

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, 1998
Commission File Number 1-7107

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

93-0609074
(IRS Employer Identification No.)

111 S.W. Fifth Avenue, Portland, Oregon 97204-3699
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (503) 221-0800

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 .
--- --

Indicate the number of shares outstanding of each of the issuer's classes of common stock: 108,679,756 shares of Common Stock, \$1 par value, outstanding as of October 31, 1998.

- 1 -

FORWARD LOOKING STATEMENTS

Statements in this report, to the extent they are not based on historical events, constitute forward looking statements. Forward looking statements include, without limitation, statements regarding the outlook for future operations, forecasts of future costs and expenditures, evaluation of market conditions, the outcome of legal proceedings, the adequacy of reserves, plans for product development, and assessment of L-P's Year 2000 compliance efforts and risks. Investors are cautioned that forward looking statements are subject to an inherent risk that actual results may vary materially from those described herein. Factors that may result in such variance, in addition to those accompanying the forward looking statements, include changes in interest rates, commodity prices, and other economic conditions; actions by competitors; changing weather conditions and other natural phenomena; actions by government authorities; uncertainties associated with legal proceedings; technological developments; future decisions by management in response to changing conditions; and misjudgments in the course of preparing forward looking statements.

- 2 -

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	QUARTER ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
Net sales	\$ 606.3	\$ 619.5	\$1,777.8	\$1,807.4
Costs and expenses:				
Cost of sales	428.4	536.7	1,430.6	1,596.2
Depreciation, amortization and depletion	50.0	49.5	139.0	136.5
Selling and administrative	47.3	47.1	136.8	131.8
Unusual charges and credits, net	392.0	154.4	63.7	32.5
Interest expense	3.4	8.4	23.2	24.2
Interest income	(4.3)	(.3)	(7.9)	(1.1)
Total costs and expenses	916.8	795.8	1,785.4	1,920.1
Income (loss) before taxes and minority interest	(310.5)	(176.3)	(7.6)	(112.7)
Provision (benefit) for income taxes	(117.0)	(62.9)	9.3	(28.7)
Minority interest in net loss of consolidated subsidiaries	(.8)	(1.0)	(3.0)	(3.5)
Net income (loss)	\$ (192.7)	\$ (112.4)	\$ (13.9)	\$ (80.5)
Net loss per share-				
Basic and diluted	\$ (1.77)	\$ (1.03)	\$ (.13)	\$ (.74)
Cash dividends per share	\$.14	\$.14	\$.42	\$.42
Average shares outstanding (thousands)-				
Basic and diluted	108,620	108,330	108,920	108,330

See notes to unaudited financial statements.

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

	SEPT. 30, 1998	DEC. 31, 1997
Cash and cash equivalents	\$ 222.7	\$ 31.9
Accounts receivable, net	165.2	146.2
Inventories	221.3	258.8
Prepaid expenses	12.7	8.9
Income tax refunds receivable	---	78.0
Deferred income taxes	137.9	73.0
	-----	-----
Total current assets	759.8	596.8
	-----	-----
Timber and timberlands	505.5	634.2
Property, plant and equipment	2,124.9	2,433.9
Less accumulated depreciation	(1,190.9)	(1,242.1)
	-----	-----
Net property, plant and equipment	934.0	1,191.8
Timber notes receivable	403.8	49.9
Goodwill and other assets	103.6	105.7
	-----	-----
Total assets	\$2,706.7	\$2,578.4
	=====	=====
Current portion of long-term debt	\$ 24.0	\$ 22.9
Short-term notes payable	---	22.0
Accounts payable and accrued liabilities	259.5	234.4
Current portion of contingency reserves	200.0	40.0
Income taxes payable	13.2	---
	-----	-----
Total current liabilities	496.7	319.3
	-----	-----
Long-term debt, excluding current portion	475.3	572.3
Contingency reserves, net of current portion	230.4	184.0
Deferred income taxes and other	251.1	216.6
Stockholders' equity:		
Common stock	117.0	117.0
Additional paid-in capital	465.8	472.2
Retained earnings	917.7	977.5
Treasury stock	(168.5)	(163.4)
Loans to Employee Stock Ownership Trusts	(34.8)	(37.7)
Accumulated comprehensive income (loss)	(44.0)	(79.4)
	-----	-----
Total stockholders' equity	1,253.2	1,286.2
	-----	-----
Total liabilities and equity	\$2,706.7	\$2,578.4
	=====	=====

See notes to unaudited financial statements.

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

	Nine Months Ended September 30, 1998	1997
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ (13.9)	\$ (80.5)
Depreciation, amortization and depletion	139.0	136.5
Non-cash unusual charges and credits	63.7	216.6
Cash settlements of contingencies	(50.8)	(128.5)
Other adjustments, net, including adjustment of litigation reserves and other unusual non-cash charges	.5	(48.4)
Decrease in certain working capital components and deferred taxes	43.7	61.1
	-----	-----
Net cash provided by operating activities	182.2	156.8
	-----	-----
Cash flows from investing activities:		
Capital spending, including acquisitions	(103.0)	(180.6)
Proceeds from sales of assets	330.8	38.7
Other investing activities, net	(.1)	(2.2)
	-----	-----
Net cash provided by (used in) investing activities	227.7	(144.1)
	-----	-----
Cash flows from financing activities:		
New borrowings	348.6	125.0
Repayment of long-term debt, including net decrease in credit line	(470.6)	(76.4)
Decrease in short-term notes payable	(22.0)	(13.4)
Cash dividends	(45.9)	(45.5)
Purchase of treasury stock	(30.8)	(2.8)
Other financing activities, net	1.6	4.8
	-----	-----
Net cash used in financing activities	(219.1)	(8.3)
	-----	-----
Net increase in cash and cash equivalents	190.8	4.4
Cash and cash equivalents at beginning of year	31.9	27.8
	-----	-----
Cash and cash equivalents at end of period	\$ 222.7	\$ 32.2
	=====	=====

See notes to unaudited financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
 (DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER SHARE) (UNAUDITED)

	Nine Months Ended Sept. 30, 1998	
	Shares	Amount
	-----	-----
Common Stock	116,937,022	\$ 117.0
	=====	=====
Additional Paid-in-Capital:		
Beginning balance		\$ 472.2
Net transactions		(6.4)

Ending balance		\$ 465.8
		=====
Retained Earnings:		
Beginning balance		\$ 977.5
Net income		(13.9)
Cash dividends, \$.42 per share		(45.9)

Ending balance		\$ 917.7
		=====
Treasury stock:		
Beginning balance	7,309,360	\$ (163.4)
Shares reacquired	1,535,500	(30.8)
Shares reissued for employee stock plans and acquisition adjustment	(1,149,621)	\$ 25.7
	-----	-----
Ending balance	7,695,239	\$ (168.5)
	=====	=====
Loans to Employee Stock Ownership Trusts:		
Beginning balance		\$ (37.7)
Less accrued contribution		17.9
Plus new loans		(15.0)

Ending balance		\$ (34.8)
		=====
Accumulated comprehensive income (loss):		
Beginning balance		\$ (79.4)
Currency translation adjustment and amortization of deferred compensation		35.4

Ending balance		\$ (44.0)
		=====

See notes to unaudited financial statements.

Notes to Unaudited Financial Statements
Louisiana-Pacific Corporation and Subsidiaries

1. The interim period information included herein reflects all adjustments which are, in the opinion of the management of L-P, necessary for a fair statement of the results of the respective interim periods. Such adjustments are of a normal recurring nature. Results of operations for interim periods are not necessarily indicative of results to be expected for an entire year. These summary financial statements should be read in conjunction with the financial statements and the notes thereto included in L-P's 1997 Annual Financial Report to Stockholders. Interim financial statements are by necessity somewhat tentative; judgments are used to estimate quarterly amounts for items that are normally determinable only on an annual basis.

Certain 1997 expenses in the consolidated summary statement of income have been reclassified to conform to the 1998 presentation.

2. Basic earnings per share are based on the weighted average number of shares of common stock outstanding during the periods. Diluted earnings per share include the effect of potentially dilutive common stock equivalents. The effect of potentially dilutive common stock equivalents is not included in the calculation of diluted earnings per share because it was anti-dilutive as a result of L-P's net losses for the entire year 1997 and first nine months of 1998.

3. The effective income tax rate is based on estimates of annual amounts of taxable income, foreign sales corporation income and other factors. These estimates are updated quarterly.

4. Determination of interim LIFO inventories requires estimates of year-end inventory quantities and costs. These estimates are revised quarterly and the estimated incremental change in the LIFO inventory reserve is expensed over the remainder of the year.

