

LOUISIANA-PACIFIC CORP
Form 10-Q
August 07, 2018

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, 2018
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 (IRS Employer
incorporation or organization) 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 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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: 142,716,604 shares of Common Stock, \$1 par value, outstanding as of August 6, 2018. 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, 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; 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)

	June 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	\$1,000.9	\$ 928.0
Receivables, net of allowance for doubtful accounts of \$0.9 million at June 30, 2018 and December 31, 2017	162.3	142.5
Inventories	286.4	259.1
Prepaid expenses and other current assets	13.0	7.8
Current portion of notes receivable from asset sales	—	22.2
Total current assets	1,462.6	1,359.6
Timber and timberlands	56.0	55.7
Property, plant and equipment, net	946.6	926.1
Goodwill and other intangible assets	26.4	26.7
Investments in and advances to affiliates	53.9	7.8
Restricted cash	13.3	13.3
Other assets	59.5	56.8
Deferred tax asset	2.5	2.5
Total assets	\$2,620.8	\$ 2,448.5
LIABILITIES AND EQUITY		
Current portion of long-term debt	\$27.3	\$ 25.1
Accounts payable and accrued liabilities	211.1	237.1
Income taxes payable	15.7	4.5
Current portion of contingency reserves	3.4	3.4
Total current liabilities	257.5	270.1
Long-term debt, excluding current portion	348.4	350.8
Deferred income taxes	58.9	33.4
Contingency reserves, excluding current portion	9.4	11.7
Other long-term liabilities	180.8	178.0
Stockholders' equity:		
Common stock, \$1 par value, 200,000,000 shares authorized, 153,358,542 shares issued	153.4	153.4
Additional paid-in capital	457.5	470.6
Retained earnings	1,508.4	1,280.1
Treasury stock, 9,423,230 shares and 8,462,949 shares, at cost	(206.2)	(177.5)
Accumulated comprehensive loss	(147.3)	(122.1)
Total stockholders' equity	1,765.8	1,604.5
Total liabilities and stockholders' equity	\$2,620.8	\$ 2,448.5

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net sales	\$810.8	\$694.1	\$1,502.1	\$1,305.0
Cost of sales	550.2	511.8	1,064.7	994.6
Gross profit	260.6	182.3	437.4	310.4
Selling, general and administrative expenses	50.1	47.2	100.7	95.9
Gain on sale or impairment of long lived assets, net	—	(3.1)	(0.6)	(2.5)
Other operating credits and charges, net	(4.5)	2.0	(4.9)	5.4
Income from operations	215.0	136.2	342.2	211.6
Non-operating income (expense):				
Interest expense, net of capitalized interest	(4.4)	(4.9)	(8.8)	(9.9)
Investment income	4.8	2.3	8.0	4.3
Other non-operating items	(0.7)	(3.1)	(2.1)	(5.0)
Total non-operating income (expense)	(0.3)	(5.7)	(2.9)	(10.6)
Income from continuing operations before taxes and equity in loss of unconsolidated affiliate	214.7	130.5	339.3	201.0
Provision for income taxes	51.2	36.0	80.9	51.5
Equity in loss of unconsolidated affiliate	0.6	—	0.6	—
Income from continuing operations	162.9	94.5	257.8	149.5
Loss from discontinued operations before taxes	(0.3)	—	(5.6)	—
Benefit for income taxes	(0.1)	—	(1.4)	—
Loss from discontinued operations	(0.2)	—	(4.2)	—
Net income	\$162.7	\$94.5	\$253.6	\$149.5
Net income per share of common stock:				
Income per share continuing operations	\$1.13	\$0.65	\$1.78	\$1.04
Loss per share discontinued operations	—	—	(0.03)	—
Net income per share - basic	\$1.13	\$0.65	\$1.75	\$1.04
Diluted net income per share of common stock:				
Income per share continuing operations	\$1.11	\$0.65	\$1.76	\$1.02
Loss per share discontinued operations	—	—	\$(0.03)	—
Net income per share - diluted	\$1.11	\$0.65	\$1.73	\$1.02
Weighted average shares of stock outstanding - basic	144.6	144.5	144.7	144.3
Weighted average shares of stock outstanding - diluted	146.2	146.2	146.4	146.0

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

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

	Quarter Ended		Six Months	
	June 30,		Ended June 30,	
	2018	2017	2018	2017
Net income	\$162.7	\$94.5	\$253.6	\$149.5
Other comprehensive income (loss):				
Foreign currency translation adjustments	(13.8)	(8.5)	(11.5)	(5.7)
Unrealized gain (loss) on investments, net of tax	(0.1)	0.1	0.1	0.4
Defined benefit pension plans:				
Change in benefit obligations, translation adjustment	0.1	(0.2)	0.3	(0.4)
Amortization of amounts included in net periodic benefit cost:				
Actuarial loss, net of tax	1.2	0.8	2.3	1.7
Prior service cost, net of tax	0.1	0.2	0.2	0.4
Other	0.1	—	0.1	—
Other comprehensive loss	(12.4)	(7.6)	(8.5)	(3.6)
Comprehensive income	\$150.3	\$86.9	\$245.1	\$145.9

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$162.7	\$94.5	\$253.6	\$149.5
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	30.1	29.6	61.1	60.2
Equity in (income) loss of unconsolidated affiliates, including dividends	(0.3)	(0.4)	(1.1)	(1.0)
Gain on sale or impairment of long-lived assets, net	—	(3.1)	(0.6)	(2.5)
Other operating credits and charges, net	(0.3)	2.0	(0.7)	5.4
Stock-based compensation related to stock plans	2.6	1.9	4.8	6.0
Exchange loss on remeasurement	0.1	1.5	—	1.7
Cash settlements of warranties, net of accruals	(0.6)	(2.4)	(1.5)	(5.6)
Cash settlements of contingencies, net of accruals	(5.3)	(0.3)	(1.5)	(0.3)
Pension contributions, net of expense	(2.1)	(2.1)	(0.5)	(0.7)
Other adjustments, net	(1.2)	(0.2)	0.7	0.2
Changes in assets and liabilities:				
Increase in receivables	(16.2)	(5.1)	(45.4)	(44.8)
(Increase) decrease in inventories	40.6	37.8	(13.4)	13.0
Increase in prepaid expenses	(4.0)	(2.7)	(5.2)	(3.3)
Increase (decrease) in accounts payable and accrued liabilities	18.5	14.6	(19.5)	(5.3)
Increase (decrease) in income taxes	12.7	(24.8)	37.2	(10.9)
Net cash provided by operating activities	237.3	140.8	268.0	161.6
CASH FLOWS FROM INVESTING ACTIVITIES:				
Property, plant and equipment additions	(44.4)	(19.6)	(87.6)	(45.7)
Proceeds from sales of assets	0.1	3.2	0.9	3.2
Investments in unconsolidated affiliate	(45.0)	—	(45.0)	—
Payment of long-term deposit	—	(32.0)	—	(32.0)
Receipt of proceeds from notes receivable from asset sales	22.2	—	22.2	—
Other investing activities	(0.1)	—	(0.3)	0.2
Net cash used in investing activities	(67.2)	(48.4)	(109.8)	(74.3)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of long-term debt	(0.2)	(0.1)	(0.3)	(1.3)
Payment of cash dividends	(18.7)	—	(37.6)	—
Purchase of treasury stock	(38.9)	—	(38.9)	—
Sale of common stock, net of cash payments under equity plans	—	(0.8)	0.1	(0.4)
Taxes paid related to net share settlement of equity awards	(2.1)	(0.1)	(7.8)	(4.8)
Other financing activities	—	—	3.1	—
Net cash used in financing activities	(59.9)	(1.0)	(81.4)	(6.5)
EFFECT OF EXCHANGE RATE ON CASH, CASH EQUIVALENTS AND RESTRICTED CASH				
	(5.1)	(0.8)	(3.9)	(0.1)
Net increase in cash, cash equivalents and restricted cash	105.1	90.6	72.9	80.7
Cash, cash equivalents and restricted cash at beginning of period	909.1	662.6	941.3	672.5
Cash, cash equivalents and restricted cash at end of period	\$1,014.2	\$753.2	\$1,014.2	\$753.2

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

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

	Common Stock Shares	Amount	Treasury Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Comprehensive Loss	Total Stockholders' Equity
Balance, December 31, 2017	153.4	\$ 153.4	8.4	\$(177.5)	\$ 470.6	\$ 1,280.1	\$ (122.1)	\$ 1,604.5
Effect of adoption of ASU 2014-09 ¹						(4.4)		(4.4)
Effect of adoption of ASU 2018-02 ¹						16.7	(16.7)	—
Net income						253.6		253.6
Dividends paid						(37.6)		(37.6)
Issuance of shares for stock plans and stock-based compensation			(0.8)	18.0	(17.9)			0.1
Purchase of treasury stock			1.4	(38.9)				(38.9)
Compensation expense associated with stock-based compensation					4.8			4.8
Taxes paid related to net settlement of stock-based awards			0.4	(7.8)				(7.8)
Other comprehensive loss							(8.5)	(8.5)
Balance, June 30, 2018	153.4	\$ 153.4	9.4	\$(206.2)	\$ 457.5	\$ 1,508.4	\$ (147.3)	\$ 1,765.8

¹See Note 2 for additional detail regarding the adoption of new accounting standards.

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 us and our 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 our Annual Report on Form 10-K for the year ended December 31, 2017.

NOTE 2 - NEW ACCOUNTING STANDARDS AND CERTAIN RECLASSIFICATIONS

On January 1, 2018, we adopted ASU 2014-09, "Revenue from Contracts with Customers" (ASC 606), and all the related amendments to all contracts using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new revenue standard to be immaterial to our net income on an ongoing basis. Recognition of a portion of our sales revenue has been delayed due to the timing of satisfying the performance obligations. The new revenue standard also provided additional clarity that resulted in reclassifications to or from net sales and selling, general and administrative expenses.

