LOUISIANA-PACIFIC CORP
Form 10-Q
November 07, 2006

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

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarterly Period Ended September 30, 2006
Commission File Number 1-7107

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

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

414 Union Street, Nashville, TN 37219
(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: **(615) 986-5600**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 104,223,074 shares of Common Stock, $1 par value, outstanding as of November 4, 2006.

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

ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

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

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

ABOUT THIRD PARTY INFORMATION

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

Item 1. Financial Statements.

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

	Quarter Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Net sales	$ 534.5	$ 621.3	$ 1,865.5	$ 1,974.7
Operating costs and expenses:				
Cost of sales	468.9	445.6	1,460.1	1,334.6
Depreciation, amortization and cost of timber harvested	32.8	33.5	99.7	98.8
Selling and administrative	39.6	36.8	122.4	110.5
(Gain) loss on sale or impairment of long-lived assets	0.9	0.9	0.9	
Other operating credits and charges, net	(2.9)	0.3	(2.8)	1.4
Total operating costs and expenses	539.3	517.1	1,680.3	1,545.3
Income (loss) from operations	(4.8)	104.2	185.2	429.4
Non-operating income (expense):				
Foreign currency exchange (loss) gain	(0.2)	0.4	(8.7)	(1.6)
Interest expense, net of capitalized interest	(11.2)	(13.1)	(38.9)	(44.1)
Investment income	24.9	18.8	72.2	51.2
Total non-operating income	13.5	6.1	24.6	5.5
Income before taxes and equity in loss of unconsolidated affliates	8.7	110.3	209.8	434.9
Provision (benefit) for income taxes	(5.1)	(66.5)	57.5	49.0
Equity in loss of unconsolidated affliates	3.9	1.3	2.4	0.5
Income from continuing operations	9.9	175.5	149.9	385.4
Discontinued operations:				
Loss from discontinued operations before taxes	(0.6)	(12.0)	(2.6)	(24.6)
Income tax benefit	(0.2)	(4.7)	(1.0)	(9.5)
Loss from discontinued operations	(0.4)	(7.3)	(1.6)	(15.1)
Net income	$ 9.5	$ 168.2	$ 148.3	$ 370.3
Net income per share of common stock (basic):				
Income from continuing operations	$ 0.09	$ 1.61	$ 1.42	$ 3.50
Loss from discontinued operations		(0.07)	(0.01)	(0.14)
Net income per share - basic	$ 0.09	$ 1.54	$ 1.41	$ 3.36
Net income per share of common stock (diluted):				
Income from continuing operations	$ 0.09	$ 1.59	$ 1.41	$ 3.48
Loss from discontinued operations		(0.06)	(0.01)	(0.14)
Net income per share - diluted	$ 0.09	$ 1.53	$ 1.40	$ 3.34
Cash dividends per share of common stock	$ 0.15	$ 0.125	$ 0.45	$ 0.35
Average shares of stock outstanding - basic	104.9	109.0	105.5	110.1
Average shares of stock outstanding - diluted	105.2	109.6	106.0	110.8

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

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

	Setember 30, 2006	**December 31, 2005**
ASSETS		
Cash and cash equivalents	$ 295.7	$ 607.6
Short-term investments	885.7	717.3
Receivables, net	127.4	146.8
Inventories	232.5	240.3
Prepaid expenses and other current assets	15.5	14.4
Deferred income taxes	30.5	
Current portion of notes receivable from asset sales		70.8
Total current assets	1,587.3	1,797.2
Timber and timberlands	89.7	92.9
Property, plant and equipment	1,954.0	1,848.9
Accumulated depreciation	(1,154.0)	(1,065.6)
Net property, plant and equipment	800.0	783.3
Goodwill, net of amortization	273.5	273.5
Notes receivable from asset sales	333.0	333.0
Long-term investments	46.1	13.5
Restricted cash	39.4	55.6
Investments in and advances to affiliates	214.8	211.0
Other assets	36.8	38.0
Total assets	$ 3,420.6	$ 3,598.0
LIABILITIES AND EQUITY		
Current portion of long-term debt	$ 0.4	$ 18.9
Current portion of limited recourse notes payable		69.7
Accounts payable and accrued liabilities	205.6	245.5
Current portion of contingency reserves	12.0	12.0
Total current liabilities	218.0	346.1
Long-term debt, excluding current portion:		
Limited recourse notes payable	326.8	326.8
Other long-term debt	319.3	408.0
Total long-term debt, excluding current portion	646.1	734.8
Contingency reserves, excluding current portion	21.1	31.4
Other long-term liabilities	56.6	65.8
Deferred income taxes	366.3	377.0
Commitments and contingencies		
Stockholders equity:		
Common stock	116.9	116.9
Additional paid-in capital	434.7	435.5
Retained earnings	1,910.5	1,809.7
Treasury stock	(284.3)	(257.0)
Accumulated comprehensive loss	(65.3)	(62.2)
Total stockholders equity	2,112.5	2,042.9
Total liabilities and equity	$ 3,420.6	$ 3,598.0