5. Effective January 1, 1998, L-P adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which requires items previously reported as a component of stockholders' equity to be more prominently reported as a component of comprehensive income. Components of comprehensive income include net income (loss), currency translation adjustments and deferred compensation. Comprehensive income (loss) was (\$158.4) million in the third quarter of 1998 compared to (\$117.0) million in the third quarter of 1997 and \$21.5 million for the first nine months of 1998 compared to (\$90.0) million for the same period in 1997.

The Financial Accounting Standards Board has adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). The new statement will require recognition of all financial instruments as either assets or liabilities on the balance sheet at fair value; changes to fair value will impact earnings either as gains or losses. SFAS 133 will be effective for L-P in 2000. Based on an initial review of SFAS 133, L-P does not expect that it will have a significant impact on the Company's financial statements and related disclosures.

6. Unusual Charges and Credits, Net.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	(Dollar amounts in millions)			
KPC settlement	\$ ---	\$ ---	\$ ---	\$135.0
Impairment charges	(162.5)	(35.0)	(182.2)	(48.1)
Adjustment to litigation reserves and other	(251.7)	(175.0)	(262.8)	(175.0)
Gain or sale of assets	22.2	55.6	381.3	55.6
Total	\$ (392.0)	\$ (154.4)	\$ (63.7)	\$ (32.5)

In the third quarter of 1998, L-P recorded a net charge of \$392.0 million (\$241.0 million after taxes, or \$2.21 per share) resulting from impairment charges and related reserve adjustments, adjustments to litigation reserves and other charges. These were netted with gains of \$22.2 million from various asset sales. An impairment charge of \$136.1 million resulted from management's decision to liquidate its pulp mill in British Columbia and includes a \$50.9 million cumulative translation adjustment which has previously been included within the equity section of the balance sheet. The new basis of the pulp mill reflects the net estimated realizable value of the assets, less selling costs, which is based on an internal estimate of fair value. The estimate of fair value was based largely on the values received for assets sold at similar facilities. Other impairment charges of \$26.4 million relate to various facilities and include an amount to adjust closure related reserves. An additional charge to legal reserves of \$245.2 million was recorded primarily to accrue estimated additional costs including additional claims and administration costs, legal fees and inspection fees resulting from the recent agreements related to the national class-action settlement (see discussion under "Legal Proceedings").

In the second quarter of 1998, L-P recorded a net gain of \$328.3 million (\$195.2 million after taxes, or \$1.79 per share) primarily resulting from gains on the sales of timberland, sawmill and distribution assets in California and the Weather-Seal window and door business (see further discussion below under the heading "ASSET SALES"). Charges relating to the settlement of legal issues in Montrose, Colorado of \$14.0 million after taxes (or \$.13 per share) and other charges were netted against the asset sales gains.

In the third quarter of 1997, L-P recorded unusual charges and credits, net of unusual gains, of \$154.4 million (\$94.3 million after taxes, or \$.87 per share). It includes a \$210.0 million charge to reflect the write-down of certain properties which L-P had put up for sale, to adjust reserves for litigation settlements and to accrue for severance and other costs. Also included were gains on the sale of 79,000 acres of Northern California timberland of \$55.6 million.

In the first quarter of 1997, L-P's Ketchikan Pulp Company subsidiary recorded a net gain of \$121.9 million (\$73.7 million after taxes, or \$.68 per share) to reflect the initial amount of \$135 million received under a settlement agreement with the U.S. Government over claims related to the long-term timber supply contract in Alaska. Adjustments to pulp mill closure-related accruals were netted against this gain.

7. Reference is made to "Legal Proceedings" for a description of certain environmental litigation and other litigation and its potential impact on L-P and for a description of settlements of certain class action proceedings.

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

of Operations.

RESULTS OF OPERATIONS

General

L-P earned \$48.3 million (\$.44 per share) before unusual items in the third quarter of 1998 compared to a loss before unusual items of \$18 million (\$.16 per share) in the third quarter of 1997. L-P earned \$31.9 million (\$.29 per share) before unusual items for the first nine months of 1998 compared to a loss before unusual items in 1997 of \$59.9 million (\$.55 per share). Total sales declined by five percent in the first nine months of the year and eight percent in the third quarter compared to 1997. A significant factor in the sales decrease was the sale of the California operations and the Weather-Seal assets discussed below. A strong oriented strand board (OSB) market was the most important factor in the significantly improved results in 1998 over 1997. Unusual items are discussed under the "Unusual credits and charges, net" section below.

L-P operates in two segments: building products and pulp. Building products is the most significant segment, accounting for approximately 97 percent of sales in both the first nine months of 1998 and 1997. The results of operations are discussed separately for each segment below. Key segment information, production volumes and industry product price trends are presented in the tables following this discussion labeled "Sales and Profit by Major Product Group," "Operating Volumes" and "Industry Product Price Trends."

Building Products Segment

	Quarter Ended September 30,			Nine Months Ended September 30,		
	1998	1997	% Chg.	1998	1997	% Chg.
(Dollar amounts in millions)						
Sales:						
Structural panels	\$312.2	\$222.4	+40%	\$ 779.2	\$ 628.9	+24%
Lumber	103.6	169.5	-39%	399.5	512.4	-22%
Industrial panel products	44.0	43.9	---	133.3	134.5	-1%
Other building products	129.4	153.1	-15%	407.0	423.7	-4%
Total building products	\$589.2	\$588.9	---	\$1,719.0	\$1,699.5	+1%
Building products profit	\$117.5	\$ 11.4	+931%	\$ 167.5	\$ 28.2	+494%

The increase in building products segment sales for the nine months ended September 30, 1998 was primarily attributable to a 24 percent increase in structural panel products (OSB and plywood) sales over the prior year (third quarter 1998 increased 40 percent over third quarter 1997). The increase in structural panel products sales in 1998 primarily resulted from a 59 percent increase in OSB average prices (a 101 percent increase in the third quarter of 1998 over the same quarter in 1997), while plywood prices increased modestly over the prior year. OSB sales volume increased six percent due to strong demand and additional capacity, while plywood sales volume decreased 18 percent primarily due

to permanent plant closures. Lumber sales volume dropped 16 percent due primarily to mill sales and closures within the company. Average lumber prices dropped approximately 14 percent due to weak markets over the prior year (average prices dropped approximately 10 percent over the prior year's third quarter). Industrial panel products sales remained level. A decrease in average selling prices was offset by a small increase in sales volume (third quarter prices increased slightly offset by lower sales volume). The sales decrease in the other building products category was primarily attributable to the sale of the Weather-Seal window and door manufacturing business in June 1998.

Building products segment operating profits increased to \$167.5 million for the first nine months of 1998 from \$28.2 million for the first nine months of 1997 (third quarter profits were \$117.5 million compared to \$11.4 million for the third quarter in 1997) primarily due to the increased average OSB prices discussed above. Lower profits in industrial panels and lumber and higher log costs, especially in the South, partially offset the OSB improvement.

L-P's building products are primarily sold as commodities and therefore sales prices fluctuate based on market factors over which L-P has no control. L-P cannot predict whether prices of its building products will remain at current levels, or will increase or decrease in the future because supply and demand are influenced by many factors, only one of which is the cost and availability of raw materials. Therefore, L-P is not able to determine to what extent, if any, it will be able to pass any future increases in the price of raw materials on to customers through product price increases.

Pulp Segment

- - - - -

	Quarter Ended September 30,			Nine Months Ended September 30,		
	1998	1997	% Chg.	1998	1997	% Chg.
	(Dollar amounts in millions)					
Pulp sales	\$ 17.1	\$ 30.6	-44%	\$ 58.8	\$107.9	-46%
Pulp profit (loss)	\$(10.8)	\$(2.8)	-285%	\$(26.3)	\$(20.4)	-29%

The increase in pulp segment losses was primarily the result of a decrease in average pulp selling prices of approximately 14 percent and a decrease in volume of approximately 31 percent for the first nine months of 1998 compared to 1997. Pulp sales were negatively impacted by the Asian economic crisis which affected both prices and volume significantly. The pulp mill owned by L-P's Ketchikan Pulp Company subsidiary generated sales of \$28.3 million in 1997. This mill was permanently closed in the first quarter of 1997 and, thus, did not generate any sales in 1998. L-P recorded an asset impairment charge in the third quarter of 1998 related to its Chetwynd, B.C., pulp mill. This charge is discussed further under the heading "Unusual Charges and Credits."

L-P's pulp products are primarily sold as commodities and therefore sales prices fluctuate based on market factors over which L-P has no control. L-P cannot predict whether the prices of its pulp products will remain at current levels or will increase or decrease in the future, because supply and demand are influenced by many factors, only one of which is the cost and availability of raw materials. Therefore, L-P is not able to determine to what extent, if any, it will be able to pass any future increases in the price of raw materials on to customers through product price increases.