On January 1, 2018, we adopted ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The guidance allows us to reclassify the stranded tax effects within Accumulated other comprehensive income to Retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (the Tax Act) is recorded.

The cumulative effect of the changes made to our Consolidated Balance Sheet as of January 1, 2018 for the adoption of ASU 2014-09 and ASU 2018-02, were as follows:

Dollar amounts in millions	Balance at December 31, 2017	ASU 2014-09	ASU 2018-02	Balance at January 1, 2018
Receivables, net of allowance for doubtful accounts	\$ 142.5	\$ (21.7)	\$ —	\$ 120.8
Inventories	259.1	15.8	—	274.9
Deferred tax asset	2.5	1.5	—	4.0
Retained earnings	1,280.1	(4.4)	16.7	1,292.4
Accumulated comprehensive loss	(122.1)	—	(16.7)	(138.8)

In accordance with the new revenue standard requirements, the disclosure of the impact on our Consolidated Statement of Income and Consolidated Balance Sheet is as follows:

Dollar amounts in millions	Quarter Ended June 30, 2018			Six Months Ended June 30, 2018		
	As reported	Balances without adoption of ASC 606	Effect of Change Higher (Lower)	As reported	Balances without adoption of ASC 606	Effect of Change Higher (Lower)
Consolidated Statement of Income						
Net sales	\$810.8	818.4	\$ (7.6)	\$1,502.1	\$1,520.8	\$ (18.7)
Cost of sales	550.2	554.0	(3.8)	1,064.7	1,075.0	(10.3)
Selling, general and administrative expenses	50.1	51.2	(1.1)	100.7	102.6	(1.9)
Provision for income taxes	51.2	51.9	(0.7)	80.9	82.5	(1.6)
Net income	162.7	164.7	(2.0)	253.6	258.5	(4.9)

Consolidated Balance Sheet	June 30, 2018		
Receivables, net of allowance for doubtful accounts	\$162.3	\$200.8	\$38.5
Inventory	\$286.4	\$260.3	\$(26.1)
Income taxes payable	\$15.7	\$18.8	\$3.1
Retained earnings	\$1,508.4	\$1,517.7	\$9.3

On January 1, 2018, we adopted ASU 2017-07, "Retirement Benefits - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (an amendment to ASC 715) to improve the presentation of net periodic pension and postretirement benefit costs. We retrospectively adopted the presentation of service cost separate from the other components of net periodic costs. The interest cost, expected return on assets, amortization of prior service costs, amortization of net actuarial losses and settlement costs have been reclassified from Cost of sales, Selling, general and administrative expenses and Other operating credits and charges to Non-operating income (expense). We elected to apply the practical expedient which allows us to reclassify amounts disclosed previously in the retirement benefits note as the basis for applying retrospective presentation for comparative periods as it is impracticable to determine the disaggregation of the cost components for amounts capitalized and amortized in those periods. On a prospective basis, the other components of net periodic benefit costs (excluding service cost) will not be included in amounts capitalized in inventory or property, plant, and equipment. In addition to the effects of ASU 2017-07, we have reclassified depreciation and amortization into the financial statement caption that reflects the category of the expense to be more comparable with our peers.

The effect of the retrospective presentation change related to the net periodic cost of our defined benefit pension and reclassification of depreciation and amortization on our Consolidated Statement of Income for the quarter and six months ended June 30, 2017 is as follows:

Dollar amounts in millions	Quarter Ended June 30, 2017			
	As reported	ASU 2017-07	Reclassifications	As adjusted
Consolidated Statement of Income				
Cost of sales (exclusive of depreciation and amortization shown separately below)	\$484.0	\$ (1.0)	\$ 28.8	\$511.8
Depreciation and amortization	29.6	—	(29.6)	—
Selling, general and administrative expenses	47.0	(0.6)	0.8	47.2
Income from operations	134.6	1.6	—	136.2
Total non-operating income (expense)	(4.1)	(1.6)	—	(5.7)

Dollar amounts in millions	Six Months Ended June 30, 2017			
	As reported	ASU 2017-07	Reclassifications	As adjusted
Consolidated Statement of Income				
Cost of sales (exclusive of depreciation and amortization shown separately below)	\$937.9	\$ (2.0)	58.7	\$ 994.6
Depreciation and amortization	60.2	—	(60.2)	—
Selling, general and administrative expenses	95.6	(1.2)	1.5	95.9
Income from operations	208.4	3.2	—	211.6
Total non-operating income (expense)	(7.4)	(3.2)	—	(10.6)

On January 1, 2018, we adopted ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The adoption of this standard requires the inclusion of the change in amounts described as restricted cash or restricted cash equivalents to be included as part of our Consolidated Statement of Cash Flows.

In accordance with disclosure requirements of this new accounting standard, the impact of adoption on our Consolidated Statement of Cash Flows for the quarter and six months ended June 30, 2017 is as follows:

Dollar amounts in millions	Quarter Ended June 30, 2017		
	As reported	ASU 2016-18	As adjusted
Consolidated Statement of Cash Flows			
Net cash provided by (used in) investing activities	\$(48.5)	\$ 0.1	\$(48.4)
Effect of exchange rate on cash, cash equivalents and restricted cash	(0.8)	—	(0.8)
Net increase in cash, cash equivalents and restricted cash	90.5	0.1	90.6
Cash, cash equivalents and restricted cash at beginning of period	649.5	13.1	662.6
Cash, cash equivalents and restricted cash at end of period	740.0	13.2	753.2

Dollar amounts in millions	Six Months Ended June 30, 2017		
	As reported	ASU 2016-18	As adjusted
Consolidated Statement of Cash Flows			
Net cash provided by (used in) investing activities	\$(74.5)	\$ 0.2	\$(74.3)
Effect of exchange rate on cash, cash equivalents and restricted cash	0.1	(0.2)	(0.1)
Net increase in cash, cash equivalents and restricted cash	80.7	—	80.7
Cash, cash equivalents and restricted cash at beginning of period	659.3	13.2	672.5
Cash, cash equivalents and restricted cash at end of period	740.0	13.2	753.2

In March 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, "Leases (Topic 842)", which supersedes the lease accounting requirements in 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. We will adopt the standard on January 1, 2019, using the optional prospective method approved by the FASB in March 2018. This method allows us to not restate comparative periods and instead apply the new standard on a prospective basis as of the date of adoption. While our evaluation is still in process, we expect the adoption to have a significant impact on our Consolidated Balance Sheet and an immaterial impact on our Consolidated Statement of Income.

NOTE 3 - REVENUE

Revenue is recognized when obligations under the terms of a contract (purchase orders) with our customers are satisfied; generally, this occurs with the transfer of control of our products. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods. Shipping cost incurred by us to deliver products to our customers are recorded in cost of sales. The expected costs associated with our warranties continue to be recognized as expense when the products are sold. We recognize revenue as of a point in time.

Customer programs and incentives are a common practice in our businesses. Our businesses incur customer program costs to obtain favorable product placement, to promote sales of products and to maintain competitive pricing. Customer program costs and incentives, including rebates and promotion and volume allowances, are accounted for as deductions from net sales at the time the program is initiated. These reductions from revenue are recorded at the later of the time of sale or the implementation of the program based on management's best estimates. Estimates are based on historical and projected experience for each type of program or customer. Volume allowances are accrued based on management's estimates of customer volume achievement and other factors incorporated into customer agreements, such as new product purchases, store sell-through and merchandising support. Management periodically reviews accruals for these rebates and allowances, and adjusts accruals when circumstances indicate (typically as a result of a change in volume expectations). As of June 30, 2018 and December 31, 2017, we had \$23.5 million and \$24.2 million accrued as customer rebates recorded in Accounts payable and accrued liabilities on our Consolidated Balance Sheets.

We ship some of our products to customers' distribution centers on a consignment basis. We retain title to our products stored at the distribution centers. As our products are removed from the distribution centers by retailers and shipped to retailers' stores, title passes from us to the retailers. At that time, we invoice the retailers and recognize revenue for these consignment transactions. We do not offer a right of return for products shipped to the retailers' stores from the distribution centers. The amount of consignment inventory as of June 30, 2018 and December 31, 2017 was \$18.1 million and \$18.3 million.

The following tables disaggregate our revenue by product line and product type by segment for the quarter and six months ended June 30, 2018:

Quarter Ended June 30, 2018

By Product family:	Siding	OSB	EWP	South America	Other	Inter-segment	Total
SmartSide® Strand siding	\$193.5	\$—	\$—	\$ 6.9	\$—	\$	—\$200.4
SmartSide® Fiber siding	27.9	—	—	—	—	—	27.9
CanExel® siding	12.5	—	—	—	—	—	12.5
OSB - commodity	12.4	231.4	5.2	—	—	—	249.0
OSB - value-add	12.4	154.9	3.8	37.2	—	—	208.3
LVL	—	—	40.4	—	—	—	40.4
LSL	—	—	17.4	—	—	—	17.4
I-joist	—	—	31.5	—	—	—	31.5
Plywood	—	—	8.0	—	—	—	8.0
Other	2.9	1.1	2.8	1.2	7.4	—	15.4
	\$261.6	\$387.4	\$109.1	\$ 45.3	\$ 7.4	\$	—\$810.8
By Product type:							
Commodity	\$12.4	\$231.4	\$13.2	\$ —	\$ —	\$	—\$257.0
Value-add	246.3	154.9	93.1	44.1	—	—	538.4
Other	2.9	1.1	2.8	1.2	7.4	—	15.4
	\$261.6	\$387.4	\$109.1	\$ 45.3	\$ 7.4	\$	—\$810.8

