4

At September 30, 2016, $12.7 million of compensation cost related to unvested restricted performance shares, restricted stock and SSARs attributable to future service had not yet been recognized.

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

Grants of awards

During the first nine months of 2016, the Company granted 90,444 performance units at an average grant date fair value of $20.45 per share, 509,127 SSARs at an average grant date fair value of $6.99 per share and 451,795 restricted stock awards (shares or units) at an average grant date fair value of $16.00 per share.

NOTE 3 – FAIR VALUE MEASUREMENTS

LP estimated its Senior Notes due in 2020 to have a fair value of $90.9 million at September 30, 2016 and $366.2 million at December 31, 2015 based upon market quotations. LP estimated its Senior Notes due in 2024 to have a fair value of $350.4 million at September 30, 2016.

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

NOTE 4 – EARNINGS PER SHARE

Basic earnings per share are based on the weighted-average number of shares of common stock outstanding. Diluted earnings per share are based upon the weighted-average number of shares of common stock outstanding plus all potentially dilutive securities that were assumed to be converted into common shares at the beginning of the period under the treasury stock method. This method requires that the effect of potentially dilutive common stock equivalents (stock options, SSARs, performance shares, incentive shares and warrants) be excluded from the calculation of diluted earnings per share for the periods in which LP recognizes losses from continuing operations or at such time that the exercise prices of such awards are in excess of the weighted average market price of LP's common stock during these periods because the effect is anti-dilutive.

Dollar and share amounts in millions, except per share amounts	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				
Income (loss) from continuing operations	$65.6	$(24.6)	$107.6	$(78.6)
Loss from discontinued operations	—	(1.9)	—	(1.9)
Net income (loss)	$65.6	$(26.5)	$107.6	$(80.5)
Denominator:				
Denominator for basic earnings per share:				
Weighted average common shares outstanding - basic	143.7	142.6	143.3	142.3
Effect of dilutive securities:				
Dilutive effect of stock warrants	0.2	—	0.2	—
Dilutive effect of employee stock plans	1.5	—	1.7	—
Dilutive potential common shares	1.7	—	1.9	—
Denominator for diluted earnings per share:				
Weighted average shares outstanding - diluted	145.4	142.6	145.2	142.3
Basic earnings per share:				
Income (loss) from continuing operations	$0.46	$(0.17)	$0.75	$(0.55)
Loss from discontinued operations	—	(0.02)	—	(0.02)
Net income (loss) per share - basic	$0.46	$(0.19)	$0.75	$(0.57)
Diluted earnings per share:				
Income (loss) from continuing operations	$0.45	$(0.17)	$0.74	$(0.55)
Loss from discontinued operations	—	(0.02)	—	(0.02)
Net income (loss) per share - diluted	$0.45	$(0.19)	$0.74	$(0.57)

For the quarter and nine months ended September 30, 2016, stock options, warrants and SSARs relating to approximately 2.2 million and 2.7 million shares of LP common stock were considered not in-the-money for purposes of LP's earnings per share calculation.

For the quarter and nine months ended September 30, 2015, stock options, warrants and SSARs relating to approximately 4.7 million and 5.0 million shares of LP common stock were considered anti-dilutive for purposes of LP's earnings per share calculation due to LP's loss position from continuing operations.

At September 30, 2016, outstanding warrants were exercisable to purchase approximately 227,129 shares.

NOTE 5 – RECEIVABLES

Receivables consist of the following:

Dollar amounts in millions	September 30, 2016	December 31, 2015
Trade receivables	$ 127.6	$ 82.6
Income tax receivable	3.6	2.0
Other receivables	7.9	12.8
Allowance for doubtful accounts	(1.1)	(1.0)
Total	$ 138.0	$ 96.4

Other receivables at September 30, 2016 and December 31, 2015 primarily consist of sales tax receivables, vendor rebates, interest receivables and other miscellaneous receivables.

NOTE 6 – INVENTORIES

Inventories are valued at the lower of cost or market. Inventory cost includes materials, labor and operating overhead. The major types of inventories are as follows (work in process is not material):

Dollar amounts in millions	September 30, 2016	December 31, 2015
Logs	$ 46.5	$ 58.6
Other raw materials	24.4	21.6
Semi-finished inventory	19.0	18.5
Finished products	137.2	123.3
Total	$ 227.1	$ 222.0

NOTE 7 – NOTES RECEIVABLE FROM ASSET SALES

Notes receivable from asset sales are related to transactions that occurred during 1997, 1998 and 2003. The 1997 and 1998 notes receivable provide collateral for LP’s limited recourse notes payable and the 2003 notes receivable provide collateral for LP’s non-recourse notes payable (see Note 9). LP monitors the collectability of these notes on a regular basis.