Unusual Charges and Credits, Net

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	1998	1997	1998	1997
	(Dollar amounts in millions)			
KPC settlement	\$ ---	\$ ---	\$ ---	\$135.0
Impairment charges	(162.5)	(35.0)	(182.2)	(48.1)
Adjustment to litigation reserves and other	(251.7)	(175.0)	(262.8)	(175.0)
Gain on sale of assets	22.2	55.6	381.3	55.6
	\$ (392.0)	\$ (154.4)	\$ (63.7)	\$ (32.5)

In the third quarter of 1998, L-P recorded a net charge of \$392.0 million (\$241.0 million after taxes, or \$2.21 per share) resulting from impairment charges and related reserve adjustments, adjustments to litigation reserves and other charges. These were netted with gains of \$22.2 million from various asset sales. An impairment charge of \$136.1 million resulted from management's decision to liquidate its pulp mill in British Columbia and includes a \$50.9 million cumulative translation adjustment which has previously been included within the equity section of the balance sheet. The new basis of the pulp mill reflects the net estimated realizable value of the assets, less selling costs, which is based on an internal estimate of fair value. The estimate of fair value was based largely on the values received for assets sold at similar facilities. Other impairment charges of \$26.4 million relate to various facilities and include an amount to adjust closure related reserves. An additional charge to legal reserves of \$245.2 million was recorded primarily to accrue estimated additional costs including additional claims and administration costs, legal fees and inspection fees resulting from the recent agreements related to the national class-action settlement (see discussion under "Legal Proceedings").

In the second quarter of 1998, L-P recorded a net gain of \$328.3 million (\$195.2 million after taxes, or \$1.79 per share) primarily resulting from gains on the sales of timberland, sawmill and distribution assets in California and the Weather-Seal window and door business (see further discussion below under the heading "ASSET SALES"). Charges relating to the settlement of legal issues in Montrose, Colorado of \$14.0 million after taxes (or \$.13 per share) and other charges were netted against the asset sales gains.

In the third quarter of 1997, L-P recorded unusual charges and credits, net of unusual gains, of \$154.4 million (\$94.3 million after taxes, or \$.87 per share). It includes a \$210.0 million charge to reflect the write-down of certain properties which L-P had put up for sale, to adjust reserves for litigation settlements and to accrue for severance and other costs. Also included were gains on the sale of 79,000 acres of Northern California timberland of \$55.6 million.

In the first quarter of 1997, L-P's Ketchikan Pulp Company subsidiary recorded a net gain of \$121.9 million (\$73.7 million after taxes, or \$.68 per share) to reflect the initial amount of \$135 million received under a settlement agreement with the U.S. Government over claims related to the long-term timber supply contract in Alaska. Adjustments to pulp mill closure-related accruals were netted against this gain.

General Corporate and Other Expense

General corporate and other expense increased four percent over the prior year. The variations were due to numerous factors, none of which were individually significant.

Interest Income (Expense)

L-P's interest expense (net of interest income and capitalized interest) has decreased in 1998 primarily as a result of decreased net borrowing levels. Asset sale proceeds have been used in part to reduce borrowings.

Legal and Environmental Matters

Refer to the "Legal Proceedings" item of this Form 10-Q for a discussion of certain environmental and other litigation and its potential impact on L-P.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operations increased 16 percent in 1998 over 1997. The increase is primarily due to the \$135.0 million settlement payment from the U.S. Government received in 1997. In 1998, improved operating results (without unusual items) and lower payments of settlement liabilities. This increase was offset by the \$135.0 million settlement payment from the U.S. Government received in 1997. Cash flows provided by investing activities also increased mainly from asset sale proceeds of \$330.8 million and a decrease in capital expenditures. Cash used in financing activities increased \$210.8 million due to repayment of \$450.0 million in revolving and term loans with asset sale proceeds and repurchase of \$30.8 million of L-P's common stock under its stock repurchase plan. The issuance of \$348.6 million of senior debt partially offset these uses.

L-P's inventories decreased \$37.5 million, net property, plant and equipment decreased \$257.8 million and contingencies increased \$206.4 million primarily as a result of the asset sales and unusual charges.

L-P's liquidity has improved over the 1997 year-end primarily as a result of the proceeds of the asset sales. Cash and cash equivalents totaled \$222.7 million at September 30, 1998, compared to \$31.9 million at December 31, 1997. Management believes the current cash balances combined with unused credit facilities will provide sufficient liquidity for L-P to meet its projected cash needs, including obligations related to litigation settlements.

ASSET SALES

In the third quarter of 1998, L-P completed the sale of additional California assets for approximately \$29.2 million in cash. The book value of the assets sold was approximately \$6.5 million.

On June 30, 1998 L-P completed the sale of its California redwood timberlands and associated sawmill and manufacturing and distribution operations in Northern California in two separate transactions to Simpson Timber Company ("Simpson"), a subsidiary of Simpson Investment Company, and Sansome Forest Partners, L.P., and its subsidiaries ("Sansome"). The sales included more than 300,000 acres of timberlands, three operating sawmills, and two distribution facilities, among other operations. The sales prices for the divested assets totaled approximately \$610.2 million and were determined by arm's length negotiations between the parties. Sansome and its subsidiaries paid \$240.0 million in cash, subject to post-closing adjustments for changes in working capital and other items. Simpson paid \$16.3 million in cash and delivered promissory notes in the aggregate principal amount of \$353.9 million (the "Simpson Notes"), subject to post-closing adjustments for changes in working capital and other items. The Simpson Notes mature in varying amounts between June 30, 2006 and June 30, 2018. The weighted average interest rate of the notes

is 7 percent. The net book value of the assets sold, excluding working capital, was \$192.7 million.

Subsequently, in a separate transaction, L-P issued \$348.6 million of senior debt at a weighted average interest rate of 7 percent maturing in varying amounts between 2006 and 2018 in a private placement to institutional investors. The Simpson Notes were pledged as security for this senior debt.

On June 16, 1998, L-P completed the sale of its Weather-Seal windows and doors operations to American Architectural Products Corporation of Youngstown, Ohio for approximately \$39.9 million. The Weather-Seal business consisted of seven manufacturing facilities, related engineering, research and development, customer services, sales group and trucking operations in Ohio.

During the third quarter of 1998, L-P announced efforts to sell seven lumber facilities in Idaho, Georgia, Mississippi and Texas. In October 1998, L-P completed the sale of its Creative Point subsidiary to Mead Corporation of Dayton, Ohio. Other potential asset sales include the sale of L-P's pulp mill in Samoa and the sale or closure of its pulp mill in British Columbia.

The proceeds realized in the asset sales completed since October 1997 have initially been used to fund operations, reduce or eliminate outstanding borrowings on L-P's revolving credit and term loan facilities, and implement its stock repurchase plan. Management continues to study additional uses of the proceeds to maximize long-term value to L-P and its stockholders, which may include internal investments in L-P's core businesses in the building products market and strategic acquisitions.

Year 2000 Compliance - - - - -

The Year 2000 problem refers to a worldwide issue relating to a flaw in many computer programs and computer applications embedded in equipment and other devices. In many existing software and hardware applications, two digits were used to represent the year, such as "99" for "1999." If not corrected, these applications may interpret "00" to be the year 1900 rather than 2000, producing erroneous data or, at worst, failing altogether.

L-P recognized the Year 2000 problem as a serious issue in the early 1990s. As a result, subsequent in-house applications development and purchases of third-party software contemplated the potential impact of the Year 2000. In the fall of 1997, L-P began a more formal evaluation process related to Year 2000 exposure and readiness. Elements of this process include creation of a corporate-wide project team, oversight by a management steering committee, and regular reports on progress to senior management and the Board of Directors.

All of L-P's business groups, facility locations, operations and corporate functions are covered by the Year 2000 project. The project team is staffed by full-time employees, subcontractors, and outside consultants as appropriate. Management is monitoring the progress of the project to ensure that proper methodology is being followed, that

adequate controls are in place, and that appropriate steps are being taken to limit risk.

The project is divided into three primary areas: (1) information systems; (2) manufacturing systems/building infrastructure; and (3) the evaluation of outside business partners (including major suppliers and customers). The general project tasks for each of the first two areas of emphasis include inventorying items that are exposed to Year 2000 issues, assessing the Year 2000 compliance of such items, remediation (through conversion, upgrade or replacement of noncompliant items), testing, and developing and implementing contingency plans for each business group and facility location. With respect to outside business partners, project phases include ascertaining L-P's major business partners, assessing their Year 2000 readiness, monitoring their progress, and developing contingency plans.