Six Months Ended June 30, 2018

By Product family:	Siding	OSB	EWP	South America	Other	Inter-segment	Total
SmartSide® Strand siding	\$358.6	\$—	\$—	\$ 13.7	\$—	\$	—\$372.3
SmartSide® Fiber siding	53.8	—	—	—	—	—	53.8
CanExel® siding	26.4	—	—	—	—	—	26.4
OSB - commodity	21.1	412.5	8.0	—	—	—	441.6
OSB - value-add	21.6	284.0	7.9	72.1	—	—	385.6
LVL	—	—	77.0	—	—	—	77.0
LSL	—	—	30.7	—	—	—	30.7
I-joist	—	—	63.6	—	—	—	63.6
Plywood	—	—	15.6	—	—	—	15.6
Other	7.1	4.2	7.0	1.9	15.3	—	35.5
	\$488.6	\$700.7	\$209.8	\$ 87.7	\$15.3	\$	—\$1,502.1
By Product type:							
Commodity	\$21.1	\$412.5	\$23.6	\$ —	\$—	\$	—\$457.2
Value-add	460.4	284.0	179.2	85.8	—	—	1,009.4
Other	7.1	4.2	7.0	1.9	15.3	—	35.5
	\$488.6	\$700.7	\$209.8	\$ 87.7	\$15.3	\$	—\$1,502.1

The following tables disaggregate our revenue by product line and product type by segment for the quarter and six months ended June 30, 2017:

Quarter Ended June 30, 2017

By Product family:	Siding	OSB	EWP	South America	Other	Inter-segment	Total
SmartSide® Strand siding	\$164.3	\$—	\$—	\$ 4.6	\$—	\$ (1.8)	\$167.1
SmartSide® Fiber siding	29.3	—	—	—	—	—	29.3
CanExel® siding	14.2	—	—	—	—	—	14.2
OSB - commodity	21.0	190.7	4.0	—	—	—	215.7
OSB - value-add	—	132.1	3.6	33.2	—	—	168.9
LVL	—	—	37.2	—	—	—	37.2
LSL	—	—	12.0	—	—	—	12.0
I-joist	—	—	30.4	—	—	—	30.4
Plywood	—	—	5.8	—	—	—	5.8
Other	2.2	2.2	1.2	0.9	7.1	(0.1)	13.5
	\$231.0	\$325.0	\$94.2	\$ 38.7	\$ 7.1	\$ (1.9)	\$694.1
By Product type:							
Commodity	\$21.0	\$190.7	\$9.8	\$ —	\$—	\$ —	\$221.5
Value-add	207.8	132.1	83.2	37.8	—	(1.8)	459.1
Other	2.2	2.2	1.2	0.9	7.1	(0.1)	13.5
	\$231.0	\$325.0	\$94.2	\$ 38.7	\$ 7.1	\$ (1.9)	\$694.1

Six Months Ended June 30, 2017

By Product family:	Siding	OSB	EWP	South America	Other	Inter-segment	Total
SmartSide® Strand siding	\$320.4	\$—	\$—	\$ 10.8	\$—	\$ (1.8)	\$329.4
SmartSide® Fiber siding	58.0	—	—	—	—	—	58.0
CanExel® siding	28.5	—	—	—	—	—	28.5
OSB - commodity	33.4	342.0	5.1	—	—	—	380.5
OSB - value-add	—	245.2	6.5	63.8	—	—	315.5
LVL	—	—	70.2	—	—	—	70.2
LSL	—	—	22.6	—	—	—	22.6
I-joist	—	—	56.1	—	—	—	56.1
Plywood	—	—	10.6	—	—	—	10.6
Other	4.7	6.2	5.2	1.9	15.8	(0.2)	33.6
	\$445.0	\$593.4	\$176.3	\$ 76.5	\$15.8	\$ (2.0)	\$1,305.0
By Product type:							
Commodity	\$33.4	\$342.0	\$15.7	\$ —	\$—	\$ —	\$391.1
Value-add	406.9	245.2	155.4	74.6	—	(1.8)	880.3
Other	4.7	6.2	5.2	1.9	15.8	(0.2)	33.6
	\$445.0	\$593.4	\$176.3	\$ 76.5	\$15.8	\$ (2.0)	\$1,305.0

NOTE 4 - STOCK-BASED COMPENSATION

We have 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 (shares or units), performance share awards payable in stock based upon the attainment of specified performance goals and stock settled stock appreciation rights (SSARs). As of June 30, 2018, 2.6 million shares were available for grant under the 2013 Omnibus Plan.

	Quarter Ended June 30, 2018	Six Months Ended June 30, 2017	Quarter Ended June 30, 2018	Six Months Ended June 30, 2017
Dollar amounts in millions				
Total stock-based compensation expense (cost of sales, selling, general and administrative and other operating credits and charges, net)	\$2.6	\$1.9	\$4.8	\$6.0
Income tax provision related to stock-based compensation	\$(0.6)	\$0.3	\$(2.8)	\$0.3
Impact on cash flow due to taxes paid related to net share settlement of equity awards	\$2.1	\$0.1	\$7.8	\$4.8

At June 30, 2018, \$17.2 million of compensation cost related to unvested performance shares, restricted stock and SSARs attributable to future service had not yet been recognized.

During the first six months of 2018, we granted 159,054 performance units at an average grant date fair value of \$29.31 per share and 308,190 restricted stock units at an average grant date fair value of \$26.93 per share.

NOTE 5 – FAIR VALUE MEASUREMENTS

We estimated our Senior Notes due in 2024 to have a fair value of \$345.6 million at June 30, 2018 and \$363.9 million at December 31, 2017 based upon market quotations.

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

NOTE 6 – EARNINGS PER SHARE

Basic earnings per share are based upon 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. Our potentially dilutive securities consist of restricted stock, restricted stock units, performance share awards and SSARs.

Share amounts in millions	Quarter		Six Months	
	Ended June 30, 2018	Ended June 30, 2017	Ended June 30, 2018	Ended June 30, 2017
Denominator for basic earnings per share:				
Weighted average common shares outstanding - basic	144.6	144.5	144.7	144.3
Effect of dilutive securities:				
Dilutive effect of employee stock plans	1.6	1.7	1.7	1.7
Denominator for diluted earnings per share:				
Weighted average shares outstanding - diluted	146.2	146.2	146.4	146.0

For the quarter and six months ended June 30, 2018, there were no SSARs that were considered not in-the-money for purposes of our earnings per share calculation.

For the quarter and six months ended June 30, 2017, SSARs relating to approximately 0.2 million shares of our common stock were considered not in-the-money for purposes of our earnings per share calculation.

NOTE 7 – RECEIVABLES

Receivables consist of the following:

Dollar amounts in millions	June 30, December 31,	
	2018	2017
Trade receivables	\$148.3	\$ 124.6
Income tax receivable	1.6	2.2
Other receivables	13.3	16.6
Allowance for doubtful accounts (0.9) (0.9)		
Total	\$162.3	\$ 142.5

Other receivables at June 30, 2018 and December 31, 2017 primarily consist of sales tax receivables, a receivable associated with an affiliate, receivables for tax credits and other miscellaneous receivables.

NOTE 8 – INVENTORIES

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

Dollar amounts in millions	June 30, December 31,	
	2018	2017
Logs	\$ 57.1	\$ 60.3
Other raw materials	25.2	20.8
Semi-finished inventory	23.4	24.3
Finished products	180.7	153.7
Total	\$ 286.4	\$ 259.1

NOTE 9 - INVESTMENTS IN AND ADVANCES TO AFFILIATES

During the second quarter of 2018, we invested \$45.0 million in Entekra Holdings, LLC (Entekra), a start-up design, engineering and manufacturing company that provides off-site framing for both residential and commercial construction. This investment is recorded as an equity investment based upon the joint control of Entekra's operations. We own 81.8% of the A units and 55% of the B units of this operation. Our portion of the earnings and losses of Entekra is included in our Consolidated Statement of Income as income (loss) from unconsolidated affiliate.

At June 30, 2018, we have an investment in a joint venture with Resolute Forest Products to operate jointly owned I-Joist facilities in Quebec. We are the exclusive distributor of the I-joists produced and sold by the joint venture and these operations are considered an integral part of our operations. Our portion of the earnings and losses of these operations are classified as a reduction in cost of sales.

NOTE 10 – 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. Each period, the income tax accrual is adjusted to the latest estimate and the difference from the previously accrued year-to-date balance is adjusted to the current quarter. Changes in the profitability estimates in various jurisdictions will impact our quarterly effective income tax rates.

For the first six months of 2018, the primary differences between the U.S. statutory rate of 21% and the 24% effective rate applicable to our income from continuing operations relate to state income tax, discretionary pension payments, foreign tax rates and tax deductions related to stock-based compensation. For the first six months of 2017, the primary differences between the U.S. statutory rate of 35% and the 26% effective rate applicable to our continuing operations relate to foreign tax rates, changes in Canadian valuation allowances, and the deduction for U.S. Domestic production activities.

During the second quarter of 2017, we deposited \$32.0 million with U.S. I.R.S. to suspend the running of interest on potential underpayments of disputable income tax amounts for the year 2016.

We periodically review the need for valuation allowances against deferred tax assets and recognize 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 carryforwards. We believe 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, we may be required to record an adjustment resulting in an impact on tax expense (benefit) for that period.

At the end of 2017, we recorded a provisional benefit of \$18.4 million resulting from the reduction in the carrying value of our US deferred tax liabilities to reflect the change in the US corporate income tax rate from 35% to 21% under the Tax Act. During the second quarter of 2018, we revised our estimate of the amount of deferred taxes related to discretionary pension contributions, and have recorded an additional benefit of \$3.1 million related to that change as a discrete item in the quarter.

We continue to evaluate the other provisions of the Tax Act, specifically the Global Intangible Low-taxed Income (GILTI) and Foreign-Derived Intangible Income (FDII) provisions. Due to the complexity and uncertainty involved and our continued evaluation, to date we have not recorded any provisional amounts for these items.

