

John Tumazos Very Independent Research, LLC

October 30, 2007 @ 10 pm

11 Yellow Brook Road, Holmdel, NJ 07733

732 444 1083 or 732 740 3574 (cellular)

[john@veryindependentresearch.com](mailto:john@veryindependentresearch.com) or

[johntumazos@comcast.net](mailto:johntumazos@comcast.net) or [tumazos@monmouth.com](mailto:tumazos@monmouth.com)

## **Registration Effective August 27<sup>th</sup> and Now Operational**

LOUISIANA-PACIFIC (LPX \$16.46, rated Neutral) PROSPECTS FOR SMALLER LOSSES AND LESSER CASH OUTFLOWS COULD PERMIT BULL TRADE FROM FOURTH QUARTER SEASONAL LOW TO MAY/SPRING SEASONAL HIGH

	2007E	2008E	2009E	2010E
Earnings per share revised	\$(1.42)	\$0.09	\$0.47	\$1.09
Prior estimate last 9/16/07	\$(1.51)	\$(1.03)	\$0.04	\$0.64

- We are raising our investment rating to Neutral from Underweight because the shares have fallen to our \$15 per share price target. We can not yet “see a visible track” to sustained profits in 2008 or 2009, but several developments are encouraging.
- First, OSB selling prices have risen in recent weeks and are likely to exceed our \$152 per 000 sq ft estimate for the fourth-quarter. Second, LPX’s third-quarter unit costs rose just \$3 or much less than the \$16 per 000 sq ft increase we had expected, giving evidence to impressive cost controls as the C\$, energy and idle facilities penalize it. Third, LPX has withdrawn capacity, plans no more new plants and will take particularly severe steps to reduce output in the current quarter with 180-190 mill down days after idling full plants in Silsbee, TX and St. Michel, Quebec. Fourth, the second Chilean OSB plant, the Maine “long strand” OSL plant and the substitution of larger new OSB machines for higher cost ones each should be incremental to future returns.
- We compare LPX to a diver that appears likely to rise from 100 feet to 20 feet below the surface. The company is not about to take a deep breath, but trends are improving. We recall a December 1982 to March 1983 trade in Inland Steel (now part of Mittal Steel) from \$21 to \$35 as the steel industry operating rate rebounded from 29.8% towards 70%. Steelmakers lost money for five straight years, but the stock rallied. It is possible that LPX enjoys some rebounds, or at least the odds of an upturn improved enough in our judgment to warrant an upgrade to Neutral Weight.
- Third-quarter operating results were much closer to breakeven than it looked as the Quebec OSB writedown cost \$0.28, the decking divestiture \$0.13 and foreign exchange losses \$0.08 per share. The exchange losses may continue as the \$C has kept rising and the US \$ falling. Depending on the interpretation of the foreign currency loss and a 43.8% negative tax rate, LPX could be said to have lost \$0.16 or \$0.24 per share from operating in the Sept. 2007 quarter or less than our \$0.32 estimate as unit costs were lower than we had estimated.
- An alternative generous interpretation is that investment interest income, siding and engineered wood contributed as much EBIT as OSB lost, and LPX’s pretax loss involved writedowns, currency charges, SG&A and interest expense. We are trying to be a touch “cheerful” in the context of “gallows psychology” in the housing market and OSB in particular.
- The third-quarter loss of \$0.65 exceeded our \$0.32 estimate because of \$0.41 in writedowns and the \$0.08 Canadian currency charge, but the operating results were much better than we expected

because unit costs rose just \$3 to \$173.52 and not to the \$186.07 per 000 sq ft that we had estimated..

- It is possible that 2008 quarterly results involve either small profits or small losses, depending on minor OSB price, cost, productivity and volume developments. We raised our 2007 earnings estimate from a loss of \$1.51 to a loss of \$1.42 to reflect the higher OSB Prices and raised our fourth-quarter and 2008 estimates from a loss of \$0.52 to a loss of \$0.21 and from a loss of \$1.03 to a profit of \$0.09. Our estimates of \$195 first-half 2008 and \$180 second-half 2008 OSB prices yield quarterly estimates of a \$0.37 per share first-quarter profit, \$0.27 second-quarter profit, \$0.36 third-quarter loss and \$0.18 per share fourth-quarter loss.

#### IMPLIED BREAKEVEN POINT NEAR \$173

LPX's OSB unit costs rose from \$170.37 in the June quarter to \$173.52 in the third-quarter, which is LESS than the implied effect of the Canadian dollar appreciation or higher direct and indirect energy costs. We had estimated a \$186.07 third-quarter unit cost based on C\$, higher energy, lower volume and litigation reserves.

Volumes fell from 1,458 mm sq ft in June to 1,394 mm sq ft in September, which were roughly in line with our 1,400 mm sq ft estimate. We continue to expect a sharp drop in December at least to the 1,250 sq ft we had estimated or perhaps a little worse given poor recent permits data and inventory cuts at year-end.

It is possible that LPX took no reserves for the OSB antitrust cases, and it could have enjoyed some minor reversals of prior legal reserves for exterior hardboard siding class actions as credits to income. We have no reason to think that environmental or any other type of reserve has had any particular impact on quarterly costs of goods sold in 2006 or 2007.

More significant, LPX's discretionary cost controls appear to be having some beneficial impacts. It is shifting production to its more efficient plants and de-emphasizing its highest cost eastern Canadian locations that suffer a "triple whammy" of strong C\$, high freight into the U.S. and generally very expensive Quebec pulp log or incoming wood chip costs. We attribute \$5 to \$10 per 000 sq ft of the third-quarter results, which translates into \$7 to \$14 mm before taxes, to such measures, which translates into about \$0.04 to \$0.08 per share in loss reduction.