Dollar amounts in millions	Interest Rate 2016	September 30, 2016	December 31, 2015
Notes receivable (secured), maturing 2018, interest rates fixed	7.3 %	22.2	22.2
Notes receivable (secured), maturing 2018 (accelerated for collection 2016), interest rates variable		410.0	410.0
Total		432.2	432.2
Current portion		410.0	—
Long-term portion		$ 22.2	$ 432.2

In August 2016, LP entered into agreements with the issuers of the $410.0 million notes receivable maturing in 2018 to provide for the acceleration of the collection of these notes to November 2016. This acceleration will also result in the acceleration of LP's payment of the related notes payable (see Note 9).

NOTE 8 – INCOME TAXES

Accounting standards state that companies account for income taxes using the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. This method also requires the recognition of future tax benefits, such as net operating loss carryforwards and other tax credits. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. Valuation allowances are recorded as necessary to reduce deferred tax assets to the amount thereof that is more likely than not to be realized. The likelihood of realizing deferred tax assets is evaluated by, among other things, estimating future taxable income, considering the future reversal of existing deferred tax liabilities to which the deferred tax assets may be applied and assessing the impact of tax planning strategies.

For interim periods, accounting standards require that income tax expense be determined by applying the estimated annual effective income tax rate to year-to-date results unless this method does not result in a reliable estimate of year-to-date income tax expense. An exception is provided for situations in which an enterprise anticipates a loss in a separate jurisdiction for which no tax benefit can be recognized. For the nine months ended September 30, 2015, LP's overall estimated annual effective tax rate was computed by excluding anticipated losses in Canada for which no deferred tax asset was expected to be recognizable due to the need for valuation allowances. Tax benefit for the period was then computed using the rate so derived applied to year-to-date pre-tax losses excluding those from Canada, and no additional Canadian tax benefit was added.

Each period the income tax accrual is adjusted to the latest estimate and the difference from the previously accrued year-to-date balance is adjusted to the current quarter. Changes in the profitability estimates in various jurisdictions will impact our quarterly effective income tax rates.

For the first nine months of 2016, the primary differences between the U.S. statutory rate of 35% and the effective rate applicable to LP’s continuing operations relate to foreign tax rates, changes in Canadian and state valuation allowances, excess tax benefits in connection with LP's stock-based compensation plans, recognition of research and development credits from prior years and an increase in the reserve for unrecognized tax benefits associated with LP's South American operations. For the first nine months of 2015, the primary differences between the U.S. statutory rate of 35% and the effective rate applicable to LP’s continuing operations relate to foreign tax rates, Canadian and state valuation allowances and a reduction in the reserve for unrecognized tax benefits.

During September 2016, LP announced the acceleration of the notes receivable from asset sales (see Note 7) to November of 2016 from 2018. The acceleration of these notes will accelerate the taxable income into the fourth quarter 2016. LP estimates taxes due to the acceleration to be $120.8 million. As of December 31, 2015, LP had $73.4 million of available carryover benefit to offset a portion of LP’s 2016 tax liability.

LP periodically reviews the need for valuation allowances against deferred tax assets and recognizes these deferred tax assets to the extent that the realization is more likely than not. As part of our review, we consider all positive and negative evidence, including earnings history, the future reversal of deferred tax liabilities, and the relevant expirations of carry forwards. LP believes that the valuation allowances provided are appropriate. If in future periods our earnings estimates differ from the estimates used to establish these valuation allowances, or other objective positive or negative evidence arises, LP may be required to record an adjustment resulting in an impact on tax expense (benefit) for that period.

