

LOUISIANA PACIFIC CORP  
Form 424B5  
July 27, 2001

FILED PURSUANT TO RULE 424(b)(5)  
REGISTRATION NO. 333-73157

**The information in this preliminary prospectus is not complete and may be changed. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**Subject to Completion. Dated July 26, 2001.**

Prospectus Supplement to Prospectus dated April 6, 2000.

**\$200,000,000**

## Louisiana-Pacific Corporation

### % Senior Subordinated Notes due 2008

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Louisiana-Pacific will pay interest on the notes on \_\_\_\_\_ and \_\_\_\_\_ of each year. The first such payment will be made on \_\_\_\_\_, 2002. The notes will be issued only in denominations of \$1,000 and integral multiples of \$1,000.

Prior to \_\_\_\_\_, 2005, Louisiana-Pacific has the option to redeem the notes, in whole or in part, at 100% of the principal amount of the notes plus a make-whole premium as described in this prospectus. At any time prior to \_\_\_\_\_, 2004, Louisiana-Pacific also has the option to redeem up to 35% of the notes at the redemption price set forth in this prospectus using the proceeds of specified equity offerings. On or after \_\_\_\_\_, 2005, Louisiana-Pacific has the option to redeem all or a portion of the notes at the redemption prices set forth in this prospectus.

The notes are unsecured and subordinated in right of payment to all existing and future senior debt of Louisiana-Pacific and will be effectively subordinated in right of payment to all existing and future debt and other liabilities of Louisiana-Pacific's subsidiaries. As of March 31, 2001, the senior debt of Louisiana-Pacific and the aggregate debt and other liabilities of its subsidiaries, on a consolidated basis, was \$921 million, excluding \$314 million of non-recourse debt.

*See Risk Factors beginning on page S-14 to read about certain factors you should consider before buying the notes.*

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**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

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	<u>Per Note</u>	<u>Total</u>
Initial public offering price	%	\$
Underwriting discount	%	\$
Proceeds, before expenses, to Louisiana-Pacific	%	\$

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The initial public offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from  
, 2001 and must be paid by the purchaser if the notes are delivered after  
, 2001.

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The underwriters expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company  
against payment in New York, New York on  
, 2001.

*Joint Book-Running Managers*

**Goldman, Sachs & Co.**

**Banc of America Securities LLC**

**RBC Dominion Securities**

**Wachovia Securities, Inc.**

**Scotia Capital**

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Prospectus Supplement dated  
, 2001.



## 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 prospectus supplement, the accompanying prospectus and the reports and documents filed by us with the Securities and Exchange Commission (the Commission) that are incorporated by reference in this prospectus supplement and the accompanying prospectus 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 such as may, will, could, should, believe, expect, anticipate, intend, plan, estimate, potential, could, 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 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, those described in Risk Factors and the following:

- changes in general economic conditions;
- changes in the cost and availability of capital;
- changes in the level of home construction activity;
- changes in competitive conditions and prices for our products;
- changes in the relationship between supply of and demand for building products, including the effects of industry-wide increases in manufacturing capacity;
- changes in the relationship between supply of and demand for the raw materials, including wood fiber and resins, used in manufacturing our products;
- changes in other significant operating expenses;
- changes in exchange rates between the U.S. dollar and other currencies, particularly the Canadian dollar;
- changes in general and industry-specific environmental laws and regulations;
- unforeseen environmental liabilities or expenditures;
- the resolution of product-related litigation and other legal proceedings; and
- acts of God or public authorities, war, civil unrest, fire, floods, earthquakes and other matters beyond our control.

In addition to these factors and any risks and uncertainties specifically identified in the text surrounding forward-looking statements, any statements in this prospectus supplement, the accompanying prospectus or 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 factors that could cause actual results to differ materially from those expressed in or implied by the forward-looking statements.

## OFFERING SUMMARY

*This summary highlights information contained elsewhere in this prospectus supplement. Because it is a summary, it does not contain all the information you should consider before making an investment decision. You should carefully consider all of the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, including the discussion under the caption Risk Factors of specific risks involved in an investment in the notes. In this prospectus supplement, unless the context requires otherwise, LP, the company, we, us and our each refers to Louisiana-Pacific Corporation and its subsidiaries.*

## Our Company

Our company, headquartered in Portland, Oregon, is a leading manufacturer and distributor of building materials. As of March 31, 2001, we had approximately 10,200 employees and operated 64 facilities in the U.S. and Canada, one facility in Chile and one facility in Ireland. We also own approximately 950,000 acres of timberland in the U.S., predominately in the south, and manage approximately 49 million acres of timberland in Canada. In 2000, our sales originating in the U.S. were \$2,331 million, representing approximately 79% of our total sales of \$2,933 million. Our focus is on delivering innovative, high-quality commodity and specialty building products to retail, wholesale, home building and industrial customers. With the exception of pulp, our products are used primarily in new home construction, repair and remodeling ( R&R ), and manufactured housing.

Our business is organized into five segments:

Our structural products segment manufactures and distributes structural panel products, including oriented strand board ( OSB ), an economic plywood substitute made from wood strands arranged in layers and bonded with resin, and plywood; lumber; and engineered wood products ( EWP ), including I-joists and laminated veneer lumber ( LVL ). Our structural products segment also includes our timberlands. We believe that in North America we are the largest and one of the most efficient producers of OSB, the largest producer of stud lumber and one of the largest producers of EWP. In 2000, structural products segment sales were approximately \$1,817 million, representing approximately 62% of our total net sales.

Our exterior products segment produces and markets wood and vinyl siding and related accessories, composite decking and specialty OSB products. Our exterior siding and other cladding products are used in the residential and commercial building markets. Our exterior product offerings are classified into five categories: (1) SmartSystem® siding products, (2) hardboard siding products, (3) vinyl siding products, (4) composite decking, and (5) developmental products. Our portfolio of products offers customers a wide variety of siding choices at various performance levels and prices. In 2000, exterior products segment sales were approximately \$329 million, representing approximately 11% of our total net sales.

Our industrial panel products segment manufactures and distributes particleboard, medium density fiberboard ( MDF ), hardboard and decorative panels. Our strategy in industrial panel products is primarily to focus on value-added specialty products that are complementary to our other product offerings. These value-added specialty product lines include flooring, shelving, door skins, door parts, decorative panels, paneling and other specialty applications. In 2000, industrial panel products segment sales were approximately \$287 million, representing approximately 10% of our total net sales. Our other products segment includes plastic molding products, as well as our distribution and wholesale business, wood chips and our OSB plants located in Chile and Ireland. Our other products segment previously included our Cocoon cellulose insulation business, which we contributed to a 50%-owned joint venture in August 2000. In 2000, other products segment sales were approximately \$348 million, representing approximately 12% of our total net sales.

Our pulp segment includes a pulp mill located in Chetwynd, British Columbia and previously included a pulp mill located in Samoa, California in which we sold a controlling interest in the first quarter of 2001. We are seeking to completely exit the pulp business with the sale of our Chetwynd pulp mill, which is presently managed by an unrelated party. In 2000, pulp segment sales were approximately \$152 million, representing approximately 5% of our total net sales.

### **Our Industry**

Building products are used in the construction of new housing, including traditional frame houses, multi-family homes, manufactured housing, and the repair and remodeling of existing housing. Generally classified by their application, building products are segmented into two groups, structural products and non-structural products. Structural products are used when strength is important and include structural panels, such as OSB and plywood; lumber; and EWP. Non-structural products are generally used when strength is not necessarily required and include products used on the exterior of residential and commercial structures, such as siding and decking. Particleboard, MDF, and hardboard are also non-structural products, and are used in the construction of furniture and other non-load bearing applications.

Up until the late 1980s, plywood represented over 95% of the structural panel market. Since then, OSB has become an increasingly popular alternative to plywood because of its comparable performance attributes and generally lower cost. The relatively abundant and fast-growing deciduous trees and under-utilized coniferous trees used in the manufacture of OSB are generally less expensive than the trees used to make plywood. According to data from Institutional Wood Markets Research, Inc. ( IWMR ) and Resource Information Systems, Inc. ( RISI ), two industry research firms, OSB consumption surpassed that of plywood in 1998 and has continued to gain share in the structural panel market resulting in a 51% share in 2000.

Historically, building products consumption has been generally correlated with housing starts and residential remodeling and repair activity. According to U.S. government data, in the ten-year period from 1991 through 2000, U.S. housing starts grew at a 5% compounded annual rate, while residential improvement and repairs expenditures grew at a 3% compounded annual rate.

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Correspondingly, according to IWMR and RISI, the compounded annual growth rate for structural panels consumption was 5% and the compounded annual growth rate for softwood lumber consumption was 3% in this ten-year period.

RISI has stated that it expects underlying housing demand to be bolstered by several key factors over the coming decade, including the changing age and class distribution of the U.S. population and a healthy economic environment. With an increase in the number of homes among family members and the number of families who maintain more than one residence, baby-boom generation demographics are expected by RISI to positively affect underlying housing demand. These factors are expected to increase significantly the number of household formations from 2000 to 2010. RISI has predicted a net increase in the average annual demand for all types of new housing of nearly 200,000 units, from 1.7 million units in the decade from 1990 to 2000 to 1.9 million units in the decade from 2000 to 2010.

Given the commodity nature of a considerable portion of the building products business, prices can fluctuate considerably due to supply and demand conditions. Industry players compete largely on the basis of price and to a significant extent on the ability to provide a broad product offering and a high level of customer service. Cost competitiveness is principally determined by the efficiency of manufacturing facilities, proximity to customers and access to competitively priced raw materials.

### Our Strategy

As a leading supplier of home building materials, we believe that the home building products industry presents significant growth opportunities and we intend to continue pursuing these opportunities by delivering innovative, high-quality commodity and specialty building products to retail, wholesale, home building and industrial customers. We believe that we can continue to enhance our success by implementing the following core business strategies:

*Focus on Being a Premier Provider of Building Products.* Since 1996, we have shifted our primary business focus from forest products to building products. In addition, we have focused on growth businesses, such as OSB and EWP. Consistent with our shift in focus, we have expanded our building product offerings and added production capacity in our core businesses. During the period from 1997 through 2000, we divested more than \$1 billion of non-strategic assets in order to redeploy our capital in our key product lines.

*Improve Operating Efficiencies.* We have improved and continue to improve the cost structure of our facilities through the sale or closure of underperforming mills and manufacturing facilities, as well as investing in technology. Given these initiatives and the strategic locations of many of our facilities, we believe that we are one of the lowest average delivered-cost producers of OSB in North America. We have also structured our management teams along product lines to enhance our ability to implement best manufacturing practices across product lines. We plan to continue to selectively invest in new technologies that modernize our manufacturing facilities and develop improved manufacturing processes.

*Generate Sales Growth through Customer Focus and Innovation.* Our sales and marketing efforts target customers by channel and focus on providing these customers with quality service and a broad array of traditional and specialty building products. Our facilities are located throughout the U.S. and Canada, which allows us to be closer to our customers and more responsive to end-user needs and trends. Through this focus on quality service, we continue to enhance our reputation for accurate deliveries on a timely basis. In addition, we continually seek to identify new specialty building products and markets where we can utilize our core competencies in the design, manufacturing and marketing of building products.

*Make Selective Strategic Acquisitions.* We intend to selectively target acquisitions that (1) complement our core competencies in structural panels, lumber, EWP and specialty building products and (2) have leading positions in established market segments. We believe that, through selective acquisitions, we can continue to provide our nationwide customer base with superior value.

### Our Strengths

Our competitive strengths that underlie our strategy include:

*Leading Market Positions.* We are an industry leader in building products. We believe we have the number one market position in our principal products, which include OSB structural panels and specialty OSB products, stud lumber, exterior cladding and, through a 50%-owned joint venture, cellulose insulation. We believe we also have leading market positions in decorative paneling and tileboard and plastic moldings. We believe our leading market positions and favorable cost structure give us an advantage over many of our competitors.

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*Low Cost Producer.* We believe that we are among the lowest cost producers of building products in the markets in which we compete. We have been able to achieve this advantage due in part to the modern, efficient facilities that we own and operate. We attribute this high level of efficiency, in part, to the significant capital investments we have made. The efficiency of our manufacturing facilities is augmented by our national scope and geographic proximity to our customers, which enable us to rank among the most competitive suppliers of OSB in the industry based on average delivered-cost. In addition, our management team has demonstrated a commitment to streamlining our product offerings and focusing our manufacturing assets on key, high-margin products where we believe we have a competitive advantage. Our dedication to operating only low-cost, efficient facilities has resulted in the complete or partial sale, closure, or curtailment of approximately 50 facilities over the last five years.

*Modern Manufacturing Facilities and Low Required Ongoing Capital Expenditures.* We have made significant capital investments in each of our strategic business segments, which we believe has resulted in our facilities ranking among the most technologically modern and cost-competitive facilities in the industry. We believe these investments have enabled us to be a leading low-cost supplier of building products to our customers and will result in a lower level of capital expenditures for facility upgrades in the future.

*Significant Scale.* We operate 14 OSB facilities in North America, with nine facilities in the U.S. and five facilities in Canada. Our scale enables us to gain significant efficiencies that result from high-volume production runs and to employ and implement best practices and process improvements developed at one mill across all of our mills. We believe our geographic diversity allows us to be more efficient with respect to shipping and distribution of finished products. Our scale also enables us to serve national customers, such as Home Depot and Lowes, in a variety of end markets, including retail home centers, wholesale distribution companies, building materials professional dealers, manufactured housing producers and industrial manufacturers. We believe that our ability to provide high quality service on a national scale to each of these customers is a significant competitive advantage.

*Well-Positioned to Benefit from Building Products Industry Dynamics.* We believe that we are well positioned to capture the benefits from increased new home construction and increased spending on the repair and remodeling of existing homes. RISI has estimated that average annual housing starts for the period from 2000 through 2005 will be 1.6 million, surpassing the average annual starts of 1.4 million for the period from 1991 to 2000. Additionally, RISI has predicted that the total dollars spent on R&R will increase to approximately \$138 billion by 2004, a substantial increase from approximately \$127 billion spent in 2000. We believe that we are well positioned to profit from these growth trends by capitalizing on our current leading market positions and by targeting corollary markets, such as EWP, with innovative, value-added products.

*Significant Cash Flow Generation Potential.* We maintain a low cost position and a disciplined capital expenditures program, which helps us to generate significant free cash flow. During the last five years, our businesses generated, on average, \$297 million per year in adjusted EBITDDA. Adjusted EBITDDA represents income (loss) before taxes, minority interests and equity in earnings of unconsolidated affiliate plus net interest expense, depreciation, depletion (also referred to as cost of timber harvested) and amortization, as adjusted to exclude unusual charges and credits and losses related to assets and liabilities transferred under contractual arrangement. As demonstrated by our dividend reduction announced in May 2001, our management team and board of directors are willing to take aggressive action to ensure the company maintains adequate liquidity and financial flexibility during both favorable and challenging markets.

*Experienced Management Team with Strong Strategic Vision.* Led by our CEO, Mr. Mark Suwyn, our senior management team has a proven track record of focused expansion of our building products business; successfully integrating acquisitions; divesting non-core or underperforming assets; generating additional revenues through product innovation and applied technologies; targeting capital investments on projects that enhance yields and improve cost; and maximizing performance during both favorable and challenging markets. Under Mr. Suwyn's leadership, our management team has been invigorated with a high level of focus on profitability, growth and cash flow generation.

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We were organized in Delaware in 1972. Our executive offices are located at 805 S.W. Broadway, Suite 1200, Portland, Oregon 97205. Our telephone number is (503) 821-5100.

### Recent Developments

#### Recent Financial Results

On July 19, 2001, we announced our unaudited financial results for the three and six months ended June 30, 2001. For the three months ended June 30, 2001, our net sales and adjusted EBITDDA were \$650 million and \$57 million, respectively. For the three months ended June 30, 2001, our capital expenditures totaled \$12 million.

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Compared to the prior three-month period, our net sales for the three months ended June 30, 2001 increased approximately \$91 million or 16% primarily due to increases in wholesale building product prices and strong demand for our products as a result of continued robust U.S. residential construction activity. Net sales increases for structural products, exterior products and other products of 18%, 61% and 17%, respectively, more than offset a 3% decrease in net sales for industrial panel products. A comparison over the same periods of pulp sales is not meaningful due to the sale of a controlling interest in Samoa Pacific Cellulose LLC in the first quarter of 2001.

Similarly compared to the prior three-month period, our adjusted EBITDDA for the three months ended June 30, 2001 increased approximately \$89 million. Adjusted EBITDDA increases for structural products, exterior products and industrial panel products of \$66 million, \$16 million and \$3 million, respectively, more than offset a \$1 million decrease in adjusted EBITDDA for other products.

At June 30, 2001, our consolidated balance sheet reflected \$56 million of cash and cash equivalents, \$876 million of debt (excluding non-recourse debt) and \$1,181 million of stockholders' equity. During the three months ended June 30, 2001, total debt decreased by \$45 million.

Our capital expenditures for the six months ended June 30, 2001 were \$34 million, compared to \$98 million for the six months ended June 30, 2000, a decrease of 65%. The current level of capital spending is significantly less than one-half of depreciation, depletion and amortization.

The following table presents unaudited results of operations data for the three and six months ended June 30, 2000 and 2001. This data should be read in conjunction with the consolidated financial statements and the related notes and other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Interim results are not necessarily indicative of our future operating results for any interim period or any full year.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	2001	2000	2001
	<b>(dollars in millions)</b>			
Net sales(a)	\$832	\$650	\$1,661	\$1,208
Net interest expense(b)	(9)	(14)	(17)	(29)
Income (loss) before taxes, minority interest and equity in earnings of unconsolidated affiliate	38	(14)	134	(127)
Net income (loss)	21	(10)	79	(99)
Income (loss) excluding unusual credits and charges(c)	44	(9)	101	(91)
Adjusted EBITDDA(d)	144	57	309	24
Capital expenditures(e)	56	12	98	34

(a) Sales figures for the three and six months ended June 30, 2000 have been reclassified to conform with EITF Issue No. 00-10 Accounting for Shipping and Handling Costs.

(b) Net interest expense is interest expense net of interest income, which is principally comprised of interest income on notes receivable from asset sales that provide collateral for our limited recourse notes payable.

(c) In the first quarter of 2000, we recorded a \$5 million (approximately \$3 million after taxes) gain on an insurance recovery for siding related matters and an impairment charge of approximately \$3 million (approximately \$2 million after taxes) to reduce the carrying value of a manufacturing facility to its estimated net realizable value. In the second quarter of 2000, we recorded a net \$38 million loss (approximately \$23 million after taxes) primarily related to an impairment charge to reduce the carrying value of a pulp mill in Samoa, California to its estimated net realizable value, an impairment charge at an MDF facility, a mark to market charge on an interest rate hedge and a gain on an insurance recovery for siding related matters.

In the first quarter of 2001, we recorded a net loss of approximately \$10 million (approximately \$6 million after taxes) associated with impairment charges on certain assets. We also recorded a net loss of \$2 million (approximately \$1 million after taxes) for additional reserves for non-product litigation. In the second quarter of 2001, we recorded a net loss of \$2 million (approximately \$1 million after taxes) associated with the impairment of an equity investment.

(d) EBITDDA represents income (loss) before taxes, minority interests and equity in earnings of unconsolidated affiliate plus net interest expense, depreciation, depletion (also referred to as cost of timber harvested) and amortization. Adjusted EBITDDA represents EBITDDA, as adjusted to exclude unusual charges and credits and losses related to assets and liabilities transferred under contractual arrangement. Adjusted EBITDDA provides a measure of our ability to satisfy principal and interest obligations on our debt and to provide cash for other purposes. Adjusted EBITDDA does not represent, and should not be considered a substitute for, income (loss) from operations, net income (loss), cash flow or other measures of performance prepared in accordance with generally accepted accounting principles. Our definitions of EBITDDA and adjusted EBITDDA may not be comparable to those reported by other companies.



(e) Excludes acquisitions.

**Recent Wholesale Prices of Selected Building Products**

The following table sets forth, for the three months ended March 31, 2001 and June 30, 2001, the average wholesale prices of selected building products in the U.S.

	<b>Three Months Ended March 31, 2001</b>	<b>Three Months Ended June 30, 2001</b>	<b>% Change</b>
OSB, 7/16 basis <sup>24</sup> /16 span rating (North Central price), MSF(a)	\$132	\$191	45%
Southern pine plywood, 1/2 basis CDX (3-ply), MSF(a)	242	303	25
Framing lumber, composite prices, MBF(a)	284	366	29
Industrial particleboard, 3/4 basis, MSF(a)	257	260	1

(a) Prices represent quarterly averages stated in dollars per thousand board feet (MBF) or thousand square feet (MSF). Source: *Random Lengths*.

**Dividend Reduction**

On May 7, 2001, we announced that our board of directors had reduced the company's quarterly dividend by 65% from \$0.14 per share to \$0.05 per share. Our board of directors indicated that, despite some recent improvement, product prices had been at near-record lows since their rapid decline starting in the second quarter of 2000. The board's action to reduce the dividend was based on a variety of factors including market conditions, an uncertain economy and a desire to increase our financial flexibility. The dividend reduction is expected to result in annual cash savings of approximately \$38 million.

**The Transaction**

We will use the gross proceeds from the sale of the notes to repay all debt outstanding under an existing term loan maturing in 2003, to repay a portion of the debt outstanding under an existing revolving credit facility and to pay related transaction costs relating to this offering. This offering of notes and the use of proceeds as described above are referred to in this prospectus supplement as the Transaction. The table below sets forth the estimated sources and uses for the Transaction based on balances as of March 31, 2001 (dollars in millions):

<b>Sources</b>		<b>Uses</b>	
% senior subordinated notes due 2008	\$200	Repay term loan	\$170
		Repay portion of revolving credit facility	25
		Transaction costs	5
<b>TOTAL SOURCES</b>	<b>\$200</b>	<b>TOTAL USES</b>	<b>\$200</b>

In addition to the Transaction, as of the date of this prospectus supplement, the arranger of a new \$200 million three-year senior secured revolving credit facility for LP had received written commitments, subject to customary conditions, from financial institutions for \$180 million of this new facility. We expect this new credit facility to be in place by the end of August 2001. As of June 30, 2001, the outstanding balance under our existing revolving credit facility was approximately \$67 million. Had we closed this new revolving credit facility on June 30, 2001 and repaid the remaining debt outstanding under our existing domestic revolving credit facility and paid related fees and expenses, we would have had approximately \$158 million of initial availability under this new facility. See Description of Other Indebtedness New Domestic Revolving Credit Facility. In addition, we are in the process of seeking to arrange a \$125 million trade receivables financing facility in order to further enhance our liquidity. We have targeted closing the trade receivables financing facility by the end of the third quarter of 2001. See Description of Other Indebtedness Receivables Financing Facility.

**The Offering**

The following summary is not intended to be complete. For a more detailed description of the notes, see Description of the Notes.

Issuer Louisiana-Pacific Corporation  
 the present values of the remaining scheduled payments of the principal of and interest on the notes being redeemed discounted to the date of redemption as desired on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Yield (as defined herein) plus 50 basis points; plus, in either case, accrued interest on the notes being redeemed to the date of redemption. See Description of the Notes Optional Redemption. At any time prior to , 2004, we may also redeem up to 35% of the notes at our option at the redemption price listed in Description of the Notes Optional Redemption using the proceeds of specified public equity offerings. On or after , 2005, we may redeem some or all of the notes at our option at the redemption prices listed in Description of the Notes Optional Redemption.  
 sell assets;

**Risk Factors**

You should carefully consider all of the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, including the discussion under the caption Risk Factors of specific risks involved in an investment in the notes.

**SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA**

The historical financial data as of and for the years ended December 31, 1998, 1999 and 2000 were derived from our audited consolidated financial statements included in or incorporated by reference in this prospectus supplement and the accompanying prospectus. The historical financial data as of and for the three months ended March 31, 2000 and 2001 were derived from our unaudited consolidated financial statements included in or incorporated by reference in this prospectus supplement and the accompanying prospectus. Our unaudited consolidated financial statements were prepared on the same basis as our audited consolidated financial statements and include all adjustments, consisting of normal recurring adjustments, that we consider necessary for a fair presentation. Interim results are not necessarily indicative of our future operating results for any interim period or any full year. This summary financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated historical financial statements and related notes included in or incorporated by reference in this prospectus supplement and the accompanying prospectus. This data reflects the adoption of EITF Issue No. 00-10 and other reclassifications to conform to the 2000 presentation.

	Year Ended December 31,			Three Months Ended March 31,	
	1998	1999	2000	2000	2001
(dollars in millions, except ratio data)					
<b>Income statement data:</b>					
Net sales:					
Structural products	\$1,307	\$1,876	\$1,817	\$ 532	\$ 344
Exterior products	116	276	329	71	70

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	Year Ended December 31,			Three Months Ended March 31,	
Industrial panel products	192	300	287	81	53
Other products	731	477	348	103	59
Pulp	105	143	152	43	33
Total net sales	\$2,451	\$3,072	\$2,933	\$ 830	\$ 559
Gross profit (loss)(a)	\$ 258	\$ 597	\$ 335	\$ 163	\$ (40)
Adjusted operating profit (loss)(b)	74	377	96	104	(81)
Net interest expense(c)	(13)	(12)	(43)	(8)	(15)
Net income (loss)	2	217	(14)	58	(89)

	Year Ended December 31,			Three Months Ended March 31,		
	1998	1999	2000	2000	2001	
<b>Production volumes:</b>						
OSB, <sup>3</sup> /8 basis, million square feet		3,934	4,406	5,122	1,395	1,367
Softwood plywood, <sup>3</sup> /8 basis, million square feet		983	943	1,046	268	207
Lumber, million board feet		1,110	1,029	993	264	229
Wood-based siding, <sup>3</sup> /8 basis, million square feet		383	678	949	169	154
Industrial panel products, <sup>3</sup> /4 basis, million square feet		575	621	598	173	131
Engineered I-Joists, million lineal feet		86	87	70	24	14
Laminated veneer lumber, thousand cubic feet		7,100	6,300	7,000	2,150	1,700
Pulp, thousand short tons		286	374	373	99	51

- (a) Gross profit (loss) represents income (loss) before selling and administrative expense, unusual credits and charges, income taxes, minority interest, interest and equity in earnings of unconsolidated affiliate.
- (b) Adjusted operating profit (loss) represents income (loss) before taxes, minority interests, interest, and equity in earnings of unconsolidated affiliate, excluding unusual charges, net of unusual credits, of \$(48) million, \$(8) million, \$(71) million, \$2 million and \$(12) million, respectively, for the years ended December 31, 1998, 1999, and 2000 and the three months ended March 31, 2000 and 2001.
- (c) Net interest expense is interest expense net of interest income, which is principally comprised of interest income on notes receivable from asset sales that provide collateral for our limited recourse notes payable.
- (d) EBITDDA represents income (loss) before taxes, minority interests and equity in earnings of unconsolidated affiliate plus net interest expense, depreciation, depletion (also referred to as cost of timber harvested) and amortization. Adjusted EBITDDA represents EBITDDA, as adjusted to exclude unusual charges and credits and losses related to assets and liabilities transferred under contractual arrangement. Adjusted total EBITDDA includes corporate expenses as well as the adjusted EBITDDA of each segment. Adjusted EBITDDA provides a measure of our ability to satisfy principal and interest obligations on our debt and to provide cash for other purposes. Adjusted EBITDDA does not represent, and should not be considered a substitute for, income (loss) from operations, net income (loss), cash flow or other measures of performance prepared in accordance with generally accepted accounting principles. Our definitions of EBITDDA and adjusted EBITDDA may not be comparable to those reported by other companies.
- (e) Earnings are defined as income (loss) before taxes and minority interests and equity in earnings of unconsolidated affiliate plus fixed charges. Fixed charges consist of interest incurred on debt including capitalized interest, capitalized expenses related to indebtedness and an estimated portion of rental expense that is representative of the interest factor under operating leases deemed to be the equivalent of interest. Earnings were insufficient to cover fixed charges by approximately \$15 million for the year ended December 31, 2000 and approximately \$113 million for the three months ended March 31, 2001.
- (f) Adjusted total debt excluding non-recourse portion reflects total debt after giving effect to the offering as if it had been completed as of March 31, 2001, and excluding approximately \$314 million of non-recourse debt. The excluded non-recourse debt represents 90% of approximately \$349 million of debt secured by notes receivable issued to us by Simpson Timber Company. Adjusted total EBITDDA is calculated for the twelve months ended March 31, 2001.