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Nine Months Ended September 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 148.3	$ 370.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and cost of timber harvested	99.7	100.8
Loss from unconsolidated affiliates	2.4	0.5
(Gain) loss on sale or impairment of long-lived assets	0.4	18.6
Other operating credits and charges, net	(2.6)	
Tax effect of exercise of stock options		4.8
Stock-based compensation related to stock plans	4.8	
Excess tax benefits from stock-based compensation	(3.3)	
Exchange loss on remeasurement	17.0	4.1
Cash settlement of contingencies	(10.8)	(7.8)
Other adjustments, net	(11.2)	(8.8)
Decrease in receivables	24.0	4.5
Decrease in inventories	8.0	
(Increase) decrease in prepaid expenses	(1.6)	0.5
Decrease in accounts payable and accrued liabilities	(35.0)	(15.7)
Decrease in deferred income taxes	(46.8)	(96.1)
Net cash provided by operating activities	193.3	375.7
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property, plant and equipment additions	(122.5)	(110.5)
Proceeds from asset sales	2.6	33.4
Receipt of payment on notes receivable	70.8	
Investments and advances to joint ventures	(6.6)	(63.8)
Proceeds from sales of investments	4,436.8	3,419.0
Cash paid for purchase of investments	(4,627.1)	(3,196.4)
Decrease in restricted cash under letters of credit	16.2	3.0
Net cash provided by (used in) investing activities	(229.8)	84.7
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(190.7)	(171.1)
Sale of common stock under equity plans	5.5	11.7
Excess tax benefits from stock-based compensation	3.3	
Purchase of treasury stock	(41.1)	(150.6)
Payment of cash dividends	(47.5)	(38.7)
Net cash used in financing activities	(270.5)	(348.7)
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS:	(4.9)	(2.0)
Net increase (decrease) in cash and cash equivalents	(311.9)	109.7
Cash and cash equivalents at beginning of period	607.6	544.7
Cash and cash equivalents at end of period	$ 295.7	$ 654.4

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

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

	Common Stock		**Treasury Stock**		**Additional Paid-in**	**Retained**	**Accumulated Comprehensive**	**Total Stockholders**
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Earnings**	**Loss**	**Equity**
Balance, December 31, 2005	116.9	$ 116.9	11.2	$ (257.0)	$ 435.5	$ 1,809.7	$ (62.2)	$ 2,042.9
Net income						148.3		148.3
Issuance of shares for employee stock plans and other purposes and other transactions			(0.6)	13.8	(7.2)			6.6
Purchase of shares for treasury			2.2	(41.1)				(41.1)
Stock-based compensation related to stock plans					3.1			3.1
Excess tax benefits of stock-based compensation					3.3			3.3
Cash dividends						(47.5)		(47.5)
Other comprehensive loss							(3.1)	(3.1)
Balance, September 30, 2006	116.9	$ 116.9	12.8	$ (284.3)	$ 434.7	$ 1,910.5	$ (65.3)	$ 2,112.5

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

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

	Quarter Ended September 30, 2006	Quarter Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net income	$ 9.5	$ 168.2	$ 148.3	$ 370.3
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	3.3	2.7	(3.7)	3.1
Unrealized gain (loss) on marketable securities	0.3	(0.1)	0.1	0.1
Unrealized gain (loss) on derivative instruments		(0.5)	0.5	(1.3)
Other comprehensive income (loss), net of tax	3.6	2.1	(3.1)	1.9
Comprehensive income, net of tax	$ 13.1	$ 170.3	$ 145.2	$ 372.2

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS FOR PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments, except for other operating credits and charges, net referred to in Note 7) necessary to present fairly, in all material respects, the consolidated financial position, results of operations and cash flows of LP and its subsidiaries for the interim periods presented. Results of operations for interim periods are not necessarily indicative of results to be expected for an entire year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in LP s Annual Report on Form 10-K for the year ended December 31, 2005.