NOTE 11 - OTHER OPERATING CREDITS AND CHARGES

During the second quarter of 2018, we recorded a gain of \$8.3 million related to the settlement of previously-paid environmental costs or the liability for future environmental costs to be paid by a third party associated with a non-operating site. Additionally, we recorded \$3.8 million in severance and other charges related to certain reorganizations within the corporate offices, including the costs associated with the retirement of our previous chief financial officer.

During the first quarter of 2018, we recorded a gain of \$0.4 million related to a previously-settled claim associated with our hardboard siding.

During the second quarter of 2017, we recorded an expense of \$2.0 million related to an increase in product-related warranty reserves associated with CanExel products sold in specific geographic locations and for a specific time period.

During the first quarter of 2017, we recorded an expense of \$3.4 million related to an increase in product-related warranty reserves associated with CanExel products sold in specific geographic locations and for a specific time period.

NOTE 12 – LEGAL AND ENVIRONMENTAL MATTERS

Certain environmental matters and legal proceedings are discussed below.

Environmental Matters

We maintain 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. Our estimates of our 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. We regularly monitor our estimated exposure to environmental 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.

The activity in our reserve for estimated environmental loss contingency reserves for the quarter and six months ended June 30, 2018 and 2017 is summarized in the following table.

	Quarter Ended		Six Months	
	June 30,		Ended June	
Dollar amounts in millions	2018	2017	2018	2017
Beginning balance	\$12.8	\$15.8	\$15.0	\$15.9
Adjusted to expense	—	0.1	(0.8)	0.1
Payments made	(0.3)	(0.2)	(1.7)	(0.3)
Ending balance	\$12.5	\$15.7	\$12.5	\$15.7

Recorded in Other assets is \$2.6 million related to a receivable for reimbursements of environmental costs associated with a non-operating site.

Other Proceedings

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

NOTE 13 – SELECTED SEGMENT DATA

We operate in four segments: Siding, OSB, EWP and South America. Our business units have been aggregated into these four segments based upon the similarity of economic characteristics, customers and distribution methods. Our 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 our Annual Report on Form 10-K for the year ended December 31, 2017.

Dollar amounts in millions	Quarter Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Net sales				
Siding	\$261.6	\$231.0	\$488.6	\$445.0
OSB	387.4	325.0	700.7	593.4
EWP	109.1	94.2	209.8	176.3
South America	45.3	38.7	87.7	76.5
Other	7.4	7.1	15.3	15.8
Intersegment sales	—	(1.9)	—	(2.0)
	\$810.8	\$694.1	\$1,502.1	\$1,305.0
Operating profit (loss):				
Siding	\$62.7	\$49.0	\$108.0	\$89.7
OSB	157.4	103.0	254.8	163.8
EWP	8.6	5.3	11.4	6.1
South America	9.6	5.5	18.5	10.6
Other	(0.8)	(0.9)	(1.7)	(1.1)
Other operating credits and charges, net	4.5	(2.0)	4.9	(5.4)
Gain on sale or impairment of long-lived assets, net	—	3.1	0.6	2.5
General corporate and other expenses, net	(27.6)	(26.8)	(54.9)	(54.6)
Interest expense, net of capitalized interest	(4.4)	(4.9)	(8.8)	(9.9)
Investment income	4.8	2.3	8.0	4.3
Other non-operating items	(0.7)	(3.1)	(2.1)	(5.0)
Income from continuing operations before taxes	214.1	130.5	338.7	201.0
Provision for income taxes	51.2	36.0	80.9	51.5
Income from continuing operations	\$162.9	\$94.5	\$257.8	\$149.5

NOTE 14 – POTENTIAL IMPAIRMENTS

We continue to review certain operations and investments for potential impairments. We currently believe we have 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.

We also review 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, we may be required to record impairment charges in connection with decisions to dispose of assets.

NOTE 15 – PRODUCT WARRANTY

We provide warranties on the sale of most of our products and records an accrual for estimated future claims. Such accruals are based upon historical experience and management’s estimate of the level of future claims. The activity in warranty reserves for the quarter and six months ended June 30, 2018 and 2017 are summarized in the following table:

Dollar amounts in millions	Quarter Ended		Six Months	
	June 30,		Ended June	
	2018	2017	2018	2017
Beginning balance	\$24.2	\$24.5	\$24.7	\$24.1
Accrued to expense	0.4	0.2	0.6	0.4
Accrued to other operating credits and charges	—	2.0	—	5.4
Foreign currency translation	(0.8)	1.2	(0.4)	1.4
Payments made	(1.0)	(2.6)	(2.1)	(6.0)
Total warranty reserves	22.8	25.3	22.8	25.3
Current portion of warranty reserves	(4.0)	(9.0)	(4.0)	(9.0)
Long-term portion of warranty reserves	\$18.8	\$16.3	\$18.8	\$16.3

We continue to monitor warranty and other claims associated with these products and believe as of June 30, 2018 that the reserves associated with these matters are adequate. However, it is possible that additional changes 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 our 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 six months ended June 30, 2018:

Dollar amounts in millions	Foreign currency translation adjustments	Pension Adjustments		Unrealized gain (loss) on investments	Other	Total
		Actuarial losses	Prior service costs			
Balance at March 31, 2018	\$ (37.4)	\$ (95.6)	\$ (4.8)	\$ 4.4	\$ (1.5)	\$ (134.9)
Other comprehensive income (loss) before reclassifications	(13.8)	0.1	—	(0.1)	—	(13.8)
Income taxes	—	—	—	—	—	—
Net other comprehensive income (loss) before reclassifications	(13.8)	0.1	—	(0.1)	—	(13.8)
Amounts reclassified from accumulated comprehensive income (loss)	—	1.6	0.1	—	0.1	1.8
Income taxes	—	(0.4)	—	—	—	(0.4)
Net amounts reclassified from cumulative other comprehensive income (loss)	—	1.2	0.1	—	0.1	1.4
Total other comprehensive income (loss)	(13.8)	1.3	0.1	(0.1)	0.1	(12.4)
Balance at June 30, 2018	\$ (51.2)	\$ (94.3)	\$ (4.7)	\$ 4.3	\$ (1.4)	\$ (147.3)

Dollar amounts in millions	Pension Adjustments					Total
	Foreign currency translation adjustments	Actuarial losses	Prior service costs	Unrealized gain (loss) on investments	Other	
Balance at December 31, 2017	\$ (39.7)	\$(79.5)	\$(4.9)	\$ 3.5	\$(1.5)	\$(122.1)
Effect of adoption of ASU 2018-02	—	(17.4)	—	0.7	—	(16.7)
Other comprehensive income (loss) before reclassifications	(11.5)	0.3	—	0.1	—	(11.1)
Income taxes	—	—	—	—	—	—
Net other comprehensive income (loss) before reclassifications	(11.5)	0.3	—	0.1	—	(11.1)
Amounts reclassified from accumulated comprehensive income (loss)	—	3.1	0.2	—	0.1	3.4
Income taxes	—	(0.8)	—	—	—	(0.8)
Net amounts reclassified from cumulative other comprehensive income (loss)	—	2.3	0.2	—	0.1	2.6
Total other comprehensive income (loss)	(11.5)	2.6	0.2	0.1	0.1	(8.5)
Balance at June 30, 2018	\$ (51.2)	\$(94.3)	\$(4.7)	\$ 4.3	\$(1.4)	\$(147.3)

Other comprehensive income activity, net of tax, is provided in the following table for the quarter and six months ended June 30, 2017:

Dollar amounts in millions	Pension Adjustments					Total
	Foreign currency translation adjustments	Actuarial losses	Prior service costs	Unrealized gain (loss) on investments	Other	
Balance at March 31, 2017	\$ (43.5)	\$(87.0)	\$(5.0)	\$ 3.0	\$(0.7)	\$(133.2)
Other comprehensive income (loss) before reclassifications	(8.5)	(0.2)	—	0.2	—	(8.5)
Income taxes	—	—	—	(0.1)	—	(0.1)
Net other comprehensive income (loss) before reclassifications	(8.5)	(0.2)	—	0.1	—	(8.6)
Amounts reclassified from accumulated other comprehensive income (loss)	—	1.4	0.3	—	—	1.7
Income taxes	—	(0.6)	(0.1)	—	—	(0.7)
Net amounts reclassified from cumulative other comprehensive income (loss)	—	0.8	0.2	—	—	1.0
Total other comprehensive income (loss)	(8.5)	0.6	0.2	0.1	—	(7.6)
Balance at June 30, 2017	\$ (52.0)	\$(86.4)	\$(4.8)	\$ 3.1	\$(0.7)	\$(140.8)

Dollar amounts in millions	Pension Adjustments					Total
	Foreign currency translation adjustments	Actuarial losses	Prior service costs	Unrealized gain (loss) on investments	Other	
Balance at December 31, 2016	\$ (46.3)	\$ (87.7)	\$ (5.2)	\$ 2.7	\$ (0.7)	\$ (137.2)
Other comprehensive income (loss) before reclassifications	(5.7)	(0.4)	—	0.7	—	(5.4)
Income taxes	—	—	—	(0.3)	—	(0.3)
Net other comprehensive income (loss) before reclassifications	(5.7)	(0.4)	—	0.4	—	(5.7)
Amounts reclassified from accumulated other comprehensive income (loss)	—	2.8	0.6	—	—	3.4
Income taxes	—	(1.1)	(0.2)	—	—	(1.3)
Net amounts reclassified from cumulative other comprehensive income (loss)	—	1.7	0.4	—	—	2.1
Total other comprehensive income (loss)	(5.7)	1.3	0.4	0.4	—	(3.6)
Balance at June 30, 2017	\$ (52.0)	\$ (86.4)	\$ (4.8)	\$ 3.1	\$ (0.7)	\$ (140.8)

The amounts reclassified from accumulated other comprehensive income (loss) are included in the computation of net periodic pension cost; see Note 17 for additional details. The net periodic pension cost is included in the captions "Cost of sales", "Selling, general and administrative expenses" and "Other non-operating items" in the Consolidated Statements of Income.