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- (g) Adjusted total EBITDDA is calculated for the twelve months ended March 31, 2001. Pro forma interest expense reflects interest expense after giving effect to the offering as if it had been completed at the beginning of the twelve months ended March 31, 2001.
- (h) Prices represent yearly and quarterly averages stated in dollars per thousand board feet (MBF) or thousand square feet (MSF). Source: *Random Lengths*.

### RISK FACTORS

*You should carefully consider the risks described below, together with all of the other information set forth or incorporated by reference in this prospectus supplement and the accompanying prospectus, before making a decision to invest in the notes.*

#### Risks Related to Our Indebtedness and the Notes

##### **Our substantial debt could adversely affect our cash flow and prevent us from fulfilling our obligations.**

We have a significant amount of debt. As of March 31, 2001, after giving effect to the Transaction, we would have had (1) pro forma consolidated total debt of approximately \$926 million (excluding approximately \$314 million of non-recourse debt), all of which would have been expressly or effectively senior to the notes, and (2) a pro forma ratio of total debt to total capitalization, excluding the non-recourse portion of debt in each case, of approximately 44%. See Capitalization and Description of Other Indebtedness.

Our substantial debt could have important consequences. For example, it could:

require us to dedicate a substantial portion of our cash flow from operations and other capital resources to debt service, thereby reducing our ability to fund working capital, capital expenditures and other cash requirements;

limit our flexibility in planning for, or reacting to, changes and opportunities in, the building products industry, which may place us at a competitive disadvantage compared to our competitors;

limit our ability to incur additional debt on commercially reasonable terms, if at all;

increase our vulnerability to adverse economic and industry conditions; and

make it more difficult or impossible for us to make payments on the notes or any other indebtedness or obligations.

##### **We must generate significant cash flow to service our debt. Our ability to generate cash depends on many factors beyond our control.**

Our ability to make payments on our existing and future senior debt and the notes and to pay our expenses will depend on our ability to generate cash in the future. Our ability to generate cash is subject to various risks and uncertainties, including those disclosed or incorporated by reference in this prospectus supplement and the accompanying prospectus. Based on our current level of operations, we believe our cash flow from operations and other capital resources will be sufficient to meet our liquidity needs for the foreseeable future. However, we cannot assure you that these capital resources will be sufficient to enable us to repay our senior debt and the notes and to pay our expenses. If we do not have enough money to make these payments, we may be required to refinance all or part of our debt, sell assets, curtail discretionary capital expenditures, further reduce dividend payments or borrow more money. We cannot assure you that we will be able to do these things on commercially reasonable terms, if at all. In addition, the terms of our existing or future debt agreements may restrict us from pursuing any of these alternatives.

##### **The agreements governing our existing and future debt contain and will contain various covenants that limit our discretion in the operation of our business.**

The agreements and instruments governing our existing and future debt contain and will contain various restrictive covenants that, among other things, require us to comply with or maintain certain financial tests and ratios and restrict our ability to:

incur debt;

incur liens;

redeem and/or prepay debt;

make acquisitions;

- make investments, including loans and advances;
- make capital expenditures;
- engage in mergers, consolidations or sales of assets;
- engage in transactions with affiliates; and
- pay dividends or engage in stock redemptions.

Our ability to comply with these covenants is subject to various risks and uncertainties, and events beyond our control which could affect our ability to comply with and maintain the financial tests and ratios. Any failure by us to comply with and maintain all applicable financial tests and ratios and to comply with all applicable covenants could result in an event of default with respect to, and the acceleration of the maturity of, a substantial portion of our debt. Even if we are able to comply with all applicable covenants, the restrictions on our ability to operate our business in our sole discretion could harm our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities.

**Your right to receive payments on the notes may be adversely affected by the rights of our senior creditors.**

All of the company's existing debt and all of the existing debt and other liabilities, including trade payables and lease obligations, of our subsidiaries are senior in right of payment to the notes. Except to the extent, if any, that any of the company's future debt is expressly subordinated to be on parity with or junior to the notes, all future debt of the company and all future debt or other liabilities, including trade payables and lease obligations, of our subsidiaries will be senior in right of payment to the notes. As a result, upon any distribution to our creditors in a bankruptcy, liquidation or reorganization or similar proceeding relating to the company and our subsidiaries, the holders of our senior debt and the holders of the debt and other liabilities, including trade payables and lease obligations, of our subsidiaries will be entitled to be paid in full in cash before any payment may be made on the notes.

If we fail to pay our senior debt when due, whether upon maturity or as a result of acceleration or otherwise, we could be prohibited from making any payments on the notes until the default is cured or all of the senior debt is paid in full. In addition, payments on the notes may be blocked for periods, each up to 179 consecutive days, in the event of other defaults relating to specified senior debt.

In the event of a bankruptcy, liquidation, reorganization or similar proceeding relating to the company, holders of the notes will participate ratably with our general unsecured creditors and ratably with all other holders of all of our senior subordinated indebtedness, if any, in the assets remaining after we have paid all of the senior debt. However, because the indenture requires that amounts otherwise payable to holders of the notes in a bankruptcy or similar proceeding be paid to holders of senior debt instead, holders of the notes may receive less, ratably, than our other general unsecured creditors in any such proceeding. In any of these cases, we may not have sufficient funds to pay all of our creditors, including the holders of the notes.

**The assets of our subsidiaries may not be available to make payments on the notes.**

The notes will not be guaranteed by our subsidiaries, and payments on the notes are required to be made only by us. We may not have direct access to the assets of our subsidiaries unless these assets are transferred by dividend or otherwise to us. The ability of our subsidiaries to pay dividends or otherwise transfer assets to us is subject to various restrictions, including restrictions under applicable law.

In the event of a bankruptcy, liquidation, reorganization or similar proceeding relating to any of our subsidiaries, holders of indebtedness of our subsidiaries, including trade creditors, would generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us. Any right that we have to receive any assets of any of our subsidiaries upon its liquidation or reorganization will be effectively subordinated to the claims of creditors of the subsidiary, except to the extent that we are a creditor of the subsidiary, in which case our claims would still be subordinated in right of payment to any secured indebtedness of that subsidiary and any indebtedness of the subsidiary that is senior to that held by us. As a result, the notes will be effectively subordinated to the debt and other liabilities, including trade payables and lease obligations, of all of our subsidiaries. As of March 31, 2001, our subsidiaries had \$514 million of debt (including \$314 million of non-recourse debt and excluding all intercompany debt) and \$431 million of trade payables and other liabilities outstanding.

**We may incur substantially more debt. This could further increase the risks associated with our substantial leverage.**

We may incur substantially more debt in the future. Any such additional debt could increase the risks associated with our substantial leverage.

### **Risks Related to Our Business**

#### **Cyclical industry conditions and commodity pricing have and may continue to adversely affect our financial condition and results of operations.**

Our operating results reflect the general cyclical pattern of the building products industry. Most of our products, including structural panels and lumber, are globally traded commodity products. In addition, our products are subject to competition from manufacturers worldwide. Historical prices for our products have been volatile, and we, like other participants in the building products industry, have limited influence over the timing and extent of price changes for our products. Product pricing is significantly affected by the relationship between supply and demand in the building products industry. Product supply is influenced primarily by fluctuations in available manufacturing capacity. Demand is affected by the state of the economy in general and a variety of other factors. The demand for our building products is primarily affected by the level of new residential construction activity and home repair and remodeling activity. Demand is also subject to fluctuations due to changes in economic conditions, interest rates, population growth, weather conditions and other factors. We are not able to predict with certainty market conditions and selling prices for our products. We cannot assure you that prices for our products will not decline from current levels. A prolonged and severe weakness in the markets for one or more of our principal products could seriously harm our financial condition and results of operations and our ability to satisfy our cash requirements, including the payment of interest and principal on our debt.

#### **We have a high degree of product concentration.**

OSB accounted for approximately 30% of our revenues during fiscal 2000, and we expect OSB sales to continue to account for a substantial portion of our revenues in the future. Concentration of our business in the OSB market further increases our sensitivity to commodity pricing and price volatility. For example, according to Random Lengths, an industry source, during the three months ended March 31, 2000, average OSB pricing per thousand board feet was \$261. For the same period in 2001, average OSB pricing per thousand board feet was \$132. We cannot assure you that prices for OSB or our other products will not decline from current levels.

#### **Increased industry production capacity for OSB could constrain our operating margins for the foreseeable future.**

According to the APA The Engineered Wood Association (the APA), an industry trade association, total North American OSB annual production capacity increased by about 3 billion square feet in 2000 to approximately 24 billion square feet on a <sup>3</sup>/8-inch equivalent basis and is projected to increase by approximately 6 billion square feet in the 2001 to 2006 period. The APA has projected that total North American demand for OSB will increase by about 5 billion square feet during the 2001 to 2006 period. If increases in OSB production capacity exceed increases in OSB demand, OSB could have constrained operating margins for the foreseeable future.

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

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

#### **Our results of operations may be harmed by increases in raw material costs.**

The most significant raw material used in our operations is wood fiber. We currently obtain more than 50% of our wood fiber requirements in the open market. Wood fiber is subject to commodity pricing, which fluctuates on the basis of market factors over which we have no control. In addition, the cost of various types of wood fiber that we purchase in the market has at times fluctuated greatly because of economic or industry conditions. In addition to wood fiber, we also use a significant quantity of various resins in the manufacturing processes for our structural and industrial panel products, as well as certain of our vinyl products. Resin product costs are influenced by changes in the prices of raw materials used to produce resin, primarily petroleum products, as well as demand for resin products. Selling prices of our products have not always increased in response to raw material cost increases.

We are unable to determine to what extent, if any, we will be able to pass any future raw material cost increases through to our customers through product price increases. Our inability to pass increased costs through to our customers could have a material adverse effect on our financial condition, results of operations and cash flow.

**Our operations require substantial capital and our capital resources may not be adequate to provide for all of our cash requirements.**

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

**We are subject to significant environmental regulation and environmental compliance expenditures and liabilities.**

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

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

**We are involved in various environmental matters and legal proceedings. The outcome of these matters and proceedings and the magnitude of related costs and liabilities are subject to uncertainties.**

We currently are and from time to time in the future will be involved in a number of environmental matters and legal proceedings. These matters and proceedings, including class action settlements relating to certain of our products, have in the past caused and in the future may cause us to incur substantial costs. We have established contingency reserves in our consolidated financial statements with respect to the estimated costs of existing environmental matters and legal proceedings to the extent that our management has determined that such costs are both probable and reasonably estimable as to amount. However, such reserves are based upon various estimates and assumptions relating to future events and circumstances, all of which are subject to inherent uncertainties. We regularly monitor our estimated exposure to environmental and litigation loss contingencies and, as additional information becomes known, may change our estimates significantly. However, no estimate of the range of any such change can be made at this time. At March 31, 2001, the estimated amount of approved but unpaid claims under the settlement agreement relating to the class action settlement of our national OSB siding litigation, exceeded the sum of the then-current balance of the related settlement fund and our remaining mandatory contributions to the related settlement fund by approximately \$101 million. Consequently, the actual costs we ultimately incur may vary significantly from the estimated costs reflected in our contingency reserves. Moreover, we may incur costs in respect of existing and future environmental matters and legal proceedings as to which no contingency reserves have been established. We cannot assure you that we will have sufficient resources available to satisfy the related costs and expenses associated with these matters and proceedings.

**We do not maintain insurance for losses to our standing timber from natural disasters or other causes.**

The volume and value of timber that can be harvested from our lands or that we may purchase from other sources may be limited by natural disasters such as fire, insect infestation, disease, ice storms, wind storms, flooding and other weather conditions and other causes. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations. As is typical in the industry, we do not maintain insurance for any loss to our standing timber from natural disasters or other causes.

**High energy costs could adversely affect our results of operations.**

Energy has become an increasing variable operating expense for us as a result of rapid and substantial price increases which commenced in mid-2000 and have continued in 2001. Although some of our facilities generate a portion of their energy requirements through the burning of wood waste, the cost of natural gas and electricity purchased from outside suppliers has increased significantly. We have not been able, and in the future may not be able, to pass all increased energy costs through to our customers. The total estimated natural gas and electricity expenditures for the three months ended March 31, 2001 were approximately \$30 million (as adjusted for acquisitions, dispositions, or closures of our facilities during the comparable periods), as compared to less than \$24 million (as adjusted for acquisitions, dispositions, or closures of our facilities during the comparable periods) for the three months ended March 31, 2000, representing an increase of approximately 28%.

**USE OF PROCEEDS**

The estimated net proceeds from the sale of the notes will be approximately \$195 million, after deducting the estimated underwriting discount and estimated offering expenses payable by us. We will use the gross proceeds from the sale of the notes to repay all debt outstanding under an existing term loan maturing in 2003, to repay a portion of the debt outstanding under an existing revolving credit facility due in January 2002 and to pay related transaction costs relating to this offering. At March 31, 2001, the term loan bore interest at the rate of 6.3% per annum and the revolving credit facility debt bore interest at a weighted average rate of 5.5% per annum.

This offering of notes and the use of proceeds as described above are referred to in this prospectus supplement as the Transaction. The table below sets forth the estimated sources and uses for the Transaction based on balances as of March 31, 2001 (dollars in millions):

<u>Sources</u>		<u>Uses</u>	
% senior subordinated notes due 2008	\$200	Repay term loan	\$170
		Repay portion of revolving credit facility	25
		Transaction costs	5
	<hr/>		<hr/>
<b>TOTAL SOURCES</b>	<b>\$200</b>	<b>TOTAL USES</b>	<b>\$200</b>
	<hr/>		<hr/>

In addition to the Transaction, as of the date of this prospectus supplement, the arranger of a new \$200 million three-year senior secured revolving credit facility for LP had received written commitments, subject to customary conditions, from financial institutions for \$180 million of this new facility. We expect this new credit facility to be in place by the end of August 2001. As of June 30, 2001, the outstanding balance under our existing revolving credit facility was approximately \$67 million. Had we closed this new credit revolving facility on June 30, 2001 and repaid the remaining debt outstanding under our existing domestic revolving credit facility and paid related fees and expenses, we would have had approximately \$158 million of initial availability under this new facility. See Description of Other Indebtedness New Domestic Revolving Credit Facility. In addition, we are in the process of seeking to arrange a \$125 million trade receivables financing facility in order to further enhance our liquidity. We have targeted closing the trade receivables financing facility by the end of the third quarter of 2001. See Description of Other Indebtedness Receivables Financing Facility.

**CAPITALIZATION**

The following table sets forth, as of March 31, 2001, our historical capitalization and our as adjusted capitalization giving effect to (1) the sale of the notes and (2) the application of the net proceeds from the sale of the notes as described in Use of Proceeds. The table should be read in conjunction with our consolidated financial statements and related notes and the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus.

March 31, 2001



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	March 31, 2001	
	Actual	As Adjusted
	(dollars in millions)	
Existing revolving credit facility(a)	\$ 115	\$ 90
Other short-term debt	47	47
Total short-term debt	\$ 162	\$ 137
Term loan	170	
8.500% senior notes due 2005	189	189
8.875% senior notes due 2010	199	199
Other long-term debt	118	118
Limited recourse notes payable(b)	397	397
% senior subordinated notes due 2008		200
Total long-term debt	\$1,073	\$1,103
Total debt	\$1,235	\$1,240
Total debt excluding non-recourse portion(c)	\$ 921	\$ 926
Stockholders equity	\$1,193	\$1,193
Total capitalization	\$2,428	\$2,433
Total capitalization less non-recourse portion of debt(c)	\$2,114	\$2,119

- (a) As of June 30, 2001, the outstanding balance under our existing revolving credit facility was approximately \$67 million.
- (b) At March 31, 2001, the recourse portion of the debt represented by these notes was approximately \$83 million.
- (c) Reflects the exclusion of approximately \$314 million of non-recourse debt.

**SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The historical financial data as of and for the five years ended December 31, 2000 (after making reclassifications to conform with EITF Issue No. 00-10) were derived from our audited consolidated financial statements included in or incorporated by reference in this prospectus supplement and the accompanying prospectus. The historical financial data as of and for the three months ended March 31, 2000 and 2001 were derived from our unaudited consolidated financial statements included in or incorporated by reference in this prospectus supplement and the accompanying prospectus. Our unaudited consolidated financial statements were prepared on the same basis as our audited consolidated financial statements and include all adjustments, consisting of normal recurring adjustments, that we consider necessary for a fair presentation. Interim results are not necessarily indicative of our future operating results for any interim period or any full year. This selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated historical financial statements and related notes included in or incorporated by reference in this prospectus supplement and the accompanying prospectus. This data reflects the adoption of EITF Issue No. 00-10 and other reclassifications to conform to the 2000 presentation.

Year Ended December 31,					Three Months Ended March 31,	
1996(a)	1997(a)	1998(a)	1999(a)	2000(a)	2000(a)	2001(a)
(dollars in millions)						

Income statement data:

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	Year Ended December 31,					Three Months Ended March 31,	
Net sales	\$2,653	\$2,564	\$2,451	\$3,072	\$2,933	\$ 830	\$ 559
Cost of sales	2,290	2,288	2,008	2,273	2,363	605	549
Depreciation, amortization and depletion	192	184	185	202	236	61	49
Net interest expense(b)	(8)	(29)	(13)	(12)	(43)	(8)	(15)
Income (loss) before taxes and minority interest and equity in earnings of unconsolidated affiliate	(327)	(151)	13	357	(18)	97	(113)
Provision (benefit) for income taxes	(126)	(44)	14	140	(12)	39	(22)
Net income (loss)	(201)	(102)	2	217	(14)	58	(89)

- (a) See the notes to our financial statements included or incorporated by reference in this prospectus supplement for a discussion of unusual charges and credits that affected our results of operations.
- (b) Net interest expense is interest expense net of interest income, which is principally comprised of interest income on notes receivable from asset sales that provide collateral for our limited recourse notes payable.
- (c) Excludes acquisitions.
- (d) Earnings are defined as income (loss) before taxes and minority interests and equity in earnings of unconsolidated affiliate plus fixed charges. Fixed charges consist of interest incurred on debt including capitalized interest, capitalized expense related to indebtedness and an estimated portion of rental expense that is representative of the interest factor under operating leases deemed to be the equivalent of interest. Earnings were insufficient to cover fixed charges by \$331 million for the year ended December 31, 1996, \$151 million for the year ended December 31, 1997, approximately \$15 million for the year ended December 31, 2000, and approximately \$113 million for the three months ended March 31, 2001.

**SELECTED HISTORICAL BUSINESS SEGMENT FINANCIAL DATA**

The historical financial data as of and for the five years ended December 31, 2000 (after making reclassifications to conform with EITF Issue No. 00-10) were derived from our audited consolidated financial statements included in or incorporated by reference in this prospectus supplement and the accompanying prospectus. The historical financial data as of and for the three months ended March 31, 2000 and 2001 were partially derived from our unaudited consolidated financial statements included in or incorporated by reference in this prospectus supplement and the accompanying prospectus. Our unaudited consolidated financial statements were prepared on the same basis as our audited consolidated financial statements and include all adjustments, consisting of normal recurring adjustments, that we consider necessary for a fair presentation. Interim results are not necessarily indicative of our future operating results for any interim period or any full year. This selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated historical financial statements and related notes included in or incorporated by reference in this prospectus supplement and the accompanying prospectus. This data reflects the adoption of EITF Issue No. 00-10 and other reclassifications to conform to the 2000 presentation.

	Year Ended December 31,					Three Months Ended March 31,	
	1996(a)	1997(a)	1998(a)	1999(a)	2000(a)	2000(a)	2001(a)
(dollars in millions)							
<b>Net sales:</b>							
Structural products	\$1,398	\$1,223	\$1,307	\$1,876	\$1,817	\$ 532	\$ 344
Exterior products	108	112	116	276	329	71	70
Industrial panel products	217	199	192	300	287	81	53
Other products	717	861	731	477	348	103	59
Pulp	213	169	105	143	152	43	33
Total net sales	\$2,653	\$2,564	\$2,451	\$3,072	\$2,933	\$ 830	\$ 559
<b>Adjusted operating profit (loss)(b):</b>							
Structural products	\$ 135	\$ 21	\$ 198	\$ 440	\$ 173	\$ 114	\$ (31)
Exterior products	17	9	22	53	19	8	(4)
Industrial panel products	31	13	6	13	2	3	(7)
Other products	(9)	(24)	(20)	(11)	(12)	1	(2)
Pulp	(91)	(29)	(38)	(15)	13	4	(13)
Corporate	(52)	(80)	(94)	(103)	(99)	(26)	(24)
Adjusted total operating profit (loss)	\$ 31	\$ (90)	\$ 74	\$ 377	\$ 96	\$ 104	\$ (81)

	Year Ended December 31,					Three Months Ended March 31,	
<b>Adjusted EBITDDA(c):</b>							
Structural products	\$ 242	\$ 135	\$ 303	\$ 563	\$ 340	\$ 158	\$ 4
Exterior products	23	13	29	67	39	14	1
Industrial panel products	37	19	11	27	16	7	(4)
Other products	16	2	7	6	2	4	
Pulp	(81)	(15)	(26)	(4)	23	7	(11)
Corporate	(14)	(60)	(65)	(80)	(88)	(24)	(22)
Adjusted total EBITDDA	\$ 223	\$ 94	\$ 259	\$ 579	\$ 332	\$ 166	\$ (32)
<b>Assets (at period end):</b>							
Structural products	\$1,079	\$1,105	\$ 927	\$1,738	\$1,689	\$1,761	\$1,596
Exterior products	41	45	46	199	203	226	204
Industrial panel products	179	175	124	160	142	163	137
Other products	314	302	255	174	228	223	215
Pulp	166	266	178	176	143	175	50
Corporate	843	685	989	1,041	970	987	1,057
Total assets	\$2,622	\$2,578	\$2,519	\$3,488	\$3,375	\$3,535	\$3,259
<b>Capital expenditures:</b>							
Structural products	\$ 115	\$ 116	\$ 87	\$ 94	\$ 146	\$ 19	\$ 14
Exterior products	8	5	1	3	27	7	2
Industrial panel products	9	6	2	6	7	1	1
Other products	13	3	18	8	20	4	3
Pulp	36	4	7	4	2	1	0
Corporate	50	22	8	3	18	10	2
Total capital expenditures(d)	\$ 231	\$ 156	\$ 123	\$ 118	\$ 220	\$ 42	\$ 22

- (a) See the notes to our financial statements included or incorporated by reference in this prospectus supplement for a discussion of unusual charges and credits that affected our results of operations.
- (b) Adjusted operating profit (loss) represents income (loss) before taxes, minority interests, interest, and equity in earnings of unconsolidated affiliate, excluding unusual charges, net of unusual credits, of \$(350) million, \$(33) million, \$(48) million, \$(8) million, \$(71) million, \$2 million and \$(12) million, respectively, for the years ended December 31, 1996, 1997, 1998, 1999, and 2000 and the three months ended March 31, 2000 and 2001.
- (c) EBITDDA represents income (loss) before taxes, minority interests and equity in earnings of unconsolidated affiliate plus net interest expense, depreciation, depletion (also referred to as cost of timber harvested) and amortization. Adjusted EBITDDA represents EBITDDA, as adjusted to exclude unusual charges and credits and losses related to assets and liabilities transferred under contractual arrangement. Adjusted total EBITDDA includes corporate expenses as well as the adjusted EBITDDA of each segment. Adjusted EBITDDA provides a measure of our ability to satisfy principal and interest obligations on our debt and to provide cash for other purposes. Adjusted EBITDDA does not represent, and should not be considered a substitute for, income (loss) from operations, net income (loss), cash flow or other measures of performance prepared in accordance with generally accepted accounting principles. Our definitions of EBITDDA and adjusted EBITDDA may not be comparable to those reported by other companies.
- (d) Excludes acquisitions.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*This prospectus supplement contains, in addition to historical information, forward-looking statements. These forward-looking statements involve risks and uncertainties, and our actual results could differ materially from the results expressed or implied by the forward-looking statements. See Forward-Looking Statements. You should carefully consider all of the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, including the discussion under the caption Risk Factors of specific risks involved in an investment in the notes.*

**General**

We operate in five segments: structural products; exterior products; industrial panel products; other products; and pulp. Structural products is the most significant segment, accounting for more than 60% of sales for both the year ended December 31, 2000 and the three months ended March 31, 2001. Our results of operations are discussed separately for each segment below. Production volumes and industry product price trends are presented below in the tables captioned Summary of Production Volumes and Industry Product Price Trends.

Most of our products are sold as commodities and therefore sales prices fluctuate based on market factors over which we have little or no control. We cannot predict whether the prices of our products will remain at current levels, or will increase or decrease in the future, because supply and demand are influenced by many factors, only two of which are the cost and availability of raw materials. We are not able to determine to what extent, if any, we will be able to pass any future increase in the price of raw materials on to customers through product price increases.

Demand for the majority of our products are subject to cyclical fluctuations over which we have no control. The level of residential construction activity heavily influences demand for our building products, which is subject to fluctuations due to changes in economic conditions, interest rates, population growth and other factors. These cyclical fluctuations in demand are unpredictable and may have a substantial influence on our results of operations.

**Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000**

Our net loss for the first quarter of 2001 was \$89 million, or \$0.86 per diluted share, on sales of \$559 million, compared to first quarter 2000 net income of \$58 million, or \$0.55 per diluted share, on sales of \$830 million. Excluding unusual items totaling a loss of \$12 million, \$8 million after tax, or \$0.07 per diluted share, the loss for the first quarter of 2001 was \$81 million, or \$0.78 per diluted share, compared to first quarter 2000 income, excluding unusual items, of \$57 million, or \$0.54 per diluted share.

Reduced demand for many building products and the slowing economy factored negatively into the results for the quarter ended March 31, 2001. This softening demand resulted in reduced market prices for structural products: OSB, plywood and lumber.

*Selected Segment Data*

	Three Months Ended March 31,		
	2000	2001	% change
	(in millions)		
<b>Sales:</b>			
Structural products	\$532	\$344	(35)%
Exterior products	71	70	(1)
Industrial panel products	81	53	(35)
Other products	103	59	(43)
Pulp	43	33	(24)
	<hr/>	<hr/>	<hr/>
Total Sales	\$830	\$559	(33)%
	<hr/>	<hr/>	<hr/>

	Three Months Ended March 31,		
	2000	2001	% change
	(in millions)		
<b>Operating profit (loss):</b>			
Structural products	\$114	\$ (31)	(127)%
Exterior products	8	(4)	(153)
Industrial panel products	3	(7)	(365)
Other products	1	(2)	(363)

	<b>Three Months Ended March 31,</b>		
Pulp	4	(13)	(391)
Unusual credits and charges, net	1	(12)	(863)
Loss from assets and liabilities transferred under contractual arrangement		(5)	
General corporate and other expenses, net	(26)	(24)	8
Interest expense, net	(8)	(15)	(79)
Income (loss) before taxes, minority interest and equity in earnings of unconsolidated affiliate	\$ 97	\$(113)	(217)%

### *Structural Products*

The structural products segment consists of OSB, plywood, lumber and EWP. The decline in sales for the first quarter of 2001 compared to the first quarter of 2000 was primarily due to lower OSB, plywood and lumber prices compounded by lower sales volumes.