L-P's information systems include such common business applications as payroll, human resources, sales order entry, inventory management, finance, and accounting. These applications will be addressed by either remediating current systems or replacement with industry standard, off-the-shelf software certified by the vendor to be Year 2000 compliant. L-P has decided to replace its basic payroll, human resources and accounting applications with an off-the-shelf package. The modules are scheduled to be implemented during the first half of 1999. The project team has identified additional business critical applications. As of October 31, 1998, approximately 70% of these applications have been assessed for Year 2000 compliance, with the balance to be evaluated by December 1998. As of October 31, 1998, approximately 30% of the applications assessed require further remediation through system upgrades and/or replacements. All remediation of information systems are currently slated for completion by September 1999.

With respect to L-P's manufacturing operations, the project is focused on surveying and, if necessary, remediating all computer-controlled and/or embedded devices used in the manufacturing process in nearly 90 plant facilities. Building infrastructure includes items such as heating and air conditioning systems, security access and alarm systems, telephones, and office equipment used in L-P's offices and plants. The inventory phase of the project with respect to manufacturing operations and infrastructure is approximately 60 percent complete, with the balance to be completed by December 31, 1998. More than half of the inventoried systems have been assessed for Year 2000 readiness, with completion of this phase scheduled for March 1999. Less than 1 percent of L-P's manufacturing systems and infrastructure assessed to date have been determined to require remediation. The costs associated with this component are expected to be immaterial to L-P's business and results of operations and will be included in normal ongoing maintenance.

L-P also faces the risk of business disruption from outside business partners which may have information or manufacturing systems or infrastructure that are not Year 2000 compliant. As part of the Year 2000 project, L-P is evaluating which business partners are critical to L-P's operations and making inquiries of those deemed material as to their Year 2000 readiness. The project team will monitor the progress of major business partners in achieving Year 2000 compliance. Where risk is perceived to be present, L-P will seek to identify alternate business

partners and to develop contingency plans to deal with any significant disruptions prior to December 1999.

Despite the extensive efforts of L-P's project team, it is likely that unexpected problems associated with the Year 2000 issue will arise. The project team is working to identify areas of the greatest risk to L-P, that is, those areas which are critical to business operations and have limited backup alternatives. This process will include identifying, analyzing and developing plans for dealing with the most reasonably likely worst case scenario facing L-P. Contingency plans will then be developed to minimize the disruptive effect of potential failures and to take corrective action as soon as possible. To date, the most progress in this area has been achieved at L-P's data centers, where disaster recovery plans have been modified to place specific emphasis on Year 2000 contingencies. L-P's contingency planning process is scheduled to be completed by mid-1999.

The total expense associated with achieving Year 2000 compliance and developing contingency plans is presently estimated to be approximately \$5 million, of which approximately \$1 million will have been incurred by December 31, 1998. This does not include expenses and capital costs associated with replacing systems which L-P would have replaced regardless of Year 2000 issues, including a new human resources information system and a new core financial system. The costs and completion dates for the Year 2000 project discussed herein are based on management's best estimates, which were derived using numerous assumptions regarding future events, including continued availability of certain resources, remediation plans of business partners, and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ from expectations.

L-P presently does not anticipate the occurrence of major interruptions in its business as a result of Year 2000 issues. However, due to L-P's dependence on systems outside its control, such as telecommunications, financial services, transportation, and water and energy suppliers, there can be no assurance that L-P will not experience disruptions that may have a negative effect on its operations, business, and financial condition.

STOCK REPURCHASE PLAN

- - - - -

As of September 30, 1998, L-P had reacquired approximately 1.5 million shares for \$30.8 million under the plan, announced on July 27, 1998, to repurchase up to 20 million common shares from time to time in the open market. At quarter-end, L-P had approximately 109 million shares outstanding.

SALES AND PROFIT BY MAJOR PRODUCT GROUP
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
(DOLLAR AMOUNTS IN MILLIONS) (UNAUDITED)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Sales:				
Structural panel products	\$ 312.2	\$ 222.4	\$ 779.2	\$ 628.9
Lumber	103.6	169.5	399.5	512.4
Industrial panel products	44.0	43.9	133.3	134.5
Other building products	129.4	153.1	407.0	423.7
Total building products	589.2	588.9	1,719.0	1,699.5
Pulp	17.1	30.6	58.8	107.9
Total sales	\$ 606.3	\$ 619.5	\$1,777.8	\$1,807.4
Export sales	\$ 24.9	\$ 61.5	\$ 99.7	\$ 189.1
Profit (loss):				
Building products	\$ 117.5	\$ 11.4	\$ 167.5	\$ 28.2
Pulp	(10.8)	(2.8)	(26.3)	(20.4)
Settlements and other unusual items, net	(392.0)	(154.4)	(63.7)	(32.5)
General corporate expense, net	(26.1)	(22.4)	(69.8)	(64.9)
Interest income (expense), net	.9	(8.1)	(15.3)	(23.1)
Income (loss) before taxes and minority interest	\$ (310.5)	\$ (176.3)	\$ (7.6)	\$ (112.7)

OPERATING VOLUMES
 LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES
 (VOLUME AMOUNTS STATED IN MILLIONS, UNLESS OTHERWISE NOTED)

	Quarter Ended Sept. 30		Nine Months Ended Sept. 30	
	1998	1997	1998	1997
Oriented strand board panels and siding, million square ft 3/8" basis	1,113	1,001	3,214	2,971
Softwood plywood, million square ft 3/8" basis	255	318	756	911
Lumber, million board feet	278	323	851	943
Industrial panel products (particleboard, medium density fiberboard and hardboard), million square ft 3/4" basis	142	146	436	440
Engineered I-Joists, million lineal feet	23	21	69	60
Laminated Veneer Lumber, thousand cubic ft	1,900	1,600	5,600	4,700
Pulp, thousand short tons	69	93	210	294

INDUSTRY PRODUCT PRICE TRENDS
LOUISIANA-PACIFIC CORPORATION AND SUBSIDIARIES

	OSB -----	PLYWOOD -----	LUMBER -----	PARTICLEBOARD -----
	N. CENTRAL 7/16" BASIS 24/16 SPAN RATING -----	SOUTHERN PINE 1/2" BASIS CDX 3 PLY -----	FRAMING LUMBER COMPOSITE PRICES -----	INLAND INDUSTRIAL 3/4" BASIS -----
Annual Average				
1992	\$ 217	\$ 248	\$ 287	\$ 200
1993	236	282	394	258
1994	265	302	405	295
1995	245	303	337	290
1996	184	258	398	276
1997	143	265	417	262
1997 Third Quarter Average	145	263	414	262
1998 First Quarter Average	158	266	368	253
1998 Second Quarter Average	195	262	346	262
1998 Third Quarter Average	289	308	343	265

Source: Random Lengths

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

The following sets forth the current status of certain legal proceedings:

Environmental Proceedings

In October 1998, L-P's subsidiary Ketchikan Pulp Company's ("KPC's") criminal probation was terminated by the U.S. government. KPC had been placed on 5-year probation in October 1995, stemming from allegations of criminal violation of the Clean Water Act.

In March 1995, KPC entered into agreements with the federal government to resolve the issues related to water and air compliance problems experienced at KPC's pulp mill during the late 1980s and early 1990s. In addition to civil and criminal penalties that have been paid, KPC also agreed to undertake up to \$20 million in expenditures, which are primarily capital in nature, including certain remedial and pollution control related measures. While the Environmental Protection Agency (the "EPA") and KPC have agreed that the closure of the pulp mill in May 1997 eliminated the need for many of the pollution control related measures, court approval is required for relief from these requirements.

As part of the agreements, KPC is in the process of studying Ward Cove, the body of water adjacent to the former mill site, to determine whether cleanup of cove sediments is necessary. KPC may be required to spend approximately \$4 million in addition to the approximately \$2 million already spent on this project, as part of the \$20 million discussed above.

KPC also signed an agreement with the State of Alaska and the EPA to investigate and, if necessary, clean up the property on which the pulp mill was formerly located. KPC has completed the investigative portion of this project at a cost of approximately \$1.5 million. Some cleanup has already occurred, with additional cleanup scheduled to be completed by mid-1999. Anticipated costs of previous and scheduled cleanup may be up to \$1 million. Other areas may need to be cleaned up; no cost estimates of such additional cleanups have yet been made.

KPC has completed the closure of a landfill near Thorne Bay, Alaska, pursuant to an agreement with the U.S. Forest Service (the "USFS"). Costs of the project totaled approximately \$6 million. KPC is also monitoring leachate from the landfill in order to evaluate whether treatment of the leachate is necessary.