During the first six months of 2018, the strengthening of the U.S. dollar as compared to the functional currencies of our South American operations resulted in LP recording a loss on foreign currency adjustment in other comprehensive income of \$11.5 million. During the first six months of 2018, the Brazilian real weakened 17% and the Chilean peso weakened 6% as compared to the U.S. dollar.

NOTE 17 – DEFINED BENEFIT PENSION PLANS

The following table sets forth the net periodic pension cost for our defined benefit pension and postretirement plans during the quarter and six months ended June 30, 2018 and 2017. In accordance with ASU 2017-07, "Retirement Benefits - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (an amendment to ASC 715), all non-service related costs associated with our pension and post retirement plans are recorded outside of operating income. The net periodic pension cost included the following components:

	Quarter		Six Months	
	Ended June		Ended June	
	30,	30,	30,	30,
Dollar amounts in millions	2018	2017	2018	2017
Service cost	\$1.1	\$1.4	\$2.2	\$2.7
Other components of net periodic pension cost:				
Interest cost	2.9	3.3	5.8	6.5
Expected return on plan assets	(3.3)	(3.3)	(6.7)	(6.5)
Amortization of prior service cost ¹	0.1	0.2	0.2	0.4
Amortization of net loss ¹	1.5	1.4	3.1	2.8
Net periodic pension cost	\$2.3	\$3.0	\$4.6	\$5.9
Net periodic pension cost included in cost of sales	\$0.6	\$0.9	\$1.3	\$1.7
Net periodic pension cost included in selling, general, and administrative expenses	0.5	0.5	0.9	1.0
Net periodic pension cost included in other non-operating items	1.2	1.6	2.4	3.2
	\$2.3	\$3.0	\$4.6	\$5.9

¹The 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.

During the six months ended June 30, 2018, we made \$5.0 million in pension contributions to our defined benefit pension plans. We expect to contribute about \$40.0 million to our defined benefit pension plans in the remaining months of 2018.

NOTE 18 - DISCONTINUED OPERATIONS

LP has adopted and implemented plans to sell selected businesses and assets in order to improve its operating results. For all periods presented, these operations include residual losses of mills divested in past years and associated warranty and other liabilities associated with these operations.

Included in the operating losses of discontinued operations is an increase in reserves associated with our discontinued composite decking products of \$5.0 million for the six months ended June 30, 2018.

NOTE 19 - SUBSEQUENT EVENT

On July 2, 2018, we repaid \$22.0 million of the limited recourse senior notes at maturity. These notes were secured by \$22.2 million in notes receivable from assets sales which matured and were received on June 30, 2018.

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

GENERAL

LP is a leading building products solutions company that manufactures sustainable, quality engineered wood building materials including siding, oriented strand board and engineered wood products. 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: Siding; North America Oriented Strand Board (OSB); Engineered Wood Products (EWP); and South America.

Demand for our products correlates to a significant degree to the level of new home construction activity in North America, which historically has been characterized by significant cyclicity. The U.S. Department of Census reported that U.S. single and multi-family housing starts were 8% higher than for the second quarter and 8% higher for the first six months of 2018 as compared to the same periods of 2017 .

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 30% higher for the second quarter and 28% higher for the first six months of 2018 compared to the same periods in 2017.

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, 2017 and to "About Forward-Looking Statements" and "Risk Factors" in this report.

EXECUTIVE SUMMARY

We recorded a 17% increase in sales to \$810.8 million for the quarter ended June 30, 2018 from \$694.1 million reported for the quarter ended June 30, 2017. We recorded income from continuing operations of \$162.9 million for the quarter ended June 30, 2018 compared to \$94.5 million for the quarter ended June 30, 2017. We recorded net income of \$162.7 million (\$1.11 per diluted share) for the quarter ended June 30, 2018 compared to \$94.5 million (\$0.65 per diluted share) for the quarter ended June 30, 2017. We reported an increase of \$75.4 million in Adjusted EBITDA from continuing operations for the second quarter of 2018 as compared to the second quarter of 2017. Improvements in OSB pricing in all North American operations had a positive impact on our operating results of \$84.8 million for the quarter ended June 30, 2018 as compared to the quarter ended June 30, 2017.

We recorded a 15% increase in sales to \$1.5 billion for the six months ended June 30, 2018 from \$1.3 billion reported for the six months ended June 30, 2017. We recorded income from continuing operations of \$257.8 million for the six months ended June 30, 2018 compared to \$149.5 million for the six months ended June 30, 2017. We recorded net income of \$253.6 million (\$1.73 per diluted share) for the six months ended June 30, 2018 compared to \$149.5 million (\$1.02 per diluted share) for the six months ended June 30, 2017. We reported an increase of \$120.7 million in Adjusted EBITDA from continuing operations for the six months ended of 2018 as compared to the first six months of 2017. Improvements in OSB pricing in all North American operations had a positive impact on our operating results of \$134.2 million for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017.

These changes are discussed further in "Our Operating Results" below.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Presented in Note 1 of the Notes to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 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 2018, these significant accounting estimates and judgments include:

Long-lived Assets

Long-lived assets (including amortizable identifiable intangible assets) or asset group held for use is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, we compare the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of a long-lived asset or asset group. The cash flows are based on our best estimate of future cash flows derived from the most recent business projections. If this comparison indicates that there is an impairment, the amount of the impairment is calculated based on fair value. Fair value is estimated primarily using discounted expected future cash flows on a market-participant basis.

Defined Benefit Plans

We have a number of pension plans in the U.S. and Canada, covering many of the Company's employees. Benefit accruals under our defined benefit pension plan in the U.S. were frozen as of January 1, 2010.

We account for the consequences of our sponsorship of these plans based upon assumptions that are used to calculate the related assets, liabilities and expenses recorded in our financial statements. Net actuarial gains and losses occur when actual experience differs from any of the assumptions used to value defined benefit plans or when assumptions change as they may each year. The primary factors contributing to actuarial gains and losses are changes in the discount rate used to value obligations as of the measurement date and the differences between expected and actual returns on pension plan assets. This accounting method results in the potential for volatile and difficult to forecast gains and losses.

We record amounts relating to these defined benefit plans based on various actuarial assumptions, including discount rates, assumed rates of return, compensation increases and life expectancy. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current economic conditions and trends. We believe that the assumptions utilized in recording our obligations under our plans are reasonable based on our experience and on advice from our independent actuaries; however, differences in actual experience or changes in the assumptions may materially affect our financial condition or results of operations.

Income Taxes

We establish deferred tax liabilities or assets for temporary differences between financial and tax reporting bases and subsequently adjust them to reflect changes in tax rates expected to be in effect when the temporary differences reverse. We record a valuation allowance reducing deferred tax assets when it is more likely than not that such assets will not be realized.

We record liabilities for uncertain income tax positions based on a two-step process. The first step is recognition, where we evaluate whether an individual tax position has a likelihood of greater than 50% of being sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation

processes. For tax positions that are currently estimated to have a less than 50% likelihood of being sustained, no tax benefit is recorded. For tax positions that have met the recognition threshold in the first step, we perform the second step of measuring the benefit (expense) to be recorded. The actual benefits (expense) ultimately realized may differ from our estimates. In future periods, changes in facts, circumstances, and new information may require us to

change the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recorded in the consolidated statement of income and consolidated balance sheet in the period in which such changes occur. As of June 30, 2018 and December 31, 2017, we had liabilities for unrecognized tax benefits (including interest) pertaining to uncertain tax positions totaling \$41.7 million and \$42.3 million.

Customer Program Costs

Customer programs and incentives are a common practice in our businesses. Our businesses incur customer program costs to obtain favorable product placement, to promote sales of products and to maintain competitive pricing. Customer program costs and incentives, including rebates and promotion and volume allowances, are accounted for in either sales or the category selling and administrative expenses at the time the program is initiated and/or the revenue is recognized. The costs are predominantly recognized in sales and include, but are not limited to, volume allowances and rebates, promotional allowances, and cooperative advertising programs. These costs are recorded at the later of the time of sale or the implementation of the program based on management's best estimates. Estimates are based on historical and projected experience for each type of program or customer. Volume allowances are accrued based on management's estimates of customer volume achievement and other factors incorporated into customer agreements, such as new products, store sell-through, merchandising support and customer training. Management periodically reviews accruals for these rebates and allowances, and adjusts accruals when circumstances indicate (typically as a result of a change in volume expectations). As of June 30, 2018 and December 31, 2017, we had \$23.5 million and \$24.2 million accrued as customer rebates.

NON-GAAP FINANCIAL MEASURES

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

We have included EBITDA from continuing operations and Adjusted EBITDA from continuing operations in this report because we use them as important supplemental measures of our performance and believe 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 companies calculate EBITDA and Adjusted EBITDA differently and, therefore, our EBITDA and Adjusted EBITDA measures may not be comparable to EBITDA and Adjusted EBITDA reported by other companies. Our EBITDA and Adjusted EBITDA measures have material limitations as performance measures because they exclude interest expense, income tax 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.

We believe adjusted income from continuing operations, which excludes (gain) loss on sale or impairment of long-lived assets and other operating credits and charges, net, adjusted for a normalized tax rate is a useful measure for evaluating our ability to generate earnings and that providing this measure will allow investors to more readily

compare the earnings for past and future periods. It should be noted that other companies may present similarly-titled measures differently and, therefore, as presented by us may not be comparable to similarly-titled measures

reported by other companies. In addition, adjusted income from continuing operations has material limitations as a performance measure because it excludes items that are actually incurred or experienced in connection with the operations of our business.