NOTE 9 – LONG-TERM DEBT

Dollar amounts in millions		September 30, 2016			December 31, 2015		
	Interest Rate 2016	Principal	Unamortized Debt Costs	Total	Principal	Unamortized Debt Costs	Total
Senior Notes:							
Senior unsecured notes, maturing 2020 (to be redeemed in 2016), interest rates fixed	7.5 %	$87.6	$ (0.7)	$86.9	$350.0	$ (3.7)	$346.3
Senior unsecured notes, maturing 2024, interest rates fixed	4.875 %	350.0	(5.2)	344.8			
Bank credit facilities:							
Chilean term credit facility, maturing 2019, interest rates fixed	UF+3.9%	7.0	(0.3)	6.7	12.8		12.8
Brazilian export financing facility, maturing 2017, interest rates fixed	6.65 %	2.0		2.0	4.0		4.0
Limited recourse notes payable:							
Senior notes, payable 2018, interest rates fixed	7.3 %	22.0		22.0	22.0		22.0
Other financing:							
Non-recourse notes payable 2018 (accelerated for repayment 2016), interest rates variable	0.5 %	368.7	(0.1)	368.6	368.7	(0.2)	368.5
Other		1.4		1.4	0.3		0.3
Total		838.7	(6.3)	832.4	757.8	(3.9)	753.9
Less: current portion of long term debt		(458.9)	0.8	(458.1)	(2.1)		(2.1)
Net long-term portion		$379.8	$ (5.5)	$374.3	$755.7	$ (3.9)	$751.8

LP issued $368.7 million of non-recourse notes in 2003 in a private placement to unrelated third parties. The notes were originally scheduled to mature in 2018. The notes are supported by a bank letter of credit. LP’s reimbursement obligations under the letter of credit are secured by $410.0 million in notes receivable (see note 7). In August 2016, LP gave a binding notice to the note holder that LP will pay the notes ($368.6 million, net of $0.1 million of unamortized debt costs) plus accrued interest upon receipt of the proceeds for the notes receivable in November 2016.

In May 2012, LP issued $350.0 million aggregate principal amount of 7.5% Senior Notes due 2020. In September 2016, LP announced the commencement of a cash tender offer for any and all of its outstanding 7.5% Senior Notes due 2020 for a purchase price of $1,041.75 for each $1,000 principal amount of 2020 Notes. As of September 30, 2016, LP purchased $262.4 million aggregate principal amount (or approximately 75%) of the Notes. The remaining notes ($86.9 million, net of $0.7 million of unamortized debt costs) plus accrued interest were redeemed in October 2016. The cash required to redeem these notes (including any premium and interest) is classified as Restricted cash for bond redemption on LP's Consolidated Balance Sheet as of September 30, 2016. In connection with this repurchase, LP recorded a loss on early debt extinguishment of $13.2 million, which included $2.2 million associated with the unamortized financing costs associated with these notes.

In September 2016, LP issued $350.0 million aggregate principal of 4.875% Senior Notes due 2024. On or after September 15, 2019, LP may, at its option on one or more occasions, redeem all or any portion of these notes at specified redemption rates. Obligations under the indenture governing LP's notes are unsecured and not presently guaranteed by any of LP's subsidiaries. The indenture contains customary covenants applicable to LP and its subsidiaries, other than certain unrestricted subsidiaries, including restrictions on actions and activities that are restricted under the credit facility. The indenture also contains customary events of default, the occurrence of which could result in acceleration of LP's obligations to repay the indebtedness outstanding thereunder.

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Additional descriptions of LP's indebtedness are included in the consolidated financial statements and the notes thereto included in LP's Annual Report on Form 10-K for the year ended December 31, 2015.

NOTE 10 - OTHER OPERATING CREDITS AND CHARGES

During the second quarter of 2016, LP recorded an expense of $11.4 million related to an increase in product related warranty reserves and a related adjustment to value added taxes associated with CanExel products sold in specific geographic locations and for a specific time period.

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

During the third quarter of 2015, LP recorded a loss of $1.0 million associated with a marketing settlement with a customer.

NOTE 11 – LEGAL AND ENVIRONMENTAL MATTERS

Certain environmental matters and legal proceedings are discussed below.

