

LOUISIANA-PACIFIC CORP  
Form 10-Q  
May 08, 2014

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

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934  
For Quarterly Period Ended March 31, 2014  
Commission File Number 1-7107

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

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)  
414 Union Street, Nashville, TN 37219  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (615) 986-5600

93-0609074  
(IRS Employer  
Identification No.)

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, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filers" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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: 141,130,878 shares of Common Stock, \$1 par value, outstanding as of May 8, 2014.

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

## ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

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

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

## ABOUT THIRD-PARTY INFORMATION

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

## Item 1. Financial Statements.

## CONSOLIDATED STATEMENTS OF INCOME

## LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES

(AMOUNTS IN MILLIONS EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	Three Months Ended March 31,	
	2014	2013
Net sales	\$444.7	\$531.1
Operating costs and expenses:		
Cost of sales	388.4	387.2
Depreciation and amortization	25.6	18.6
Selling and administrative	40.9	35.2
Other operating credits and charges, net	—	1.6
Total operating costs and expenses	454.9	442.6
Income (loss) from operations	(10.2 )	88.5
Non-operating income (expense):		
Interest expense, net of capitalized interest	(7.7 )	(10.6 )
Investment income	1.8	3.5
Other non-operating items	(4.3 )	(0.7 )
Total non-operating income (expense)	(10.2 )	(7.8 )
Income (loss) from continuing operations before taxes and equity in income of unconsolidated affiliates	(20.4 )	80.7
Provision (benefit) for income taxes	(5.6 )	22.9
Equity in income of unconsolidated affiliates	(0.6 )	(7.2 )
Income (loss) from continuing operations	(14.2 )	65.0
Income from discontinued operations before taxes	—	0.3
Provision for income taxes	—	0.2
Income from discontinued operations	—	0.1
Net income (loss)	\$(14.2 )	\$65.1
Income (loss) per share of common stock (basic):		
Income (loss) from continuing operations	\$(0.10 )	\$0.47
Income from discontinued operations	—	—
Net income (loss) per share	\$(0.10 )	\$0.47
Net income (loss) per share of common stock (diluted):		
Income (loss) from continuing operations	\$(0.10 )	\$0.45
Income from discontinued operations	—	—
Net income (loss) per share	\$(0.10 )	\$0.45
Average shares of stock outstanding - basic	140.8	138.4
Average shares of stock outstanding - diluted	140.8	144.4

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)

	Three Months Ended March 31,	
	2014	2013
Net income (loss)	(14.2	) \$65.1
Other comprehensive income (loss)		
Foreign currency translation adjustments	(1.8	) 1.9
Unrealized gain on marketable securities, net of reversals	0.1	0.3
Defined benefit pension plans	1.3	1.4
Other comprehensive income (loss), net of tax	(0.4	) 3.6
Comprehensive income (loss)	\$(14.6	) \$68.7

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

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

	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
Cash and cash equivalents	\$551.7	\$656.8
Receivables, net of allowance for doubtful accounts of \$1.1 million at March 31, 2014 and December 31, 2013	143.0	78.1
Inventories	276.3	224.4
Other current assets	5.2	7.7
Deferred income taxes	47.3	50.9
Assets held for sale	16.3	16.3
Total current assets	1,039.8	1,034.2
Timber and timberlands	69.2	71.6
Property, plant and equipment, at cost	2,305.5	2,294.6
Accumulated depreciation	(1,422.5)	(1,407.8)
Net property, plant and equipment	883.0	886.8
Goodwill	9.7	9.7
Notes receivable from asset sales	432.2	432.2
Long-term investments	3.8	3.7
Restricted cash	11.4	11.3
Investments in and advances to affiliates	3.8	3.2
Deferred debt costs	6.5	6.8
Other assets	34.7	33.8
Total assets	\$2,494.1	\$2,493.3
<b>LIABILITIES AND EQUITY</b>		
Current portion of long-term debt	\$2.3	\$2.3
Accounts payable and accrued liabilities	192.7	161.9
Current portion of contingency reserves	2.0	2.0
Total current liabilities	197.0	166.2
Long-term debt, excluding current portion	761.2	762.7
Contingency reserves, excluding current portion	12.8	13.3
Other long-term liabilities	133.8	136.1
Deferred income taxes	177.6	188.7
Stockholders' equity:		
Common stock	152.0	152.0
Additional paid-in capital	502.3	508.0
Retained earnings	873.5	887.7
Treasury stock	(226.5)	(232.2)
Accumulated comprehensive loss	(89.6)	(89.2)
Total stockholders' equity	1,211.7	1,226.3
Total liabilities and stockholders' equity	\$2,494.1	\$2,493.3
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)