Stock-Based Compensation

Effective January 1, 2006, LP adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123R), using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock-based compensation expense for the nine months ended September 30, 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provision of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123). Compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. LP recognizes these compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term of three years. Prior to the adoption of SFAS 123R, LP recognized stock-based compensation expense in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). In March 2005, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC s interpretation of SFAS 123R and the valuation of share-based payments for public companies. LP has applied the provisions of SAB 107 in its adoption of SFAS 123R. See Note 2 to the Condensed Consolidated Financial Statements for a further discussion of stock-based compensation.

NOTE 2 STOCK-BASED COMPENSATION

At September 30, 2006, LP has stock-based employee compensation plans as described below. The total compensation expense related to all of LP s stock-based compensation plans was $1.6 million and $4.8 million for the quarter and nine month period ended September 30, 2006. Prior to January 1, 2006, LP accounted for these plans under the recognition and measurement provisions of APB 25. Accordingly, LP generally recognized compensation expense only when it modified stock option terms (as required by Financial Accounting Standards Board (FASB) Interpretation No. 44 (FIN 44)) or granted restricted stock units or restricted stock. Any resulting expense was recognized ratably over the associated service period, which was generally the vesting term of the award.

Prior to January 1, 2006, LP provided pro forma disclosure amounts in accordance with SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148), as if the fair value method defined by SFAS 123 had been applied to its stock-based compensation.

Effective January 1, 2006, LP adopted the fair value recognition provisions of SFAS 123R, using the modified prospective transition method and therefore has not restated results for prior periods. Under this transition method, stock-based compensation expense for the first nine months of 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Compensation expense for all stock-based compensation awards granted after January 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. LP recognizes these compensation costs net of an estimated forfeiture rate and recognizes the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award, which is generally the vesting term of three years. LP estimated the forfeiture rate for the first nine months of 2006 based on its historical experience during the preceding two fiscal years.

As a result of adopting SFAS 123R, income before income taxes and net income for the quarter ended September 30, 2006 was $1.0 million and $0.6 million lower than if we had continued to account for stock-based compensation under APB 25. Income before income taxes and net income for the nine month period ended September 30, 2006 was $3.0 million and $1.8 million lower than if we had continued to account for stock-based compensation under APB 25. The impact on basic and diluted earnings per share for the third quarter of 2006 was a decrease of $0.01 per share and for the nine month period ended September 30, 2006 was a decrease of $0.02 per share. In addition, prior to the adoption of SFAS 123R, LP presented the tax benefit of stock option exercises as operating cash flows. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as financing cash flows.

The following table illustrates the effect (in millions, except per share amounts) on net income and basic and diluted earnings per share as if the fair value recognition provisions of SFAS 123 had been applied to all outstanding and unvested awards in the quarter ended and nine month period ended September 30, 2005. For purposes of this pro forma disclosure, the value of the options was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants during the nine month period ended September 30, 2005: a risk free interest rate of 3.8%; an expected volatility factor for the market price of the Company s common stock of 51.7%; a dividend yield of 1.6%; and an expected life of 4 years. The weighted-average estimated fair value of the options granted during the nine month period ended September 30, 2005 was $10.62.

Dollar amounts in millions, except per share amounts

	Quarter Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income, as reported	$ 168.2	$ 370.3
Add: Stock-based employee compensation included in reported net income, net of related income tax effects	0.2	0.8
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1.7)	(3.3)
Pro forma net income	$ 166.7	$ 367.8
Net income per share basic, as reported	$ 1.54	$ 3.36
Net income per share diluted, as reported	$ 1.53	$ 3.34
Net income per share basic, pro forma	$ 1.53	$ 3.34
Net income per share diluted, pro forma	$ 1.52	$ 3.32

Stock Compensation Plans

LP grants options and stock settled stock appreciation rights (SSARs) to key employees and directors to purchase LP common stock. On exercise or issuance, LP generally issues these shares from treasury. The options and SSARs are granted at market price at the date of grant. For employees, options and SSARs become exercisable over three years and expire ten years after the date of grant. For directors, these options become exercisable in 10% increments every three months, starting three months after the date of grant, and expire ten years after the date of grant. At September 30, 2006, 6,632,856 shares were available under the current stock award plans for stock-based awards. For the nine month period ended September 30, 2006, the fair value of the options granted was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: a risk free interest rate of 4.5%; an expected volatility factor for the market price of the Company s common stock of 45.2% (based upon historical volatility over the expected life); a dividend yield of 1.9%; and an expected life of 4 years (based upon historical experience). The weighted-average fair value of each option granted during the nine month period ended September 30, 2006 was $10.25.

The following table summarizes stock options and stock settled stock appreciation rights outstanding as of September 30, 2006 as well as activity during the nine month period then ended.