Environmental Matters

LP maintains a reserve for undiscounted estimated environmental loss contingencies. This reserve is primarily for estimated future costs of remediation of hazardous or toxic substances at numerous sites currently or previously owned by the Company. LP’s estimates of its environmental loss contingencies are based on various assumptions and judgments, the specific nature of which varies in light of the particular facts and circumstances surrounding each environmental loss contingency. These estimates typically reflect assumptions and judgments as to the probable nature, magnitude and timing of required investigation, remediation and/or monitoring activities and the probable cost of these activities, and in some cases reflect assumptions and judgments as to the obligation or willingness and ability of third parties to bear a proportionate or allocated share of the cost of these activities. Due to the numerous uncertainties and variables associated with these assumptions and judgments, and the effects of changes in governmental regulation and environmental technologies, both the precision and reliability of the resulting estimates of the related contingencies are subject to substantial uncertainties. LP regularly monitors its estimated exposure to environmental loss contingencies and, as additional information becomes known, may change its estimates significantly. However, no estimate of the range of any such change can be made at this time.

Other Proceedings

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

NOTE 12 – SELECTED SEGMENT DATA

LP operates in four segments: North America Oriented Strand Board (OSB), Siding, Engineered Wood Products (EWP) and South America. LP’s business units have been aggregated into these four segments based upon the similarity of economic characteristics, customers and distribution methods. LP’s results of operations are summarized below for each of these segments separately as well as for the “other” category which comprises other products that are not individually significant. Segment information was prepared in accordance with the same accounting principles as those described in Note 1 of the Notes to the financial statements included in LP’s Annual Report on Form 10-K for the year ended December 31, 2015.

Dollar amounts in millions	Quarter Ended September 30, 2016	Quarter Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net Sales				
OSB	$282.1	$200.0	$751.9	$601.2
Siding	194.8	157.8	583.3	495.2
EWP	80.7	74.4	230.5	211.2
South America	31.7	26.8	103.2	101.4
Other	7.6	6.8	20.3	21.5
Intersegment Sales	(0.5)	(0.9)	(5.8)	(0.9)
	$596.4	$464.9	$1,683.4	$1,429.6
Operating profit (loss):				
OSB	$67.4	$(11.1)	$126.7	$(57.6)
Siding	35.2	17.2	103.9	79.3
EWP	—	(0.9)	(2.0)	(7.3)
South America	3.3	2.4	15.3	6.8
Other	(0.4)	(0.6)	(1.0)	(2.5)
Other operating credits and charges, net	—	(1.0)	(11.4)	(12.6)
Loss on sale or impairment of long-lived assets, net	(0.3)	(0.9)	(1.0)	(1.5)
General corporate and other expenses, net	(26.9)	(20.5)	(78.1)	(65.2)
Interest expense, net of capitalized interest	(9.0)	(8.4)	(26.3)	(23.1)
Investment income	2.5	0.5	6.4	2.9
Loss on early debt extinguishment	(13.2)	—	(13.2)	—
Other non-operating items	(0.5)	(3.7)	1.4	(5.5)
Income (loss) from continuing operations before taxes	58.1	(27.0)	120.7	(86.3)
Provision (benefit) for income taxes	(7.5)	(2.4)	13.1	(7.7)
Income (loss) from continuing operations	$65.6	$(24.6)	$107.6	$(78.6)

NOTE 13 – POTENTIAL IMPAIRMENTS

LP continues to review certain operations and investments for potential impairments. LP's management currently believes it has adequate support for the carrying value of each of these operations and investments based upon the anticipated cash flows that result from estimates of future demand, pricing and production costs assuming certain levels of planned capital expenditures.

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

NOTE 14 – DEFINED BENEFIT PENSION PLANS

The following table sets forth the net periodic pension cost for LP's defined benefit pension plans during the quarter and nine months ended September 30, 2016 and 2015. The net periodic pension cost included the following components:

Dollar amounts in millions	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service cost	$1.2	$1.0	$3.6	$3.1
Interest cost	3.3	3.4	10.1	10.2
Expected return on plan assets	(3.3)	(3.8)	(10.0)	(11.4)
Amortization of prior service cost [1]	0.1	0.1	0.3	0.3
Amortization of net loss [1]	1.4	1.7	4.1	5.2
Net periodic pension cost	$2.7	$2.4	$8.1	$7.4
Loss due to settlement	$—	$0.4	$—	$0.4

[1]The amortization of prior service costs and net loss are included in the amounts reclassified from accumulated other comprehensive income (loss); see Note 16 for additional details. The net periodic pension cost is included in Cost of sales and Selling and administrative expense in the Consolidated Statements of Income.

During the nine months ended September 30, 2016 and 2015, LP recognized $8.1 million and $7.8 million (inclusive of a $0.4 million settlement loss associated with the retirement of one of LP's executives) of pension expense for all of LP's defined benefit pension plans.