	Three Months Ended March 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$(14.2	) \$65.1
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	25.6	18.6
Income from unconsolidated affiliates	(0.6	) (7.2
Other operating credits and charges, net	—	1.6
Stock-based compensation related to stock plans	2.1	2.1
Exchange gain (loss) on remeasurement	5.2	(0.3
Cash settlement of contingencies	(0.5	) (0.1
Cash settlements of warranties, net of accruals	(2.7	) (2.0
Pension expense, net of cash payments	0.6	1.5
Non-cash interest expense, net	0.5	0.4
Other adjustments, net	(0.2	) 0.8
Increase in receivables	(64.4	) (52.4
Increase in inventories	(51.3	) (48.6
Decrease in other current assets	2.5	1.4
Increase in accounts payable and accrued liabilities	32.4	12.1
Increase (decrease) in deferred income taxes	(8.0	) 23.8
Net cash provided by (used in) operating activities	(73.0	) 16.8
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property, plant and equipment additions	(24.0	) (13.2
Investments in and advances to joint ventures	—	6.8
Proceeds from sales of assets	0.1	—
(Increase) decrease in restricted cash under letters of credit/credit facility	(0.2	) 1.5
Net cash used in investing activities	(24.1	) (4.9
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt	(1.1	) (1.0
Taxes paid related to net share settlement of equity awards	(1.4	) (11.8
Other, net	—	0.1
Net cash used in financing activities	(2.5	) (12.7
<b>EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>	(5.5	) 0.4
Net decrease in cash and cash equivalents	(105.1	) (0.4
Cash and cash equivalents at beginning of period	656.8	560.9
Cash and cash equivalents at end of period	\$551.7	\$560.5
The accompanying notes are an integral part of these unaudited financial statements.		

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

	Common Stock		Treasury Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Comprehensive Loss	Stockholders' Equity
Balance, December 31, 2013	152.0	\$ 152.0	(10.9 )	\$(232.2 )	\$ 508.0	\$ 887.7	\$ (89.2 )	\$ 1,226.3
Net income	—	—	—	—	—	(14.2 )	—	(14.2 )
Issuance of shares for employee stock plans and stock-based compensation	—	—	0.3	7.1	(7.8 )	—	—	(0.7 )
Taxes paid related to net share settlement of equity awards	—	—	(0.1 )	(1.4 )	—	—	—	(1.4 )
Compensation expense associated with stock awards	—	—	—	—	2.1	—	—	2.1
Other comprehensive loss	—	—	—	—	—	—	(0.4 )	(0.4 )
Balance, March 31, 2014	152.0	\$ 152.0	(10.7 )	\$(226.5 )	\$ 502.3	\$ 873.5	\$ (89.6 )	\$ 1,211.7

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



## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 – BASIS FOR PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments, except for other operating credits and charges, net referred to in Note 9) necessary to present fairly, in all material respects, the consolidated financial position, results of operations and cash flows of LP and its subsidiaries for the interim periods presented. Results of operations for interim periods are not necessarily indicative of results to be expected for an entire year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in LP's Annual Report on Form 10-K for the year ended December 31, 2013.

## NOTE 2 – STOCK-BASED COMPENSATION

At March 31, 2014, LP had stock-based employee compensation plans as described below. The total compensation expense related to all of LP's stock-based compensation plans was \$2.1 million for the three months ended March 31, 2014 and \$2.1 million for the three months ended March 31, 2013.

## Stock Compensation Plans

LP grants options to purchase LP common stock and stock settled stock appreciation rights (SSARs) to key employees and directors. On exercise, LP generally issues shares from treasury to settle these awards. The options and SSARs are granted at market price at the date of grant. For employees, SSARs become exercisable ratably over a three year period and expire ten years after the date of grant. For directors, these options historically have become exercisable in 10% increments every three months, starting three months after the date of grant, and expire ten years after the date of grant. At March 31, 2014, 5.2 million shares were available under the current stock award plans for stock-based awards.

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

	2014	2013
Expected stock price volatility	57.5%	69.2%
Expected dividend yield	—%	—%
Risk-free interest rate	1.5%	0.9%
Expected life of options (in years)	5 years	5 years
Weighted average fair value of options and SSARs granted	\$9.03	\$11.68

The following table summarizes stock options and SSARs outstanding as of March 31, 2014, as well as activity during the three month period then ended.

Share amounts in thousands	Options and SSARs	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1, 2014	6,937	\$ 14.26		
Options granted	490	18.09		
Options exercised	(3 )	15.27		
Options canceled	(345 )	21.31		
Options outstanding at March 31, 2014	7,079	\$ 14.18	5.3	\$34.4
Vested and expected to vest at March 31, 2014 <sup>(1)</sup>	6,725	—	—	\$32.6
Options exercisable at March 31, 2014	6,022	\$ 13.96	—	\$31.5

<sup>(1)</sup> Options or SSARS expected to vest based upon historical forfeiture rate

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between LP's closing stock price on the last trading day of the first quarter of 2014 and the exercise price, multiplied by the number of in-the-money options and SSARs) that would have been received by the holders had all holders exercised their awards on March 31, 2014. This amount changes based on the market value of LP's stock as reported by the New York Stock Exchange.

As of March 31, 2014, there was \$3.4 million of total unrecognized compensation costs related to stock options and SSARs. These costs are expected to be recognized over a weighted-average period of 2.0 years. LP recorded compensation expense related to these awards in the first three months of 2014 of \$0.7 million.