The most significant product in this segment is OSB. Average prices, net of freight, for the industry were approximately 47% lower this quarter compared to the same quarter in 2000. Our sales volume in the quarter was down about 2% compared to the same quarter last year. Despite the losses incurred in this product line, the value of the production of virtually all of our OSB mills was equal to or greater than cash operating costs during the first quarter of 2001.

Plywood prices declined approximately 15% for the first quarter 2001 as compared to the first quarter 2000 with sales volume declining about 12%, primarily due to mill closures by the company in the latter half of 2000. We continue to review the operating results at our remaining plywood mills to balance cash flow concerns while meeting customer commitments. We have focused two of our remaining mills on veneer production for LVL. That has helped reduce the impact of the volatility in the plywood pricing and has also helped to increase operational efficiencies at the mills.

Lumber prices declined about 26% compared to the first quarter of 2000 with sales volumes declining approximately 15% due to permanent and temporary production curtailments. The price level experienced during the first quarter of 2001 continues to create an environment that has accelerated significant industry curtailments as prices have fallen below cash production costs for many mills. We will continue to evaluate the status of our sawmills based on industry conditions.

EWP showed a decline in profits in the first quarter of 2001 compared to first quarter 2000. This decline was driven by weakened demand and some pricing pressure due to increased industry capacity. Prices for the quarter were approximately 5% below prices for the first quarter of 2000. The weaker demand is a result of both the slowing economy as well as the effect that reduced lumber prices had on reducing the rate of substitution of EWP for traditional lumber products. This is especially true in the I-joist products where sales volumes were down about 10%. EWP profits were positively impacted by the low pricing on raw materials such as veneer, lumber and OSB, a reduction in inventories and improved operating efficiencies.

Overall, compared to the first quarter of 2000, the primary factor in the decreased profitability in this segment was the low sales prices discussed above, compounded by the lower sales volumes discussed above. Additionally, cost increases for resins, natural gas and electricity negatively impacted profits. Log cost associated with these products declined by 7% for the quarter as compared to the first quarter of 2000.

### *Exterior Products*

The exterior products segment consists of siding, both wood composite and vinyl, specialty OSB products and related products such as soffit, fascia and trim and composite decking. Sales of exterior products remained relatively flat between first quarter 2001 and the comparable quarter in 2000. Sales of wood composite and vinyl siding and specialty OSB products showed a decline in pricing of 10% and in volume of 7% due to weakened demand. Profitability for this segment declined significantly. This decline was due to three primary factors: (1) lower pricing for those specialty OSB products that are indexed to commodity pricing; (2) losses associated with the up front costs incurred to launch WeatherBest, a composite decking product; and (3) the increase in resin prices which impacted both our wood-based siding and vinyl businesses.

### *Industrial Panel Products*

The industrial panel products segment consists of particleboard, MDF, hardboard and interior hardboard products. Sales prices remained relatively flat between first quarter of 2001 and the comparable quarter in 2000. Sales volumes decreased 36% as compared to the same quarter last year due primarily to plant closures as well as weakened demand and fiber supply shortages. Additionally, this segment was negatively impacted by significant increases in energy costs. Wood costs associated with these products remained relatively flat between periods.

#### *Other Products*

The other products segment includes wood chips, Ireland operations, Alaska operations, moldings and other products. In the first quarter of 2001, sales for this segment declined significantly compared to the first quarter of 2000, primarily due to the contribution of the assets of Greenstone, our former cellulose insulation subsidiary, to a joint venture. Our share of the income or loss of this business subsequent to its contribution to the joint venture is included on our income statement under the caption, Equity in earnings of unconsolidated affiliate. Additional declines in sales and operating profits in this segment were primarily related to weaker commodity pricing in the distribution business and the Ireland OSB operation.

#### *Pulp*

Pulp segment sales and operating profits for the first quarter of 2001 declined significantly from the first quarter of 2000. Sales prices decreased about 14% and sales volumes decreased approximately 38%. The decline in pricing is due to reduced demand for pulp in the worldwide market. Volumes declined largely due to the transfer in mid-February of a controlling interest in pulp facilities in Samoa, California as described in Note 6 to our unaudited financial statements for the three months ended March 31, 2001 included in this prospectus supplement. In addition to the impact of pricing and volume on profitability, higher costs for energy negatively impacted the operating profits of this segment. See Assets Held for Sale below for additional information related to the pulp segment.

#### *Unusual Credits and Charges, Net*

Information regarding unusual credits and charges recorded in the quarter ended March 31, 2001 is set forth in the following table.

	Three Months Ended March 31,	
	2000	2001
	(Dollars in millions)	
Additions to contingency reserves	\$	\$ (2)
Long-lived asset impairment charges	(3)	(10)
Gain on insurance recovery	5	
	<u>\$ 2</u>	<u>\$(12)</u>
Total unusual credits and (charges), net		

In the first quarter of 2001, we recorded a net charge of \$10 million, or \$6 million after taxes, or \$0.06 per diluted share, associated with impairment charges related to equipment at three former manufacturing sites. The additional impairment charges resulted from changes in the planned method of disposal of the equipment. The remaining book value and operating results associated with this equipment are not material to our financial statements. We also recorded a net loss of \$2 million, or \$1 million after taxes, or \$0.01 per diluted share, for additional reserves for non-product litigation.

In the first quarter of 2000, we recorded a \$5 million, or \$3 million after taxes, or \$0.03 per diluted share, gain on an insurance recovery for siding related matters and an impairment charge of \$3 million, or \$2 million after taxes, or \$0.02 per diluted share, to reduce the carrying value of a polymer plant to our estimated net realizable value. The remaining book value and operating results associated with this plant are not material to our financial statements.

#### *General Corporate and Other Expense*

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For the first quarter of 2001, general corporate and other expenses declined 8% from the same period in 2000. This decline is due to the corporate restructuring that occurred in the third and fourth quarters of 2000, as well as an increasing focus on cost containment due to operating losses.

### *Interest Income (Expense)*

Interest expense increased in the first quarter of 2001 compared to the same period in the prior year as a result of increased borrowings to fund cash used in operating and financing activities.

### **Period Ended December 31, 2000 Compared to the Period Ended December 31, 1999**

We lost \$14 million, or \$0.13 per diluted share, in 2000, including pre-tax net unusual charges of \$76 million, or \$46 million after taxes, or \$0.44 per diluted share. Included in the unusual charges is \$5 million, or \$3 million after taxes, or \$0.04 per share included in the Equity in earnings of unconsolidated affiliate line item. This compares to profits of \$217 million, or \$2.04 per diluted share in 1999 including pre-tax net unusual charges of \$8 million, or \$5 million after taxes, or \$0.05 per diluted share. We earned \$2 million, or, \$0.02 per diluted share in 1998, including pre-tax net unusual charges of \$48 million, or \$36 million after taxes, or \$0.33 per diluted share. The unusual credits and charges are discussed in further detail in Note 7 to our financial statements for the year ended December 31, 2000 included in this prospectus supplement. Excluding the effects of unusual credits and charges, we earned \$32 million, or \$0.31 per diluted share, in 2000, \$222 million, or \$2.09 per diluted share, in 1999 and \$38 million, or \$0.35 per diluted share, in 1998.

Sales in 2000 were \$2.9 billion, a 5% decrease from 1999 sales of \$3.1 billion. Sales in 1999 were 25% higher than 1998 sales of \$2.4 billion.

Reduced demand for building products and the slowing housing markets factored negatively into the results for 2000. This softening demand resulted in reduced market prices for structural panels. The market-related decrease in sales was partially offset by the inclusion for a full year of the operations of ABT Building Products Corporation (ABT), which was acquired in late February 1999, Le Group Forex Inc. (Forex), which was acquired in September 1999 and certain assets of Evans Forest Products Ltd. (Evans), which were acquired in November 1999. ABT expanded product offerings in the exterior products segment with hardboard and vinyl siding and added plastic moldings to our product line in the other products segment. Forex added OSB capacity on the East Coast of North America, helping to fill a geographic gap. OSB is part of the structural products segment. Evans added to our LVL, cedar decking and plywood production capacities, all of which are part of the structural products segment.

Our 1999 results showed improvement over 1998 largely as a result of increased demand for OSB and plywood, which reduced the effects of industry-wide over capacity which was prevalent in 1998. In late 1998 and early 1999, we also divested or closed numerous unprofitable operations which reduced sales and improved earnings.

### *Selected Segment Data*

	Year Ended December 31,				
				Increase (decrease)	
	1998	1999	2000	1998-1999	1999-2000
	(dollar amounts in millions)				
<b>Sales:</b>					
Structural products	\$1,307	\$1,876	\$1,817	44 %	(3)%
Exterior products	116	276	329	138 %	19 %
Industrial panel products	192	300	287	56 %	(4)%
Other products	731	477	348	(35)%	(27)%
Pulp	105	143	152	36 %	6 %
	<b>Total Sales</b>	<b>\$3,072</b>	<b>\$2,933</b>	<b>25 %</b>	<b>(5)%</b>
<b>Operating Profit (Loss):</b>					
Structural products	\$ 198	\$ 440	\$ 173	122 %	(61)%
Exterior products	22	53	19	141 %	(64)%

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	Year Ended December 31,				
Industrial panel products	6	13	2	117 %	(86)%
Other products	(20)	(11)	(12)	45 %	(9)%
Pulp	(38)	(15)	13	61 %	183 %
Total Operating Profit (Loss)	\$ 168	\$ 480	\$ 195	186 %	(60)%

Numbers above reflect adjustment for EITF Issue No. 00-10 Accounting for shipping and handling costs.

#### Structural Products

The decline in sales for 2000 compared to 1999 was primarily due to lower OSB, plywood and lumber prices, which were partially offset by higher sales volumes resulting from the inclusion of a full year of operation of Forex and Evans, which were acquired in late 1999. The increase in structural products segment sales in 1999 as compared to 1998 was primarily the result of strong demand, which increased average selling prices. Divestitures and closures of less efficient and non-strategic manufacturing facilities partially offset the OSB sales increase in 1999.

OSB average selling prices declined 21% in 2000 compared to 1999 and increased 27% in 1999 compared to 1998. We and several of our competitors plan to construct new OSB plants or expand existing facilities, which will add significantly to industry capacity in the next few years. This anticipated capacity, combined with a slow-down in the U.S. economy that may slow the pace of future housing starts and, therefore, the demand for building products, drove down the average pricing for OSB in the year 2000. OSB sales volume increased 17% in 2000 compared to 1999 primarily as a result of the Forex acquisition. Volumes increased approximately 23% in 1999 compared to 1998 primarily as a result of the Forex acquisition and improvements in operating efficiencies.

Plywood results also declined in 2000. Plywood average selling prices fell 22% in 2000 compared to 1999. Plywood prices increased 19% in 1999 compared to 1998. We have continued to shift production to higher-value products and away from commodity sheathing products. Plywood sales volume increased 3% in 2000 compared to 1999 and increased 23% in 1999 compared to 1998, primarily as a result of a shift to a higher percentage of outside sales and a lower percentage of sales to the distribution business within the company. Sales from our distribution business are shown in the other products segment.

Lumber sales in 2000 declined compared to 1999 due to weakened market conditions. Average selling prices decreased 19% and volume decreased 6%. The price decrease in 2000 reflects an oversupply of lumber in North American markets. Lumber sales increased in 1999 as compared to the same period in 1998 due to a 5% increase in prices and a 10% increase in volume. This increase was due to strong demand and a shift to a higher percentage of outside sales and a lower percentage of sales to our distribution business. Sales from the distribution business are shown in the other products segment.

EWP sales grew in 2000 due to increasing volumes while pricing was virtually unchanged. Average selling prices decreased 3% for I-joist and 1% for LVL in 2000 offset by volume increases of 7% for I-joist. The volume increase was primarily due to agreements to market products of independent producers. The increase in sales in 1999 was primarily due to a fast-growing market for these products and due to a marketing agreement to sell the products of an independent producer.

In 2000, the profitability of the structural products segment declined significantly, primarily as a result of price declines in OSB, plywood and lumber. Additionally, this segment was negatively impacted by significant increases in resin and energy costs. In 1999, the profitability of the structural products segment increased significantly, largely due to price improvements for OSB, plywood and lumber. Overall, log costs did not change significantly in 2000 or 1999. Last-in first-out inventory income (expense) adjustments of \$10 million in 2000, \$(6) million in 1999 and \$14 million in 1998 are included in the structural products segment.

#### Exterior Products

Average selling prices of OSB-based exterior products decreased 21% in 2000 compared to 1999, while volumes increased 61% over 1999. The volume increase was primarily due to the conversion of a commodity OSB mill into a specialty OSB mill in early 2000. Total profits decreased in 2000 primarily due to decreased sales prices and a significant increase in resin costs associated with both the wood-based siding and vinyl operations. Average selling prices were relatively flat in 1999 compared to 1998. Sales volume increased as market acceptance of the product increased and due to the acquisition of ABT in early 1999. In 2000 and 1999, our specialty OSB manufacturing facilities produced and sold a moderate volume of commodity OSB sheathing product, which made a positive contribution to earnings.



*Industrial Panel Products*

Decreased demand for particleboard and MDF resulted in relatively flat average sales prices and significant reduction in volumes. During 2000, we permanently closed two MDF facilities and one hardboard facility due to market conditions. Profits in this segment were negatively impacted by reduced volumes and significant increases in energy costs. The addition of ABT products in 1999 is the primary reason for the increase in sales and profits of this segment in 1999 compared to 1998.

*Other Products*

The other products segment includes distribution facilities, plastic moldings, wood chips, coatings and specialty chemicals (sold in December 1999), cellulose insulation (contributed to a joint venture in August 2000), Ireland operations, Alaska lumber and logging operations (sold in November 1999) and other products. The primary cause of the decrease in sales in the other products segment for 2000 compared to 1999 was the sale of the coatings and specialty chemicals business and the Alaska lumber and logging operations in 1999. Additionally, significant declines in commodity prices negatively impacted sales and profits of our distribution facilities. The sales decrease in 1999 compared to 1998 is primarily due to the sale in mid-1998 of two California distribution centers, the Weather-Seal windows and doors operations and Creative Point Inc., which sold consumer electronic media storage devices. Increases in sales from the Ireland OSB plant and sales from the newly acquired ABT molding and shutter operations in 1999 partially offset the other sales decreases in 1999.

The operating loss in this segment was relatively flat in 2000 compared to 1999. This was a result of the sale or closure of unprofitable businesses offset by the impact of reduced pricing on the distribution business. The decreased losses in this segment in 1999 are primarily the result of the addition of the ABT molding operations, a reduction of losses in the cellulose insulation business due to cost cutting efforts and strategic changes and an increase in the profitability of the Ireland OSB operations due to the improved sales markets.

*Pulp*

Pulp segment operations improved significantly in 2000. Sales volumes in 2000 declined 18% while average selling prices rose 48% over 1999. The pulp markets improved as the Asian economy improved and pulp producers closed operations or took downtime. This improvement has been seen over the last two years. These improved prices significantly improved operating profits. Average sales prices increased 13% in 1999 while volumes rose 38%. Pulp markets in 1998 were negatively impacted by the worldwide over-capacity in the pulp industry and the Asian economic crisis.

Our pulp products represent the majority of our export sales. Therefore, the increase in pulp sales was the primary reason for the increase in export sales in 2000 and 1999. Information regarding our geographic segments and export sales are provided in Note 10 to our financial statements for the year ended December 31, 2000 included in this prospectus supplement.

*General Corporate Expense, Net*

Net general corporate expense was \$99 million in 2000, compared to \$103 million in 1999 and \$94 million in 1998. The decline in 2000 is primarily related to a reduction in management bonuses tied to company performance. The increase in 1999 is primarily attributable to increased sales and marketing personnel as we have focused on our customers and the addition of key personnel to implement management's strategies.

*Unusual Credits and Charges, Net*

For a discussion of unusual credits and charges, net, refer to Note 7 to our financial statements for the year ended December 31, 2000 included in this prospectus supplement.

*Interest, Net*

In 2000, net interest expense was \$43 million, a significant increase from the 1999 expense of \$12 million. Interest expense increased in 2000 due to the debt incurred in connection with the Forex, ABT and Evans acquisitions.

*Equity in Earnings of Unconsolidated Affiliate*

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In August 2000, we and Casella Waste Systems, Inc. each contributed most of the assets of our respective cellulose insulation operations to a joint venture, U.S. GreenFiber, LLC. Pursuant to the limited liability company agreement, each company owns 50% of GreenFiber. Subsequent to the formation of the joint venture, GreenFiber recorded a restructuring charge related to the closure of duplicate facilities and other activities associated with streamlining the combined business. Our share of this restructuring charge was \$5 million, or \$3 million after taxes, or \$0.03 per diluted share. GreenFiber elected to be treated as a partnership for income tax purposes and therefore the entity is not taxed directly.

### *Income Taxes*

We recorded a tax benefit of \$12 million in 2000 and tax provisions of \$140 million in 1999 and \$14 million for 1998. For 2000, the change in the effective tax rate was due to the effects of nondeductible goodwill, reductions in prior year provisions due to closure of prior year tax audits and an increase in the valuation allowance related to foreign tax credits due to expectation of lower future foreign income. Additionally, the income tax effects of our share of the loss of GreenFiber are recorded in the line item Provision (benefit) for income taxes in our consolidated income statement, while our share of the pre-tax income or loss are recorded in the line item Equity in earnings of unconsolidated affiliate. In 1999, our effective tax rate approximated the statutory rates. In 1998, the high effective rate was primarily due to the effects of nondeductible goodwill and nondeductible fines.

### **Legal and Environmental Matters**

For a discussion of legal and environmental matters involving the company and the potential impact on our financial position, results of operations and cash flow, see Note 8 to our financial statements for the year ended December 31, 2000 included in this prospectus supplement and Item 1, Legal Proceedings, in Part II of our quarterly report on Form 10-Q for the period ended March 31, 2001. In addition, a more detailed discussion of the background and significant past charges recorded by the company related to the OSB siding litigation are set forth below.

*Background of OSB Siding Litigation.* Prior to 1995, we primarily dealt with claims regarding the quality and performance of our siding through the product warranty process. In 1994 and early 1995, we were served with numerous lawsuits alleging monetary damages as a result of OSB siding manufactured by the company. In 1995, we discontinued payment of warranty claims, except under certain circumstances such as emergency claims, due to the pending litigation. In 1995 and 1996, we settled the majority of these lawsuits through one of the following three mechanisms:

A class action settlement in Florida for owners of homes or other structures with our OSB siding in that state only (the Florida settlement).

A class action settlement for owners of homes or other structures with our OSB siding in the remaining states in the U.S. (the national settlement), and,

Individual settlements with claimants who opted not to participate in either of the above two settlements.

These settlements significantly increased the cost of an average claim compared to the historical payments under our limited warranties. This is primarily because, under the limited warranty, we only reimbursed the homeowner for the cost of replacement siding, whereas under the settlements, we also pay for the labor costs to remove old siding and to install and paint the new siding and for certain other consequential costs incurred in the replacement of the siding.

The settlements afforded a remedy to homeowners that is typically available for consumer type claims repair and/or replacement of the damaged product. Under the settlements, we conditionally waived defenses that we could have asserted, such as improper installation by the builder, improper maintenance by the homeowner, and numerous technical legal defenses (these defenses can be reinstated under certain conditions). In exchange, the settlements provided a more aggressive deduction based on the age of the product than was available under the limited warranty. The settlements also brought an end to highly contentious litigation that consumed inordinate amounts of company time and resources and that potentially could have degenerated into tens of thousands of individual claims litigated in different courts throughout the country.

In addition, the settlements allowed our management to focus its energies on reorganizing and reviving our business, rebuilding our damaged relations with the builders and consumers who purchase our products and preserving the market for our improved siding product that was introduced in 1996.

The national settlement also afforded us the opportunity to control both the amount and timing of payments in order to better manage liquidity and capital resources. See the more complete discussion of the settlements in Note 8 to our financial statements for the year ended December 31, 2000 included in this prospectus supplement. It also gave us a degree of control over the total liability for siding through the mechanism of optional funding payments for claims in excess of mandatory funding payments of \$275 million. We have the ability to prevent the assertions of claims by class members outside of the settlement as long as we continue

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to make all optional funding payments provided for under the national settlement. We also have the ability to allow the settlement to expire if management determines that the settlement is no longer in the best interest of the company and our stockholders.

*Claims Process.* We have entered into a contract with a court-approved independent administrator through which all national settlement claims are processed. We process all Florida settlement claims. Potential claimants who have not opted out of the national and Florida settlements are eligible to participate and claims are processed as follows:

A request for a claim form is received and the potential claimant is entered into the system.

A claim form and related instructions and information are mailed to the potential claimant.

Upon receipt of a completed claim, it is reviewed for completeness. Incomplete claims packages are referred back to the claimant for additional information.

Each complete claim package is forwarded to a court-approved third party inspection firm that is responsible for inspecting the structure and determining the footage of damaged siding, as defined under the appropriate settlement and, in the case of the Florida settlement, determining whether any contributing factors, such as improper installation or maintenance, exist.

The independent administrator calculates the monetary damages based on the footage of damaged siding, the age of the siding, the average cost of siding replacement in the appropriate geographic region and, in the case of the Florida settlement, determining whether any contributing factors, such as improper installation or maintenance, exist.

The claim processing is completed and the claim is either paid, immediately in the case of the Florida class action settlement and when money is available in the national settlement fund, or placed in the payment queue for the national settlement.

Through the first three months of 2001, claimants continued to file claims under the national settlement; however, the rate of claim filings has decreased. As of March 31, 2001, (1) approximately 302,000 requests had been received for claim forms for the national settlement and the Florida settlement, compared to 299,000 at December 31, 2000 and 273,000 at December 31, 1999, and (2) approximately 194,000 completed claim forms for the national settlement and the Florida settlement had been received, compared to 192,000 at December 31, 2000 and 172,000 at December 31, 1999. The average payment amount for settled claims as of March 31, 2001, December 31, 2000 and December 31, 1999 was \$3,700, \$3,800 and \$5,100, respectively. Excluding claims satisfied on a discounted basis pursuant to the second settlement fund (defined below), the average payment amount for settled claims as of March 31, 2001 and December 31, 2000 was \$5,100. The total number of completed claim forms pending (not settled) as of March 31, 2001 was approximately 22,000 (approximately 21,000 and 67,000 at December 31, 2000 and December 31, 1999, respectively) with approximately 138,000 claims settled (approximately 137,000 and 76,000 at December 31, 2000 and December 31, 1999, respectively) and approximately 34,000 claims dismissed (approximately 34,000 and 29,000 at December 31, 2000 and December 31, 1999, respectively). Dismissal of claims is typically the result of claims for product not produced by us or claims that lack sufficient information or documentation after repeated efforts to correct those deficiencies.

As of December 31, 2000, approximately 26,000 Florida class action claims had been paid. Although new claims are no longer being accepted, there remain approximately 700 claims that were timely made for which inspections still must be conducted. In addition, there are approximately 700 claims that were timely made but that have been identified as requiring additional information before they will be processed.

*Amount and Timing of Accruals.* The amount and timing of the accruals related to the siding matters are discussed below. The accruals for OSB siding claims relating to both the national settlement and the Florida settlement, including related legal costs, settlement administration costs, claims of persons who opted-out of the settlements and residual warranty claims, have been analyzed and accounted for collectively. The activity in the combined accruals is as follows:

<b>Dollar amounts in millions year ended December 31,</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Beginning balance	\$165	\$324	\$227
Accruals made during the year	248		
Payments made	(101)	(97)	(137)
Insurance recovery	12		
Ending balance	\$324	\$227	\$ 90

During the third quarter of 1995, the final settlement was reached in the Florida settlement (approved by the court in October 1995), and we reached an agreement in principle with class counsel in the national settlement with a specified base funding

schedule of \$275 million. Management believed that these two events made the liabilities probable and estimable at that point in time. Based on a statistical analysis of historical claims data and information collected by our litigation counsel, management believed that the national settlement liability, inclusive of notice, administration, and inspection costs, would not exceed \$275 million. Because claims of persons who opted out of the settlement would theoretically reduce the amount required to be paid under the settlement, we believed that no separate accrual for opt-outs was required. In later years, as noted below, management recorded additional accruals for opt-out claims due to evidence indicating that claims paid under the settlement would likely amount to at least \$275 million and therefore opt-out claims would be incremental to the national settlement. The Florida settlement liability was estimated at \$50 million by attorneys working on the settlement. Estimated legal, professional and other costs were also accrued at that time.

Because the court approval process related to the national settlement was not finalized until June of 1996, and the Florida settlement process was just getting started, management believed the existing accrual remained adequate for the two class action settlements. However, the amounts paid to resolve opt out claims subsequent to the approval of the national settlement combined with evidence that claims under the national settlement would likely amount to at least \$275 million caused us to believe that the previous accruals would be not be sufficient to cover these amounts. Accordingly, in the third quarter of 1996, we accrued an additional \$36 million based on known claims that our management and litigation counsel believed were probable and estimable. Opt-out claims in the amount of approximately \$32 million were settled and paid in 1996. An additional \$2 million was added to the reserve in the fourth quarter of 1996 for increased legal costs.

During the first half of 1997, the independent administrators and third-party claims inspectors for the national settlement began to reduce a backlog of unprocessed claims that had arisen during the months after final court approval of the national settlement. At that time, management continued to believe the estimate of the total liability was adequate. We engaged an outside statistician who developed a model to assist management in estimating the liabilities by projecting the monetary amount of claims in the system at any point in time based upon the total number of claims forms requested to date. This projection method is based on factors and ratios that must be estimated from actual claims experience and trends in claim form requests. Additionally, trends in claim form requests themselves, which drive the projections over the longer term, have remained very erratic and difficult to forecast. Factors such as weather, publicity about siding matters, revisions in the national settlement, and other factors have affected the pattern of claim form requests which has made it difficult for the statistician to extract any meaningful underlying trend. The statistician's model is affected by the foregoing factors and has not played a decisive role in management's estimation of the future liability.

By the end of the third quarter of 1997, management concluded that an additional accrual of \$50 million was required for the national settlement claims. Also, \$112 million was accrued to cover additional estimates for the Florida settlement claims, national settlement administration costs, additional opt-out settlements and additional legal fees. These updated estimates were based partially on the application of the model and updated estimates provided by attorneys and others familiar with the settlement, all of which experienced unanticipated increases compared to our earlier estimates. The principal factors that led to a higher estimated accrual in the third quarter of 1997 were as follows:

An increase in the average cost per settled claim, under the national settlement only, from approximately \$5,400 at the end of 1996 to approximately \$6,100 by the end of the third quarter of 1997.

A steady to increasing rate of claims forms requested and returned where we originally estimated those figures to decrease over time. For example, completed claims forms received by the national settlement claims administrator increased from approximately 33,000 at the end of 1996 to approximately 61,000 at the end of the third quarter of 1997.