During the nine months ended September 30, 2016, LP made $6.7 million in pension contributions to its defined benefit pension plans. LP expects to contribute between $1.0 million and $3.0 million to its defined benefit pension plans in the remaining months of 2016.

NOTE 15 – PRODUCT WARRANTY

LP provides warranties on the sale of most of its products and records an accrual for estimated future claims. Such accruals are based upon historical experience and management’s estimate of the level of future claims. The activity in warranty reserves for the quarter and nine months ended September 30, 2016 and 2015 are summarized in the following table:

Dollar amounts in millions	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Beginning balance	$25.6	$25.0	$21.0	$31.4
Accrued to expense	0.2	2.6	0.6	2.9
Accrued to other operating credits and charges	—	—	10.9	—
Foreign currency translation	0.1	0.8	0.6	(0.2)
Payments made	(4.8)	(2.9)	(12.0)	(8.6)
Total warranty reserves	21.1	25.5	21.1	25.5
Current portion of warranty reserves	(9.0)	(10.0)	(9.0)	(10.0)
Long-term portion of warranty reserves	$12.1	$15.5	$12.1	$15.5

LP continues to monitor warranty and other claims associated with these products and believes as of September 30, 2016 that the reserves associated with these matters are adequate. However, it is possible that additional charges may be required in the future.

The current portion of the warranty reserve is included in the caption “Accounts payable and accrued liabilities” and the long-term portion is included in the caption “Other long-term liabilities” on LP’s Consolidated Balance Sheets.

NOTE 16 - OTHER COMPREHENSIVE INCOME

Other comprehensive income activity, net of tax, is provided in the following table for the quarter and nine months ended September 30, 2016:

		Pension Adjustments				
Dollar amounts in millions	Foreign currency translation adjustments	Actuarial losses	Prior service costs	Unrealized gain (loss) on investments	Other	Total
Balance at June 30, 2016	$ (44.9)	$ (86.9)	$ (5.4)	$ 3.1	$ (1.0)	$ (135.1)
Other comprehensive income (loss) before reclassifications	0.1	0.1	—	(0.8)	—	(0.6)
Income taxes	—	—	—	0.3	—	0.3
Net other comprehensive income (loss) before reclassifications	0.1	0.1	—	(0.5)	—	(0.3)
Amounts reclassified from accumulated comprehensive income (loss)	—	1.4	0.1	—	—	1.5
Income taxes	—	(0.5)	(0.1)	—	—	(0.6)
Net amounts reclassified from cumulative other comprehensive income (loss)	—	0.9	—	—	—	0.9
Total other comprehensive income (loss)	0.1	1.0	—	(0.5)	—	0.6
Balance at September 30, 2016	$ (44.8)	$ (85.9)	$ (5.4)	$ 2.6	$ (1.0)	$ (134.5)

		Pension Adjustments				
Dollar amounts in millions	Foreign currency translation adjustments	Actuarial losses	Prior service costs	Unrealized gain (loss) on investments	Other	Total
Balance at December 31, 2015	$ (55.1)	$ (87.8)	$ (5.5)	$ 3.3	$ (1.0)	$ (146.1)
Other comprehensive income (loss) before reclassifications	10.3	(0.6)	—	(1.1)	—	8.6
Income taxes	—	—	—	0.4	—	0.4
Net other comprehensive income (loss) before reclassifications	10.3	(0.6)	—	(0.7)	—	9.0
Amounts reclassified from accumulated other comprehensive income (loss)	—	4.1	0.3	—	—	4.4
Income taxes	—	(1.6)	(0.2)	—	—	(1.8)
Net amounts reclassified from cumulative other comprehensive income (loss)	—	2.5	0.1	—	—	2.6
Total other comprehensive income (loss)	10.3	1.9	0.1	(0.7)	—	11.6
Balance at September 30, 2016	$ (44.8)	$ (85.9)	$ (5.4)	$ 2.6	$ (1.0)	$ (134.5)