#### Incentive Share Awards

LP has granted incentive share stock awards (restricted stock units) to certain key employees and directors. The employee awards vest three years from date of grant and awards to directors vest one year from date of grant. The awards entitle the participant to receive a specified number of shares of LP common stock at no cost to the participant. The market value at the time of grant approximates the fair value. LP recorded compensation expense related to these awards in the first three months of 2014 of \$0.8 million. As of March 31, 2014, there was \$4.9 million of total unrecognized compensation cost related to unvested incentive share awards. This expense will be recognized over a weighted-average period of 1.5 years.

The following table summarizes incentive share awards outstanding as of March 31, 2014 as well as activity during the three months then ended.

	Shares	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Incentive share awards outstanding at January 1, 2014	752,595		
Incentive share awards granted	145,345		
Incentive share awards vested	(248,724 )		
Incentive share awards canceled	(2,974 )		
Incentive shares outstanding at March 31, 2014	646,242	1.5	\$ 10.9
Vested and expected to vest at March 31, 2014 <sup>(1)</sup>	613,930	—	\$ 10.4

<sup>(1)</sup> Incentive shares expected to vest based upon historical forfeiture rate

### Restricted Stock

LP grants restricted stock to certain senior employees. The shares for employees vest three years from the date of grant and for directors vest five years from date of grant. During the vesting period, the participants have voting rights and receive dividends, but the shares may not be sold, assigned, transferred, pledged or otherwise encumbered. Additionally, granted but unvested shares are forfeited upon termination of employment. The fair value of the restricted shares on the date of the grant is amortized ratably over the vesting period. As of March 31, 2014, there was \$4.0 million of total unrecognized compensation costs related to restricted stock. This expense will be recognized over the next 1.5 years.

The following table summarizes the restricted stock outstanding as of March 31, 2014 as well as activity during the three months then ended.

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock awards outstanding at January 1, 2014	512,085	\$ 11.48
Restricted stock awards granted	117,412	18.09
Restrictions lapsed	(139,239)	10.30
Restricted stock awards at March 31, 2014	490,258	\$ 13.40

Compensation expense related to these awards recognized in the first three months of 2014 was \$0.5 million.

### Performance share awards

In connection with Mr. Stevens' appointment to Chief Executive Officer on May 4, 2012, he was awarded 300,000 performance shares. LP recorded compensation expense related to these awards of \$0.1 million in the first three months of 2014. As of March 31, 2014, there was \$0.7 million of total unrecognized compensation costs related to this award. This expense will be recognized over the next 2.1 years.

### Phantom stock

During 2011 and 2012, LP made annual grants of phantom stock units to its directors. Subsequent to the approval of the 2013 Omnibus Plan, phantom stock units are no longer granted to directors. The director does not receive rights of a shareholder, nor is any stock transferred. The units will be paid out in cash at the end of the five year vesting period. The value of one unit is based on the market value of one share of common stock on the vesting date. The cost of the grants are recognized over the vesting period and is included in stock-based compensation expense. Since these awards are settled in cash, such awards are required to be remeasured based upon the changes in LP's stock price. As of March 31, 2014, LP had 75,816 shares outstanding under this program.

### NOTE 3 – FAIR VALUE MEASUREMENTS

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

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

Dollar amounts in millions	March 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	\$3.8	\$—	\$—	\$3.8
Trading securities	2.1	2.1	—	—
Contingent consideration	3.6	—	—	3.6

Dollar amounts in millions	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	\$3.7	\$—	\$—	\$3.7
Trading securities	2.0	2.0	—	—
Contingent consideration	3.8	—	—	3.8

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

The following table summarizes changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended March 31, 2014 and 2013.

Dollar amounts in millions	Available for sale securities	Contingent consideration
Balance at December 31, 2012	\$2.0	\$—
Total unrealized gains included in other comprehensive income	0.5	—
Balance at March 31, 2013	\$2.5	\$—
Balance at December 31, 2013	\$3.7	\$3.8
Total unrealized gains included in other comprehensive income	0.1	—
Foreign currency loss	—	(0.2 )
Balance at September March 31, 2014	\$3.8	\$3.6

LP estimated the Senior Notes maturing in 2020 to have a fair value of \$386.8 million at March 31, 2014 and \$390.3 million at December 31, 2013 based upon market quotations.

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



## NOTE 4 – EARNINGS PER SHARE

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

Dollar and share amounts in millions, except per share amounts	Three Months Ended March 31,	
	2014	2013
Numerator:		
Income (loss) attributed to LP common shares:		
Income (loss) from continuing operations	\$(14.2	) \$65.0
Income from discontinued operations	—	0.1
Net income (loss)	\$(14.2	) \$65.1
Denominator:		
Basic - weighted average common shares outstanding	140.8	138.4
Dilutive effect of stock warrants	—	3.0
Dilutive effect of stock plans	—	3.0
Diluted shares outstanding	140.8	144.4
Basic earnings per share:		
Income (loss) from continuing operations	\$(0.10	) \$0.47
Income from discontinued operations	—	—
Net income (loss) per share	\$(0.10	) \$0.47
Diluted earnings per share:		
Income (loss) from continuing operations	\$(0.10	) \$0.45
Income from discontinued operations	—	—
Net income (loss) per share	\$(0.10	)