The following table represents significant items by operating segment and reconciles earnings results to EBITDA from continuing operations and Adjusted EBITDA from continuing operations:

Quarter Ended June 30, 2018 (Dollar amounts in millions)	Siding	OSB	EWP	South America	Other	Corporate	Total
Income from continuing operations	\$62.7	\$157.4	\$8.6	\$9.6	\$(0.8)	\$(74.6)	\$162.9
Provision for income taxes	—	—	—	—	—	51.2	51.2
Interest expense, net of capitalized interest	—	—	—	—	—	4.4	4.4
Depreciation and amortization	8.4	13.6	4.3	2.3	0.7	0.8	30.1
EBITDA from continuing operations	71.1	171.0	12.9	11.9	(0.1)	(18.2)	248.6
Stock-based compensation expense	0.3	0.1	0.1	—	—	1.5	2.0
Investment income	—	—	—	—	—	(4.8)	(4.8)
Other operating credits and charges, net	—	—	—	—	—	(4.5)	(4.5)
Other non-operating items	—	—	—	—	—	0.7	0.7
Adjusted EBITDA from continuing operations	\$71.4	\$171.1	\$13.0	\$11.9	\$(0.1)	\$(25.3)	\$242.0
Adjusted EBITDA Margin	27 %	44 %	12 %	26 %	(1)%	NA	30 %
Quarter Ended June 30, 2017 (Dollar amounts in millions)	Siding	OSB	EWP	South America	Other	Corporate	Total
Income from continuing operations	\$49.0	\$103.0	\$5.3	\$5.5	\$(0.9)	\$(67.4)	\$94.5
Provision for income taxes	—	—	—	—	—	36.0	36.0
Interest expense, net of capitalized interest	—	—	—	—	—	4.9	4.9
Depreciation and amortization	7.5	14.9	3.7	2.2	0.5	0.8	29.6
EBITDA from continuing operations	56.5	117.9	9.0	7.7	(0.4)	(25.7)	165.0
Stock-based compensation expense	0.2	0.2	0.1	—	—	1.4	1.9
Gain on sale or impairment of long-lived assets, net	—	—	—	—	—	(3.1)	(3.1)
Investment income	—	—	—	—	—	(2.3)	(2.3)
Other operating credits and charges, net	—	—	—	—	—	2.0	2.0
Other non-operating items	—	—	—	—	—	3.1	3.1
Adjusted EBITDA from continuing operations	\$56.7	\$118.1	\$9.1	\$7.7	\$(0.4)	\$(24.6)	\$166.6
Adjusted EBITDA Margin	25 %	36 %	10 %	20 %	(6)%	NA	24 %

Six Months Ended June 30, 2018 (Dollar amounts in millions)	Siding	OSB	EWP	South America	Other	Corporate	Total
Income from continuing operations	\$108.0	\$254.8	\$11.4	\$18.5	\$(1.7)	\$(133.2)	\$257.8
Provision for income taxes	—	—	—	—	—	80.9	80.9
Interest expense, net of capitalized interest	—	—	—	—	—	8.8	8.8
Depreciation and amortization	16.6	28.4	8.7	4.6	1.2	1.6	61.1
EBITDA from continuing operations	124.6	283.2	20.1	23.1	(0.5)	(41.9)	408.6
Stock-based compensation expense	0.5	0.4	0.2	—	—	3.1	4.2
Gain on sale or impairment of long-lived assets, net	—	—	—	—	—	(0.6)	(0.6)
Investment income	—	—	—	—	—	(8.0)	(8.0)
Other operating credits and charges, net	—	—	—	—	—	(4.9)	(4.9)
Other non-operating items	—	—	—	—	—	2.1	2.1
Adjusted EBITDA from continuing operations	\$125.1	\$283.6	\$20.3	\$23.1	\$(0.5)	\$(50.2)	\$401.4
Adjusted EBITDA Margin	26	% 40	% 10	% 26	% (3)	% NA	27
Six Months Ended June 30, 2017 (Dollar amounts in millions)	Siding	OSB	EWP	South America	Other	Corporate	Total
Income from continuing operations	\$89.7	\$163.8	\$6.1	\$10.6	\$(1.1)	\$(119.6)	\$149.5
Provision for income taxes	—	—	—	—	—	51.5	51.5
Interest expense, net of capitalized interest	—	—	—	—	—	9.9	9.9
Depreciation and amortization	15.6	29.6	7.6	4.4	1.4	1.6	60.2
EBITDA from continuing operations	105.3	193.4	13.7	15.0	0.3	(56.6)	271.1
Stock-based compensation expense	0.4	0.4	0.1	—	—	5.1	6.0
Gain on sale or impairment of long-lived assets, net	—	—	—	—	—	(2.5)	(2.5)
Investment income	—	—	—	—	—	(4.3)	(4.3)
Other operating credits and charges, net	—	—	—	—	—	5.4	5.4
Other non-operating items	—	—	—	—	—	5.0	5.0
Adjusted EBITDA from continuing operations	\$105.7	\$193.8	\$13.8	\$15.0	\$0.3	\$(47.9)	\$280.7
Adjusted EBITDA Margin	24	% 33	% 8	% 20	% 2	% NA	22

The following table provides the reconciliation of net income to adjusted income from continuing operations:

	Quarter Ended		Six Months	
	June 30,		Ended June 30,	
	2018	2017	2018	2017
Net income	\$162.7	\$94.5	\$253.6	\$149.5
Add (deduct):				
Loss from discontinued operations	0.2	—	4.2	—
Gain on sale or impairment of long-lived assets, net	—	(3.1)	(0.6)	(2.5)
Other operating credits and charges, net	(4.5)	2.0	(4.9)	5.4
Reported tax provision	51.2	36.0	80.9	51.5
Normalized tax provision at 25% for 2018 and 35% for 2017	(52.4)	(45.3)	(83.3)	(71.4)
Adjusted income from continuing operations	\$157.2	\$84.1	\$249.9	\$132.5
Diluted shares outstanding	146.2	146.2	146.4	146.0
Adjusted income from continuing operations per diluted share	\$1.08	\$0.58	\$1.71	\$0.91

OUR OPERATING RESULTS

Our results of operations for each of our segments are discussed below, as are results of operations for the “other” category which comprises other products that are not individually significant. See Note 13 of the Notes to the consolidated financial statements included in item 1 of this report for further information regarding our segments.

SIDING

Our siding segment manufactures and markets wood-based siding (strand and fiber based) and related accessories and OSB products.

Segment sales, operating income and Adjusted EBITDA from continuing operations for this segment are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Net sales	\$261.6	\$231.0	13 %	\$488.6	\$445.0	10 %
Operating income	\$62.7	\$49.0	28 %	\$108.0	\$89.7	20 %
Adjusted EBITDA from continuing operations	\$71.4	\$56.7	26 %	\$125.1	\$105.7	18 %
Adjusted EBITDA margin	27	% 25	%	26	% 24	%

Sales in this segment by product line are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
SmartSide® strand siding	\$193.5	\$164.3	18 %	\$358.6	\$320.4	12 %
SmartSide® fiber siding	27.9	29.3	(5)%	53.8	58.0	(7)%
CanExel siding	12.5	14.2	(12)%	26.4	28.5	(7)%
OSB - commodity	12.4	21.0	(41)%	21.1	33.4	(37)%
OSB - value add	12.4	—	100 %	21.6	—	100 %
Other	2.9	2.2	32 %	7.1	4.7	51 %
Total	\$261.6	\$231.0	13 %	\$488.6	\$445.0	10 %

Percent changes in average sales prices and unit shipments for the quarter and six months ended June 30, 2018 compared to the quarter and six months ended June 30, 2017 are as follows:

	Quarter Ended June 30, 2018 versus 2017			Six Months Ended June 30, 2018 versus 2017		
	Average Unit Selling Price		%	Average Unit Selling Price		%
SmartSide® strand siding	4 %	15 %		4 %	7 %	
SmartSide® fiber siding	11 %	(12)%		8 %	(14)%	
CanExel siding	7 %	(18)%		7 %	(14)%	
OSB	38 %	(15)%		31 %	(3)%	

For the quarter and six months ended June 30, 2018 compared to the corresponding periods in 2017, sales volumes increased in our SmartSide strand product line due to increased market penetration in key markets. Sales prices in our SmartSide strand product line for the quarter and six months ended June 30, 2018 as compared to the corresponding periods in 2017 were higher due to price increases which were implemented in the first quarter of 2018 and the second quarter of 2017.

For the quarter and six months ended June 30, 2018 compared to the corresponding periods in 2017, sales volumes declined in our SmartSide fiber product line due to our decision to raise prices which slowed demand. Sales prices in our SmartSide fiber product line for the quarter and six months ended June 30, 2018 as compared to the corresponding periods in 2017 were higher due to a price increase implemented in the first quarter of 2018.

For CanExel, sales volumes decreased in the second quarter and first six months of 2018 as compared to the corresponding periods in 2017 due to decreased demand in Canada due to customers re-balancing their inventories after a stronger fourth quarter of 2017 and continued weakened demand in Europe. Sales prices were higher for the second quarter and first six months of 2018 as compared to the corresponding periods in 2017 due to changes in our product mix, price increases implemented in 2018 and the fluctuations in the U.S. to Canadian dollar as a majority of these sales are denominated in Canadian dollars.

For our OSB produced in the siding segment for the quarter and six months ended June 30, 2018 compared to the corresponding periods in 2017, sales prices increased, as discussed in the OSB segment below. Sales volumes were lower for the quarter ended June 30, 2018 compared to the corresponding period in 2017 due to logistics challenges. We estimated Adjusted EBITDA from continuing operations associated with OSB produced and sold in the siding segment for the quarter and six months ended June 30, 2018 was \$10.4 million and \$15.1 million as compared to the comparable periods in 2017 of \$4.7 million and \$6.4 million.