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

Dollar amounts in millions	Foreign currency translation adjustments	Pension Adjustments: Actuarial losses	Pension Adjustments: Prior service costs	Unrealized gain (loss) on investments	Other	Total
Balance at June 30, 2015	$ (41.6)	$(90.6)	$(5.8)	$ 2.6	$(1.1)	$(136.5)
Other comprehensive income (loss) before reclassifications	(12.0)	1.2	—	(0.2)	(0.1)	(11.1)
Income taxes	—	—	—	0.1	—	0.1
Net other comprehensive income (loss) before reclassifications	(12.0)	1.2	—	(0.1)	(0.1)	(11.0)
Amounts reclassified from accumulated other comprehensive income (loss)	—	1.8	0.1	—	—	1.9
Income taxes	—	(0.7)	—	—	—	(0.7)
Net amounts reclassified from cumulative other comprehensive income (loss)	—	1.1	0.1	—	—	1.2
Total other comprehensive income (loss)	(12.0)	2.3	0.1	(0.1)	(0.1)	(9.8)
Balance at September 30, 2015	$ (53.6)	$(88.3)	$(5.7)	$ 2.5	$(1.2)	$(146.3)

Dollar amounts in millions	Foreign currency translation adjustments	Pension Adjustments: Actuarial losses	Pension Adjustments: Prior service costs	Unrealized gain (loss) on investments	Other	Total
Balance at December 31, 2014	$ (33.7)	$(93.1)	$(5.9)	$ 2.6	$(1.2)	$(131.3)
Other comprehensive income (loss) before reclassifications	(19.9)	1.7	—	(0.2)	—	(18.4)
Income taxes	—	—	—	0.1	—	0.1
Net other comprehensive income (loss) before reclassifications	(19.9)	1.7	—	(0.1)	—	(18.3)
Amounts reclassified from accumulated other comprehensive income (loss)	—	5.2	0.3	—	—	5.5
Income taxes	—	(2.1)	(0.1)	—	—	(2.2)
Net amounts reclassified from cumulative other comprehensive income (loss)	—	3.1	0.2	—	—	3.3
Total other comprehensive income (loss)	(19.9)	4.8	0.2	(0.1)	—	(15.0)
Balance at September 30, 2015	$ (53.6)	$(88.3)	$(5.7)	$ 2.5	$(1.2)	$(146.3)

The amounts reclassified from accumulated other comprehensive income (loss) are included in the computation of net periodic pension cost; see Note 14 for additional details. The net periodic pension cost is included in Cost of sales and Selling and administrative expense in the Consolidated Statements of Income.

NOTE 17 - RECENT AND PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

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

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classifications of Certain Cash Receipts and Cash Payments." The standard provided guidance for eight changes with respect to how cash receipts and cash payments are classified in the statement of cash flows, with the objective of reducing diversity in practice. The standard is effective January 1, 2018, with early adoption permitted. LP does not expect the adoption of this new standard to have a material impact on its consolidated results of operations and financial position.

NOTE 18 - SUBSEQUENT EVENTS

On October 14, 2016, LP completed the previously announced redemption of its remaining outstanding 7.500% Senior Notes due 2020 at the redemption price of 103.75% of the principal amount thereof, plus accrued and unpaid interest to, but excluding, the redemption date. This resulted in LP releasing $93.4 million currently held as restricted cash for bond redemption. LP will record $4.0 million in loss on early debt extinguishment associated with this redemption, including $0.7 million in deferred debt costs, during the fourth quarter.