The EPA and the Department of Justice have indicated their intent to seek penalties for alleged civil violations of the Clean Water Act at the KPC facility. The maximum penalty associated with such an action could be as much as \$975,000. KPC is also defending an appeal of an earlier court decision dismissing a citizens' suit by plaintiff Alaska Clean Water Alliance alleging Clean Water Act violations. KPC is actively pursuing resolution of both of these actions.

L-P's Missoula, Montana, particleboard facility is the subject of an investigation by the EPA for alleged improper management of sander dust at the facility. L-P is also conducting its own investigation. L-P's

potential liability, if any, is unknown at this time, but is not anticipated to have a material adverse effect on L-P's business, financial position, results of operations or liquidity.

In June 1998, L-P disclosed to the EPA and the State of Florida that it had discovered the potential improper disposal of ash and waste wood onto the ground and into potential wetland areas at L-P's West Bay, Florida, facility. L-P's wetland expert, the U.S. Corps of Engineers and the Florida Department of Environmental Management all now agree that the West Bay facility did not disturb any wetlands.

Certain L-P plant sites have, or are suspected of having, substances in the ground or in the groundwater underlying the sites that are considered pollutants. Appropriate corrective action or plans for corrective action are underway. Where the pollutants were caused by previous owners of the property, L-P is vigorously pursuing those parties through legal channels and is vigorously pursuing insurance coverage under all applicable policies.

L-P maintains a reserve for estimated environmental loss contingencies. As with all accounting estimates, significant uncertainty exists in the reliability and precision of the estimates because the facts and circumstances surrounding each contingency vary significantly from case to case. L-P continually monitors its estimated exposure for environmental liabilities and adjusts its accrual accordingly. As additional information about the environmental contingencies becomes known, L-P's estimate of its liability for environmental loss contingencies may change significantly, although no estimate of the range of any potential adjustment of the liability can be made at this time. L-P cannot estimate the time frame over which these accrued amounts are likely to be paid out. A portion of L-P's environmental reserve is related to liabilities for cleanup of properties which are currently owned or have been owned in the past by L-P. Certain of these sites are subject to cost sharing arrangements with other parties who were also involved in the site. L-P does not believe that any of these cost sharing arrangements will result in additional material liability to L-P due to non-performance by the other party. L-P has not reduced its reserves for any anticipated insurance recoveries.

Although L-P's policy is to comply with all applicable environmental laws and regulations, the company has, in the past, been required to pay fines for non-compliance and sometimes litigation has resulted from contested environmental actions. Also, L-P is involved in other environmental actions and proceedings which could result in fines or penalties. Based on the information currently available, management believes that any fines, penalties or other losses resulting from the matters discussed above in excess of the reserve for environmental loss contingencies will not have a material adverse effect on the business, financial position, results of operations or liquidity of L-P.

Colorado Criminal Proceedings

In June 1995, a federal grand jury returned an indictment in the U.S. District Court in Denver, Colorado, against L-P in connection with alleged environmental violations, as well as alleged fraud in connection with the submission of unrepresentative oriented strand board (OSB) product samples to an industry product certification agency, by L-P's Montrose (Olathe), Colorado OSB plant. A former superintendent and former plant manager at the

mill were also indicted and each pled guilty to one environmental count and were sentenced by the court. On May 27, 1998, L-P pleaded guilty to 18 felony counts relating to the Montrose plant, including 13 counts involving violations of the Clean Air Act and five counts of making false statements in a matter within the jurisdiction of an agency or department of the United States. L-P agreed to pay total penalties of \$37 million (including making \$500,000 in charitable contributions), of which \$12 million has been paid, and was sentenced to five years of probation. The \$25 million balance of the fine will be paid over the next five years and has been recorded as a note payable in L-P's financial statements. All remaining charges against L-P were dismissed.

In December 1995, L-P received a notice of suspension from the EPA stating that, because of the criminal proceedings pending against L-P in Colorado, the Montrose facility would be prohibited from purchasing timber directly from the USFS. In April 1998, L-P signed a Settlement and Compliance Agreement with the EPA. This agreement formally lifted the 1995 suspension imposed on the Montrose facility. The agreement has a term of five years and obligates L-P to develop and implement certain corporate policies and programs, including such measures as a policy of cooperation with the EPA, an employee disclosure program and a policy of nonretaliation against employees, to conduct its business to the best of its ability in accordance with federal laws and regulations and local and state environmental laws, to report significant violations of law to the EPA, and to conduct at least two audits of its compliance with the agreement. A number of the compliance requirements have been completed.

OSB Siding Matters

L-P has been named as a defendant in numerous class action and non-class action proceedings, brought on behalf of various persons or purported classes of persons (including nationwide classes in the United States and Canada) who own or have purchased or used OSB siding manufactured by L-P, because of alleged unfair business practices, breach of warranty, misrepresentation, conspiracy to defraud, and other theories related to alleged defects, deterioration, or failure of OSB siding products.

The United States District Court for the District of Oregon has given final approval to a settlement between L-P and a nationwide class composed of all persons who own, have owned, or subsequently acquire property on which L-P's OSB siding was installed prior to January 1, 1996, excluding persons who timely opted out of the settlement and persons who are members of the settlement class in the Florida litigation described below. Under the settlement agreement, an eligible claimant whose claim is filed prior to January 1, 2003 (or earlier in certain cases), and is approved by an independent claims administrator will be entitled to receive from the settlement fund established under the agreement a payment equal to the replacement cost (to be determined by a third-party construction cost estimator and currently estimated to be in the range of \$2.20 to \$6.40 per square foot depending on the type of product and geographic location) of damaged siding, reduced by a specific adjustment (of up to 65 percent) based on the age of the siding. Class members who have previously submitted or resolved claims under any other warranty or claims program of L-P may be entitled to receive the difference between the amount which would be payable under the settlement agreement and the amount previously paid. Independent adjusters will determine the extent of damage to OSB siding at each

claimant's property in accordance with a specified protocol. There will be no adjustment to settlement payments for improper maintenance or installation.

A claimant who is dissatisfied with the amount to be paid under the settlement may elect to pursue claims against L-P in a binding arbitration seeking compensatory damages without regard to the amount of payment calculated under the settlement protocol. A claimant who elects to pursue an arbitration claim must prove his entitlement to damages under any available legal theory, and L-P may assert any available defense, including defenses that otherwise had been waived under the settlement agreement. If the arbitrator reduces the damage award otherwise payable to the claimant because of a finding of improper installation, the claimant will be entitled to pursue a claim against the contractor/builder to the extent the award was reduced.

L-P is required to pay \$275 million into the settlement fund in seven annual installments beginning in mid-1996: \$100 million, \$55 million, \$40 million, \$30 million, \$20 million, \$15 million, and \$15 million. As of June 30, 1998, L-P had funded the first three installments. If at any time after the fourth year of the settlement period the amount of approved claims (paid and pending) equals or exceeds \$275 million, then the settlement agreement will terminate as to all claims in excess of \$275 million unless L-P timely elects to provide additional funding within 12 months equal to the lesser of (i) the excess of unfunded claims over \$275 million or (ii) \$50 million and, if necessary to satisfy unfunded claims, a second payment within 24 months equal to the lesser of (i) the remaining unfunded amount or (ii) \$50 million. If the total payments to the settlement fund are insufficient to satisfy in full all approved claims filed prior to January 1, 2003, then L-P may elect to satisfy the unfunded claims by making additional payments into the settlement fund at the end of each of the next two 12-month periods or until all claims are paid in full, with each additional payment being in an amount equal to the greater of (i) 50 percent of the aggregate sum of all remaining unfunded approved claims or (ii) 100 percent of the aggregate amount of unfunded approved claims, up to a maximum of \$50 million. If L-P fails to make any such additional payment, all class members whose claims remain unsatisfied from the settlement fund may pursue any available legal remedies against L-P without regard to the release of claims provided in the settlement agreement.

If L-P makes all payments required under the settlement agreement, including all additional payments as specified above, class members will be deemed to have released L-P from all claims for damaged OSB siding, except for claims arising under their existing 25-year limited warranty after termination of the settlement agreement. The settlement agreement does not cover consequential damages resulting from damage to OSB Inner-Seal siding or damage to utility grade OSB siding (sold without any express warranty), either of which could create additional claims. In addition to payments to the settlement fund, L-P was required to pay fees of class counsel in the amount of \$26.25 million, as well as expenses of administering the settlement fund and inspecting properties for damage and certain other costs. After accruing interest on undisbursed funds and deducting class notification costs, prior claims costs (including payments advanced to homeowners in urgent circumstances) and payment of claims under the settlement, as of September 30, 1998, approximately \$8.6 million remained of the \$195 million paid into the fund to date.