Overall, the improvement in the siding segment for the second quarter and first six months of 2018 compared to the same periods of 2017 was due to higher pricing and volume on our SmartSide strand products which were partially offset by increases in raw materials, primarily resin, expenses associated with the Dawson Creek conversion project, logistic challenges resulting in higher freight and lower throughput, principally at our Dawson Creek mill and increases in sales and marketing expenses.

OSB

Our OSB segment manufactures and distributes OSB structural panel products in North America and certain export markets.

Segment sales, operating income and Adjusted EBITDA from continuing operations for this segment are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Net sales	\$387.4	\$325.0	19 %	\$700.7	\$593.4	18 %
Operating income	\$157.4	\$103.0	53 %	\$254.8	\$163.8	56 %
Adjusted EBITDA from continuing operations	\$171.1	\$118.1	45 %	\$283.6	\$193.8	46 %
Adjusted EBITDA Margin	44 %	36 %		40 %	33 %	

Sales in this segment by product line are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
OSB - commodity	\$231.4	\$190.7	21 %	\$412.5	\$342.0	21 %
OSB - value add	154.9	132.1	17 %	284.0	245.2	16 %
Other	1.1	2.2	(50)%	4.2	6.2	(32)%
Total	\$387.4	\$325.0	19 %	\$700.7	\$593.4	18 %

Percent changes in average sales prices and unit shipments for the quarter and six months ended June 30, 2018 compared to the quarter and six months ended June 30, 2017 are as follows:

	Quarter Ended June 30, 2018 versus 2017		Six Months Ended June 30, 2018 versus 2017	
	Average Net Selling Price	Unit Shipments	Average Net Selling Price	Unit Shipments
OSB - commodity	25 %	(3)%	22 %	(1)%
OSB - value-add	23 %	(4)%	19 %	(3)%

For the quarter and six months ended June 30, 2018, OSB prices increased compared to the corresponding periods in 2017. The increase in OSB prices was likely due to the higher overall demand compared to the supply available in the market. Sales volumes for both the quarter and six months ended June 30, 2018 are lower compared to the corresponding periods in 2017 due to weaker demand in the retail markets. The increase in selling price favorably impacted operating results and Adjusted EBITDA from continuing operations by \$76.2 million for the quarter and by \$121.4 million for the six months ended June 30, 2018 as compared to the same periods in 2017.

Overall the improvements in our OSB segment results for the quarter and six months ended June 30, 2018 as compared to the same periods in 2017 were due to increased sales prices partially offset by increases in raw material costs (primarily resin) and increases in manufacturing costs due to downtime related to logistics associated with our Western Canadian operations.

EWP

Our EWP segment manufactures and distributes laminated veneer lumber (LVL), I-Joists, laminated strand lumber (LSL) and other related products. This segment also includes the sale of I-Joist and LVL products produced by our joint venture with Resolute Forest Products and LVL sold under a contract manufacturing relationship. A plywood mill associated with our LVL operations in British Columbia and minor amounts of OSB are included in this segment. Segment sales, operating results and Adjusted EBITDA from continuing operations for this segment are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Net sales	\$109.1	\$94.2	16 %	\$209.8	\$176.3	19 %
Operating income	\$8.6	\$5.3	62 %	\$11.4	\$6.1	87 %
Adjusted EBITDA from continuing operations	\$13.0	\$9.1	43 %	\$20.3	\$13.8	47 %
Adjusted EBITDA margin	12 %	10 %		10 %	8 %	

Sales in this segment by product line are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
LVL	\$40.4	\$37.2	9 %	\$77.0	\$70.2	10 %
LSL	17.4	12.0	45 %	30.7	22.6	36 %
I-Joist	31.5	30.4	4 %	63.6	56.1	13 %
OSB - commodity	5.2	4.0	30 %	8.0	5.1	57 %
OSB - value add	3.8	3.6	6 %	7.9	6.5	22 %
Plywood	8.0	5.8	38 %	15.6	10.6	47 %
Other	2.8	1.2	133 %	7.0	5.2	35 %
Total	\$109.1	\$94.2	16 %	\$209.8	\$176.3	19 %

Percent changes in average sales prices and unit shipments for the quarter and six months ended June 30, 2018 compared to the quarter and six months ended June 30, 2017 are as follows:

	Quarter Ended June 30, 2018 versus 2017		Six Months Ended June 30, 2018 versus 2017	
	Average Net Selling Price	Unit Shipments	Average Net Selling Price	Unit Shipments
LVL	10 % (1)%	10 % 1 %	10 % 1 %	10 % 1 %
LSL	8 % 34 %	9 % 26 %	9 % 26 %	9 % 26 %
I-Joist	11 % (7)%	9 % 5 %	9 % 5 %	9 % 5 %
OSB	23 % (4)%	19 % 16 %	19 % 16 %	19 % 16 %
Plywood	35 % 1 %	29 % 14 %	29 % 14 %	29 % 14 %

For the quarter ended June 30, 2018 compared to the same period in 2017, sales volumes decreased in LVL and I-joist in response to our price increases and certain regional market weakness. For the quarter and six months ended June 30, 2018 compared to the same periods in 2017, sales volumes increased in LSL due to continued penetration into new applications. Net average selling prices increased due to price increases implemented across all product lines. The increase in selling prices for OSB and plywood favorably impacted operating results and Adjusted EBITDA from continuing operations by \$1.7 million for OSB and \$2.1 million for plywood for the quarter and by \$2.5 million and \$3.5 million for the six months ended June 30, 2018 as compared to the same periods in 2017.

For the quarter and six months ended June 30, 2018, compared to the same periods in 2017, results of operations improved due to increase sales price increases and reductions in manufacturing costs due to higher utilization across all EWP mills partially offset by increases in raw material costs, principally, lumber, veneer and OSB.

SOUTH AMERICA

Our South America segment manufactures and distributes OSB structural panel and siding products in South America and selected export markets. This segment has manufacturing operations in two countries, Chile and Brazil and operates sales offices in Chile, Brazil, Peru and Argentina.

Segment sales, operating income and Adjusted EBITDA from continuing operations for this segment are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Net sales	\$45.3	\$38.7	17 %	\$87.7	\$76.5	15 %
Operating income	\$9.6	\$5.5	75 %	\$18.5	\$10.6	75 %
Adjusted EBITDA from continuing operations	\$11.9	\$7.7	55 %	\$23.1	\$15.0	54 %
Adjusted EBITDA margin	26 %	20 %		26 %	20 %	

Sales in this segment by product line are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
OSB - value add	\$37.2	\$33.2	12 %	\$72.1	\$63.8	13 %
SmartSide strand siding	6.9	4.6	50 %	13.7	10.8	27 %
Other	1.2	0.9	33 %	1.9	1.9	— %
Total	\$45.3	\$38.7	17 %	\$87.7	\$76.5	15 %

Percent changes in average sales prices and unit shipments for the quarter and six months ended June 30, 2018 compared to the quarter and six months ended June 30, 2017 are as follows:

	Quarter Ended June 30, 2018 versus 2017	Six Months Ended June 30, 2018 versus 2017
Average Net Selling Price	29 % (6)%	3 % (7)%
Unit Shipments	7 % 35 %	6 % 16 %

OSB sales volumes decreased for the quarter and six months ended June 30, 2018 as compared to the corresponding periods in 2017 due to reduced imports from our North America operations. Sales prices for OSB increased for the quarter and six months ended June 30, 2018 as compared to the corresponding periods in 2017 due to price increases implemented in South America. Siding volume increased due to increased market penetration in key markets between periods with sales prices increasing due to a price increase implemented during the first quarter of 2018.

For the quarter and six months ended June 30, 2018, compared to the same periods in 2017, results of operations were higher due to increases in sales prices and a higher mix of siding products partially offset by increases in product costs, primarily resins.

OTHER PRODUCTS

Our other products segment includes our joint venture that provides off-site framing for both residential and commercial construction, remaining timber and timberlands and other minor products, services and closed operations which are not classified as discontinued operations.

Segment sales, operating losses and Adjusted EBITDA from continuing operations for this category are as follows:

	Quarter Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	2018	2017	Change
Net sales	\$7.4	\$7.1	4 %	\$15.3	\$15.8	(3)%
Operating losses	\$(0.8)	\$(0.9)	11 %	\$(1.7)	\$(1.1)	(55)%
Adjusted EBITDA from continuing operations	\$(0.1)	\$(0.4)	75 %	\$(0.5)	\$0.3	NM

GENERAL CORPORATE AND OTHER EXPENSE, NET

General corporate expenses were 3% higher for the the quarter and and about flat for the six months ended June 30, 2018 compared to the same periods in 2017. The increase in costs are associated with corporate initiatives related to supply chain activities partially offset by changes in our incentive compensation plans and lower stock compensation expense. General corporate and other expenses primarily consist of corporate overhead such as wages and benefits, professional fees, insurance and other expenses for corporate functions including certain executive officers, public company costs, information technology, financial services, environmental and safety, legal, supply management, human resources and other corporate functions.