On October 28, 2016 LP announced that it has reached an agreement with Norbord Inc. to exchange OSB mills in Quebec, Canada. LP will swap ownership of its Chambord, Quebec, mill for Norbord’s Val-d’Or, Quebec, mill. The asset exchange is expected to be complete in early November 2016.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
GENERAL
Our products are used primarily in new home construction, repair and remodeling, and outdoor structures. We also market and sell our products in light industrial and commercial construction and we have a modest export business. Our manufacturing facilities are primarily located in the U.S. and Canada, but we also operate two facilities in Chile and one facility in Brazil.
To serve these markets, we operate in four segments: North America Oriented Strand Board (OSB), Siding, Engineered Wood Products (EWP) and South America.
Demand for our products correlates to a significant degree to the level of residential construction activity in North America, which historically has been characterized by significant cyclicality. For the third quarter and first nine months of 2016, the U.S. Department of Census reported that U.S. single and multi-family housing starts were 2% lower than for the same quarter of 2015 and 4% higher than the comparable nine month period. OSB is sold as a commodity for which sales prices fluctuate daily based on market factors over which we have little or no control. We cannot predict whether the prices of our OSB products will remain at current levels or increase or decrease in the future. OSB prices (NC 7/16"), as reported by Random Lengths, were 50% higher for the third quarter of 2016 and 35% for the first nine months of 2016 compared to the same periods in 2015.
For additional factors affecting our results, refer to the Management Discussion and Analysis of Financial Condition and Results of Operations overview contained in our Annual Report on Form 10-K for the year ended December 31, 2015 and to “About Forward-Looking Statements” and “Risk Factors” in this report.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES
Presented in Note 1 of the Notes to the financial statements included in LP’s Annual Report on Form 10-K for the year ended December 31, 2015 is a discussion of our significant accounting policies and significant accounting estimates and judgments. Throughout the preparation of the financial statements, we employ significant judgments in the application of accounting principles and methods. These judgments are primarily related to the assumptions used to arrive at various estimates. For 2016, these significant accounting estimates and judgments include:
Legal Contingencies. Our estimates of loss contingencies for legal proceedings are based on various judgments and assumptions regarding the potential resolution or disposition of the underlying claims and associated costs. In making judgments and assumptions regarding legal contingencies for ongoing class action settlements, we consider, among other things, discernible trends in the rate of claims asserted and related damage estimates and information obtained through consultation with statisticians and economists, including statistical analysis of potential outcomes based on experience to date and the experience of third parties who have been subject to product-related claims judged to be comparable. Due to the numerous variables associated with these judgments and assumptions, both the precision and reliability of the resulting estimates of the related loss contingencies are subject to substantial uncertainties. We regularly monitor our estimated exposure to these contingencies and, as additional information becomes known, may change our estimates significantly.
Environmental Contingencies. Our estimates of loss contingencies for environmental matters are based on various judgments and assumptions. These estimates typically reflect judgments and assumptions relating to the probable nature, magnitude and timing of required investigation, remediation and/or monitoring activities and the probable cost of these activities, and in some cases reflect judgments and assumptions relating to the obligation or willingness and ability of third parties to bear a proportionate or allocated share of the cost of these activities, including third parties who purchased assets from us subject to environmental liabilities. We consider the ability of third parties to pay their apportioned cost when developing our estimates. In making these judgments and assumptions related to the development of our loss contingencies, we consider, among other things, the activity to date at particular sites, information obtained through consultation with applicable regulatory authorities and third-party consultants and contractors and our historical experience at other sites that are judged to be comparable. Due to the numerous variables associated with these judgments and assumptions, and the effects of changes in governmental regulation and environmental technologies, both the precision and reliability of the resulting estimates of the related contingencies are subject to substantial uncertainties. We regularly monitor our estimated exposure to environmental

loss contingencies and, as additional information becomes known, may change our estimates significantly. At September 30, 2016, we excluded from our estimates approximately $2.0 million of potential environmental liabilities that we estimate will be allocated to third parties pursuant to existing and anticipated future cost sharing arrangements.

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

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

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

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

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

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Judgment is also applied in determining whether deferred tax assets will be realized in full or in part. When we consider it to be more likely than not that all or some portion of a deferred tax asset will not be realized, a valuation allowance is established for the amount of the deferred tax asset that is estimated not to be realizable. As of September 30, 2016, we had established valuation allowances against certain deferred tax assets, primarily related to state and foreign carryovers of net operating losses, credits and capital losses. We have not established valuation allowances against other deferred tax assets based upon positive evidence such as recent earnings history, generally improving economic conditions and deferred tax liabilities which we anticipate to reverse within the carry forward period. Accordingly, changes in facts or circumstances affecting the likelihood of realizing a deferred tax asset could result in the need to record additional valuation allowances.

Pension Plans. Most of our U.S. employees and many of our Canadian employees participate in defined benefit pension plans sponsored by LP. We account for the consequences of our sponsorship of these plans in accordance with GAAP which requires us to make actuarial assumptions that are used to calculate the related assets, liabilities and expenses recorded in our financial statements. While we believe we have a reasonable basis for these assumptions, which include assumptions regarding long-term rates of return on plan assets, life expectancies, rates of increase in salary levels, rates at which future values should be discounted to determine present values and other matters, the amounts of our pension related assets, liabilities and expenses recorded in our financial statements would differ if we used other assumptions.