The principal factors leading to an increase in the accrual for the Florida settlement are similar to those above for the national settlement. In subsequent quarters of 1997 and 1998, we continued to monitor the claims figures in order to evaluate the need for adjustments to the liability. During the third quarter of 1998 management evaluated available options under the national settlement because of continuing changes occurring with the underlying data. The national settlement claims administrator had received approximately 10,000 claims forms per quarter from the fourth quarter of 1997 through the third quarter of 1998, bringing the total to approximately 101,000 claims forms received through September 1998. This represented an increase of approximately 65% in one year. The average cost per settled claim did not change significantly during this period. The options under consideration included: (1) allowing the settlement to terminate under the national settlement terms and conditions; (2) continuing the settlement without modification by electing to fund the optional payments as they became due; or (3) attempting to resolve remaining claims through an alternative method.

In July 1998, we formally proposed to class counsel enhancements to the national settlement: (1) the early payment program; and (2) the second settlement fund. After numerous negotiating sessions, we and class counsel were able to finalize an agreement on the terms of these programs, which were agreed to by the parties in the third quarter of 1998 and subsequently approved by the court in October 1998. Consistent with this agreement, we accrued the estimated costs of these programs. The incremental cost of these programs was estimated to be approximately \$22 million, netting the effect of prior accruals and the effect of discounts of payments allowed under this program, for the early payment program and \$125 million for the second settlement

fund. These amounts were accrued during the third quarter of 1998 as were additional amounts totaling \$113 million for the legal and administrative costs of these programs, claims of claimants who may opt out of the second settlement fund, additional Florida settlement claims based on statistical estimates, warranty claims subsequent to the expiration of the national and Florida settlements and other costs.

Throughout the period the national and Florida settlements have been in effect, we have recorded accruals which represent management's best estimates of amounts to be paid based on available information. The unusual nature of the national and Florida settlements and the various remedies available to us make the process of estimating these accruals difficult. Class members in the Florida settlement had until October 4, 2000 to submit claims. We expect to complete payments to Florida claimants during 2001 within our established reserves. In connection with the national settlement, the liability recorded at December 31, 2000 represents management's best estimate of the future liability related to the siding claims based upon the most current information available. There can be no assurance that the ultimate liability will not significantly exceed the recorded liability. Numerous factors affect the total amount of the future liability. These factors are discussed below.

*Early Payment Program And Second Settlement Fund.* We entered into these programs in 1998 after careful consideration of the potential monetary and non-monetary impacts of all of our alternatives and based on management's belief that they will help to keep the average cost per claim from increasing. Despite the increased costs of entering into these programs, our management deemed them to be in the best interests of the company and our stockholders. This decision was based on several very important considerations and assumptions.

Our management believed that the early payment program would be attractive to claimants who wished to repair or replace their exterior siding in a timely manner, as the discounts proposed were relatively modest. In addition, management believed that the second settlement fund would encourage claimants to timely submit new claims during 1999 and accept a discounted payment in 2000, thereby removing these claimants from any future action (the second settlement fund). With these two programs, management believed the likelihood of any residual claimants initiating successful legal action after 2003 would be significantly diminished. Management also believed the effects of negative publicity regarding our siding products would be reduced under these programs. Negative publicity could severely limit the growth of our new siding products. Finally, management believed these programs would be a lower risk approach to extinguishing remaining claims at an acceptable cost. Payment of claims under the second settlement fund was at our discretion. During 2000, we paid approximately \$114 million from the second settlement fund in satisfaction of approximately \$319 million in claims. Claimants who accepted payment from the second settlement fund may not file additional claims under the original settlement. Claimants who elected not to participate in the second settlement fund remain bound by the terms of the original settlement.

*Future Costs.* Other factors potentially influencing future costs include:

The costs of administering the settlements or any alternative approach of resolving claims, including the actual claims costs, notice costs, inspection costs, third party administrator costs and attorney's fees.

The possibility of claimants bringing a second class action lawsuit. We believe plaintiffs would be legally barred from this action provided that all payments under the settlement have been made.

Litigation related to other impacts of using our siding not specifically related to product performance.

Changes in the above factors have caused the estimated accrual amounts to change in the past. However, we do not currently anticipate that these factors will cause a significant change in the remaining accruals for the reasons stated herein.

*Insurance Recoveries.* We recorded approximately \$17 million of insurance recoveries in 2000 and approximately \$28 million of insurance recoveries in 1998. We do not expect any further insurance recoveries related to OSB siding claims.

## **Financial Position, Liquidity and Capital Resources**

Net cash used by operations was \$15 million in the first three months of 2001 compared to net cash provided by operations of \$54 million in the same period of 2000. The decrease in cash provided by operations resulted primarily from lower net income that was partially offset by a significant decrease in inventories.

Net cash provided by operations was \$83 million in 2000, \$473 million in 1999 and \$123 million in 1998. In 2000, the decline in cash provided by operations resulted primarily from the decline in operating income and increased cash outflows for litigation contingencies, including settlements under the second settlement fund discussed above. In 1999, the increase in cash provided by operations resulted primarily from improved operating profits. We paid out \$162 million in 2000, \$104 million in 1999 and \$113 million in 1998 related to litigation settlements.

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Net cash provided by investing activities was \$7 million in the first three months of 2001 compared to net cash used by investing activities of \$35 million in the comparable period of 2000. We received \$23 million from the sale of a controlling interest in pulp facilities in Samoa, California and another \$6 million for sales of various other assets. Capital expenditures for property, plant, equipment and timber declined in the first three months of 2001 compared to the same period in 2000, primarily due to management's focus on limiting cash outflows during the current economic slow down. Capital expenditures during the first quarter of 2001 were primarily for completion of the Chilean OSB mill and required operating capital. We estimate that for the full year ended December 31, 2001, we will make capital expenditures of approximately \$100 million associated with required capital projects and high-return capital projects.

Net cash used by investing activities was \$261 million in 2000 and was primarily used for acquisitions of capital equipment to improve the efficiencies of existing mills. Additionally, we used \$55 million to acquire the assets of Sawyer Lumber Company and the assets of Hoff Companies, Inc. Net cash used by investing activities was \$783 million in 1999 and was primarily used for the ABT, Forex and Evans acquisitions as well as other capital expenditures. We received proceeds of \$21 million in 2000 from the sale of several sawmills, a veneer plant and various land sites. We received proceeds of \$74 million in 1999 from the sale of our Alaskan operations and our coatings and chemicals operations. Net cash provided by investing activities was \$246 million in 1998. In 1998, we received \$368 million from the sale of assets, primarily timber, sawmill and distribution assets in California, the Weather-Seal windows and doors operations and Creative Point, Inc.

In the three-month period ended March 31, 2001, we borrowed \$15 million and repaid \$3 million in debt. Additional debt was incurred to fund operating cash uses. In the same period of 2000, we repaid \$4 million of debt.

In 2000, net cash provided by financing activities was \$101 million, compared to \$300 million in 1999 and cash used in financing activities of \$275 million in 1998. In 2000, we borrowed \$668 million and repaid \$502 million primarily associated with the public debt offering which was primarily used to pay off bridge loans associated with 1999 acquisitions. The public debt offering consisted of \$200 million of 8.875% senior notes due 2010 and \$190 million of 8.500% senior notes due 2005 and was completed on August 18, 2000. Additional debt was incurred to finance the acquisitions of the assets of Sawyer Lumber Company and Hoff Companies, Inc. and payments from the second settlement fund described above. In 1999, we borrowed \$629 million, primarily to finance acquisitions, and repaid \$225 million of existing debt. In 1998, we borrowed \$348 million by issuing senior secured notes backed by notes receivable received in a separate asset sale transaction and repaid a total of \$496 million of term and revolving loans. Treasury stock purchases were \$11 million in 2000, \$48 million in 1999 and \$67 million in 1998.

We expect to be able to meet the cash requirements of our existing operations through cash from operations, existing cash balances, existing credit facilities and access to the capital markets. Cash and cash equivalents totaled \$27 million at March 31, 2001 compared to \$38 million at December 31, 2000. Cash and cash equivalents totaled \$38 million at December 31, 2000 as compared to \$116 million at December 31, 1999 and \$127 million at December 31, 1998. We have a \$300 million domestic revolving credit facility, under which \$107 million and \$115 million were outstanding at December 31, 2000 and March 31, 2001, respectively. This facility is available until January 2002, subject to covenant restrictions discussed below. Although we intend to replace this facility, at March 31, 2001 outstanding borrowings under this facility were classified as current liabilities pending such replacement. We also have a Canadian revolving credit facility, under which no borrowings were outstanding at December 31, 2000 and \$10 million was outstanding at March 31, 2001. The maturity of this facility has been extended to August 1, 2001 and, in connection with this extension, the borrowing availability under this facility was reduced from Cd. \$50 million to Cd. \$25 million. We are currently in the process of renewing this facility. Borrowings under these two credit facilities are limited by a covenant that restricts the ratio of our funded debt to capital, as those terms are defined in the relevant agreements, to a maximum of 0.55 to 1. Because operating losses reduce our total capital, future operating losses could reduce our capacity to borrow additional funds, including amounts under the revolving credit facilities discussed above. We have several options available to us under those circumstances including, but not limited to, raising additional equity or seeking waivers of the covenant or amendments to the agreements that contain this covenant.

Significant changes in our balance sheet, net of assets transferred in connection with the sale of a controlling interest in the Samoa California pulp mill, from December 31, 2000 to March 31, 2001, include increases of \$36 million in accounts receivable and decreases of \$56 million in inventories, \$30.1 million in income tax receivables and \$43 million in accounts payable and accrued liabilities. The increase in accounts receivable is due to seasonal fluctuations in operations. The decrease in income tax receivables is due to refunds received for 2000 net operating losses.

Contingency reserves, which represent an estimate of future cash needs for various contingencies, primarily payments for pending litigation settlements, totaled \$162 million and \$160 million at December 31, 2000 and March 31, 2001, respectively, of which \$35 million is estimated to be payable within one year. As with all accounting estimates, there is inherent uncertainty concerning the reliability and precision of these estimates. The amounts ultimately paid in resolving these contingencies could exceed the current reserves by a material amount. Litigation-related payments totaled \$2 million for the first three months of 2001.

Pursuant to our business strategy, we selectively target acquisitions that complement our core competencies and have strong growth prospects. Accordingly, we intend from time to time to consider possible acquisitions of other companies, businesses

and assets. Acquisition transactions, if any, are expected to be financed through a combination of cash on hand and from operations and the possible issuance from time to time of long-term debt or other securities. Depending upon conditions in the capital markets and other factors, we will from time to time consider the issuance of debt or other securities, or other possible capital markets transactions, the proceeds of which could be used to refinance current debt or for other corporate purposes.

### **Stock Repurchase Plan**

As of March 31, 2001 and December 31, 2000, we had reacquired a total of approximately 8 million shares for \$125 million under an authorization to reacquire up to 20 million shares from time to time in the open market. No shares were reacquired under the authorization in the first quarter of 2001. We had approximately 104 million shares outstanding at March 31, 2001 and December 31, 2000.

### **Dividend**

On May 7, 2001, we announced that our board of directors had reduced the company's quarterly dividend by 65% from \$0.14 per share to \$0.05 per share. Our board of directors indicated that, despite some recent improvement, product prices had been at near-record lows since their rapid decline starting in the second quarter of 2000. The board's action to reduce the dividend was based on a variety of factors including market conditions, an uncertain economy and a desire to increase our financial flexibility. The dividend reduction is expected to result in annual cash savings of approximately \$38 million per year.

### **Assets Held for Sale**

We are seeking to sell our Chetwynd, British Columbia pulp mill, which is presently managed by an unrelated party pursuant to a management agreement that currently expires in December 2001. We believe there is adequate support for the carrying value of the affected assets. However upon the sale, it is possible that we will be required to record an additional impairment charge based upon the actual sales price.

Due to the current market slowdown, we are currently reviewing several mills for additional possible impairments. We currently believe there is adequate support for the carrying value of each of these mills based upon the current demand and pricing assumptions. However, if the markets for our products deteriorate, it is possible that we will be required to record further impairment charges. Refer to Note 1 to our financial statements for the year ended December 31, 2000 included in this prospectus supplement for a discussion of our accounting policy regarding asset impairments.

### **Recent Accounting Pronouncement**

In June 2001, the Financial Accounting Standards Board adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). This new statement addresses financial accounting and reporting for goodwill and other intangible assets. Under this new standard, goodwill and other intangible assets that are determined to have an indefinite life will no longer be amortized. However, goodwill and other intangible assets will be tested for impairment on an annual basis by applying a fair value based test. SFAS 142 will be effective for us beginning January 1, 2002. Management is currently evaluating the impact of this statement on our financial statements. Our goodwill amortization is currently approximately \$6 million to \$7 million per quarter.

## **INDUSTRY OVERVIEW**

*The following discussion of the building products industry is intended to provide background information concerning the industry in which we operate. You are cautioned, however, that our business is not necessarily affected by the industry trends or other factors discussed below in the same manner or to the same degree as the industry generally. In addition, the information provided below is based on data from specified industry research firms and U.S. government sources. While we generally consider these sources to be reliable, we have not independently verified the accuracy or completeness of this information. Consequently, we cannot assure you that the information provided by these sources is accurate and reliable. Some of the information included in the following discussion is based on predictions and projections published by these sources. These predictions and projections are subject to inherent uncertainties. Consequently, actual results may differ materially from those expressed in or implied by these predictions and projections. See *Forward-Looking Statements and Risk Factors*. For specific information about our business and operating results, see *Business and Management's Discussion and Analysis of Financial Condition and Results of Operations* and the other information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus.*

### Building Products Industry

Building products companies make products that are used in the construction of new housing, including traditional frame houses, multi-family homes and manufactured housing, and the repair and remodeling of existing housing. Building products can be generally classified by their application into two groups, structural products and non-structural products. Structural products are used in applications where strength is important and include structural panels, such as OSB and plywood; lumber; and EWP. Non-structural products are generally used when strength is not necessarily required and include products used on the exterior of residential and commercial structures, such as siding and decking. Particleboard, MDF, and hardboard are also non-structural products, and are used in the construction of furniture and other non-load bearing applications. The building products industry is considered highly fragmented, as no single entity has taken a dominant position. As a result, no company has the scale or scope to significantly influence industry inventory levels or capacity as a whole.

Building products consumption has been generally correlated to housing starts and residential improvements and repair activity over the last decade. According to U.S. government data, in the ten-year period from 1991 through 2000, U.S. housing starts grew at a 5% compounded annual rate, while residential improvement and repairs expenditures grew at a 3% compounded annual rate. Correspondingly, according to IWMR and RISI, over the same period, the compounded annual growth rate was 5% for structural panels consumption and 3% for softwood lumber consumption.

Source: *International Wood Markets Research, Inc.* (1991-1999); *Resource Information Systems, Inc.* (2000).

After experiencing significant growth in the early 1990s, from 1.0 million starts in 1991 to 1.5 million starts in 1994, housing starts held relatively constant at approximately 1.5 million per year through the mid-1990s. In 1998, strong demand for new housing drove housing starts to 1.6 million, a level that held through the first half of 1999 before tapering off slightly and remaining just under 1.6 million for 2000. RISI has estimated that average annual housing starts for the period from 2000 through 2005 will be 1.6 million, surpassing the average annual starts of 1.4 million for the period from 1991 to 2000. Other trends supporting the increase in housing starts include a predominance of single-family construction, as opposed to multi-family homes, which has accounted for approximately 80% of all the homes built in the last five years. In addition, according to RISI, the average home size in 2000 was 2,255 square feet, 20% bigger than the average home size in the period from 1981 to 1990. Although making up a smaller percentage of the housing market, multi-family housing, after bottoming out at 170,000 starts in 1992, had more than doubled by 1998.

RISI has stated that it expects underlying housing demand to be bolstered by several key factors over the coming decade, including the changing age and class distribution of the U.S. population and a healthy economic environment. With an increase in the number of homes among family members and the number of families who maintain more than one residence, baby-boom generation demographics are expected by RISI to positively affect underlying housing demand. These factors are expected to increase significantly the number of household formations from 2000 to 2010. RISI has predicted a net increase in the average annual demand for all types of new housing of nearly 200,000 units, from 1.7 million units in the decade from 1990 to 2000 to 1.9 million units in the decade from 2000 to 2010.

Expenditures for repair and remodeling, or R&R, are also poised for growth, due in part to the existing stock of aging homes built between 1960 and 1990. According to IWMR, 78% of existing homes in the U.S. are at least 16 years old and will soon be in need of new roofs, windows, doors, and siding. This is expected to lead to significant growth in the R&R sector. In 1997, about 24% of all lumber consumed in the U.S. was used in residential R&R, along with 23% of all structural panels, 15% of all non-structural panels, and lesser amounts of engineered wood products. According to RISI, total dollars spent on R&R in 2000 was approximately



\$127 billion. RISI has predicted that this number is expected to increase to about \$138 billion by 2004.

## Structural Products

### *Structural Panels*

Structural panels are used in applications where physical properties are more important than appearance. Up until the late 1980s, plywood dominated the structural panel market. Since then, OSB has become a significant alternative to plywood because of its comparable performance attributes and generally lower cost. OSB is manufactured by processing logs into uniform strands that are then coated with wax and resin, oriented into a mat and permanently bonded under heat and pressure. The oriented strands give OSB its structural strength. The relatively abundant and fast growing, deciduous trees and under-utilized coniferous trees used to make OSB are generally less expensive than the logs used to make plywood.

OSB consumption has increased over the last decade as a result of greater acceptance of OSB as a substitute for plywood, greater production capacity to meet rising panel demand and a strong North American economy. According to the APA, the total North American market for structural panel products, which includes OSB and plywood, was approximately 39 billion square feet in 2000. The OSB share of this market is approximately 51% in 2000, up from approximately 28% in 1991. The following table sets forth the information regarding historical U.S. Structural panel consumption.

Source: *International Wood Markets Research, Inc.* (1991-1998); *Resource Information Systems, Inc.* (1999-2000).

According to data from IWMR and RISI reflected in the table below, North American structural panel prices fluctuated considerably during the 1990s. Starting at recession lows in 1991, prices increased to record levels by 1994. The upward pricing trend was especially pronounced for OSB, but plywood prices also increased significantly. Due to significant increases in production capacity, OSB prices started to fall in 1995, and by 1997, OSB prices had dropped precipitously, while plywood prices remained relatively stable.

Source: *International Wood Markets Research, Inc.* (1991-1998); *Resource Information Systems, Inc.* (1999-2000).

According to the APA, total North American OSB annual production capacity increased by about 3 billion square feet in 2000 to approximately 24 billion square feet on a <sup>3</sup>/<sub>8</sub>-inch equivalent basis and is projected to increase by almost 6 billion square feet in the 2001 to 2006 period. The APA has projected that total North American demand for OSB will increase by about 5 billion square feet during the 2001 to 2006 period. If increases in OSB production capacity exceed increases in OSB demand, OSB could have constrained operating margins for the foreseeable future.

#### *Softwood Lumber*

Structural lumber, the largest lumber segment in the U.S., accounts for about two-thirds of total U.S. lumber consumption. It consists of dimension lumber, studs, and EWP, all of which are used primarily in residential construction. Softwood lumber types such as Southern Pine, Douglas Fir and Spruce-Pine-Fir, or SPF, are used primarily in structural end-uses due to their strength and commercial availability. Non-structural lumber represents the remaining third of consumption, comprising a wide variety of products including boards, fencing, decking, siding, interior finishing and pallets.

According to data from IWMR and RISI reflected in the table below, after hitting a peak of about 55 billion board feet in 1999, U.S. softwood lumber consumption fell 3% to 53 billion board feet in 2000.

Source: *International Wood Markets Research, Inc.* (1991-1998); *Resource Information Systems, Inc.* (1999-2000).

One factor that has affected industry-wide supply and demand for softwood lumber in the past is the Softwood Lumber Agreement. Prior to April 2001, the Softwood Lumber Agreement constrained Canadian lumber exports to the U.S. by imposing a quota on four specific Canadian provinces: British Columbia; Alberta; Ontario; and Quebec. As a result, over the past decade, Canada's market share of U.S. consumption had remained at approximately 33%. One possible result of the expiration of the Softwood Lumber Agreement in March 2001 could be increased competition between Canadian and U.S. producers of softwood lumber, exerting downward pressure on prices.

Source: *Random Lengths*.

### *Engineered Wood Products*

In an effort to meet higher levels of anticipated demand in an environmentally friendly manner, building product manufacturers are developing methods to utilize their timber resources as efficiently as possible. This is particularly evident in the EWP industry. Wood I-joists and LVL make up the largest portion of the EWP market. Producers of these products employ relatively new technology to manufacture higher-valued products as replacements for traditional wood products. EWP are manufactured with lumber and panel products in a manner that maximizes physical strength and dimensional stability while minimizing the amount of wood used as raw material. For instance, wood I-joists are a replacement product for natural lumber joists used in residential and non-residential construction. I-joists are made up of two pieces of flange material, such as lumber or LVL, and web material, which is almost exclusively OSB. The resulting product is generally stronger, straighter and lighter than the traditional solid-wood alternative.

Old-growth timber is becoming increasingly scarce throughout the world. This scarcity is putting greater pressure for performance on younger timber, which is generally not as well suited for certain structural and appearance based applications. Accordingly, a number of farsighted producers have recognized this trend and have employed research and technology to develop a wide range of alternative fiber sources and EWP. Despite higher capital costs, EWP can offer less price volatility and more consistent quality than sawn lumber. In addition, EWP tends to have other attributes not normally associated with commodity wood products, such as greater brand differentiation, and in certain circumstances, patent protection.

EWP is the fastest-growing segment of the building products industry. According to IWMR, the North American residential market size of engineered lumber was an estimated \$850 million in 1996. The full potential of engineered lumber has been projected by IWMR to be nearly \$2,200 per housing start, which equates to a total market size of about \$3 billion.

The displacement of lumber by EWP in the U.S. has increased substantially. According to IWMR, EWP consumption was only about 300 million board feet in 1987, but had risen to about 2 billion board feet in 2000.

### **Exterior Products**

Based on data from NAHB Research Center, the overall size of the siding market in the U.S. was approximately 8 billion square feet in 2000. In 2000, vinyl siding, a composite non-wood product, accounted for approximately 51% of the market, while wood and wood composite, which includes hardboard, OSB, plywood, fiber cement and wood strand, siding accounted for approximately 24% of the market. The balance of the market consists of products like brick, stucco and metal sidings.

Siding products are differentiated by cost and attributes. Wood sidings tend to be higher in cost, but provide the look and feel of natural wood. Vinyl siding products are generally lower in cost, and provide the lower maintenance requirements that some buyers seek.

Exterior products also include composite decking and OSB specialty products. Composite decking is a relatively new product that addresses the approximately \$2 billion to \$3 billion per year North American decking and accessory market. Composite decking currently accounts for approximately 5% of this market, but is gaining market share rapidly. OSB specialty products, of which there are only a limited number of producers, are currently capitalizing on new product innovations and developments. Examples of OSB specialty products include a radiant barrier product designed to reduce heating and air conditioning costs in homes, OSB concrete form, used in building forms in which concrete is poured, and OSB panels designed to resist termites and mold.

### **Non-Structural Panel Products**

Non-structural composite panels include wood-based particleboard, MDF and hardboard. Of all non-structural panel products, particleboard is the dominant product. However, its market position is being challenged by the rapidly growing popularity of MDF as a substitute product because it is considered lighter, stronger and more versatile. Hardboard, on the other hand, is continuing its 15-year trend of declining demand. Domestic producers of non-structural composite panels have faced competitive challenges in recent years from imports and product substitutes, primarily from South America and Asia.

#### *Particleboard and MDF*

According to IWMR and RISI, over the past ten years, particleboard production in the U.S. has increased at an annual average rate of over 2%. Between 1995 and 2000, North American particleboard demand grew 18% from about 5 billion square feet to about 6 billion square feet. According to RISI, over the next five years, particleboard demand is expected to grow an

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additional 16% to about 7 billion square feet due in part to higher industrial and residential usage rates. If MDF prices return to their historical levels, particleboard could also recover some of its market share that was lost to MDF during periods in which MDF prices were depressed.

According to RISI, from 1996 to 1999, U.S. MDF consumption grew from about 1 billion square feet to 2 billion square feet, increasing 54%. The overall growth in usage allowed MDF to increase its market share of overall non-structural panel consumption. Looking at overall market share of consumption for non-structural panels, MDF represented 19% of the combined consumption of particleboard and MDF in the U.S. in 1987. By 1998, MDF represented 24% of combined consumption, and has been predicted by IWMR to achieve 30% of the total market in 2004.

Source: *International Wood Markets Research, Inc.* (1991-1998); *Resource Information Systems, Inc.* (1999-2000).

From 1995 to 1998, lower demand-to-capacity ratios and falling average variable costs drove industrial particleboard prices down. However, rising prices combined with only moderate cost increases in the western U.S. and falling costs in the southern U.S. led to improved profit margins in 1999. This trend continued through the first half of 2000 before rapidly falling prices and sharply rising costs contributed to reduced profitability in the latter half of the year.

According to RISI, during the recession of the early 1990s, <sup>3</sup>/<sub>4</sub>-inch industrial MDF prices dropped to near-record low levels. Prices recovered sharply in the eastern U.S. from 1993 to 1995, as the market reached record high price levels. These price levels, coupled with overly-optimistic demand expectations, led to a surge in construction of new production capacity over the next few years, and, although demand grew significantly, it could not keep pace with supply and prices again trended downward in 1996 and 1997. Prices reached low levels in the eastern U.S. in 1998 and 1999 before improving slightly in 1999 and 2000.

Source: *International Wood Markets Research, Inc.* (1991-1998); *Resource Information Systems, Inc.* (1999-2000).

### *Hardboard*

According to RISI total hardboard consumption achieved a cyclical peak in 1996 at 8.8 billion square feet. During the next three years, consumption trended downward to 7.9 billion square feet in 2000, the lowest level since 1993. During the same time period, wholesale prices for hardboard and hardboard products trended upward from 1996 to 1997 before declining in 1998, only to

increase again during 1999 to 2000 to levels above those achieved in 1997. In sum, the average price in 2000 was 6% higher than the average price in 1996. Relative to other panel products, price movements in hardboard over the past five years have been modest.

## **BUSINESS**

### **Our Company**

Our company, headquartered in Portland, Oregon, is a leading manufacturer and distributor of building materials. As of March 31, 2001, we had approximately 10,200 employees and operated 64 facilities in the U.S. and Canada, one facility in Chile and one facility in Ireland. We also own approximately 950,000 acres of timberland in the U.S., predominately in the south, and manage approximately 49 million acres of timberland in Canada. In 2000, our sales originating in the U.S. were \$2,331 million, representing approximately 79% of our total sales of \$2,933 million. Our focus is on delivering innovative, high-quality commodity and specialty building products to retail, wholesale, home building and industrial customers. With the exception of pulp, our products are used primarily in new home construction, repair and remodeling, and manufactured housing.

Our business is organized into five segments:

Our structural products segment manufactures and distributes structural panel products, including OSB and plywood; lumber; and EWP, including I-joists and LVL. Our structural products segment also includes our timberlands. We believe that in North America we are the largest and one of the most efficient producers of OSB, the largest producer of stud lumber and one of the largest producers of EWP. In 2000, structural products segment sales were approximately \$1,817 million, representing approximately 62% of our total net sales.