Share amounts in thousands	**Options/ SSARs**	**Weighted Average Exercise Price**	**Weighted Average Contractual Term (in years)**	**Aggregate Intrinsic Value (in millions)**
Outstanding options				
Options outstanding at January 1, 2006	2,135	$ 16.89		
Options granted	579	$ 28.48		
Options exercised	(529)	$ 10.52		
Options cancelled	(46)	$ 27.08		
Options outstanding at September 30, 2006	2,139	$ 21.39	6.45	$ 3.8
Vested and expected to vest at September 30, 2006	2,134	$ 21.37	6.45	$ 3.8
Options exercisable at September 30, 2006	1,299	$ 17.44	4.85	$ 3.8

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between LP s closing stock price on the last trading day of the third quarter of 2006 and the exercise price, multiplied by the number of in-the-money options and SSARs) that would have been received by the holders had all holders exercised their awards on September 30, 2006. This amount changes based on the market value of LP s stock as reported by the New York Stock Exchange. Total intrinsic value of options exercised for the nine month period ended September 30, 2006 was $9.2 million.

As of September 30, 2006, there was $6.5 million of total unrecognized compensation costs related to stock options and SSARs. These costs are expected to be recognized over a weighted-average period of 1.1 years.

Cash received from option exercises for the first nine months of 2006 was $5.5 million. The tax benefit realized for the tax deduction from option exercises of the share-based payment awards totaled $3.3 million for the nine month period ended September 30, 2006.

Incentive Share Awards

LP has granted incentive share stock awards (restricted stock units) to selected senior executives as allowed under the current stock award plans. The awards entitle the participant to receive a specified number of shares of LP common stock at no cost to the participant. For all years prior to 2005, these awards vest over a five-year period, subject to vesting acceleration upon the achievement of various stock price targets. The stock price targets were reached for all grants except for fifty percent of the 2004 grants. For the remaining awards granted in 2004, if LP s stock trades at or above $29.78 per share for five consecutive days prior to the end of the five-year period, the remaining awards will automatically vest on the next anniversary of the date of grant. The 2005 and 2006 awards for employees vest three years from the date of grant. The market value of these grants approximates the fair value. LP recorded compensation expense related to these awards in the third quarter and first nine months of 2006 of $−−−0.3 million and $0.8 million. As of September 30, 2006, there was $2.2 million of total unrecognized compensation cost related to unvested incentive share awards. This expense will be recognized over a weighted-average period of 2.0 years.

The following table summarizes incentive share awards outstanding as of September 30, 2006 as well as activity during the nine months then ended.

	Shares	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Incentive share awards outstanding at January 1, 2006	95,701		
Incentive shares awards granted	51,850		
Incentive share awards vested	0		
Incentive share awards cancelled	(11,060)		
Incentive share awards outstanding at September 30, 2006	136,491	1.98	$ 2.6
Vested and expected to vest at September 30, 2006	135,143	1.98	$ 2.6
Incentive share awards exercisable at September 30, 2006	0	0	$

Restricted Stock

Beginning in 2005, LP began granting restricted stock to certain senior executive employees. The shares vest three years from the date of grant. During the vesting period, the participants have voting rights and receive dividends, but the shares may not be sold, assigned, transferred, pledged or otherwise encumbered. Additionally, granted but unvested shares are forfeited upon termination of employment. The fair value of the restricted shares on the date of the grant is amortized ratably over the vesting period. As of September 30, 2006, there was $2.3 million of total unrecognized compensation costs related to restricted stock. This expense will be recognized over the next 1.9 years.

The following table summarizes the restricted stock outstanding as of September 30, 2006 as well as activity during the nine months then ended.

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding restricted shares		
Restricted stock awards outstanding at January 1, 2006	65,600	$ 27.04
Restricted stock awards granted	66,650	$ 28.90
Restrictions lapsing		
Restricted stock awards cancelled		
Restricted stock awards at September 30, 2006	132,250	$ 27.98

LP recorded compensation expense related to these awards in the third quarter and first nine months of 2006 of $0.3 million and $0.9 million.

LP annually grants to each director restricted stock or restricted stock units. As of September 30, 2006, LP has 47,697 shares (or restricted stock units) outstanding under this program. Compensation expense recognized in 2006 related to these grants was $0.2 million.

NOTE 3 EARNINGS PER SHARE

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares and dilutive potential common shares outstanding during the period. Dilutive potential common shares primarily consist of employee stock options, SSARs, restricted stock units and restricted common stock.