NON-OPERATING INCOME AND EXPENSE

Components of non-operating income and expense are as follows:

	Quarter		Six Months	
	Ended June 30,		Ended June 30,	
Dollar amounts in millions	2018	2017	2018	2017
Interest income	\$4.7	\$2.1	\$8.2	\$3.8
SERP market adjustments	0.1	0.2	(0.2)	0.5
Investment income	4.8	2.3	8.0	4.3
Interest expense	(5.1)	(5.1)	(10.3)	(10.3)
Amortization of debt charges	(0.2)	(0.2)	(0.4)	(0.4)
Capitalized interest	0.9	0.4	1.8	0.8
Interest expense, net of capitalized interest	(4.4)	(4.9)	(8.9)	(9.9)
Net periodic pension cost, excluding service cost	(1.2)	(1.6)	(2.3)	(3.2)
Foreign currency gain (loss)	0.5	(1.5)	0.3	(1.8)
Other non-operating items	(0.7)	(3.1)	(2.0)	(5.0)
Total non-operating expense	\$(0.3)	\$(5.7)	\$(0.6)	\$(10.6)

INCOME TAXES

For the first six months of 2018, we recorded an income tax expense on continuing operations of 24% as compared to 26% in the comparable period of 2017. The primary differences between the U.S. statutory rate of 21% and the effective rate applicable to our income from continuing operations for the first six months of 2018 relate to state income tax, foreign tax rates, discretionary pension payments and tax deductions related to stock-based compensation. For the first six months of 2017, the primary differences between the U.S. statutory rate of 35% and the effective rate applied to our continuing operations relate to foreign tax rates, changes in Canadian valuation allowances and the deduction for U.S. domestic production activities.

Each quarter the income tax accrual is adjusted to the latest estimate and the difference from the previously accrued year-to-date balance is recorded in the current quarter.

OTHER COMPREHENSIVE INCOME (LOSS)

During the first six months of 2018, the strengthening of the U.S. dollar as compared to the functional currencies of our South American operations resulted in a loss on foreign currency adjustment in other comprehensive income of \$11.5 million as compared to a loss of \$5.7 million during the comparable period of 2017. During the first six months of 2018, the Brazilian real and Chilean peso weakened 17% and 6% as compared to the U.S. dollar.

LEGAL AND ENVIRONMENTAL MATTERS

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, 2017 and Note 12 to the Notes to the financial statements contained herein.

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 such credit facilities as we may have in effect from time to time. We may also from time to time issue and sell equity, debt or hybrid 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, paying dividends and making capital expenditures. We may also from time to time prepay or repurchase outstanding indebtedness, repurchase common stock or 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.

OPERATING ACTIVITIES

During the first six months of 2018, operating activities provided \$268.0 million of cash compared to \$161.6 million during the first six months of 2017. This change was primarily related to improvements in operating results (higher OSB pricing and SmartSide strand volume) offset by increases in working capital. In the third quarter of 2018, we anticipate making a discretionary contribution to our defined benefit pension plan of approximately \$33.2 million to maximize the tax savings allowed under the Tax Cuts and Jobs Act and lower our expenses associated with pension funding regulations going forward.

INVESTING ACTIVITIES

During the first six months of 2018, cash used in investing activities was approximately \$109.8 million. Capital expenditures in the first six months of 2018 were \$87.6 million. We used \$45.0 million to invest in an unconsolidated affiliate (see Note 9 for additional details). Additionally, we received a payment of \$22.2 million on notes receivable from asset sales. Included in "Accounts payable" is \$17.0 million related to capital expenditures that had not yet been paid as of June 30, 2018.

During the first six months of 2017, cash used in investing activities was approximately \$74.3 million. Capital expenditures in the first six months of 2017 were \$45.7 million. We used \$32.0 million to deposit cash with the U.S. I.R.S to suspend the running of interest on potential underpayments of disputable income tax amounts for the year 2016. Included in "Accounts payable" was \$8.9 million related to capital expenditures that had not yet been paid as of June 30, 2017.

Capital expenditures in 2018 are expected to be approximately \$200 million to \$250 million related to expansions in our siding business, growth and maintenance projects and our South American expansion.

FINANCING ACTIVITIES

During the first six months of 2018, cash used in financing activities was \$81.4 million. We used \$37.6 million to pay cash dividends, \$46.7 million to repurchase stock either through a share repurchase program or in connection with income tax withholding requirements associated with our employee stock-based compensation plans. Additionally, during the first six months of 2018, we received a grant from the Investments in Forest Industry Transformation program in Canada for \$3.1 million in connection with our conversion of the Dawson Creek OSB mill.

During the first six months of 2017, cash used in financing activities was \$6.5 million. We used \$1.3 million to repay outstanding debt in the first six months of 2017 and \$4.8 million to repurchase stock from employees in connection with income tax withholding requirements associated with our employee stock-based compensation plans.

POTENTIAL IMPAIRMENTS

We continue to review 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. As of June 30, 2018, the fair value of facilities that have not been indefinitely curtailed was in excess of their carrying value and supports the conclusion that no impairment is necessary for those facilities.

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

Our international operations have exposure to foreign currency rate risks, primarily due to fluctuations in the Canadian dollar, Brazilian real and the Chilean peso. Although we have in the past entered into foreign exchange contracts associated with certain of our indebtedness and may 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 of 4.9 billion square feet (3/8" basis) or 4.2 billion square feet (7/16" basis), a \$1 change in the annual average price per thousand square feet on 7/16" basis would change annual pre-tax profits by approximately \$4.2 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

As of June 30, 2018, our Chief Executive Officer and Interim Chief Financial Officer have carried out, with the participation of the Company's Disclosure Practices Committee and the Company'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 of 1934 (the Act). Based upon this evaluation, the Chief Executive Officer and Interim 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 Interim Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

We had no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
KEY STATISTICS

	Quarter		Six Months	
	Ended June		Ended June	
	30,	30,	30,	30,
	2018	2017	2018	2017
Housing starts ¹ :				
Single Family	257.9	237.3	452.7	418.7
Multi-Family	94.9	89.8	188.6	175.6
	352.8	327.1	641.3	594.3

¹ Actual U.S. Housing starts data reported by U.S. Census Bureau

The following tables set forth sales volume for the quarter and six months ended June 30, 2018 and 2017.

	Quarter Ended June 30, 2018			Quarter Ended June 30, 2017		
Sales Volume	Siding	OSB	EWPTotal	Siding	OSB	EWPTotal
SmartSide® Strand siding (MMSF)	308.6	—	308.6	269.4	—	269.4
SmartSide® fiber siding (MMSF)	57.7	—	57.7	65.8	—	65.8
CanExel® siding (MMSF)	12.1	—	12.1	14.7	—	14.7
OSB - commodity (MMSF)	34.4	662.6	13.9 710.9	76.7	684.9	14.9 776.5
OSB - value added (MMSF)	31.1	399.8	11.0 441.9	—	415.7	11.0 426.7
LVL (MMCF)	—	—	1.9 1.9	—	—	2.0 2.0
LSL (MMCF)	—	—	1.1 1.1	—	—	0.8 0.8
I-joist (MMLF)	—	—	21.7 21.7	—	—	23.2 23.2

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
Sales Volume	Siding	OSB	EWPTotal	Siding	OSB	EWPTotal
SmartSide® Strand siding (MMSF)	571.4	—	571.4	534.0	—	534.0
SmartSide® fiber siding (MMSF)	113.3	—	113.3	132.2	—	132.2
CanExel® siding (MMSF)	24.9	—	24.9	28.8	—	28.8
OSB - commodity (MMSF)	65.0	1,278.5	25.3 1,368.8	126.2	1,287.2	19.5 1,432.9
OSB - value added (MMSF)	57.6	783.2	20.7 861.5	—	805.2	20.0 825.2
LVL (MMCF)	—	—	3.8 3.8	—	—	3.8 3.8
LSL (MMCF)	—	—	2.0 2.0	—	—	1.6 1.6
I-joist (MMLF)	—	—	45.5 45.5	—	—	43.2 43.2

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 Western Canada 7/16" Basis	OSB Southwest 7/16" Basis	OSB N. Central 7/16" Basis
Average			
2017 1st Qtr. Avg.	\$263	\$308	\$292
2017 2nd Qtr. Avg.	\$318	\$328	\$327
2018 1st Qtr. Avg.	\$356	\$346	\$367
2018 2nd Qtr. Avg.	\$408	\$435	\$423

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 – Legal and Environmental Matters” to the Notes to the financial statements contained herein is incorporated herein by reference.

Item 1A. Risk Factors.

There have been no material changes with respect to the risk factors disclosed in our 2017 Annual Report on Form 10-K.

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

The following amount of our common stock was repurchased during the quarter ended June 30, 2018:

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as part of Publicly Announced Purchase Plan or Program	Maximum Dollar Value of Shares That May Yet be Purchased under the Plans or Programs
April 1, 2018 - April 30, 2018	—	—	—	\$100,000,000
May 1, 2018 - May 31, 2018	613,939	\$27.99	613,939	82,815,847
June 1, 2018 - June 30, 2018	769,175	\$28.19	769,175	61,132,804
	1,383,114	\$28.11	1,383,114	

On November 5, 2014, we announced that our Board of Directors authorized us to repurchase up to \$100 million of our common stock. On August 7, 2018, we announced that our Board of Directors has authorized a new stock repurchase program under which we may repurchase up to an additional \$150 million of our common stock. Repurchases may be made through open market, block and privately-negotiated transactions, including Rule 10b5-1 plans, at times and in such amounts as management deems appropriate, subject to market and business conditions, regulatory requirements and other factors. The authorization does not obligate us to repurchase any particular amount of common stock and may be suspended or discontinued at any time without notice.

Additionally, we repurchased 1.1 million shares at an average price of \$27.55 through August 2, 2018 under the share repurchase authorization.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

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Item 5. Other Information.

None.

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Item 6. Exhibits.

- 10.1 Retirement Agreement with Ms. Sallie B. Bailey.
- 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.
- 100.INS XBRL Instance Document
- 100.SCH XBRL Taxonomy Extension Schema Document
- 100.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 100.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 100.LAB XBRL Taxonomy Extension Label Linkbase Document
- 100.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities 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: August 7, 2018 BY: /S/ W. BRADLEY SOUTHERN
W. Bradley Southern
Chief Executive Officer

Date: August 7, 2018 BY: /S/ REBECCA BARCKLEY
Rebecca Barckley
Controller, Financial Reporting
(Principal Accounting Officer)