Our exterior products segment produces and markets wood and vinyl siding and related accessories, composite decking and specialty OSB products. Our exterior siding and other cladding products are used in the residential and commercial building markets. Our exterior product offerings are classified into five categories: (1) SmartSystem® siding products, (2) hardboard siding products, (3) vinyl siding products, (4) composite decking, and (5) developmental products. Our portfolio of products offers customers a wide variety of siding choices at various performance levels and prices. In 2000, exterior products segment sales were approximately \$329 million, representing approximately 11% of our total net sales.

Our industrial panel products segment manufactures and distributes particleboard, MDF, hardboard and decorative panels. Our strategy in industrial panel products is primarily to focus on value-added specialty products that are complementary to our other product offerings. These value-added specialty product lines include flooring, shelving, door skins, door parts, decorative panels, paneling and other specialty applications. In 2000, industrial panel products segment sales were approximately \$287 million, representing approximately 10% of our total net sales.

Our other products segment includes plastic molding products, as well as our distribution and wholesale business, wood chips and our OSB plants located in Chile and Ireland. Our other products segment previously included our Cocoon cellulose insulation business, which we contributed to a 50%-owned joint venture in August 2000. In 2000, other products segment sales were approximately \$348 million, representing approximately 12% of our total net sales.

Our pulp segment includes a pulp mill located in Chetwynd, British Columbia and previously included a pulp mill located in Samoa, California in which we sold a controlling interest in the first quarter of 2001. We are seeking to completely exit the pulp business with the sale of our Chetwynd pulp mill, which is presently managed by an unrelated party. In 2000, pulp segment sales were approximately \$152 million, representing approximately 5% of our total net sales.

### **Our Strategy**

As a leading supplier of home building materials, we believe that the home building products industry presents significant growth opportunities and we intend to continue pursuing these opportunities by delivering innovative, high-quality commodity and specialty building products to retail, wholesale, home building and industrial customers. We believe that we can continue to enhance our success by implementing the following core business strategies:

*Focus on Being a Premier Provider of Building Products.* Since 1996, we have shifted our primary business focus from forest products to building products. In addition, we have focused on growth businesses, such as OSB and EWP. Consistent with our shift in focus, we have expanded our building product offerings and added production capacity in our core businesses. During the period from 1997 through 2000, we divested more than \$1 billion of non-strategic assets in order to redeploy our capital in our key product lines.

*Improve Operating Efficiencies.* We have improved and continue to improve the cost structure of our facilities through the sale or closure of underperforming mills and manufacturing facilities, as well as investing in technology. Given these

initiatives and the strategic locations of many of our facilities, we believe that we are one of the lowest average delivered-cost producers of OSB in North America. We have also structured our management teams along product lines to enhance our ability to implement best manufacturing practices across product lines. We plan to continue to selectively invest in new technologies that modernize our manufacturing facilities and develop improved manufacturing processes.

*Generate Sales Growth through Customer Focus and Innovation.* Our sales and marketing efforts target customers by channel and focus on providing these customers with quality service and a broad array of traditional and specialty building products. Our facilities are located throughout the U.S. and Canada, which allows us to be closer to our customers and more responsive to end-user needs and trends. Through this focus on quality service, we continue to develop our reputation for accurate deliveries on a timely basis. In addition, we continually seek to identify new specialty building products and markets where we can utilize our core competencies in the design, manufacturing and marketing of building products.

*Make Selective Strategic Acquisitions.* We intend to selectively target acquisitions that (1) complement our core competencies in structural panels, lumber, EWP and specialty building products and (2) have leading positions in established market segments. We believe that, through selective acquisitions, we can continue to provide our nationwide customer base with superior value.

### **Our Strengths**

Our competitive strengths that underlie our strategy include:

*Leading Market Positions.* We are an industry leader in building products. We believe we have the number one market position in our principal products, which include OSB structural panels and specialty OSB products, stud lumber, exterior cladding and, through a 50%-owned joint venture, cellulose insulation. We believe we also have leading market positions in decorative paneling and tileboard and plastic moldings. We believe our leading market positions and favorable cost structure give us an advantage over many of our competitors.

*Low Cost Producer.* We believe that we are among the lowest cost producers of building products in the markets in which we compete. We have been able to achieve this advantage due in part to the modern, efficient facilities that we own and operate. We attribute this high level of efficiency, in part, to the significant capital investments we have made. The efficiency of our manufacturing facilities is augmented by our national scope and geographic proximity to our customers, which enable us to rank among the most competitive suppliers of OSB in the industry based on average delivered-cost. In addition, our management team has demonstrated a commitment to streamlining our product offerings and focusing our manufacturing assets on key, high-margin products where we believe we have a competitive advantage. Our dedication to operating only low-cost, efficient facilities has resulted in the complete or partial sale, closure, or curtailment of approximately 50 facilities over the last five years.

*Modern Manufacturing Facilities and Low Required Ongoing Capital Expenditures.* We have made significant capital investments in each of our strategic business segments, which we believe has resulted in our facilities ranking among the most technologically modern and cost-competitive facilities in the industry. We believe these investments have enabled us to be a leading low-cost supplier of building products to our customers and will result in a lower level of capital expenditures for facility upgrades in the future.

*Significant Scale.* We operate 14 OSB facilities in North America, with nine facilities in the U.S. and five facilities in Canada. Our scale enables us to gain significant efficiencies that result from high-volume production runs and to employ and implement best practices and process improvements developed at one mill across all of our mills. We believe our geographic diversity allows us to be more efficient with respect to shipping and distribution of finished products. Our scale also enables us to serve national customers, such as Home Depot and Lowes, in a variety of end markets, including retail home centers, wholesale distribution companies, building materials professional dealers, manufactured housing producers and industrial manufacturers. We believe that our ability to provide high quality service on a national scale to each of these customers is a significant competitive advantage.

*Well-Positioned to Benefit from Building Products Industry Dynamics.* We believe that we are well positioned to capture the benefits from increased new home construction and increased spending on R&R of existing homes. RISI has estimated that average annual housing starts for the period from 2000 through 2005 will be 1.6 million, surpassing the average annual starts of 1.4 million for the period from 1991 to 2000. Additionally, RISI has predicted that the total dollars spent on R&R will increase to about \$138 billion by 2004, a substantial increase from approximately \$127 billion spent in 2000. We believe that we are well positioned to profit from these growth trends by capitalizing on our current leading market positions and by targeting corollary markets, such as EWP, with innovative, value-added products.

*Significant Cash Flow Generation Potential.* We maintain a low cost position and a disciplined capital expenditures program, which helps us to generate significant free cash flow. During the last five years, our businesses generated, on average, \$297 million per year in adjusted EBITDDA. Adjusted EBITDDA represents income (loss) before taxes, minority interests and equity in earnings of unconsolidated affiliate plus net interest expense, depreciation, depletion (also referred to as cost of timber harvested) and amortization, as adjusted to exclude unusual charges and credits and losses related to assets and liabilities transferred under contractual arrangement. As demonstrated by our dividend reduction announced in May 2001, our management team and board of directors are willing to take aggressive action to ensure the company maintains adequate liquidity and financial flexibility during both favorable and challenging markets.

*Experienced Management Team with Strong Strategic Vision.* Led by our CEO, Mr. Mark Suwyn, our senior management team has a proven track record of focused expansion of our building products business; successfully integrating acquisitions; divesting non-core or underperforming assets; generating additional revenues through product innovation and applied technologies; targeting capital investments on projects that enhance yields and improve cost; and maximizing performance during both favorable and challenging markets. Under Mr. Suwyn's leadership, our management team has been invigorated with a high level of focus on profitability, growth and cash flow generation.

### **Sales, Marketing and Distribution**

Our sales and marketing efforts are primarily focused on third-party wholesale buying groups, professional dealers, home centers and other retailers. The wholesale distribution channel includes a variety of specialized and broad-line wholesale distributors and dealers focused primarily on the supply of products for use by professional builders and contractors. These wholesalers typically seek an appropriate array of cost competitive products and high levels of service. The retail distribution channel is characterized by the growth and consolidation of large, well-positioned retailers catering to the do-it-yourself and repair and remodeling markets. These retailers typically seek to develop and maintain relationships with building products manufacturers that provide a broad line of products, high levels of service and the capacity to support their growth. We pride ourselves on our ability to provide our customers with a wide variety of cost-competitive commodity products and value-added specialty building products and with superior levels of service.

### **Customers**

We seek to maintain a broad customer base and a balanced approach to national distribution through both wholesale and retail channels. We believe that we are well positioned to benefit from the continuing growth and consolidation among both major wholesalers and major retail home centers. In 2000, our top 20 customers accounted for approximately 40% of our revenues, with the largest customer accounting for no more than 5% of our revenues. Because most of our products, including OSB, plywood and lumber, are commodity products sold primarily on the basis of price and availability, we are not dependent on any one customer. Our principal customers include the following:

Wholesale distribution companies, which supply building materials to retailers on a regional, state or local basis. Wholesale distribution companies play an integral role in the industry's supply-chain management by linking building products manufacturers with the markets they serve;

Building materials professional dealers, which specialize in sales to professional builders, remodeling firms, and trade contractors that are involved in residential home construction and light commercial building;

Retail home centers, which provide access to consumer markets with a broad selection of home improvement materials and increasingly serve professional builders, remodelers and trade contractors;

Manufactured housing producers, which design, construct and distribute prefabricated residential and light commercial structures, including fully manufactured, modular and panelized structures, for consumer and professional markets; and

Industrial manufacturers, which produce residential, ready-to-assemble, office and institutional furniture; cabinets, displays and fixtures; windows and doors; molding and millwork; laminated flooring; packaging; transportation equipment; and numerous specialty products.

### **Competitors**

The building products industry is highly competitive. We compete internationally with several thousand forest and building products firms, ranging from very large, fully integrated firms to smaller firms that may manufacture only one or a few items. We also compete less directly with firms that manufacture substitutes for wood building products. Some competitors have substantially greater financial and other resources than we do that, in some instances, could give them a competitive advantage over us.

## Raw Materials

Wood fiber is the primary raw material used in our operations, and the primary source of wood fiber is timber. The primary end-markets for timber harvested in the U.S. are manufacturers who supply: (1) the housing market, where it is used in the construction of new housing and the repair and remodeling of existing housing, (2) the pulp and paper market, and (3) export markets. The supply of timber is limited by access to timber and by the availability of timberlands. The availability of timberlands, in turn, is limited by several factors, including government forest management policies, alternate uses of land, and loss to urban or suburban real estate development.

Our 950,000 acres of timberlands, primarily in the southern U.S., provided approximately 10% of our domestic wood fiber requirements in 2000 and an average of approximately 14% of our domestic wood fiber requirements over the past five years. In addition to our fee-owned timberlands, we have timber-cutting rights under long-term contracts (five years or longer) on approximately 45,000 acres, and under shorter term contracts on approximately 220,000 acres, on government and privately owned timberlands in the U.S. In Canada, we harvest enough timber annually under long-term harvest rights with the Canadian government and other third parties to fully support our twelve Canadian production facilities. The average remaining life of our Canadian timber rights is 21 years.

We purchase more than 50% of our wood fiber requirements on the open market, including from domestic private timber owners. Because wood fiber is subject to commodity pricing, the cost of various types of timber that we purchase in the market has at times fluctuated greatly due to economic or industry conditions. However, our mills are generally located in areas that are in close proximity to large and diverse supplies of timber. Therefore, in areas where we do not own a significant amount of timberlands, our mills generally have the ability to procure wood fiber at competitive prices from third-party sources. We satisfy a portion of our wood fiber requirements by purchasing certain by-products, including wood chips, wood shavings and sawdust, from third parties. These by-products account for an insignificant portion of our wood fiber requirements.

In addition to wood fiber, we use a significant quantity of various resins in the manufacturing processes for our structural and industrial panel products, as well as certain of our vinyl products. Resin product costs are influenced by changes in the prices of raw materials used to produce resin, primarily petroleum products, as well as demand for resin products.

We also use substantial amounts of energy in our operations. Energy has become an increasing variable operating expense for us as a result of rapid and substantial price increases which commenced in mid-2000 and have continued in 2001. Although some of our facilities generate a portion of their energy requirements through the burning of wood waste, the cost of natural gas and electricity purchased from outside suppliers has increased significantly. The total estimated natural gas and electricity expenditures for the three months ended March 31, 2001 were approximately \$30 million (as adjusted for acquisitions dispositions or closures of our facilities during the comparable periods), as compared to less than \$24 million (as adjusted for acquisitions dispositions or closures of our facilities during the comparable periods), for the three months ended March 31, 2000, representing an increase of approximately 28%. We also intend to develop new technologies that will enable us to generate an increased portion of our energy requirements in a more efficient manner.

## Business Segments

### Structural Products Segment

Our structural products segment manufactures and distributes structural panel products, including OSB and plywood; lumber; and EWP, including I-joists and LVL. Our structural products segment also includes our timberlands. We believe that in North America we are the largest and one of the most efficient producers of OSB, the largest producer of stud lumber and one of the largest producers of EWP.

*Structural Panel Products.* Our structural panel products are primarily used in new residential construction and remodeling applications such as floor and wall sheathing and roof systems. According to the APA, the total North American market for structural panel products, which includes OSB and plywood, was approximately 39 billion square feet in 2000. The OSB share of this market was approximately 51% in 2000, up from approximately 28% in 1991.

*OSB.* Oriented strand board is an innovative, affordable and environmentally smart product made from wood strands arranged in layers and bonded with resin. OSB serves many of the same uses as unsanded plywood, including roof decking, sidewall sheathing and floor underlayment, but can be produced at a significantly lower cost. Demand for OSB is being driven by its favorable cost and performance characteristics relative to plywood, and by growing production capacity and availability. In the past decade, land use regulations and endangered species and environmental concerns have resulted in reduced supplies and higher costs for domestic timber, causing many plywood mills to close or divert their production to other uses. OSB has replaced most of the volume lost from these mills.



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Our strategy for our industry-leading OSB business is to: (1) reduce costs and improve throughput and recovery by continuing to focus on improving efficiency at each of our facilities; (2) improve net realizations relative to weighted-average OSB regional pricing; (3) expand capacity to meet growing OSB demand, but do so through selected acquisitions that meet specific corporate criteria and by building new, low-cost manufacturing facilities to serve particular markets; and (4) leverage our expertise in OSB to capitalize on new opportunities for revenue growth through new product lines.

We have 14 OSB mills in North America with a combined annual production capacity of approximately 6 billion square feet. The location and annual production capacity of each of these mills are set forth in the following table.

<b>ORIENTED STRAND BOARD PANEL PLANTS NORTH AMERICA</b> ( <sup>3</sup> /8-inch basis; 3 shifts per day; 7 days per week)	<b>Square Feet in millions</b>
Athens, GA	365
Carthage, TX	450
Chambord, Quebec, Canada	510
Dawson Creek, BC, Canada	375
Hanceville, AL	365
Hayward, WI	500
Houlton, ME	260
Jasper, TX	450
Maniwaki, Quebec, Canada	620
Montrose, CO	145
Roxboro, NC	400
Sagola, MI	375
St Michel, Quebec, Canada	510
Swan Valley, Manitoba, Canada	450
<b>Total North American OSB Non-Specialty Capacity (14 plants)</b>	<b>5,775</b>

**Plywood.** Plywood, which can be constructed of either softwood or hardwood veneer, was once the predominant structural panel in the building products market. While OSB has severely eroded the commodity side of the plywood business, the market for plywood used in specialty and industrial applications, such as sanded, marine-grade, concrete form and multi-ply plywood, has been less significantly impacted.

We believe we are the fifth largest producer of plywood in the U.S. and enjoy strong relationships with do-it-yourself (DIY) retailers in the southeastern U.S. We are continuously striving to enhance our plywood profitability by improving our cost structure through (1) rationalizing our facilities and workforce, (2) reducing our log costs, and (3) increasing recovery. Our principal strategy for plywood is to focus our manufacturing and marketing efforts on such value-added specialty products as clear-faced, sanded, and stained products; concrete forms; siding; flooring; and veneer.

We have four plywood mills in the southern U.S. with a combined annual production capacity of approximately 960 million square feet and one plywood mill in the Province of British Columbia, Canada with an annual production capacity of approximately 150 million square feet. Certain of these mills also produce veneers used in the manufacture of laminated veneer lumber. The location and annual production capacity of each of these mills are set forth in the following table.

<b>SOFTWOOD PLYWOOD MILLS</b> ( <sup>3</sup> /8-inch basis; 2 shifts per day, 5 days per week)	<b>Square Feet in millions</b>
Bon Wier, TX	260
Cleveland, TX	275
Golden, BC, Canada	150
Logansport, LA	225
Urania, LA	200
<b>Total Softwood Plywood Capacity (5 plants)</b>	<b>1,110</b>

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**Lumber Products.** We produce lumber in a variety of standard and specialty grades and sizes, and believe we are the largest North American producer of stud lumber. Stud lumber includes primarily 2 × 4 and 2 × 6 dimension lumber.

Our strategy for lumber is to focus on studs and narrow dimension lumber. We believe we can leverage our strong presence in the DIY sector to drive growth and capture the premium prices paid by DIY s for premium grades of lumber. Additionally, we are committed to improving overall mill efficiency through selective, high return capital investments and the sale, closure, or curtailment of underperforming mills. Since 1994, we have closed or sold 34 sawmills that did not meet our standards for returns and profitability. The final component of this strategy is to seek acquisitions of modern mills that meet or exceed our efficiency standards.

We have 14 sawmills in the U.S. with a combined annual production capacity of approximately 1,150 million board feet, two sawmills in the Province of Quebec, Canada with a combined annual production capacity of approximately 120 million board feet, and one sawmill in the Province of British Columbia, Canada with an annual production capacity of approximately 50 million board feet. The location and annual production capacity of each of these mills are set forth in the following table.

<b>LUMBER MILLS (1 to 3 shifts per day; 5 days per week)</b>	<b>Board Feet in millions</b>
Belgrade, MT	90
Chambord, Quebec, Canada	30
Chilco, ID	140
Cleveland, TX	35
Deer Lodge, MT	140
Deer Lodge, MT (finger joint)	135
Evergreen, AL	35
Gwinn, MI	150
Jasper, TX	40
Malakwa, BC, Canada	50
Marianna, FL	35
Moyie Springs, ID	150
Sandpoint, ID (drying and resurfacing)	
Saratoga, WY	105
St. Michel, Quebec, Canada	90
Tacoma, WA	60
West Bay, FL	35
	1,320
Total Lumber Capacity (17 mills)	1,320

**Engineered Wood Products.** We believe that we are one of the largest North American manufacturers of EWP, including I-joists and LVL. We believe that our engineered I-joists, which are used primarily in residential and commercial flooring and roofing systems and other structural applications, are stronger, lighter and straighter than conventional lumber joists. Our LVL is a high-grade, value-added structural product used in applications where extra strength is required, such as headers and beams. It is also used, together with OSB and lumber, in the manufacture of engineered I-joists.

Our strategy is to strengthen our brand name recognition in the EWP industry by enhancing our product mix and quality, providing superior technical support for our customers and leveraging our sales and marketing relationships to cross-sell our EWP products. Additionally, we are seeking to drive costs down by rationalizing production capacity across geographic areas and integrating company produced veneer into our EWP products. Our acquisition of certain of the assets of Evans Forest Products Ltd. is indicative of our commitment to growing our EWP business through selective capacity additions and targeted acquisitions.

We have three I-joist plants in the U.S. with a combined annual production capacity of approximately 120 million lineal feet and three LVL plants with an annual production capacity of approximately 10 million cubic feet. In addition, we have contract manufacturing relationships with third parties which both supplement our own production capacity and expand our geographic presence in a manner that reduces average delivered-cost. The location and annual production capacity of each of these plants are set forth in the following tables.

<b>ENGINEERED WOOD PRODUCTS I-JOIST PLANTS (1 shift per day; 5 days per week)</b>	<b>Lineal Feet in millions</b>

<b>ENGINEERED WOOD PRODUCTS I-JOIST PLANTS</b> (1 shift per day; 5 days per week)	<b>Lineal Feet in millions</b>
Hines, OR	32
Red Bluff, CA	42
Wilmington, NC	46
<b>Total I-Joist Capacity (3 plants)</b>	<b>120</b>

<b>ENGINEERED WOOD PRODUCTS LVL PLANTS</b> (2 shifts per day; 7 days per week) (a)	<b>Cubic Feet in thousands</b>
Hines, OR	2,300
Golden, BC, Canada	3,000
Wilmington, NC	4,600
<b>Total LVL Capacity (3 plants)</b>	<b>9,900</b>

(a) Includes production from the veneer softwood plant in Rogue River, OR.

*Wood Fiber Resources.* We obtain wood fiber for our mills from several sources: fee-owned timberland, timber deeds, cutting contracts with private and public landowners in the U.S., Canada and Ireland, and purchases from third parties. We own approximately 950,000 acres of timberland, primarily in the southern and southeastern U.S., which supplied approximately 10% of our overall timber needs in 2000. In Canada, we have long-term harvest rights, which on average have 21 years left under contract, to harvest timber on nearly 49 million acres of Canadian forest land. We harvest more than 6 million board feet of timber in Canada annually, fully supporting our 12 Canadian production facilities. Additional information regarding our domestic fee-owned timberlands and our Canadian timberland license agreements is set forth in the following table.

<b>TIMBERLAND FEE HOLDINGS</b>	<b>Acres</b>
Idaho: Fir, Pine	35,400
Louisiana: Pine, Hardwoods	189,900
Montana: Whitewoods	11,000
Texas: Pine, Hardwoods	699,200
Other: Whitewoods, Pine, Hardwoods	10,700
<b>Total Timberland Fee Holdings</b>	<b>946,200</b>

<b>CANADIAN TIMBERLANDS LICENSE AGREEMENTS</b>	<b>Acres</b>
British Columbia	7,900,000
Manitoba	6,300,000
Nova Scotia	900,000
Quebec	33,600,000
<b>Total Timberlands Under License Agreements in Canada</b>	<b>48,700,000</b>

## Exterior Products Segment

We manufacture exterior siding and other cladding products for the residential and commercial building markets. We are seeking to be the one stop supplier of choice for all segments of these markets: new home construction, repair and remodeling, and manufactured housing. Our strategy is to drive product innovation by combining our technological expertise in wood and wood composites with our proficiency in plastic and polymer composites. One example of our innovation in this segment is our Norman Rockwell vinyl siding, which is highly resistant to fading and allows us to offer siding in colors not typically available from other

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manufacturers. We intend to increase our product offering and production capacity of these types of higher margin, value-added products through the addition of new larger capacity, lower cost plants and the conversion of some OSB plants from commodity structural panel production to OSB siding production.

Additionally, we are seeking to optimize our current capacity by extending the hardboard lifecycle through innovative new products and increasing vinyl sales through new products and greater penetration of adjacent markets.

Our exterior product offerings are classified into five categories: (1) SmartSystem® siding products; (2) hardboard siding products; (3) vinyl siding products; (4) composite decking products; and (5) developmental products. Our portfolio of products offers customers a variety of siding choices at various performance levels and prices.

*The SmartSystem® Products.* Our SmartSystem® products consist of a full line of OSB-based sidings, trim, soffit and fascia. These products have quality and performance characteristics similar to solid wood at more attractive prices due to lower raw material and production costs. We manufacture our SmartSystem® products at four U.S. facilities which have a combined annual production capacity of approximately 760 million square feet. The location and annual production capacity of each of these facilities are set forth in the following table.

### ORIENTED STRAND BOARD SIDING & SPECIALTY PLANTS

( <sup>3</sup> /8-inch basis; 3 shifts per day; 7 days per week)

	Square Feet in millions
Newberry, MI	125
Silsbee, TX	365
Tomahawk, WI	135
Two Harbors, MN	135
Total OSB Siding Capacity (4 plants)	760

*Hardboard Siding Products.* Our hardboard siding product offerings include a number of lap and panel products in a variety of patterns and textures, as well as trim products. We operate a hardboard siding products facility in Roaring River, North Carolina, with an annual production capacity of approximately 245 million square feet. In addition, our East River, Nova Scotia industrial panel facility has the ability to convert to the production of hardboard siding as needed to respond to market demand.

*Vinyl Siding Products.* We also manufacture vinyl siding products and accessories. These products are available in various styles and colors. We manufacture these products at two facilities, one in the southern U.S. and one in Canada, with a combined annual production capacity of approximately three million squares (units consisting of 100 square feet of material with an average weight of 32 pounds). The location and annual production capacity of each of these facilities are set forth in the following table.

	Squares in millions
Acton, Ontario Canada	2
Holly Springs, MS	1
Total Vinyl Siding Capacity (2 plants)	3

*Composite Decking Products.* We manufacture wood composite decking and accessories. These products have superior quality and performance characteristics relative to solid wood. We manufacture these products at two facilities in the U.S. that have a combined annual production of approximately 31 million lineal feet. The location and annual production capacity of each of these facilities are set forth in the following table.

### DECKING WOOD POLYMERS

(lineal feet basis; 1 shift; 7 days per week)

	Lineal Feet in millions
Meridian, ID	14
Selma, AL	17

<b>DECKING WOOD POLYMERS</b> (lineal feet basis; 1 shift; 7 days per week)	<b>Lineal Feet in millions</b>
Total Decking Capacity (2 plants)	31

*Developmental Products.* The exterior products segment also includes certain products that are in the developmental stage, such as OSB concrete forms, which are panels used in the process of forming concrete structures, and OSB panels designed to resist termites and mold. Following satisfactory development, we intend to invest in appropriate technological and sales and marketing support to commercialize these products.

### Industrial Panel Products Segment

We manufacture industrial panel products MDF, particleboard, hardboard and decorative panels at six plants. The combined annual production capacity of these plants is approximately 50 million square feet of MDF, 360 million square feet of particleboard, and 590 million square feet of hardboard and decorative panels.

Part of our strategy in our industrial panel products segment is to focus on value-added specialty products that are complementary to our other product offerings. These value-added specialty product lines include flooring, shelving, door skins, door parts, decorative panels, paneling and other specialty applications. Currently, we are focused on the following higher margin, faster growth products: laminated flooring; cut-to-size molding and millwork; and painted and coated parts. As with all our manufacturing facilities, we are continuously seeking to reduce costs by reducing waste and improving efficiency, while maintaining quality.

*Medium Density Fiberboard Products.* Demand for MDF has grown substantially in the U.S. as a replacement for solid wood in such applications as mounting, shelving, cabinet doors and flooring. The annual production capacity of our MDF facility in Urania, Louisiana is 50 million square feet of MDF.

*Particleboard Products.* We believe that component part manufacturing for residential and office furniture, subfloors, shelving and stair parts will continue to drive growth for particleboard. The location and annual production capacity for our particleboard plants are set forth in the following table.

<b>PARTICLEBOARD PLANTS</b> ( <sup>3</sup> / <sub>4</sub> -inch basis; 3 shifts per day; 7 days per week)	<b>Square Feet in millions</b>
Arcata, CA	125
Missoula, MT	155
Silsbee, TX	80
Total Particleboard Capacity (3 plants)	360

*Hardboard products.* Industrial hardboard, paneling, tileboard, doorskins and decorative panels are mature products that are growing less rapidly than MDF and particleboard. The location and annual production capacity for our hardboard plants are set forth in the following table.

<b>HARDBOARD PLANTS</b> (3 shifts per day; 7 days per week)	<b>Square Feet in millions</b>
Alpena, MI(a)	300
East River, Nova Scotia, Canada (b)	290
Total Hardboard Capacity (2 plants)	590

- (a) Our finishing and tileboard plant in Toledo, Ohio takes production from the Alpena, MI plant to produce decorative panels and finished tileboard.

(b) The East River, Nova Scotia, plant produces both hardboard panel products and hardboard siding products.