The claims submitted to the claims administrator to date substantially exceed the \$275 million of payments that L-P is required to make under the settlement agreement. As calculated under the terms of the settlement, as of September 30, 1998, claims submitted and inspected exceeded \$457 million. There are insufficient data to project the future volume of claims or the total dollar value of additional claims that may be made against the settlement fund. L-P has not decided whether it will provide the optional funding discussed above in excess of the required \$275 million after the fourth year of the settlement, to the extent that it still remains an issue following implementation of the Early Payment Program and Second Settlement Fund discussed below. Under the terms of the settlement, L-P must make a decision regarding the optional payments by August 2000. As an alternative to making additional payments, L-P could elect to pursue other options, including allowing the settlement agreement to terminate, thereby entitling claimants with unsatisfied claims to pursue available legal remedies against L-P.

On October 26, 1998, L-P announced an agreement to offer early payments to eligible claimants who have submitted valid and approved claims under the original settlement agreement (the "Early Payment Program") and to establish an additional \$125 million fund to pay all other approved claims that are filed before December 31, 1999 (the "Second Settlement Fund").

The Early Payment Program will be offered to all claimants who are entitled to be paid from the \$80 million of mandatory payments that remain to be paid under the settlement and to all claimants who otherwise would be paid from the proceeds of the two optional \$50 million payments that L-P may elect to make under the settlement. The early payments from the \$80 million will be discounted at a rate of 9% per annum calculated from their original payment dates (1999-2002) to the date the early payment offer is made. The early payments from the two \$50 million optional contributions will be discounted at a rate of 12% per annum calculated from 2001 and 2002. Claimants may accept or reject the discounted early payments in favor of remaining under the original settlement, but may not arbitrate the amount of their early payments.

The \$125 million Second Settlement Fund represents an alternative source of payment for all approved claims not eligible for the Early Payment Program and all new claims filed before December 31, 1999. In early 2000, claimants electing to participate in the Second Settlement Fund will be offered a pro rata share of the fund in complete satisfaction of their claims, which they may accept or reject in favor of remaining under the original settlement. Claimants who accept their pro rata share may not file additional claims under the settlement or arbitrate the amount of their payments. Claimants who elect not to participate in the Second Settlement Fund remain bound by the terms of the original settlement. If L-P is dissatisfied with the number of claimants who elect to be paid from the Second Settlement Fund, at its sole option, it may refuse to proceed with funding. In that event, the Second Settlement Fund will be canceled and all the claimants who had elected to participate in it will be remitted to their rights under the original settlement.

A settlement of the Florida class action was approved by the Circuit Court for Lake County, Florida, on October 4, 1995. Under the settlement, L-P has established a claims procedure pursuant to which members of the settlement

class may report problems with L-P's OSB siding and have their properties inspected by an independent adjuster, who will measure the amount of damage and also determine the extent to which improper design, construction, installation, finishing, painting, and maintenance may have contributed to any damage. The maximum payment for damaged siding is \$3.40 per square foot for lap siding and \$2.82 per square foot for panel siding, subject to reduction of up to 75 percent for damage resulting from improper design, construction, installation, finishing, painting, or maintenance, and also subject to reduction for age of siding more than three years old. L-P has agreed that the deduction from the payment to a member of the Florida class will be not greater than the deduction computed for a similar claimant under the national settlement agreement described above. Class members will be entitled to make claims until October 4, 2000.

L-P maintains reserves for the estimated costs of these siding settlements, although, as with any estimate, there is uncertainty concerning the actual costs to be incurred. The discussion herein notes some of the factors, in addition to the inherent uncertainty of predicting the outcome of claims and litigation, that could cause actual costs to vary materially from current estimates. Due to the various uncertainties, L-P cannot predict to what degree actual payments under the settlement agreements, or any alternative strategies adopted by L-P, will materially exceed the recorded liability related to these matters, although it is possible that, in the near term, total estimated payments will significantly exceed the recorded liabilities.

Other OSB Matters

Three separate purported class actions on behalf of owners and purchasers of properties in which L-P's OSB panels are used for flooring, sheathing, or underlayment have been consolidated in the United States District Court for the Northern District of California under the caption *Agius v. Louisiana-Pacific Corporation*. The actions seek damages and equitable relief for alleged fraud, misrepresentation, breach of warranty, negligence, and improper trade practices related to alleged improprieties in testing, product certification, and marketing of OSB structural panels, and alleged premature deterioration of such panels. A separate state court action entitled *Carney v. Louisiana-Pacific Corporation* is pending in the Superior Court of the State of California for the City and County of San Francisco, seeking relief under California consumer protection statutes based on similar allegations. On February 27, 1998, the United States District Court for the Northern District of California entered an order approving a settlement that would resolve the above actions. A final order approving the settlement is expected pending resolution of an appeal by a single claimant.

The settlement class, other than persons who opted out, is generally composed of all persons who purchased L-P OSB sheathing or acquired real property or structures in the United States containing L-P OSB sheathing between January 1, 1984, and October 22, 1997, but only if they have retained ownership of the product. Under the settlement agreement, an eligible claimant who files a claim prior to October 22, 2017, upon review of the claim by the claims administrator, will be entitled to recover the reasonable cost of repair or replacement of any L-P OSB sheathing determined to have failed to perform its essential function as warranted and not occasioned by misuse, negligent or intentional misconduct of a third party or an event over which L-P had no control. The settlement agreement also

provides for payment of a \$1.5 million grant to the University of California Forest Products Laboratory and reasonable attorney fees of class counsel.

In accordance with the terms of the settlement, L-P exercised its right to go forward with the claims process prior to the resolution of the appeal and began sending claim form packages on August 19, 1998. As of October 31, 1998, 3,976 notice packages had been mailed, 2,206 claim form packages had been mailed, 25 claim forms had been received, and 3 claims had been verified as valid and forwarded for inspection.

L-P maintains a reserve for its estimate of the cost of these other OSB matters, including the sheathing settlement, although as with any estimate, there is uncertainty concerning the actual costs to be incurred. Based on a review of its claims records to date, L-P believes that known reports of damage to installed L-P OSB sheathing have been immaterial in number and amount.

Other

L-P and its subsidiaries are parties to other legal proceedings. Management believes that the outcome of such proceedings will not have a material adverse effect on the business, financial position, results of operations or liquidity of L-P.

Contingency Reserves

L-P maintains contingency reserves in addition to the environmental and other reserves discussed above. As L-P receives additional information regarding actual claim rates and average claim amounts, L-P monitors its estimated exposure and adjusts its accrual accordingly. The amounts ultimately paid for these contingencies could differ materially from the amount currently recorded, although no estimate of the timing or range of any potential adjustment can be made at this time.

Item 6. Exhibits and Reports on Form 8-K.

- (a) Exhibit 10.1: Amendment to Settlement Agreement dated October 26, 1998, between the registrant and attorneys representing plaintiffs in siding class action litigation.

Exhibit 27: Financial Data Schedule.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LOUISIANA-PACIFIC CORPORATION

By -----
Curtis M. Stevens
Vice President, Chief Financial
Officer and Treasurer
(Principal Financial Officer)

DATED: November 10, 1998

IN RE LOUISIANA-PACIFIC INNER-SEAL
SIDING LITIGATION

Civil No. CV-95-879-JO-LEAD

SUPPLEMENTAL FUNDING AGREEMENT

This SUPPLEMENTAL FUNDING AGREEMENT ("Supplemental Agreement") is dated and effective as of October 26, 1998, by and between the Plaintiffs in the above litigation, for themselves and on behalf of the Settlement Class as that term is defined in the October 18, 1995 Settlement Agreement ("Class Members") and defendant Louisiana-Pacific Corporation ("L-P"), collectively, the "Parties."

BACKGROUND

The Parties entered into a Settlement Agreement on October 18, 1995 and an Amendment to Settlement Agreement dated April 26, 1996, both of which were approved by the Court in the above matter by its Order, Final Judgment, and Decree, dated April 26, 1996 (the "Settlement Agreement"). The Settlement Agreement creates a mechanism for the receipt, inspection, and

PAGE 1 - SUPPLEMENTAL FUNDING AGREEMENT

PERKINS COIE LLP
1211 S.W. Fifth Avenue, Suite 1500
Portland, Oregon 97204
(503) 727-2000

payment of claims filed by a Class Member with the Claims Administrator. The Parties have negotiated this Supplemental Agreement in order to offer to Class Members an alternative to the relief provided by the Settlement Agreement.

This Supplemental Agreement does not in any respect alter or amend the Settlement Agreement, which remains in full force and effect to the same extent as if this agreement never had been executed. To the extent Class Members who have filed claims with the Claims Administrator ("Claimants") individually elect to accept the early payment proposals ("Early Payment") or to participate in the Second Settlement Fund contained in this Supplemental Agreement, the provisions governing such proposals will control the respective rights and obligations of the electing Claimants and L-P.