Warranty Obligations. Customers are provided with a limited warranty against certain defects associated with our products for periods of up to fifty years. We estimate the costs to be incurred under these warranties and record a liability in the amount of such costs at the time product revenue is recognized. Factors that affect our warranty liability include the historical and anticipated rates of warranty claims and the cost of resolving such claims. We periodically assess the adequacy of our recorded warranty liability for each product and adjust the amounts as necessary. While we believe we have a reasonable basis for these assumptions, actual warranty costs in the future could differ from our estimates.

NON-GAAP FINANCIAL MEASURES

In evaluating our business, we utilize several non-GAAP financial measures. A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so excluded or included under applicable GAAP guidance. We disclose earnings (loss) before interest expense, taxes, depreciation and amortization ("EBITDA from continuing operations") which is a non-GAAP financial measure. Additionally, we disclose "Adjusted EBITDA from continuing operations" which further adjusts EBITDA to exclude stock-based compensation expense, (gain) loss on sale or impairment of long-lived assets, other operating credits and charges, early debt extinguishment and investment income. Neither EBITDA from continuing operations nor Adjusted EBITDA from continuing operations is a substitute for the GAAP measures of net income or operating cash flows or for any other GAAP measures of operating performance or liquidity.

We have included EBITDA from continuing operations and Adjusted EBITDA from continuing operations because we use them as important supplemental measures of our performance and believe that they are frequently used by securities analysts, investors and other interested persons in the evaluation of companies in our industry, some of which present EBITDA when reporting their results. We use EBITDA from continuing operations and Adjusted EBITDA from continuing operations to evaluate our performance as compared to other companies in our industry that have different financing and capital structures and/or tax rates. It should be noted that companies calculate EBITDA and Adjusted EBITDA differently and, therefore, our EBITDA and Adjusted EBITDA measures may not be comparable to EBITDA and Adjusted EBITDA reported by other companies. Our EBITDA and Adjusted EBITDA measures have material limitations as performance measures because they exclude interest expense, early debt extinguishment, income tax (benefit) expense, and depreciation and amortization, which are necessary to operate our business or which we otherwise incur or experience in connection with the operation of our business.

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

Three Months Ended September 30, 2016 (Dollar amounts in millions)	OSB	Siding	EWP	South America	Other	Corporate	Total
Net Sales	$282.1	$194.8	$80.7	$ 31.7	$7.6	$ (0.5)	$596.4
Depreciation and amortization	15.3	6.3	3.8	2.5	0.9	0.8	29.6
Cost of sales and selling and administrative	199.4	153.3	78.3	25.9	7.1	25.6	489.6
Loss on sale or impairment of long lived assets, net	—	—	—	—	—	0.3	0.3
Total operating costs	214.7	159.6	82.1	28.4	8.0	26.7	519.5
Income (loss) from operations	67.4	35.2	(1.4)	3.3	(0.4)	(27.2)	76.9
Total non-operating expense	—	—	—	—	—	(20.2)	(20.2)
Income (loss) from continuing operations before income taxes and equity in income of unconsolidated affiliates	67.4	35.2	(1.4)	3.3	(0.4)	(47.4)	56.7
Income tax benefit	—	—	—	—	—	(7.5)	(7.5)
Equity in income of unconsolidated affiliates	—	—	(1.4)	—	—	—	(1.4)
Income (loss) from continuing operations	$67.4	$35.2	$—	$ 3.3	$(0.4)	$ (39.9)	$65.6
Reconciliation of income (loss) from continuing operations to Adjusted EBITDA from continuing operations							
Income (loss) from continuing operations	$67.4	$35.2	$—	$ 3.3	$(0.4)	$ (39.9)	$65.6
Income tax benefit	—	—	—	—	—	(7.5)	(7.5)
Interest expense, net of capitalized interest	—	—	—	—	—	9.0	9.0
Depreciation and amortization	15.3	6.3	3.8	2.5	0.9	0.8	29.6
EBITDA from continuing operations	82.7	41.5	3.8	5.8	0.5	(37.6)	96.7
Stock based compensation expense	0.3	0.2	0.2	—	—	2.5	3.2
Loss on sale or impairment of long lived assets, net	—	—	—	—	—	0.3	0.3
Investment income	—	—	—	—	—	(2.5)	(2.5)
Loss on early debt extinguishment	—	—	—	—	—	13.2	13.2
Adjusted EBITDA from continuing operations	$83.0	$41.7	$4.0				