### Other Products Segment

The other products segment includes value-added products such as plastic molding products, our distribution and wholesale business, wood chips and our OSB mills in Chile and Ireland. In August 2000, we contributed our Cocoon cellulose insulation business to US GreenFiber, LLC, a joint venture with Casella Waste Systems in which we own a 50% interest. Cocoon insulation is produced from recycled newspaper and has higher insulation efficiency performance levels and superior sound-deadening qualities compared to conventional fiberglass insulation of comparable thickness.

We own 82.5% of a joint venture in Chile that has a newly-constructed OSB mill that commenced operations in the first quarter of 2001. We expect that this facility will have an annual production capacity of approximately 130 million square feet, the output of which will be targeted for South American markets. We also own a 65% of a joint venture in Ireland that has an OSB mill with an annual production capacity of approximately 450 million square feet, the output of which is distributed primarily in Ireland, the United Kingdom and Western Europe. These mills are included in our other products segment because they do not sell primarily to North American customers.

Facilities included in our other products segment include the following:

FACILITIES OTHER PRODUCTS	Location
Chip mill	Cleveland, TX
Landscape bark plant	New Waverly, TX
Plastic moldings plant	Middlebury, IN
Distribution centers	Conroe, TX and Rocklin, CA

### Pulp Segment

Although we are seeking to exit the pulp business, we currently own a pulp mill located in Chetwynd, British Columbia, and a non-controlling interest in a pulp mill located in Samoa, California. The Chetwynd pulp mill has annual production capacity of 165,000 short tons of pulp. We are seeking to sell the Chetwynd pulp mill, which is presently managed by an unrelated party pursuant to a management agreement that expires in December 2001, subject to renewal provisions. We sold a controlling ownership interest in the Samoa pulp mill in the first quarter of 2001 in a transaction accounted for pursuant to Staff Accounting Bulletin No. 30 Accounting For Divestiture Of A Subsidiary Or Other Business Operation. See Note 6 to our unaudited financial statements for the three months ended March 31, 2001 included in this prospectus supplement. Pulp accounted for approximately 5% of our net sales in 2000.

### Environmental Compliance

Our operations are subject to many environmental laws and regulations governing, among other things, the restoration and reforestation of timberlands, discharges of pollutants and other emissions on or into land, water and air, the disposal of hazardous substances or other contaminants and the remediation of contamination. In addition, certain environmental laws and regulations impose liability and responsibility on present and former owners, operators or users of facilities and sites for contamination at such facilities and sites without regard to causation or knowledge of contamination. Compliance with environmental laws and regulations can significantly increase the costs of our operations and otherwise result in significant costs and expenses. Violations of environmental laws and regulations can subject us to additional costs and expenses, including defense costs and expenses and civil and criminal penalties. We cannot assure you that the environmental laws and regulations to which we are subject will not become more stringent, or be more stringently implemented or enforced, in the future.

Our policy is to comply fully with all applicable environmental laws and regulations. In recent years, we have devoted increasing management attention to achieving this goal. In addition, from time to time, we undertake construction projects for environmental control facilities or incur other environmental costs that extend an asset's useful life, improve efficiency or improve the marketability of certain properties. We believe that our estimated capital expenditures for environmental control facilities in 2001 and 2002 will not be material.

### Legal Proceedings

#### General

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We are involved in various environmental matters and legal proceedings. For additional information regarding these matters and proceedings and the potential impact of these matters and proceedings on our financial position, results of operations and cash flow, see Item 3, Legal Proceedings, in our annual report on Form 10-K for the year ended December 31, 2000, Item 1 of Part II of our quarterly report on Form 10-Q for the quarter ended March 31, 2001 and Note 8 to our financial statements for the year ended December 31, 2000 included in this prospectus supplement. For additional information regarding the settlements entered into by us with respect to certain class action lawsuits relating to OSB siding manufactured by us prior to January 1, 1992, see also Management's Discussion and Analysis of Financial Condition and Results of Operations.

In addition, we have been named as defendant in a putative class action filed in the Superior Court of Washington, County of Snohomish, on June 13, 2001 captioned *Nick P. Marassi, M.D. and Debra Marassi v. Louisiana-Pacific Corporation*. The action was filed on behalf of a purported class of persons nationwide owning structures on which our Nature Guard cement shakes were installed as roofing. The plaintiff generally alleges negligence, unfair business practices, false advertising, breach of warranties, fraud and other theories related to alleged defects associated with the cement shakes, as well as consequential damages to the structures on which the cement shakes were installed. The plaintiff seeks general, compensatory, special and punitive damages as well as disgorgement of profits and the establishment of a fund to provide restitution to the purported class members. We no longer manufacture or sell cement shakes, but established and maintain a claims program for the Nature Guard shakes previously sold by us. We believe that we have substantial defenses and intend to defend this action vigorously.

### *Contingency Reserves*

We maintain reserves for the estimated cost of the legal and environmental matters referred to above. However, as with any estimate, there is uncertainty of predicting the outcomes of claims and litigation and environmental investigations and remediation efforts that could cause actual costs to vary materially from current estimates. Due to various uncertainties, we cannot predict to what degree, if any, actual payments (including payments under the OSB siding litigation settlements or any alternative strategies adopted by us with respect to OSB siding claims) will materially exceed the recorded liabilities related to these matters. However, it is possible that, in either the near term or the longer term, revised estimated or actual payments will significantly exceed the recorded liabilities.

## MANAGEMENT

The following table sets forth certain information as of June 30, 2001 for our directors and executive officers, including certain executives whose duties may cause them to be classified as executive officers under applicable Commission rules.

Name	Age	Position
Mark A. Suwyn	58	Chairman and Chief Executive Officer
F. Jeff Duncan, Jr.	46	Vice President and Chief Information Officer
Warren C. Easley	60	Vice President, Technology and Quality
Richard W. Frost	49	Vice President, Timberlands and Procurement
M. Ward Hubbell	41	Vice President, Corporate Affairs
Joseph B. Kastelic	38	Vice President, Sales and Specialty Products
J. Keith Matheney	52	Vice President, OSB and Engineered Wood Products
Curtis M. Stevens	49	Vice President, Treasurer and Chief Financial Officer
Michael J. Tull	55	Vice President, Human Resources
Gary C. Wilkerson	54	Vice President and General Counsel
Walter M. Wirfs	53	Vice President, Lumber and Plywood
William C. Brooks	67	Director
E. Gary Cook	56	Director
Archie W. Dunham	62	Director
Paul W. Hansen	49	Director
Brenda J. Lauderback	50	Director
Patrick F. McCartan	66	Director
Lee C. Simpson	66	Director
Colin D. Watson	59	Director

*Mark A. Suwyn* has been Chairman and Chief Executive Officer since January 1996. Before joining us, Mr. Suwyn was Executive Vice President of International Paper Company from 1992 through 1995. Mr. Suwyn is also our director.

*F. Jeff Duncan, Jr.* has been our Chief Information Officer since October 1998 and Vice President since March 2001. Mr. Duncan had been our Director of Information Technology since September 1996. He was previously employed by E.I. du Pont de

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Nemours & Co. for 19 years in a variety of positions, most recently as Systems Manager New Business Development.

*Warren C. Easley* has been Vice President, Technology and Quality since May 1996. He was Technical Manager Nylon Division, North America for E.I. du Pont de Nemours & Co. from 1969 to 1996.

*Richard W. Frost* has been Vice President, Timberlands and Procurement since May 1996. Mr. Frost was Vice President and Operational Manager for S.D. Warren Company from 1992 to 1996.

*M. Ward Hubbell* has been Vice President, Corporate Affairs since March 2001. Mr. Hubbell has been our Director of Corporate Affairs since September 1997. Before joining us, Mr. Hubbell was employed by International Paper Company beginning in October 1992, first as Communications Director and then as Federal Affairs Manager.

*Joseph B. Kastelic* has been Vice President, Specialty Products since November 2000 and Vice President, Sales and Specialty Products since January 2001. He previously served as Director, Specialty Building Products from January 1999 to November 2000. From March 1997 to December 1998, Mr. Kastelic was Business Director, Siding/Exterior Products, and from September 1996 to March 1997 served as Marketing Development Manager for new construction and siding. Before joining us in September 1996, Mr. Kastelic was the Marketing Development Manager at PPG Industries in Pittsburgh, Pennsylvania.

*J. Keith Matheney* has been Vice President, OSB and Engineered Wood Products since November 2000. He previously served as Vice President, Core Businesses from June 1998 to November 2000, as Vice President, Sales and Marketing from January 1997 to June 1998, as General Manager Western Division from February 1996 to January 1997, and General Manager Weather-Seal Division from May 1994 to February 1996.

*Curtis M. Stevens* has been Vice President, Treasurer and Chief Financial Officer since September 1997. Before joining us, Mr. Stevens spent 13 years as the senior financial executive of Planar Systems, Inc., a leading manufacturer and supplier of electroluminescent flat panel displays, where he was named Executive Vice President and General Manager in 1996. He also served on the Board of Directors for Planar Systems.

*Michael J. Tull* has been Vice President, Human Resources since May 1996. Before joining us, Mr. Tull was employed by Sharp HealthCare, a regional system of hospitals and related facilities in San Diego, California, for more than 10 years, most recently as Corporate Vice President of Employee Quality and Development beginning in 1991.

*Gary C. Wilkerson* has been Vice President and General Counsel since September 1997. Before joining us, Mr. Wilkerson served as acting-Senior Vice President, General Counsel and Secretary for the consumer products division of IVAX Pharmaceuticals beginning in early 1997. For the previous seven years, he was Senior Vice President, General Counsel and Secretary of Maybelline Co., a cosmetics manufacturer. Mr. Wilkerson has been on medical leave since November 2000.

*Walter M. Wirfs* has been Vice President, Lumber and Plywood since November 2000, and was Vice President, Manufacturing from March 1999 to November 2000. From January 1998 to March 1999, Mr. Wirfs served as President of Western Wood Products Association. Mr. Wirfs was employed by Willamette Industries, Inc., a forest products company headquartered in Portland, Oregon, for 23 years until December 1997, most recently as Vice President of its Southern and Atlantic Regions.

*William C. Brooks* has been our director since 1996. Mr. Brooks has been Chairman of The Brooks Group International, Ltd., a private holding company involved in human resources and economic development, since 1998. Prior to that, he was Vice Chairman of Luftig & Warren International, a business performance technology consulting firm. Mr. Brooks previously served as Vice President of General Motors Corporation until his retirement in 1997. He was Assistant Secretary of Labor for the Employment Standards Administration from July 1989 to December 1990. Mr. Brooks is Chairman of the Board of United American Healthcare Corporation and of Lason, Inc., and a director of Covansys (Complete Business Solutions, Inc.), DTE Energy Company and Detroit Edison Co., and Sigma Associates, Inc.

*E. Gary Cook* has been our director since June 2000. Mr. Cook was Chairman, President and Chief Executive Officer of Witco Corporation, a global specialty chemicals company, until his retirement in 1999. Until 1996, he was President, Chief Operating Officer, and a director of Albemarle Corporation, a global specialty chemicals company spun off from Ethyl Corporation in 1994, where Mr. Cook had been a Senior Vice President and director since 1992. Previously, Mr. Cook was a Vice President of E. I. du Pont de Nemours and Company. He is also a director of Trimeris Corporation, a biopharmaceutical company.

*Archie W. Dunham* has been our director since 1996. He is Chairman, President and Chief Executive Officer of Conoco Inc., an integrated global energy company. He has served in various senior executive positions with Conoco Inc. for more than five years. Mr. Dunham is also a director of Union Pacific Corporation, Chase Bank of Texas, and Phelps Dodge Corporation.

*Paul W. Hansen* has been our director since February 1999. Mr. Hansen has been Executive Director of the Izaak Walton League of America (the IWLA), a nationally-recognized conservation organization, since February 1995. Mr. Hansen began his



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employment with the IWLA in 1982 as an Acid Rain Project Coordinator and served in various positions thereafter, becoming Associate Executive Director in 1994.

*Brenda J. Lauderback* has been our director since September 1999. She was Group President, Wholesale and Retail, of Nine West Group Inc., a designer and marketer of quality, fashionable women's footwear and accessories, from May 1995 until her retirement in January 1998. Ms. Lauderback previously served as President of the Wholesale Division at U.S. Shoe Corp. from 1993 to 1995. She is also a director of Consolidated Stores Corporation and Irwin Financial Corporation.

*Patrick F. McCartan* has been our director since 1998. He is managing partner of the international law firm of Jones, Day, Reavis & Pogue, a position that he has held since 1993. He is a Fellow of the American College of Trial Lawyers and the International Academy of Trial Lawyers.

*Lee C. Simpson* has been our director since 1995. He served as our President and Chief Operating Officer on an interim basis from July 1995 until March 1996. He was our executive officer from 1972 until his retirement in 1991 and previously served as our director from 1972 until 1993.

*Colin D. Watson* has been our director since June 2000. Mr. Watson has been Vice Chairman of the Board of Spar Aerospace Limited, an aviation services company with headquarters in Toronto, Ontario, Canada, since December 1999. He also served as Chief Executive Officer of Spar Aerospace from December 1999 to December 2000, and President and Chief Executive Officer from 1996 to November 1999. From 1979 to 1996, Mr. Watson was President and Chief Executive Officer of Rogers Cable TV, Ltd. Mr. Watson is also a director of B-Split II Corp., Call-Net Enterprises Inc. (a Canadian subsidiary of Sprint Corp.), Cygnal Technologies Corp., Kasten Chase Applied Research Limited, OnX Inc., PelmorexInc., and Rogers Cable TV, Ltd.

### DESCRIPTION OF OTHER INDEBTEDNESS

#### General

At March 31, 2001, we had about \$115 million outstanding under our existing revolving credit facility, about Cd. \$15 million outstanding under our existing Canadian revolving credit facility and \$170 million outstanding under our existing term loan maturing in 2003. Our domestic revolving credit facility will expire in January of 2002. Our Canadian revolving credit facility was originally scheduled to expire in March 2001, but has been extended to expire in August 2001.

Concurrently with the closing of this offering of the notes, we plan to repay all debt outstanding under our existing term loan maturing in 2003. Following the closing of this offering of the notes, we expect to:

- obtain a new \$200 million senior secured revolving credit facility, which will replace our existing \$300 million domestic revolving credit facility;

- obtain a new \$125 million three-year trade receivables financing facility;

- obtain a new Canadian revolving credit facility of at least Cd. \$25 million, which will replace our existing Cd. \$25 million Canadian revolving credit facility; and

- secure our presently unsecured obligations to purchase, upon the occurrence of specified events of default, \$96 million (at March 31, 2001) of unsecured debt of one of our subsidiaries.

The anticipated terms of the new credit and financing facilities are briefly described below. Because the final terms of these facilities have not yet been determined, these terms may differ, perhaps significantly, from those described below. Moreover, our ability to obtain these facilities and to borrow under them is subject to various conditions. Accordingly, we cannot assure you that any or all of these facilities will be obtained or available to us.

#### New Domestic Revolving Credit Facility

Banc of America Securities LLC has agreed to act as joint lead arranger in connection with a new \$200 million three-year senior secured revolving credit facility to replace our existing \$300 million unsecured revolving credit facility and, in that capacity, to use its best efforts to form a syndicate of financial institutions to provide the new facility. As of the date of this prospectus supplement, Banc of America Securities LLC had received written commitments, subject to customary conditions, from Bank of America, N.A., Wachovia Bank, N.A., Royal Bank of Canada and The Bank of Nova Scotia for a total of \$180 million of the new domestic revolving credit facility. Bank of America, N.A. will be the administrative agent under the new domestic revolving credit facility.

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The new domestic revolving credit facility will be guaranteed by (1) all of our existing and future direct and indirect domestic subsidiaries which have assets that constitute 5% or more of the book value of our total assets for as long as the company owns more than 35% of our consolidated total assets directly, and (2) all of our existing and future direct and indirect domestic subsidiaries if the company owns less than 35% of our consolidated total assets directly. Intercompany assets will be excluded in calculating the percentages of assets referred to in the preceding sentence. Our subsidiaries that are restricted from executing such guarantees, including finance subsidiaries, will not be required to guarantee this facility.

Indebtedness under the new domestic revolving credit facility will be secured by (1) all capital stock of each of the company's domestic subsidiaries that is a guarantor of the facility, (2) 65% of the capital stock of each of the company's foreign subsidiaries which is owned either by the company or by one of the company's domestic subsidiaries and which has assets that constitute 5% or more of the book value of our consolidated total assets, and, if the company owns less than 35% of our consolidated total assets directly, 65% of the capital stock of each of our other foreign subsidiaries and (3) specified timberlands in Texas. Intercompany assets will be excluded in calculating the percentages of assets referred to in the preceding sentence.

The obligation of the banks to provide the new domestic revolving credit facility and to extend loans to us under the facility are subject to specified conditions precedent, including, among others:

the execution and delivery of definitive documents for the new domestic revolving credit facility satisfactory to the lenders under the facility;

the completion of a due diligence review by the administrative agent under the facility satisfactory to such administrative agent;

the absence of any material adverse change since December 31, 2000 in the business, assets, liabilities, operations, condition or prospects of the company or the company and our subsidiaries taken as a whole (except as disclosed in our quarterly report on Form 10-Q for the quarter ended March 31, 2001 and other public disclosures made on or before July 12, 2001);

the absence of pending or threatened legal proceedings that could materially or adversely affect us or our ability to perform our obligations under the new domestic revolving credit facility;

the receipt of appraisal reports and policies of title insurance with respect to the timberlands that will secure our indebtedness under the new domestic revolving credit facility, in each case satisfactory to the administrative agent; and

the completion of the offering of these notes.

The new domestic revolving credit facility will bear interest at a rate per annum equal to either (1) the LIBOR interbank rate plus the applicable margin or (2) the alternate base rate (defined as the higher of (a) the Bank of America, N.A. prime rate and (b) the federal funds rate plus 50 basis points) plus the applicable margin. The applicable margin will initially be 225 basis points for LIBOR loans and 125 basis points for alternate base rate loans. The applicable margin will be adjusted in accordance with a performance pricing grid. Swing-line loans will bear interest at the applicable margin plus the alternate base rate or such other rate as may be agreed to by Bank of America, N.A. and us. The new domestic revolving credit facility will also provide for the payment of default rates of interest in certain circumstances.

The definitive documentation for the new domestic revolving credit facility is expected to contain customary representations, warranties and covenants, including financial covenants. The financial covenants are expected to include (1) maximum debt to capitalization ratios, (2) minimum net worth and (3) a minimum fixed charge coverage ratio. The definitive documentation for the new domestic revolving credit facility is also expected to contain customary events of default, including:

nonpayment of principal, interest, fees and other amounts;

violation of covenants (with cure periods as applicable for affirmative covenants);

inaccuracy of representations and warranties;

cross-default to other material agreements and material indebtedness;

bankruptcy and other insolvency events;

material judgments;

actual or asserted invalidity of any loan documentation or security interests;

a change of control; and

ERISA matters.

The definitive documentation for the new domestic revolving credit facility is expected to require that the following cash proceeds be applied to repay amounts outstanding under the facility, and to correspondingly and permanently reduce borrowing availability under the facility as follows:

all net cash proceeds of the sale of any assets of the company or our subsidiaries, including the sale of stock of our subsidiaries, subject to specified exceptions permitting the reinvestment of such proceeds and excluding sales of inventory in the ordinary course of business and the sale of approximately \$125 million of accounts receivable pursuant to the receivables financing facility described below (net of selling expenses and taxes paid or payable);

all net cash proceeds from the issuance of any debt, except certain permitted debt, by the company or our subsidiaries; and

one-half of the net cash proceeds from the issuances of equity by the company or our subsidiaries, excluding issuances pursuant to employee stock option plans and intercompany equity issuances.

### **New Canadian Revolving Credit Facility**

One of our subsidiaries has obtained a written commitment from Royal Bank of Canada which provides for, on the terms and subject to the conditions set forth in the commitment, a one-year revolving credit facility to replace the subsidiary's existing revolving credit facility. We anticipate that the new Canadian revolving credit facility will be secured by our Canadian inventory and trade accounts receivable.

The definitive documentation for the Canadian revolving credit facility is expected to provide for revolving borrowing capacity of at least Cd. \$25 million and to contain representations, warranties, covenants and events of default comparable to those expected to be contained in the definitive documentation for the new domestic revolving credit facility.

### **Receivables Financing Facility**

We expect to obtain a \$125 million trade receivables financing facility from Blue Ridge Asset Funding Corporation. Blue Ridge is a commercial paper funding vehicle administered by Wachovia Bank, N.A. We expect that, under the receivables financing facility, Blue Ridge will be committed to purchase, on a revolving basis, certain of our qualifying trade receivables, which will secure the issuance of commercial paper by Blue Ridge. A back-up receivables financing facility is expected to be provided on a committed basis by Wachovia Bank, N.A. The receivables financing facility will have a scheduled term of three years.

### **Senior Notes**

In August of 2000, we issued \$190 million 8.500% senior notes due 2005 and \$200 million 8.875% senior notes due 2010. These senior notes are general unsecured obligations of the company and rank equally with all our other unsecured and unsubordinated debt.

In general, under the terms of these senior notes, we and our subsidiaries are prohibited from securing debt in an aggregate amount in excess of 15% of our consolidated net tangible assets (as defined) with liens or mortgages on principal properties (as defined) without also securing the senior notes, on an equal and ratable basis, with liens or mortgages on the same principal properties. The senior notes are not expected to be secured following this offering of the notes and the expected financings discussed in this prospectus supplement. Specified sale and leaseback transactions involving principal properties are effectively treated as though they involve securing debt with principal properties.

For purposes of the foregoing, (1) principal properties is defined to mean, in general, (a) mills, plants, facilities and timberlands in the U.S. (other than any of the foregoing that have a gross book value of less than 5% of consolidated net tangible assets and any of the foregoing that are held for investment, development or sale) and (b) shares of capital stock or indebtedness of one of our subsidiaries and (2) consolidated net tangible assets is defined to mean, in general, (a) total assets (net of accumulated depreciation, valuation reserves and other reserves and items deductible from gross book value of specific asset accounts under generally accepted accounting principles) minus (b) the sum of (i) current liabilities and (ii) goodwill, tradenames, patents and trademarks, unamortized debt discount and other like intangibles, all as reflected in our most recent consolidated balance sheet and computed in accordance with generally accepted accounting principles.

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The foregoing restrictions and definitions are subject to various exceptions and qualifications, all of which are qualified entirely by reference to the indenture and the applicable supplemental indentures under which the senior notes were issued.

### Limited Recourse Notes Payable

At March 31, 2001, we had outstanding \$397 million of limited recourse notes payable. The notes payable are collateralized by notes receivable from the purchasers of non-strategic assets that we sold in 1997 and 1998. At March 31, 2001, the recourse portion of the debt represented by these notes was about \$83 million. The notes are further described below.

In 1997, one of our subsidiaries issued approximately \$48 million of senior notes with fixed interest rates ranging from 7.1% to 7.5% in a private placement to institutional investors. The notes mature in principal amounts of \$20 million in 2008, \$20 million in 2009, and \$8 million in 2012. The senior notes are secured by approximately \$50 million of notes receivable from Sierra Pacific Industries.

In June 1998, one of our subsidiaries issued approximately \$349 million of senior notes with fixed interest rates ranging from 6.8% to 7.3% in a private placement to institutional investors. The notes mature in principal amounts of approximately \$70 million in 2006, \$54 million in 2008, \$113 million in 2010, \$90 million in approximately 2013 and \$22 million in 2018. The notes are secured by approximately \$354 million of notes receivable from Simpson Timber Company. By the terms of these notes, only 10% of the amounts outstanding under these notes is recourse to us.

### Project Financings

As of March 31, 2001, we had approximately \$7 million of debt outstanding in connection with a project financing of our Waterford, Ireland, OSB plant. This debt is due in 2002 and is secured by the Waterford OSB plant. At March 31, 2001, the variable interest rate on this debt was 6.3% per annum.

We had approximately \$40 million of debt outstanding in connection with various revenue bond project financings as of March 31, 2001. Approximately \$9 million of this debt is secured by approximately 8,000 fee timberland acres in Louisiana. This debt bore interest at March 31, 2001 at variable rates between 4.7% and 7.1% per annum.

<u>Issue</u>	<u>Original Amt</u>	<u>Balance at March 31, 2001</u>	<u>Maturity</u>
Michigan Strategic Fund Rev Bonds	\$ 8 million	\$ 8 million	September 1, 2009
Iron Range Resources Rev Bonds	8 million	8 million	July 1, 2004
LA Ag Fin Auth Rev Bonds Series 1999A	6 million	6 million	May 1, 2004
LA Ag Fin Auth Rev Bonds Series 1999B	3 million	3 million	May 1, 2004
MS Bus Fin Rev Bonds Series 1997A	1 million	1 million	April 1, 2022
MS Bus Fin Rev Bonds Series 1997A	17 million	14 million	April 2, 2022

### Installment Notes

At March 31, 2001, one of our subsidiaries had about \$102 million outstanding under installment notes issued to former Forex stockholders. These notes are general unsecured obligations of the subsidiary and are fully guaranteed by us. The variable interest rate on the notes was 6.5% as of March 31, 2001. One-third of the outstanding principal amount of these notes matures in September of each of 2001, 2002 and 2003.

Pursuant to a standby purchase and note support agreement, we may become obligated to purchase, upon the occurrence of specified events of default (which are generally comparable to those expected to be included in the definitive documentation for the new domestic revolving credit facility), the installment notes held by certain financial institutions. At March 31, 2001, these financial institutions held approximately \$96 million of the installment notes. Although our contingent purchase obligations relating to the installment notes held by these financial institutions are presently unsecured, we expect to secure these contingent purchase obligations with our domestic inventories in the near future.

### Other Indebtedness

In December 2000, one of our subsidiaries entered into a five-year term credit facility with a Chilean bank. The facility provides for borrowings in an aggregate amount up to \$10 million. There were no material outstanding borrowings under this facility at March 31, 2001. The facility bears interest at a rate per annum equal to LIBOR plus 50 basis points. Borrowings under the facility

are used to fund the completion of the construction of, and start-up activities relating to, an OSB plant in Chile. Borrowings under the facility are secured.

In addition to the foregoing, at March 31, 2001, we had an aggregate of approximately \$6 million of outstanding indebtedness under certain other facilities.

## DESCRIPTION OF THE NOTES

### General

The following description of the terms of the notes offered hereby supplements, and should be read in conjunction with, the statements under Description of the Debt Securities in the accompanying prospectus. However, the information set forth below in Merger, Consolidation or Sale of Assets, Events of Default, Legal Defeasance and Covenant Defeasance and Amendment, Modification and Waiver supersedes in its entirety the information set forth in the accompanying prospectus under Description of the Debt Securities Limitations on Merger and Other Transactions, Events of Default, Legal Defeasance and Covenant Defeasance and Modification and Waiver.

The following summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the indenture and the third supplemental indenture. Capitalized terms not defined herein have the meanings given to them in the indenture and the third supplemental indenture. You can find the definitions of certain terms used in this description under the subheading Certain Defined Terms. In this description, the word LP refers only to Louisiana-Pacific Corporation and not to any of its subsidiaries.

The notes will be issued under the indenture referred to in the accompanying prospectus, as supplemented by a third supplemental indenture. The following discussion includes a summary description of material terms of the third supplemental indenture and the notes, which represent a separate series of, and are referred to in the accompanying prospectus as, debt securities ).

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture and the third supplemental indenture.