AGREEMENT

The Parties agree as follows:

1. DEFINITIONS

All terms used in this Supplemental Agreement shall have the same meaning as set forth in the Settlement Agreement unless otherwise stated in this agreement.

2. ADVICE TO CLAIMANTS

As soon as practicable following the execution of this Supplemental Agreement, the Claims Administrator will notify in writing each Claimant who has filed an approved claim and whose property has been inspected of: (a) the current status of his claim; (b) its expected payment date; and (c) the proposals described in this Supplemental Agreement.

3. OFFER OF EARLY PAYMENT - MANDATORY CONTRIBUTIONS

(a) Under the terms of the Settlement Agreement, L-P is required to contribute a minimum of \$275 million to the Settlement Fund over a seven-year period (the "Mandatory Contributions"). To date, L-P has contributed \$195 million to the Settlement Fund. The remaining \$80 million is payable in annual installments on each June 7 of the next four years, commencing on June 7, 1999 (the "Remaining \$80 Million").

PAGE 2 - SUPPLEMENTAL FUNDING AGREEMENT

PERKINS COIE LLP
1211 S.W. Fifth Avenue, Suite 1500
Portland, Oregon 97204
(503) 727-2000

(b) L-P agrees to offer to each Claimant whose claim has been approved by the Claims Administrator and who otherwise is entitled to be paid from the Remaining \$80 Million an amount equal to the present value of his Damage Award discounted at the rate of 9% per annum to reflect its early payment. For example, a Claimant with a Damage Award of \$6,000 payable on June 7, 1999 who is offered an Early Payment on November 1, 1998 would be offered \$5,694; a Claimant with a \$6,000 Damage Award payable on June 7, 2000 and offered Early Payment on November 1, 1998 would be offered an Early Payment of \$5,206.

(c) The amount of the discount of the Early Payment will be calculated from the first day of June of the year in which the Damage Award otherwise would be payable under the Settlement Agreement to the first day of the month in which the offer is made -- provided that such offers are mailed to Class Members no later than the 15th day of such month.

4. OFFER OF EARLY PAYMENT - OPTIONAL CONTRIBUTIONS

(a) In addition to the Mandatory Contributions, under the circumstances described in the Settlement Agreement, L-P may make two optional \$50 Million contributions to the Settlement Fund (the "\$100 Million Optional Contributions"). If L-P elects to make the two optional contributions, the first is payable in August, 2001, and the second, in August, 2002.

(b) L-P agrees to offer to pay to each Claimant whose claim has been approved by the Claims Administrator and who otherwise is entitled to be paid from the proceeds of the \$100 Million Optional Contributions an amount equal to the present value of his Damage Award discounted at the rate of 12% per annum to reflect its early payment and the elimination of the uncertainty of payment. For example, a Claimant with a Damage Award of \$6,000 payable on August 7, 2001 who is offered an Early Payment on November 1, 1998 would be offered \$4,321; a Claimant with a \$6,000 claim payable on August 7, 2002 and offered Early Payment on November 1, 1998 would be offered \$3,834.

(c) The amount of the discount of the Early Payment will be calculated from the first day of June of the year in which the Damage Award otherwise would be payable under the

Settlement Agreement to the first day of the month in which the offer is made -- provided that such offers are mailed to Class Members no later than the 15th day of such month.

5. OFFERS OF EARLY PAYMENT TO BE PROMPTLY MADE

L-P's offers of Early Payment to Claimants who otherwise would be paid from the proceeds of the Remaining \$80 Million and the \$100 million Optional Contributions will be communicated by the Claims Administrator to the relevant Claimants as soon as practicable following the execution of this Supplemental Agreement.

6. TRANSMITTAL TO RECIPIENTS OF OFFER OF EARLY PAYMENT

(a) The Claims Administrator shall transmit an offer of Early Payment to each Claimant entitled to receive one under paragraph 3 or 4, above. The transmittal will explain the proposal and include a check in the amount of the Early Payment. In addition, the transmittal will advise each Claimant that he is under no obligation to accept the payment and that the Early Payment is offered in complete satisfaction of the Claimant's Damage Award and the claim on which it is based.

(b) Each Claimant will have sixty (60) days from the date of the transmittal to cash the check, unless the period is extended by L-P in its sole discretion. If the Claimant fails to cash the check within such sixty (60) day period (or if extended by L-P, such extended period), he will be deemed to have rejected the offer.

(c) A Claimant's failure to cash the check shall not affect his rights and obligations under the Settlement Agreement, all of which remain in full force and effect.

7. CREDIT FOR EARLY PAYMENT

To take into account their early payment, all payments made to Claimants pursuant to paragraphs 3 and 4, above, will be credited against L-P's mandatory and optional payment obligations under paragraphs 4.3, 4.7, and 4.8 of the Settlement Agreement. The credit shall be equal to the aggregate face amount of the claims to which such payments relate. For example, if Claimants who hold \$25 million of claims that otherwise would be paid from the next mandatory

contribution due June 7, 1999 accept the offer of early payment, the mandatory contribution due on that date will be \$5 million. Similarly, if Claimants who hold \$35 million of claims that otherwise would be paid from the proceeds of the first optional \$50 million contribution accept the offer of early payment, the optional payment due in 2001 will be \$15 million.

8. CREATION OF \$125 MILLION SECOND SETTLEMENT FUND

L-P will create a separate account within the existing Settlement Fund (the "Second Settlement Fund"), which will be capitalized at \$125 million. The cash funding for the Second Settlement Fund will be provided no later than ten (10) business days following the expiration of the Right of Withdrawal Period (Paragraph 17, below) with the right not having been exercised. The Second Settlement Fund will be open to receive claims as soon as practicable following the execution of this Supplemental Agreement and will remain open until December 31, 1999. The Second Settlement Fund is created as a source of payment for all approved claims filed prior to December 31, 1999 that are in excess of the first \$375 million of claims.

9. ELIGIBLE CLAIMS

Claims that may be filed with the Second Settlement Fund ("Eligible Claims") are: (a) claims for subsequent damage or for the benefit of the "65% Rule;" (b) claims that previously have been approved but remain unpaid (other than a claim that is the subject of an offer of Early Payment); and (c) approved claims filed prior to the close of the Second Settlement Fund.

10. ELECTION TO PARTICIPATE

The Claims Administrator will notify in writing each Claimant who has filed an Eligible Claim of L-P's offer to establish the Second Settlement Fund and describe its terms. Each such Claimant will have sixty (60) days from the date of the notice to return to the Claims Administrator an Election to Participate form evidencing his desire to participate in the Second Settlement Fund. Only Claimants who timely return the Election to Participate form to the Claims Administrator will be allowed to participate in the Second Settlement Fund.

11. PROMPT INSPECTION; CALCULATION OF DAMAGE AWARD

The claim of each Claimant that is approved by the Claims Administrator will be promptly inspected by the Independent Adjuster in accordance with the protocol adopted under the Settlement Agreement. Thereafter, the Claims Administrator will calculate the applicable damage award, if any, based upon the results of the inspection of the Independent Adjuster (the "Damage Award").

12. CALCULATION OF PRO RATA SHARE

As soon as practicable following the close of the Second Settlement Fund, the Claims Administrator will calculate the pro rata share of each Claimant who has filed an Eligible Claim and who timely files an Election to Participate form in accordance with the formula $S = D(\$125 \text{ million}/A)$, where S is the Claimant's pro rata share of the Second Settlement Fund; D is the amount of the Claimant's Damage Award, and A is the aggregate amount of all claims filed against the Second Settlement Fund (the "Pro Rata Share").

13. ADVICE TO PARTICIPANTS IN SECOND SETTLEMENT FUND

As soon as the Pro Rata Share of the participants in the Second Settlement Fund has been calculated by the Claims Administrator, each participant will be advised in writing: (a) of the amount of his damage as shown in the Calculation Worksheet; (b) of the amount of his Pro Rata Share of the Second Settlement Fund (not to exceed the amount of his Damage Award); (c) that the Pro Rata Share is offered to him in complete satisfaction of his claim for damage as described in the Calculation Worksheet; (d) that recipients of distributions from the Second Settlement Fund may not file additional damage claims with the Claims Administrator during the remaining term of the Settlement; and (e) that there is no right to arbitrate the amount of the pro rata distribution.