### Brief Description of the Notes

The notes will be:

general unsecured obligations of LP;

subordinated in right of payment to all existing and future Senior Debt of LP; and

equal in right of payment with any future senior unsecured subordinated Indebtedness of LP that does not expressly provide that it is subordinated to the notes.

Assuming we had completed this offering of notes and applied the net proceeds as intended, as of March 31, 2001, LP would have had total Senior Debt of approximately \$726 million (including \$202 million of guarantees and letters of credit supporting debt of LP's subsidiaries, but excluding Currency Hedging Obligations). As indicated above and as discussed in detail below under the caption Subordination, the notes will be subordinated in right of payment to all existing and future Senior Debt of LP. The indenture and the third supplemental indenture will permit LP to incur additional Senior Debt.

The notes will not be guaranteed by LP's subsidiaries. The notes will be effectively subordinated in right of payment to all Indebtedness and other liabilities (including trade payables and lease obligations) of LP's subsidiaries. As of March 31, 2001, our subsidiaries had \$514 million of debt (including \$314 million of non-recourse debt and excluding all intercompany debt) and \$431 million of trade receivables and other liabilities outstanding. In the event of a bankruptcy, liquidation or reorganization of any of LP's subsidiaries, the subsidiaries will be required to pay the holders of their debt and other creditors before distributing any of their assets to LP. Any right of LP to receive assets of any of its subsidiaries upon the subsidiary's liquidation or reorganization (and the consequent right of the holders of the notes to participate in those assets, subject to the prior claims of the holders of LP's Senior Debt) will be effectively subordinated to the claims of that subsidiary's creditors, except to the extent that LP is itself recognized as a creditor of the subsidiary, in which case the claims of LP would still be subordinate in right of payment to any secured Indebtedness of the subsidiary and any unsecured Indebtedness of the subsidiary that is senior to that held by LP. The indenture and the third supplemental indenture will permit LP's subsidiaries to incur additional Indebtedness and other liabilities.

### Principal, Maturity and Interest

LP may issue notes with a maximum aggregate principal amount of \$300 million, of which \$200 million will be issued in this offering. LP may issue additional notes from time to time after the completion of this offering. While we do not meet the Rating Condition (as defined below), any offering of additional notes is subject to the covenant described below under the caption Certain Covenants While We Do Not Meet the Rating Condition Incurrence of Indebtedness and Issuance of Preferred Stock. The notes and any additional notes subsequently issued under the indenture, as supplemented by the third supplemental indenture, will be treated as a single class for all purposes under the indenture, as supplemented by the third supplemental indenture, including without limitation for purposes of waivers, amendments, redemptions and offers to purchase. LP will issue notes in denominations of \$1,000 and integral multiples of \$1,000. The notes will mature on \_\_\_\_\_, 2008.

Interest on the notes will accrue at the rate of \_\_\_\_\_ % per annum and will be payable semi-annually in arrears on \_\_\_\_\_ and \_\_\_\_\_, commencing on \_\_\_\_\_, to the holders in whose names the notes are registered at the close of business on the immediately preceding \_\_\_\_\_ and \_\_\_\_\_, as the case may be.

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest on the notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

### **Book-Entry System**

The notes will initially be issued in the form of a global security held in book-entry form. Accordingly, The Depository Trust Company ( DTC ) or its nominee will be the sole registered holder of the notes for all purposes under the indenture and the third supplemental indenture. DTC has advised LP that DTC is a limited-purpose trust company organized under the Banking Law of the State of New York, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial code, and a clearing agency registered under the Exchange Act.

DTC was created to hold the securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations, and certain other organizations some of whom (and/or their representatives) own DTC.

Access to DTC's book-entry system is also available to others, such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. See the discussion under the caption Description of the Debt Securities Global Securities in the accompanying prospectus.

### **Paying Agent and Registrar for the Notes**

The trustee will initially act as paying agent and registrar. LP may change the paying agent or registrar without prior notice to the holders of the notes, and LP or any of its Subsidiaries may act as paying agent or registrar.

### **Transfer and Exchange**

A holder may transfer or exchange notes in accordance with the indenture. The registrar and the trustee may require a holder to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. LP is not required to transfer or exchange any note selected for redemption. Also, LP is not required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

### **Methods of Receiving Payments on the Notes**

For so long as the notes remain in the form of a global security, LP will pay all principal, interest and premium, if any, on the notes to the applicable depository or its nominee as the registered holder of the global security representing the notes. All other payments on notes will be made at the office or agency of the paying agent and registrar within the City and State of New York unless LP elects to make interest payments by check mailed to the holders of the notes at their address set forth in the register of holders.

### **Subordination**

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The payment of principal, interest and premium, if any, on the notes and any other Obligations on the notes will be subordinated to the prior payment in full of all Senior Debt of LP, including Senior Debt incurred after the date of the third supplemental indenture, in the manner described below.

The holders of Senior Debt will be entitled to receive payment in full of all Obligations due in respect of Senior Debt (including interest after the commencement of any bankruptcy proceeding at the rate specified in the applicable Senior Debt) before the holders of notes will be entitled to receive any payment or distribution of assets with respect to the notes (except that holders of notes may receive and retain Permitted Junior Securities and payments made from the trust described under Legal Defeasance and Covenant Defeasance ), in the event of any distribution to creditors of LP:

- (1) in a liquidation or dissolution of LP;
- (2) in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to LP or any of its property;
- (3) in an assignment by LP for the benefit of its creditors; or
- (4) in any marshaling of LP's assets and liabilities.

In addition, LP may not make any payment in respect of the notes (except in Permitted Junior Securities or from the trust described under Legal Defeasance and Covenant Defeasance ) or make any deposits pursuant to a Legal Defeasance or a Covenant Defeasance if:

- (1) a payment default with respect to any Designated Senior Debt occurs and is continuing beyond any applicable grace period; or
- (2) any other default occurs and is continuing with respect to any Designated Senior Debt and the maturity of such Designated Senior Debt is accelerated;

unless in the case of either clause (1) or (2), the default is cured or waived and any such acceleration is rescinded, or unless in either case such Designated Senior Debt is paid in full. However, LP may make payments in respect of the notes if LP and the trustee receive written notice approving such payment from the representative of the Designated Senior Debt with respect to which either of the events set forth in clause (1) or (2) of the immediately preceding sentence has occurred and is continuing.

LP also will not be permitted to make any payment in respect of the notes or make any deposit referenced in the preceding paragraph for a Payment Blockage Period (as defined below) during the continuance of any default, other than a default described in clause (1) or (2) of the preceding paragraph, on any Designated Senior Debt that permits the holders of the Designated Senior Debt to accelerate its maturity immediately without either further notice (except such notice as may be required to effect such acceleration) or the expiration of any applicable grace periods.

A Payment Blockage Period commences on the receipt by the trustee of written notice from the representative of such Designated Senior Debt (a Payment Blockage Notice ) of a default of the kind described in the immediately preceding paragraph, and ends upon the earliest of (1) the date on which such default is cured or waived, (2) 179 days after the date on which the applicable Payment Blockage Notice is received by the trustee, (3) the payment in full of the obligations outstanding under such Designated Senior Debt or (4) written notice to the trustee and LP from the Person or Persons who gave such Payment Blockage Notice.

Payments on the notes may and will be resumed at the end of the Payment Blockage Period, unless such Designated Senior Debt has been accelerated.

No new Payment Blockage Notice may be delivered unless and until:

- (1) 360 days have elapsed since the delivery of the immediately prior Payment Blockage Notice; and
- (2) all scheduled payments of principal, interest and premium, if any, on the notes that have come due have been paid in full in cash.

No nonpayment default that existed or was continuing on the date of delivery of any Payment Blockage Notice to the trustee will be, or be made, the basis for a subsequent Payment Blockage Notice unless such default has been cured or waived for a period of not less than 90 days.

If the trustee or any holder of the notes receives a payment in respect of the notes (except in Permitted Junior Securities or from the trust described under Legal Defeasance and Covenant Defeasance ) when the payment is prohibited by these subordination provisions, the trustee or the holder, as the case may be, will hold the payment in trust for the benefit of the holders

of Senior Debt. Upon the proper written request of the holders of Senior Debt, the trustee or the holder, as the case may be, will deliver the amounts in trust to the holders of Senior Debt or their proper representative.

LP must promptly notify holders of Senior Debt if payment of the notes is accelerated because of an Event of Default.

As a result of the subordination provisions described above, in the event of a bankruptcy, liquidation or reorganization of LP, holders of notes may recover less ratably than creditors of LP who are holders of Senior Debt. See the discussion under the caption Risk Factors Your right to receive payments on the notes may be adversely affected by the rights of our senior creditors.

### Optional Redemption

At any time prior to \_\_\_\_\_, 2005, the notes will be redeemable, in whole or in part, at the option of LP at any time at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed and (2) as determined by a Quotation Agent, the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate plus 50 basis points, together in either case with accrued interest on the principal amount being redeemed to the date of redemption.

In addition to the optional redemption right of LP described above, at any time prior to \_\_\_\_\_, 2004, LP may on any one or more occasions redeem up to 35% of the aggregate principal amount of the notes issued under the indenture, as supplemented by the third supplemental indenture, at a redemption price of \_\_\_\_\_ % of the principal amount, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of one or more Public Equity Offerings; *provided* that:

- (1) at least 65% of the aggregate principal amount of notes issued under the indenture, as supplemented by the third supplemental indenture, remains outstanding immediately after the occurrence of such redemption (excluding notes held by LP and its Subsidiaries); and
- (2) the redemption occurs within 45 days of the date of the closing of such Public Equity Offering.

On or after \_\_\_\_\_, 2005, LP may redeem all or a part of the notes upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest on the notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on \_\_\_\_\_ of the years indicated below:

Year	Percentage
2005	%
2006	%
2007 and thereafter	100.00%

Adjusted Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Comparable Treasury Issue means the U.S. Treasury security selected by a Quotation Agent as having a maturity comparable to the remaining term of the notes, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

Comparable Treasury Price means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (2) if the trustee obtains fewer than three such Reference Treasury Dealer Quotations, the average of all such Quotations.

Quotation Agent means the Reference Treasury Dealer appointed by the trustee after consultation with LP.

Reference Treasury Dealer means (1) Goldman, Sachs & Co. and its successors; *provided, however*, that if the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a Primary Treasury Dealer), LP is required to substitute therefor another Primary Treasury Dealer, and (2) any other Primary Treasury Dealer selected by the trustee after consultation with LP.



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Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding such redemption date.

### **Mandatory Redemption**

LP is not required to make mandatory redemption or sinking fund payments with respect to the notes.

### **Repurchase at the Option of the Holders**

#### *Change of Control*

Following a Change of Control, LP will be obligated to offer to repurchase all or any part (equal to \$1,000 or an integral multiple of \$1,000) of each holder's notes pursuant to the offer described below (the Change of Control Offer) at a price in cash equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest to the date of purchase (the Change of Control Payment). Within 30 days following any Change of Control, LP must mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase the notes on the date specified in the notice, which date shall be no earlier than 30 days and no later than 60 days from the date the notice is mailed (the Change of Control Payment Date), pursuant to the procedures required by the third supplemental indenture.

LP must comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934 and any other securities laws and regulations under the Securities Exchange Act of 1934 to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the third supplemental indenture, LP must comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the third supplemental indenture by virtue of such conflict.

On the Change of Control Payment Date, LP must, to the extent lawful:

- (1) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes so accepted; and
- (3) deliver or cause to be delivered to the trustee the notes so accepted, together with an officer's certificate stating the aggregate principal amount of notes or portions of notes being purchased by LP.

The paying agent will promptly mail to each holder of notes accepted for payment the Change of Control Payment for such notes. If less than all of the notes surrendered by any holder are accepted for payment, the trustee will promptly authenticate and mail, or cause to be transferred by book entry, to that holder a new note equal in principal amount to the unpurchased portion of the notes surrendered; *provided* that each new note will be in a principal amount of \$1,000 or an integral multiple of \$1,000.

Except as described above with respect to a Change of Control, neither the indenture nor the third supplemental indenture contain provisions that permit the holders of the notes to require that LP repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

LP's ability to purchase notes pursuant to a Change of Control Offer may be limited by LP's then-existing financial resources, and there can be no assurance that LP will have sufficient funds when necessary to make any required purchases of notes. Furthermore, the occurrence of a Change of Control may constitute an event of default or require the prepayment or repurchase of other then-existing indebtedness of LP.

If LP effects defeasance or covenant defeasance of the notes under the indenture and the third supplemental indenture prior to the occurrence of a Change of Control, LP will not be obligated to make a Change of Control Offer as a result of that Change of Control. See Legal Defeasance and Covenant Defeasance below. In addition, LP will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture, as supplemented by the third supplemental indenture, relating to a Change of Control Offer made by LP and purchases all notes validly tendered pursuant to such Change of Control Offer.

The definition of Change of Control includes a phrase relating to the sale, assignment, conveyance, transfer, lease or other disposition of all or substantially all of the assets of LP and its Restricted Subsidiaries taken as a whole. Although there is a limited

body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require LP to repurchase the notes as a result of a sale, assignment, conveyance, transfer, lease or other disposition of less than all of the assets of LP and its Restricted Subsidiaries taken as a whole may be uncertain.

The provisions described under Change of Control will continue to apply to the notes if and while we meet the Rating Condition.

#### Asset Sales

LP may not, and may not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- (1) LP (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the fair market value of the assets or Equity Interests issued or sold or otherwise disposed of;
- (2) in the case of any Asset Sale involving assets or Equity Interests having a fair market value of \$25 million or more, the fair market value is determined by LP's Board of Directors in good faith (which determination will be conclusive and binding) and evidenced by a resolution of the Board of Directors set forth in an officers' certificate delivered to the trustee; and
- (3) at least 75% of the consideration received in the Asset Sale by LP or such Restricted Subsidiary is in the form of (x) cash or Cash Equivalents or (y) Replacement Assets, or a combination of both; *provided* that non-cash consideration in excess of the 25% limit may be received by LP and its Restricted Subsidiaries in an Asset Sale in an aggregate amount, when taken together with all other non-cash consideration in excess of the 25% limit received by LP and its Restricted Subsidiaries in Asset Sales since the date of the third supplemental indenture, not to exceed \$150 million (with non-cash consideration being valued at its fair market value, as determined by LP's Board of Directors in good faith (which determination will be conclusive and binding), on the date of its receipt by LP and its Restricted Subsidiaries). For purposes of this provision, each of the following will be deemed to be cash:
  - (a) any liabilities, as shown on LP's or such Restricted Subsidiary's most recent balance sheet, of LP or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the notes) that are assumed by the transferee of any such assets; and
  - (b) any securities, notes or other obligations received by LP or any such Restricted Subsidiary from such transferee that are converted into cash within 30 days following the consummation of such Asset Sale to the extent of the cash received by LP or such Restricted Subsidiary in that conversion.

Within 360 days after the receipt of any Net Proceeds from an Asset Sale (including Net Proceeds received upon the sale or other disposition of any non-cash consideration received in any Asset Sale, which shall include, without limitation, cash payments received in respect of instruments received pursuant to the proviso described in clause (3) above), LP may apply those Net Proceeds at its option:

- (1) to repay Senior Debt and, if the Senior Debt repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;
- (2) to acquire all or substantially all of the assets of, or a majority of the Voting Stock of, another Permitted Business (including by means of a merger or consolidation permitted under the indenture, as supplemented by the third supplemental indenture);
- (3) to make capital expenditures; or
- (4) to acquire long-term assets that are used or useful in a Permitted Business.

Pending the final application of any Net Proceeds, LP may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the indenture, as supplemented by the third supplemental indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraph will constitute Excess Proceeds. When the aggregate amount of Excess Proceeds exceeds \$25 million, LP must make an Asset Sale Offer to all holders of notes, and all holders of other Indebtedness that is *pari passu* with the notes containing provisions similar to those set forth in the third supplemental indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of notes and such other *pari passu* Indebtedness that may be purchased with Excess Proceeds at the offer price. The offer price in any Asset Sale Offer will be equal to 100% of principal amount plus accrued and

unpaid interest to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, LP may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture, as supplemented by the third supplemental indenture. If the aggregate principal amount of notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

LP must comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with a repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the third supplemental indenture, LP must comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the third supplemental indenture by virtue of such conflict.

Credit agreements and other agreements relating to Senior Debt to which LP is or may become a party, including the new domestic revolving credit facility, may prohibit LP from purchasing any notes, and may also provide that certain changes of control or asset sale events with respect to LP would constitute a default under these agreements. In the event a Change of Control or Asset Sale occurs at a time when LP is prohibited from purchasing notes, LP could seek the consent of its senior lenders to the purchase of notes or could attempt to refinance the borrowings that contain such prohibition. If LP does not obtain such a consent or repay such borrowings, LP may remain prohibited from purchasing notes. In such case, LP's failure to purchase tendered notes would constitute an Event of Default under the indenture, as supplemented by the third supplemental indenture, which would, in turn, constitute a default under such Senior Debt. In such circumstances, the subordination provisions in the indenture, as supplemented by the third supplemental indenture, would likely restrict payments to the holders of notes.

The provisions described under Asset Sales will not apply to the notes if and while we meet the Rating Condition.

### Selection and Notice

If less than all of the notes are to be redeemed at any time, the trustee will select notes for redemption as follows:

- (1) if the notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the notes are listed; or
- (2) if the notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as the trustee deems fair and appropriate.

No notes of \$1,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. Notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of notes upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. Unless LP defaults in the payment of the redemption price, on and after the redemption date, interest ceases to accrue on notes or portions of them called for redemption. Prior to any redemption date, LP is required to deposit with a paying agent money sufficient to pay the redemption price of and accrued interest on the notes to be redeemed on such date.

### Rating Condition

During any period of time that the notes are rated Investment Grade by both Rating Agencies and no Default or Event of Default shall have occurred and then be continuing (the foregoing conditions being referred to collectively as the Rating Condition), LP and its Restricted Subsidiaries will not be subject to the covenants described under Certain Covenants While We Do Not Meet the Rating Condition, clause (3) under Merger, Consolidation or Sale of Assets, clauses 1(a) and 3(a) under Certain Covenants Whether or Not We Meet the Rating Condition Limitations on Sale and Leaseback Transactions and the provisions of the indenture, as supplemented by the third supplemental indenture, described under Repurchase at the Option of the Holders Asset Sales (collectively, the Suspended Covenants). As a result, if and while we meet the Rating Condition, the notes will be entitled to substantially less covenant protection. If LP and its Restricted Subsidiaries are not subject to the Suspended Covenants with respect to the notes for any period of time as a result of the foregoing and, subsequently, one or both Rating Agencies withdraw their Investment Grade rating or downgrade the Investment Grade rating assigned to the notes such that the notes are no longer rated Investment Grade by both Rating Agencies, then LP and each of its Restricted Subsidiaries (except to the extent that any

Restricted Subsidiary is not subject to any such covenant pursuant to the terms thereof) will thereafter again be subject to the Suspended Covenants for the benefit of the notes, and compliance with the Suspended Covenants with respect to Restricted Payments made after the time of such withdrawal or downgrade will be calculated in accordance with the terms of the covenant described below under Certain Covenants While We Do Not Meet the Rating Condition Restricted Payments as if such covenant had been in effect during the entire period of time from the date of the third supplemental indenture.

So long as the notes are outstanding, including while we meet the Rating Condition, LP and its Restricted Subsidiaries will be subject to the provisions of the indenture and the third supplemental indenture described under Repurchase at the Option of the Holders Change of Control and the following covenants: Certain Covenants Whether or Not We Meet the Rating Condition Reports, Limitation on Liens, Limitations on Sale and Leaseback Transactions (other than clauses 1(a) and 3(a) thereof) and Limitation on Layering, and Merger, Consolidation or Sale of Assets (other than clause (3) thereof).

### **Certain Covenants While We Do Not Meet the Rating Condition**

Set forth below are summaries of certain covenants contained in the third supplemental indenture that will apply to the notes while we do not meet the Rating Condition. These covenants will be suspended if and while we meet the Rating Condition.

#### *Restricted Payments*

LP may not, and may not permit any of its Restricted Subsidiaries to, directly or indirectly:

- (1) declare or pay any dividend or make any other payment or distribution on account of LP's or any of its Restricted Subsidiaries' Equity Interests (including without limitation any payment in connection with any merger or consolidation involving LP or any of its Restricted Subsidiaries) or to the direct or indirect holders of LP's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of LP and dividends, payments or distributions to LP or a Restricted Subsidiary of LP);
- (2) purchase, redeem or otherwise acquire or retire for value (including without limitation in connection with any merger or consolidation involving LP) any Equity Interests of LP;
- (3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness that is subordinated to the notes, except a payment of interest or principal at the Stated Maturity thereof; or
- (4) make any Restricted Investment (all such payments and other actions set forth in these clauses (1) through (4) being collectively referred to as Restricted Payments ),

unless, at the time of and after giving effect to such Restricted Payment:

- (1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment; and
- (2) LP would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test described in the first paragraph under Incurrence of Indebtedness and Issuance of Preferred Stock; and
- (3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by LP and its Restricted Subsidiaries after the date of the third supplemental indenture (excluding Restricted Payments permitted by clauses (2), (3) and (4) of the next succeeding paragraph and including Restricted Payments permitted by clauses (1), (5), (6), (7), (8), (9) and (10) of the next succeeding paragraph), is less than the sum, without duplication, of:
  - (a) 50% of the Consolidated Net Income of LP for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after the date of the third supplemental indenture to the end of LP's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit), *plus*
  - (b) 100% of the aggregate net cash proceeds received by LP since the date of the third supplemental indenture as a contribution to its common equity capital or from the issue or sale of Equity Interests of LP (other than Disqualified Stock) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of LP that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of LP), *plus*

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- (c) to the extent that any Restricted Investment that was made after the date of the third supplemental indenture is sold for cash or otherwise liquidated or repaid for cash, the lesser of (x) the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any) and (y) the initial amount of such Restricted Investment; *plus*
- (d) an amount equal to the sum of (x) the net reduction in Investments in Unrestricted Subsidiaries previously made (and treated as a Restricted Payment) resulting from dividends, repayments of loans or advances or other transfers of assets, in each case to LP or any of its Restricted Subsidiaries (but only to the extent that a corresponding amount would be permitted at the date of determination to be dividended to LP by such Restricted Subsidiary without prior governmental approval (that has not been obtained), and would not be prohibited, directly or indirectly, by the operation of the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to that Restricted Subsidiary or its stockholders) from any of its Unrestricted Subsidiaries to the extent such amounts were not otherwise included in Consolidated Net Income of LP for such period, and (y) the portion (proportionate to LP's equity interest in such Subsidiary) of the fair market value of the net assets of an Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary; *provided, however*, that the foregoing sum shall not exceed, in the case of any Unrestricted Subsidiary, the amount of Investments previously made (and treated as a Restricted Payment) by LP or any of its Restricted Subsidiaries in such Unrestricted Subsidiary.

So long as no Default or Event of Default has occurred and is continuing or would be caused thereby, the preceding provisions will not prohibit:

- (1) the payment of any dividend within 60 days after the date of declaration of the dividend, if at the date of declaration the dividend payment would have complied with the provisions of the indenture, as supplemented by the third supplemental indenture;
- (2) the purchase, redemption, acquisition, defeasance or retirement of any subordinated Indebtedness of LP or of any Equity Interests of LP, in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Restricted Subsidiary of LP) of, Equity Interests of LP (other than Disqualified Stock); *provided* that the amount of any such net cash proceeds that is utilized for any such purchase, redemption, acquisition, defeasance or retirement will be excluded from clause (3) (b) of the preceding paragraph;
- (3) the purchase, redemption, acquisition, defeasance or retirement of subordinated Indebtedness of LP with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness;
- (4) the payment of any dividend by a Restricted Subsidiary of LP to the holders of its Equity Interests on a pro rata basis;
- (5) the purchase, redemption or other acquisition or retirement of any Equity Interests of LP or any Restricted Subsidiary of LP pursuant to any stock option, stock purchase or other equity-based compensation plan or arrangement established or entered into for the benefit of any director, employee or consultant of LP or any of its Subsidiaries; *provided* that the aggregate price paid for all such purchased, redeemed, acquired or retired Equity Interests may not exceed \$3 million in any calendar year;
- (6) the declaration and payment of regular quarterly cash dividends in respect of LP's common stock; *provided* that the aggregate amount of all such cash dividends may not exceed \$25 million in any twelve-month period; *provided, further* that the aggregate amount of such cash dividends will be included as Restricted Payments for purposes of determining the amount of Restricted Payments that may be made pursuant to the second clause (3) of the preceding paragraph;
- (7) the repurchase of any subordinated Indebtedness of LP at a purchase price not greater than 101% of the principal amount of such subordinated Indebtedness in the event of a Change of Control pursuant to provisions similar to the provisions described under *Repurchase at the Option of Holders Change of Control*; *provided* that, prior to consummating any such repurchase, LP has made the Change of Control Offer required by the indenture, as supplemented by the third supplemental indenture, and has repurchased all notes validly tendered for payment in connection with such Change of Control Offer;
- (8) the repurchase of any subordinated Indebtedness of LP at a purchase price not greater than 100% of the principal amount of such Indebtedness pursuant to provisions similar to the provisions described under *Repurchase at the Option of Holders Asset Sales*; *provided* that, prior to consummating any such repurchase, LP has made the Asset Sale Offer required by the indenture, as supplemented by the third supplemental indenture, and has repurchased all notes validly tendered for payment in connection with such Asset Sale Offer;
- (9) any redemption of share purchase rights issued pursuant to LP's share purchase rights plan existing on the date of the third supplemental indenture (as the same may be amended from time to time) or any similar successor or replacement

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share purchase rights plan, for a redemption price not to exceed \$0.01 per share purchase right; and

- (10) other Restricted Payments in an aggregate amount not to exceed \$25 million in the aggregate since the date of the third supplemental indenture.

In the event that a proposed Restricted Payment or any portion thereof meets the criteria of more than one of the clauses of the immediately preceding paragraph, LP will be permitted to classify such Restricted Payment or portion thereof as being within any one or more such clauses in respect of which it meets the criteria.

The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the asset(s) or securities paid, distributed, transferred or issued by LP or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued will be determined by LP's Board of Directors in good faith (which determination will be conclusive and binding) and, in the case of valuations in excess of \$25 million, will be evidenced by a resolution set forth in an officers' certificate delivered to the trustee. Not later than the date of making any Restricted Payment, LP will be required to deliver to the trustee an officers' certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this Restricted Payments covenant were computed.

The provisions described under Restricted Payments will be suspended if and while we meet the Rating Condition.

### *Incurrence of Indebtedness and Issuance of Preferred Stock*

LP may not, and may not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, incur) any Indebtedness (including Acquired Debt), and LP may not issue any Disqualified Stock and may not permit any of its Restricted Subsidiaries to issue any shares of preferred stock or Disqualified Stock; *provided, however*, that LP and its Restricted Securities may incur Indebtedness (including Acquired Debt), and LP may issue Disqualified Stock, if the Fixed Charge Coverage Ratio for LP's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock is issued would have been at least 2.0 to 1, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period.

The provisions described in the preceding paragraph will not prohibit the incurrence of any of the following items of Indebtedness (collectively, Permitted Debt):

- (1) the incurrence by LP and its Restricted Subsidiaries of the Existing Indebtedness;
- (2) the incurrence by LP and its Restricted Subsidiaries of Indebtedness and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (2) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of LP and its Restricted Subsidiaries thereunder) not to exceed \$250 million;
- (3) the incurrence by LP of Indebtedness represented by the notes;
- (4) the incurrence by LP or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in the business of LP or such Restricted Subsidiary, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness (including successive refundings, refinancings or replacements) incurred pursuant to this clause (4), not to exceed \$50 million at any time outstanding;
- (5) the incurrence by LP or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace Indebtedness (including successive refundings, refinancings or replacements) (other than intercompany Indebtedness) that was permitted to be incurred under the provisions described under the proviso of the preceding paragraph or clauses (1), (3), (4), (5), (9), (10), (11) or (13) of this paragraph;
- (6) the incurrence by LP or any of its Restricted Subsidiaries of intercompany Indebtedness between or among LP and one or more of its Restricted Subsidiaries (including any Person that becomes a Restricted Subsidiary in connection with such transaction) or between or among two or more Restricted Subsidiaries (including any Person that becomes a Restricted Subsidiary in connection with such transaction); *provided, however*, that:

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- (a) if LP is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated in right of payment to the notes in a manner comparable to the manner in which the notes are subordinated in right of payment to Senior Debt; and
  - (b) (x) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than LP or a Restricted Subsidiary of LP and (y) any sale or other transfer of any such Indebtedness to a Person that is not either LP or a Restricted Subsidiary of LP will be deemed, in each case, to constitute an incurrence of such Indebtedness by LP or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);
- (7) the incurrence by LP or any of its Restricted Subsidiaries of:
- (a) Hedging Obligations that are incurred for the purpose of fixing or hedging interest rate risk with respect to any floating rate Indebtedness that is permitted by the terms of the indenture, as supplemented by the third supplemental indenture, to be outstanding;
  - (b) Currency Hedging Obligations relating to Indebtedness of LP or any Restricted Subsidiary and/or to obligations to purchase or sell assets or properties; *provided* that such Currency Hedging Obligations do not increase the Indebtedness or other obligations of LP or any Restricted Subsidiary otherwise than as a result of fluctuations in foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder;
  - (c) Commodity Price Protection Obligations for the purpose of protecting LP and its Restricted Subsidiaries against fluctuations in the price of raw materials used in the ordinary course of its business; *provided* that such Commodity Price Protection Obligations do not increase the amount of Indebtedness or other obligations of LP or any Restricted Subsidiary otherwise than as a result of fluctuations in commodity prices or by reason of fees, indemnities and compensation payable thereunder;
- (8) the guarantee by LP or a Restricted Subsidiary of LP of Indebtedness of LP or a Restricted Subsidiary of LP (other than a Receivables Entity) that was permitted to be incurred by another provision of this covenant;
- (9) the principal component of amounts outstanding under Qualified Receivables Transactions in an aggregate amount up to the greater of (a) \$125 million and (b) 85% of the aggregate amount of the total Qualified Receivables of LP and its Restricted Subsidiaries existing at the time such Indebtedness is incurred, together with interest or any similar amounts payable with respect thereto;
- (10) the incurrence by LP or any of its Restricted Subsidiaries of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred (including successive refundings, refinancings or replacements) pursuant to this clause (10), not to exceed \$50 million;
- (11) Indebtedness of a Restricted Subsidiary of LP incurred and outstanding on or prior to the date on which such Restricted Subsidiary was acquired by LP or another Restricted Subsidiary; *provided, however*, that on the date of such acquisition, after giving pro forma effect thereto and any related transactions as if the same had occurred at the beginning of the applicable four-quarter period, LP would be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of this covenant;
- (12) Indebtedness of LP or any of its Restricted Subsidiaries arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within five business days of incurrence; and
- (13) Indebtedness under the Chilean credit facility described under Description of Other Indebtedness Other Indebtedness not to exceed the undrawn amounts under such credit facility on the date of the third supplemental indenture.

For purposes of determining compliance with the foregoing restrictions on the incurrence of Indebtedness and the issuance of Disqualified Stock:

- (1) in the event that an item of proposed Indebtedness or any portion thereof meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (13) above, or is permitted to be incurred pursuant to the proviso in the first paragraph under Incurrence of Indebtedness and Issuance of Preferred Stock, LP will be permitted to classify such item of Indebtedness or portion thereof as being (a) within any one or more such categories in respect of which it meets the criteria, (b) permitted to be incurred pursuant to such proviso (to the extent applicable), and/or (c) any combination of the foregoing;

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- (2) Indebtedness under the Credit Agreement outstanding on the date on which notes are first issued and authenticated under the indenture, as supplemented by the third supplemental indenture, will be deemed to have been incurred on such date in reliance on the exception provided by clause (2) of the definition of Permitted Debt;
- (3) the accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock; *provided*, in each such case, that the amount thereof is included in Fixed Charges of LP as accrued; and
- (4) for purposes of determining compliance with any dollar-denominated restriction on the incurrence of Indebtedness denominated in a foreign currency, the dollar-equivalent principal amount of such Indebtedness incurred pursuant thereto shall be calculated based on the relevant currency exchange rate in effect on the date that such Indebtedness was incurred.

The provisions described under Incurrence of Indebtedness and Issuance of Disqualified Stock will be suspended if and while we meet the Rating Condition.

### *Dividend and Other Payment Restrictions Affecting Subsidiaries*

LP may not, and may not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock to LP or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to LP or any of its Restricted Subsidiaries;
- (2) make loans or advances to LP or any of its Restricted Subsidiaries; or
- (3) transfer any of its properties or assets to LP or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

- (1) agreements governing Existing Indebtedness and the Credit Facilities as in effect on the date of the third supplemental indenture or any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of the Existing Indebtedness or the Credit Facilities (including successive amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings); *provided* that the agreements governing such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in the agreements on the date of the third supplemental indenture; and *provided further* that the agreements initially governing the new domestic revolving credit facility and the new Canadian revolving credit facility described in Description of Other Indebtedness will not be subject to the requirements of the preceding proviso, and the agreements governing any amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings (including successive amendments, modifications, restatements, renewals, supplements, refundings, replacements or refinancings) will be deemed to satisfy the requirements of the preceding proviso if they are not materially more restrictive, taken as a whole, with respect to dividend and other payment restrictions than those contained in the agreements initially governing the new domestic revolving credit facility and the new Canadian revolving credit facility;
- (2) the indenture, as supplemented by the third supplemental indenture, and the notes;
- (3) applicable law;
- (4) any instrument governing Indebtedness or Capital Stock of a Person acquired by LP or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired, *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the indenture, as supplemented by the third supplemental indenture, to be incurred;
- (5) customary non-assignment provisions in leases, contracts or agreements entered into in the ordinary course of business;



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- (6) purchase money obligations for property acquired in the ordinary course of business that impose restrictions on that property of the nature described in clause (3) of the preceding paragraph;
- (7) any agreement for the sale or other disposition of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;
- (8) Permitted Refinancing Indebtedness, *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are no more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;
- (9) Liens securing Indebtedness otherwise permitted to be incurred under the provisions described under *Certain Covenants Whether or Not We Meet the Rating Condition Limitation on Liens* that limit the right of the debtor to dispose of the assets subject to such Liens;
- (10) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, assets sale agreements, stock sale agreements and other similar agreements relating to transactions and arrangements permitted under the indenture, as supplemented by the third supplemental indenture;
- (11) any Purchase Money Note or other Indebtedness or contractual arrangement entered into or incurred by and relating exclusively to a Receivables Entity in connection with a Qualified Receivables Transaction that, in the good faith determination of LP's Board of Directors, is reasonably necessary to effect such Qualified Receivables Transaction;
- (12) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business; and
- (13) provisions in charters, bylaws or similar governing documents of any special purpose finance subsidiary or joint venture entity as in effect on the date of the third supplemental indenture or that are reasonably customary for comparable entities engaged in comparable activities otherwise permitted under the indenture, as supplemented by the third supplemental indenture.

The provisions described under *Dividend and Other Payment Restrictions Affecting Subsidiaries* will be suspended if and while we meet the Rating Condition.

### *Designation of Restricted and Unrestricted Subsidiaries*

The Board of Directors of LP may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default or Event of Default; *provided* that in no event may the business currently operated by LP be transferred to or held by an Unrestricted Subsidiary. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value of all outstanding Investments owned by LP and its Restricted Subsidiaries in the Subsidiary properly designated will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the provision described in the first paragraph under *Restricted Payments* or Permitted Investments, as determined by LP. That designation may only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors of LP may designate or redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if the designation or redesignation would not cause a Default or Event of Default. If an Unrestricted Subsidiary is designated as a Restricted Subsidiary, the aggregate principal amount of all outstanding Indebtedness of such Unrestricted Subsidiary shall be an incurrence of Indebtedness as of the date of such designation which must comply with the provisions described under *Incurrence of Indebtedness and Issuance of Preferred Stock*.

The provisions described under *Designation of Restricted and Unrestricted Subsidiaries* will be suspended if and while we meet the Rating Condition.

### *Limitation on Issuances and Sales of Equity Interests in Restricted Subsidiaries*

Except as described below, LP may not, and may not permit any of its Restricted Subsidiaries to sell or otherwise dispose of any Equity Interests in any Restricted Subsidiary of LP to any Person (other than LP or a Wholly Owned Restricted Subsidiary of LP (other than a Receivables Entity)), unless:

- (1) such sale or other disposition is of all the Equity Interests in such Restricted Subsidiary owned by LP and its other Restricted Subsidiaries; and
- (2)

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the Net Proceeds from such sale or other disposition are applied in accordance with the provisions described under Repurchase at the Option of the Holders Asset Sales.

In addition, except as described below, LP may not permit any Restricted Subsidiary of LP to issue any of its Equity Interests (other than, if necessary, shares of its Capital Stock constituting directors' qualifying shares) to any Person other than to LP or a Wholly Owned Restricted Subsidiary of LP (other than a Receivables Entity). The foregoing provisions will not prohibit (1) any sale, distribution or issuance of Equity Interests by any Restricted Subsidiary to the holders of its Equity Interests on a pro rata basis or any other transaction that does not reduce the proportionate interest in such Restricted Subsidiary held by LP and its other Restricted Subsidiaries, (2) any sale, distribution or issuance of Equity Interests of a Restricted Subsidiary (other than a Wholly Owned Restricted Subsidiary) that constitutes the vehicle for any joint venture existing on the date of the third supplemental indenture or otherwise permitted under the indenture, as supplemented by the third supplemental indenture, pursuant to the terms of the agreements and instruments governing such joint venture as in effect on the date of the third supplemental indenture or as thereafter entered into, amended, modified and/or restated on terms determined by LP's Board of Directors in good faith to be fair to and in the best interest of LP (which determination will be conclusive and binding); *provided* that such sale, distribution or issuance of Equity Interests complies with the provisions described under Repurchase at the Option of the Holders Asset Sales and, immediately after giving effect to such sale, distribution or issuance, such Restricted Subsidiary either continues to be a Restricted Subsidiary or if such Restricted Subsidiary would no longer be a Restricted Subsidiary, then the Investment of LP and its Restricted Subsidiaries in such Person (after giving effect to such issuance or sale) would have been permitted to be made under the Restricted Payments covenant as if made on the date of such sale, distribution or issuance, or (3) any sale or disposition of Equity Interests that may be deemed to occur in connection with the creation of, or exercise of remedies in respect of, any Permitted Lien.

The provisions described in the preceding paragraph will be suspended if and while we meet the Rating Condition.

### *Transactions with Affiliates*

LP may not, and may not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease or otherwise dispose of any of its assets to, or purchase any assets from, or enter into or make or amend any transaction, contract, agreement, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an Affiliate Transaction), unless:

- (1) the Affiliate Transaction is on terms that are no less favorable to LP or the relevant Restricted Subsidiary than those that might have been obtained in a comparable transaction by LP or such Restricted Subsidiary with an unrelated Person; and
- (2) LP delivers to the trustee:
  - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$10 million, a resolution of the Board of Directors of LP set forth in an officers' certificate evidencing the good faith determination of the majority of the disinterested members of the Board of Directors (which will be conclusive and binding) that such Affiliate Transaction complies with the provisions described in this paragraph; and
  - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$25 million, an opinion as to the fairness to LP or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing in the U.S.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions described in the preceding paragraph:

- (1) any employment, compensation, benefit or indemnification arrangement entered into by LP or any of its Restricted Subsidiaries in the ordinary course of business with directors, employees or consultants;
- (2) loans or advances to directors, employees and consultants in the ordinary course of business or guarantees in respect thereof or otherwise made on their behalf (including any payments on such guarantees);
- (3) any transaction between or among LP and one or more of its Restricted Subsidiaries (including any Person that becomes a Restricted Subsidiary in connection with such transaction) or between one or more Restricted Subsidiaries (including any Person that becomes a Restricted Subsidiary in connection with such transaction);
- (4) any transaction with a Person that is an Affiliate of LP solely because LP owns an Equity Interest in and/or controls such Person;
- (5) sales of Equity Interests (other than Disqualified Stock) to Affiliates of LP;

- (6) sales or other dispositions of accounts receivable and related assets and interests therein of the type specified in the definition of *Qualified Receivables Transaction* to a *Receivables Entity* in a *Qualified Receivables Transaction*, *Permitted Investments* and other transactions in connection with a *Qualified Receivables Transaction* and any other *Standard Securitization Undertakings* in connection with a *Qualified Receivables Transaction*; and
- (7) *Restricted Payments* that are permitted by the provisions of the indenture, as supplemented by the third supplemental indenture, described under *Restricted Payments*.

The provisions described in the preceding paragraph will be suspended if and while we meet the *Rating Condition*.

#### *Payments for Consent*

LP will not, and will not permit any of its *Subsidiaries* to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the indenture, the third supplemental indenture or the notes unless such consideration is offered to be paid and is paid to all holders of the notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

The provisions described in the preceding paragraph will be suspended if and while we meet the *Rating Condition*.

#### **Certain Covenants Whether or Not We Meet the Rating Condition**

##### *Limitations on Liens*

LP may not, and may not permit any *Restricted Subsidiary* to, directly or indirectly, create, incur, assume or suffer to exist any *Lien* of any kind securing *Indebtedness*, *Attributable Debt* or trade payables on any asset now owned or hereafter acquired, except *Permitted Liens*.

The provisions described in the preceding paragraph will continue to apply to the notes if and while we meet the *Rating Condition*.

##### *Limitations on Sale and Leaseback Transactions*

LP may not, and may not permit any of its *Restricted Subsidiaries* to, enter into any sale and leaseback transaction (other than a sale and leaseback transaction between LP and a *Restricted Subsidiary* or between two *Restricted Subsidiaries*); *provided* that LP or any *Restricted Subsidiary* may enter into a sale and leaseback transaction if:

- (1) LP or that *Restricted Subsidiary*, as applicable, could have (a) incurred *Indebtedness* in an amount equal to the *Attributable Debt* relating to such sale and leaseback transaction pursuant to the provisions described under *Certain Covenants While We Do Not Meet the Rating Condition Incurrence of Indebtedness and Issuance of Preferred Stock* and (b) incurred a *Lien* to secure *Indebtedness* in an amount equal to the *Attributable Debt* relating to such sale and leaseback transaction pursuant to the provisions described under *Limitation on Liens* ;
- (2) the gross cash proceeds of that sale and leaseback transaction are at least equal to the fair market value, as determined by LP's Board of Directors (which determination will be conclusive and binding) and evidenced by a resolution set forth in an officers' certificate delivered to the trustee, of the property that is the subject of that sale and leaseback transaction; and
- (3) (a) in the case of a sale and leaseback transaction consummated while we do not meet the *Rating Condition*, the transfer of assets in that sale and leaseback transaction is permitted by, and LP applies the proceeds of such transaction in compliance with, the provision described under *Repurchase at the Option of the Holders Asset Sales*, and (b) in the case of a sale and leaseback transaction consummated while we meet the *Rating Condition*, LP, within 270 days after the effective date of the sale and leaseback transaction, applies an amount equal to the proceeds of such transaction:

to repay *Senior Debt* and, if the *Senior Debt* repaid is revolving credit *Indebtedness*, to correspondingly reduce commitments with respect thereto;

to purchase, redeem, acquire, defease or retire (in whole or, to the extent applicable, in part) the notes;

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to acquire all or substantially all of the assets of, or a majority of the Voting Stock of, another Permitted Business (including by means of a merger or consolidation permitted under the indenture, as supplemented by the third supplemental indenture);

to make capital expenditures; or

to acquire long-term assets that are used or useful in a Permitted Business (other than those involved in the sale and leaseback transaction).

The provisions described in the preceding paragraph will continue to apply to the notes if and while we meet the Rating Condition; *provided* that clauses (1)(a) and (3)(a) will not apply to the notes if and while we meet the Rating Condition.

### *Limitation on Layering*

LP may not incur, create, issue, assume, guarantee or otherwise become liable for any Indebtedness that is subordinate or junior in right of payment to any Senior Debt of LP and senior in right of payment to the notes.

The provision described in the preceding paragraph will continue to apply to the notes if and while we meet the Rating Condition.

### *Reports*

Whether or not required by the Commission, so long as any notes are outstanding, LP will furnish to holders of notes within the time periods specified in the Commission's rules and regulations:

- (1) all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if LP were required to file such Forms, including a Management's Discussion and Analysis of Financial Condition and Results of Operations and, with respect to the annual information only, a report on the annual financial statements by LP's certified independent accountants; and
- (2) all current reports that would be required to be filed with the Commission on Form 8-K if LP were required to file such reports, excluding exhibits.

In addition, whether or not required by the Commission, LP will file a copy of all of the information and reports referred to in clauses (1) and (2) above with the Commission for public availability within the time periods specified in the Commission's rules and regulations (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request.

The provisions described in the preceding paragraph will continue to apply to the notes if and while we meet the Rating Condition.

### **Merger, Consolidation or Sale of Assets**

Prior to the satisfaction and discharge of the indenture, LP may not consolidate with or merge with or into any other Person, or sell or otherwise dispose of all or substantially all of the assets of LP and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person unless:

- (1) either:
  - (a) LP is the continuing or surviving Person in the consolidation or merger; or
  - (b) the Person (if other than LP) formed by the consolidation or into which LP is merged or to which all or substantially all of such assets are transferred is a corporation organized and validly existing under the laws of the United States, any state thereof, or the District of Columbia, and expressly assumes, by a supplemental indenture, all the obligations of LP under the notes, the indenture and the third supplemental indenture;
- (2) immediately after the transaction and the incurrence or anticipated incurrence of any indebtedness to be incurred in connection therewith, no Default or Event of Default exists;
- (3)

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LP or the Person ( if other than LP) formed by the consolidation or into which LP is merged or to which all or substantially all of such assets are transferred:

- (a) will have Consolidated Net Worth immediately after the transaction equal to or greater than the Consolidated Net Worth of LP immediately preceding the transaction; and
- (b) will, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test described in the first paragraph under Certain Covenants While We Do Not Meet the Rating Condition Incurrence of Indebtedness and Issuance of Preferred Stock;

*provided* that this clause (3) will not apply to the notes if and while we meet the Rating Condition; and

- (4) an officer's certificate is delivered to the trustee to the effect that all of the conditions set forth above have been satisfied and an opinion of counsel has been delivered to the trustee to the effect that the condition set forth in clause (1) above has been satisfied.

The continuing, surviving or successor Person will succeed to and be substituted for LP with the same effect as if it had been named in the indenture and the third supplemental indenture as a party thereto, and thereafter the predecessor Person will be relieved of all obligations and covenants under the indenture, the third supplemental indenture and the notes.

In addition, LP may not, directly or indirectly, lease all or substantially all of the assets of LP and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person.

Except as set forth above, the provisions described under Merger, Consolidation or Sale of Assets will continue to apply to the notes if and while we meet the Rating Condition.

### Events of Default

The following are Events of Default with respect to the notes:

- (1) failure to redeem, or to pay the repurchase price for, any note when required, whether or not prohibited by the subordination provisions of the indenture, as supplemented by the third supplemental indenture;
- (2) failure to pay principal of or premium, if any, on any note when due, whether or not prohibited by the subordination provisions of the indenture, as supplemented by the third supplemental indenture;
- (3) failure to pay interest on any note when due, which failure continues for 30 calendar days, whether or not prohibited by the subordination provisions of the indenture, as supplemented by the third supplemental indenture;
- (4) failure by LP or any of its Restricted Subsidiaries to comply with the provisions described under the captions Repurchase at the Option of the Holders Change of Control, Repurchase at the Option of the Holders Asset Sales, Certain Covenants While We Do Not Meet the Rating Condition Restricted Payments, Certain Covenants While We Do Not Meet the Rating Condition Incurrence of Indebtedness and Issuance of Preferred Stock, and Merger, Consolidation or Sale of Assets;
- (5) failure to perform any other covenant of LP or its Restricted Subsidiaries in the indenture or the third supplemental indenture (other than a covenant included therein solely for the benefit of a series of debt securities other than the notes), which failure continues for 60 calendar days after written notice as provided in the indenture or the third supplemental indenture;
- (6) any nonpayment at maturity or other default (beyond any applicable grace period) under any agreement or instrument relating to any other Indebtedness of LP or any Restricted Subsidiary (the unpaid principal amount of which, together with the unpaid principal amount of any such other Indebtedness under which there has been a payment default or other default (beyond any applicable grace period), aggregates not less than \$50 million), which default results in the acceleration of the maturity of such Indebtedness prior to its stated maturity or occurs at the final maturity thereof;
- (7) the entry of any final judgments or orders against LP or any of its Restricted Subsidiaries in excess of \$50 million individually or in the aggregate (not covered by insurance) that are not paid, discharged or otherwise complied with, to the extent then required, or stayed (by appeal or otherwise) within 60 calendar days after the entry of such judgments or orders; and

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- (8) certain events of bankruptcy, insolvency or reorganization of LP or any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries of LP that, if considered in the aggregate, would be a Significant Subsidiary.

LP will be required to provide the trustee with notice of any uncured Event of Default within ten calendar days after any responsible officer of LP becomes aware of or receives actual notice of the occurrence thereof. The trustee will be required, within 90 calendar days after the occurrence of a default in respect of the notes, to give to the holders of the notes notice of all such uncured defaults known to it (except that, in the case of a default in the performance of any covenant of the character contemplated in clause (5) above, no such notice to holders of the notes will be given until at least 30 calendar days after the occurrence thereof); *provided, however*, that, except in the case of a default of the character contemplated in clause (2) or (3) above, the trustee may withhold such notice if and so long as it in good faith determines that the withholding of such notice is in the interests of the holders of the notes.

If an Event of Default described in clause (8) above occurs with respect to LP, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, the principal of, premium, if any, and accrued interest on the notes will become immediately due and payable without any declaration or other act on the part of the trustee or any holder of the notes. If any other Event of Default occurs and is continuing, either the trustee or the holders of at least 25% in principal amount of the notes, by notice as provided in the indenture, may declare the principal amount of the notes to be due and payable immediately. However, at any time after a declaration of acceleration with respect to the notes has been made, but before a judgment or decree based on such acceleration has been obtained, the holders of a majority in principal amount of the notes may, under certain circumstances, rescind and annul such acceleration.

Subject to the duty of the trustee to act with the required standard of care during an Event of Default, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders of the notes unless such holders shall have offered to the trustee reasonable security or indemnity. Subject to the provisions of the indenture, including those requiring security or indemnification of the trustee, the holders of a majority in principal amount of the notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the notes.

If LP defaults on the payment of any interest on the notes for a period of 30 days or defaults on the payment of any principal on the notes when due and payable and fails, upon demand for such payment made by the trustee, to make such payments, the trustee, in its own name, may institute a legal proceeding against LP to collect any amounts adjudged to be payable.

No holder of a note will have any right to institute any proceeding with respect to the indenture or the third supplemental indenture or for any remedy thereunder unless:

- (1) the holder has previously given to the trustee written notice of a continuing Event of Default;
- (2) the holders of at least 25% in aggregate principal amount of the outstanding notes have requested the trustee to institute proceedings in respect of such Event of Default;
- (3) such holder or holders have offered reasonable indemnity to the trustee with respect to such proceedings;
- (4) the trustee has not received from the holders of a majority in aggregate principal amount of the outstanding notes a direction inconsistent with such request; and
- (5) the trustee has failed to institute such proceeding within 60 calendar days.

However, the limitations described above do not apply to a suit instituted by a holder of notes for enforcement of payment of the principal of and interest on such notes on or after the applicable due dates for such principal and interest.

LP is required to furnish to the trustee annually a statement as to the performance by LP of its obligations under the indenture and as to any default in such performance.

In the case of any Event of Default occurring by reason of any willful action or inaction taken or not taken by or on behalf of LP with the intention of avoiding payment of the premium that LP would have had to pay if LP then had elected to redeem the notes pursuant to the optional redemption provisions of the indenture, as supplemented by the third supplemental indenture, an equivalent premium will also become and be immediately due and payable to the extent permitted by law upon the acceleration of the notes.

### **No Personal Liability of Directors, Officers, Employees and Stockholders**

No director, officer, employee, incorporator or stockholder of LP, as such, will have any liability for any obligations of LP under the notes, the indenture, the third supplemental indenture, or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

### Legal Defeasance and Covenant Defeasance

LP may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding notes ( Legal Defeasance ) except for:

- (1) the rights of holders of outstanding notes to receive payments in respect of the principal of, or interest or premium, if any, on such notes when such payments are due from the trust referred to below;
- (2) LP's obligations with respect to issuing temporary notes, registering the transfer or exchange of notes, replacing mutilated, destroyed, lost or stolen notes, maintaining an office or agency and holding funds for holders of the notes in trust;
- (3) the rights, powers, trusts, duties and immunities of the trustee, and LP's obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the indenture, as supplemented by the third supplemental indenture.

In addition, LP may, at its option and at any time, elect to have the obligations of LP released with respect to certain covenants that are described in the indenture, as supplemented by the third supplemental indenture ( Covenant Defeasance ), and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, insolvency and reorganization events) described under Events of Default will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) LP must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, or interest and premium, if any, on the outstanding notes on the stated maturity or on the applicable redemption date, as the case may be, and LP must specify whether the notes are being defeased to maturity or to a particular redemption date;
- (2) in the case of Legal Defeasance, LP must deliver to the trustee an opinion of counsel reasonably acceptable to the trustee stating that (a) LP has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the date of the indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, among other things the holders of the outstanding notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, LP has delivered to the trustee an opinion of counsel reasonably acceptable to the trustee stating that the holders of the outstanding notes will not recognize gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit), and no Default or Event of Default described under clause (8) under Events of Default with respect to LP shall have occurred and be continuing at any time on or prior to the 124th calendar day following such date of deposit;
- (5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the indenture) to which LP or any of its Subsidiaries is a party or by which LP or any of its Subsidiaries is bound;
- (6) LP must deliver to the trustee an officers' certificate stating that the deposit was not made by LP with the intent of preferring the holders of notes over the other creditors of LP with the intent of defeating, hindering, delaying or defrauding creditors of LP or others; and

- (7) LP must deliver to the trustee an officers certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

#### **Amendment, Supplement and Waiver**

Except as provided in the next three succeeding paragraphs, the indenture with respect to the notes, the third supplemental indenture or the notes may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the notes then outstanding (including without limitation consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes), and any existing default or compliance with any provision of the indenture with respect to the notes, the third supplemental indenture or the notes may be waived with the consent of the holders of a majority in principal amount of the then outstanding notes (including without limitation consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes).

Without the consent of each holder affected, an amendment or waiver may not (with respect to any notes held by a non-consenting holder):

- (1) reduce the principal amount of notes whose holders must consent to an amendment, supplement or waiver;
- (2) reduce the principal of or change the fixed maturity of any note or alter the provisions with respect to the redemption of the notes (other than provisions relating to t