14. BACK END OPT-OUT RIGHT

If the Claimant is dissatisfied with the amount of his Pro Rata Share, he may reject it by providing written notice to the Claims Administrator postmarked no later than thirty (30) days from the date of such written notification (the "Back End Opt-Out Right"). Unless the Claimant

exercises his Back End Opt-Out Right by providing timely written notice to the Claims Administrator, he conclusively will be deemed to have accepted his Pro Rata Share in full and complete satisfaction of the damage claim described in the Calculation Worksheet.

15. PAYMENT OF PRO RATA SHARE

Payment of the Pro Rata Share of each participant in the Second Settlement Fund who fails timely to exercise his Back End Opt-Out Right will be mailed to him as soon as practicable following the expiration of the Right of Withdrawal Period (Paragraph 17, below) with the right not having been exercised.

16. WRITTEN NOTICE TO L-P

The Claims Administrator will provide L-P with prompt written notice (no less often than biweekly) of the number of Claimants with Eligible Claims who have exercised their Opt-In Rights, of the number who have not, and of the aggregate amount of their claims. In addition, within ten (10) business days after the expiration of the period for the exercise of Back End Opt-Out Rights, the Claims Administrator will advise L-P in writing of the number of Claimants who timely exercised their Back End Opt-Out Rights and of the aggregate amount of their claims.

17. L-P'S RIGHT OF WITHDRAWAL

If, in its sole discretion, L-P believes that the number of Claimants who elect not to participate in the Second Settlement Fund (whether by not opting-in or by opting out) is excessive, it may withdraw its offer to establish the Second Settlement fund (the "Right of Withdrawal"). The Right of Withdrawal must be exercised by providing written notice to the Claims Administrator postmarked within ten (10) business days following receipt of advice from the Claims Administrator as to the number of Claimants exercising their Back End Opt-Out Rights (the "Right of Withdrawal Period"). If L-P timely exercises its Right of Withdrawal, its offer to establish the Second Settlement Fund is null and void, and thereafter the rights and obligations of L-P and all Class Members shall be governed exclusively by the terms of the

Settlement Agreement, except to the extent those rights and obligations were modified pursuant to a claimant's acceptance of any offer of Early Payment.

18. REVIVAL OF CLAIMS; MAINTENANCE INSTRUCTIONS

All Claimants also will be advised that pursuant to the terms of the Settlement Agreement if there are unpaid claims at the end of the settlement term, L-P must pay them; or, if it does not, each unpaid Claimant will be free after that date to pursue whatever legal remedies are available, subject to any legal defenses L-P may have, including the defense that a Claimant has failed properly to maintain his siding. In this regard, each Claimant will be provided with a copy of L-P's written maintenance instructions, which would be the basis for any maintenance defense if not followed.

19. PERSONAL AND PUBLISHED NOTICE

The substance of this Supplemental Agreement will be communicated personally in a direct mailing to each Claimant who files an Eligible Claim or who is entitled to receive an offer of Early Payment. In addition, notice of the offer may be included in the published third year notice that must be provided under the Settlement Agreement and in such other publications and in such other manner as the Parties jointly may agree.

20. TAX STATUS OF SECOND SETTLEMENT FUND

The Second Settlement Fund will be established and maintained as a separate account within the existing Qualified Settlement Fund ("QSF") in accordance with Section 468B of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder. The Claims Administrator is appointed to act as administrator of the fund within the meaning of Treas. Reg. Sec. 1-468B-2(k)(3). As the Administrator, the Claims Administrator shall comply with all applicable duties and obligations under IRC sec. 468B and any relevant implementing regulations.

21. REPRESENTATIONS AND WARRANTIES

L-P represents and warrants that: (a) it has all requisite corporate power and authority to execute, deliver, and perform this agreement and to consummate the transactions contemplated

hereby; (b) the execution, delivery, and performance of this Supplemental Agreement have been duly authorized by all necessary corporation action; and (c) this agreement has been validly executed by L-P and constitutes its legal, valid, and binding obligation.

22. INTEREST ON EARLY PAYMENT FUNDING AND SECOND SETTLEMENT FUND

All interest earned on the funds advanced by L-P to fund the Early Payment offers and all interest earned on the funds advanced by L-P to fund the Second Settlement Fund shall be applied as a full credit toward any remaining mandatory or optional contributions from L-P under the Settlement Agreement.

23. MISCELLANEOUS PROVISIONS

a. No term or provision of this Supplemental Agreement shall alter or amend any term or provision of the Settlement Agreement, no hearing on the Supplemental Agreement is required under Rule 23, Fed. R. Civ. P., and all of terms and provisions of the Settlement Agreement remain in full force and effect to the same extent as though this Supplemental Agreement had never been executed.

b. The Court, acting through the Special Master, shall oversee the implementation, administration, and performance of this Supplemental Agreement to assure that none of its provisions alter or affect the terms of the Settlement Agreement. The Special Master also shall resolve any dispute that may arise under this Supplemental Agreement which bears on any term or condition of the Settlement Agreement or involves the construction or meaning of any provision of the Settlement Agreement.

c. This Supplemental Agreement may not be modified or amended except in a writing signed by all the Parties.

d. This Supplemental Agreement shall be governed and construed in accordance with the laws of the State of Oregon, applied without regard to its laws applicable to choice of law.

e. The headings of the sections of this Supplemental Agreement are included for convenience only and shall not be deemed to constitute part of this agreement or to affect its construction.

f. This Supplemental Agreement may be executed in any number of counterparts, all of which when taken together shall constitute one agreement.

g. Any additional administrative costs incurred by the Claims Administrator or Independent Adjuster in the performance of the acts contemplated by this Supplemental Agreement, as well as the cost of providing published notice of its terms, shall be borne by L-P.

h. Any notice provided in connection with this Supplemental Agreement or other document to be provided by one Party to the other shall be in writing and delivered personally or sent by registered or certified mail, postage prepaid: if to L-P, to the attention of L-P's respective representatives; and to Plaintiffs' Class Counsel on behalf of Settlement Class members. As of the date of this Supplemental Agreement, the respective representatives are as set forth below.

Dated and effective as of October 26, 1998.

LOUISIANA-PACIFIC CORPORATION

By:/s/ Gary C. Wilkerson

Gary C. Wilkerson
Vice President and General Counsel
LOUISIANA-PACIFIC CORPORATION
111 S.W. Fifth Avenue, Suite 4200
Portland, OR 97204

By:/s/ Michael H. Simon

Michael H. Simon
PERKINS COIE LLP
1211 S. W. Fifth Avenue, Suite 1500
Portland, Oregon 97204

Counsel for Louisiana-Pacific Corp.

CLASS COUNSEL

By:/s/ Christopher I. Brain

Christopher I. Brain
TOUSLEY BRAIN 700
Fifth Avenue, 56th Floor
AT&T Gateway Tower
Seattle, WA 98104-5056

By:/s/ Clyde Platt

Steve W. Berman
Clyde Platt
HAGENS & BERMAN
1301 Fifth Avenue, Suite 2929
Seattle, WA 98101

By:/s/ Jeremy R. Larson

Charles Nomellini
Jeremy R. Larson
FOSTER PEPPER & SHEFELMAN
1111 Third Avenue, Suite 3400
Seattle, WA 98101

By:/s/ Jonathan D. Selbin

Elizabeth Cabraser
Jonathan D. Selbin
LIEFF, CABRASER, HEIMANN
& BERNSTEIN LLP
Embarcadero Center West
275 Battery Street, 30th Floor
San Francisco, CA 94111-3339

By:/s/ A. Hoyt Rowell, III

A. Hoyt Rowell, III
NESS, MOTLEY, LOADBOLT,
RICHARDSON & POOLE
174 East Bay Street, Suite 100
Charleston, S.C. 29041

By:/s/ William H. Garvin, III

William H. Garvin, III
WELLER, GREEN, MCGOWN & TOUPS
2937 Kerry Forrest Parkway, Suite A-2
Tallahassee, FL 32308

PAGE 12 - SUPPLEMENTAL FUNDING AGREEMENT

PERKINS COIE LLP
1211 S.W. Fifth Avenue, Suite 1500
Portland, Oregon 97204
(503) 727-2000

This schedule contains summary financial information extracted from Consolidated Summary Financial Statements and Notes included in this Form 10-Q and is qualified in its entirety by reference to such financial statements.

	1,000
	9-MOS
	DEC-31-1998
	SEP-30-1998
	JAN-01-1998
	52,800
	169,900
	165,200
	0
	221,300
	759,800
	2,124,900
	(1,190,900)
	2,706,700
496,700	
	475,300
0	
	0
	117,000
	1,136,200
2,706,700	
	1,777,800
1,777,800	
	1,430,600
	1,770,100
	0
	0
	15,300
	(7,600)
	9,300
(13,900)	
	0
	0
	0
	(13,900)
	(.13)
	(.13)