**Table 1: Quarterly OSB Segment EBITDA Breakeven, % Margin and Dynamics**

	osb sales	osb ebit	osb depn	osb ebitda	osb ebitda margin	mm sq ft	price/sf	ebitda/sf	implied cost/sf	sequential change in sq ft	sequential change in cost	yr/yr change in sq ft	yr/yr change in cost
1q05	416.2	171.3	21.9	193.2	46.4%	1551	268.34	124.58	<b>143.76</b>				
2q05	403.9	147	21.9	168.9	41.8%	1607	251.34	105.12	<b>146.22</b>	3.6%	2.46		
3q05	353	98.6	21.9	120.5	34.1%	1399	252.32	86.15	<b>166.17</b>	-12.9%	19.95		
4q05	387.4	111.9	21.9	133.8	34.5%	1354	286.12	98.84	<b>187.28</b>	-3.2%	21.11		
1q06	397.7	110.9	19.5	130.4	32.8%	1493	266.38	87.34	<b>179.04</b>	10.3%	-8.24	-3.7%	24.5%
2q06	354.6	62.4	19.5	81.9	23.1%	1542	229.96	53.11	<b>176.85</b>	3.3%	-2.19	-4.0%	20.9%
3q06	275.7	-9.3	19.5	10.2	3.7%	1487	185.41	6.86	<b>178.55</b>	-3.6%	1.70	6.3%	7.4%
4q06	184.2	-54.5	19.5	-35	-19.0%	1222	150.74	-28.64	<b>179.38</b>	-17.8%	0.83	-9.7%	-4.2%
1q07	188.9	-64.5	19.5	-45	-23.8%	1350	139.93	-33.33	<b>173.26</b>	10.5%	-6.12	-9.6%	-3.2%
2q07	223.3	-44.6	19.5	-25.1	-11.2%	1458	153.16	-17.22	<b>170.37</b>	8.0%	-2.89	-5.4%	-3.7%
3q07	228	-31.7	19.5	-12.2	-5.4%	1384	164.74	-8.82	<b>173.55</b>	-5.1%	3.18	-6.9%	-2.8%
4q07E	212.4	-21	19.5	-1.5	-0.7%	1200	177.00	-1.25	<b>178.25</b>	-13.3%	4.70	-1.8%	-0.6%
1q08E	263.3	10	19.5	29.5	11.2%	1350	195.00	21.85	<b>173.15</b>	12.5%	-5.10	0.0%	-0.1%
2q08E	284.3	12	19.5	31.5	11.1%	1458	195.00	21.60	<b>173.40</b>	8.0%	0.25	0.0%	1.8%
3q08E	249.1	-10	19.5	9.5	3.8%	1384	180.00	6.86	<b>173.14</b>	-5.1%	-0.26	0.0%	-0.2%
4q08E	216	-17	19.5	2.5	1.2%	1200	180.00	2.08	<b>177.92</b>	-13.3%	4.78	0.0%	-0.2%

Assumes contractual pricing a 30 day lag behind Random Lengths.

Company reports 3/8" basis and we monitor Random Lengths 7/16" north central

Source: LP; JT Very Independent Research, LLC estimates

#### ESTIMATE PEAK FOURTH-QUARTER COSTS DUE TO DOWNTIME

We estimate 4<sup>th</sup> qtr output at 1.2 billion square feet of OSB. This will be down 184 mm square feet compared to the third quarter of 2007. Assuming that the average cost of this downtime is \$25-34 per thousand square feet we estimate the total downtime cost to be between \$4.6 mm and \$6.256 mm. This results in a \$3.83 to \$5.21 cost increase. For our estimate we used the average of these two scenarios.

#### EARNINGS CONTRIBUTORS OUTSIDE OF MONTHLY PRICE, COST AND VOLUME FLUCTUATIONS

Four significant factors will benefit 2008 results. These include the contribution of second Chilean OSB mill for Asian export, the contribution of Holden, Maine "long strand" OSL mill, savings from cutting wood license fees, staff or other costs related to St. Michel, Quebec and savings from Silsbee, TX after August 22, 2007 idling "goes off severance" sometime after April 2008 (2 month WARN notice and 6 months severance). It is possible that our earnings model does not give enough effect to these improvements.

Other discretionary items such as hiring freezes, no profit-sharing bonuses, etc. could be contributing increasing cost controls as they are implemented. We believe the company is very sincere about wanting to avoid a dividend cut.

The combination of siding segment, engineered wood, "other (includes 2 Chile plants) and interest income (rates and dollar balances falling) suggests at least \$25 mm of profit contributions toward overheads from outside of the OSB segment.

<b>TABLE 2 : LPX EARNINGS MODEL (\$ MIL.</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>3Q 2007</b>	<b>4Q 2007</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
OSB - North America	1,749.0	1,560.4	1,212.2	228.0	212.4	852.6	1,012.7	1,167.8	1,310.2	1,363.2	1,418.2	1,475.5
Composite Wood Products/Siding	554.1	453.5	493.4	122.2	80.8	438.1	407.4	427.8	449.2	471.7	495.3	520.0
Engineered Wood Products	394.7	431.4	392.0	92.5	75.0	333.4	310.1	325.6	341.8	358.9	376.9	395.7
Other (includes timberlands before sale)	151.6	153.5	137.5	29.8	20.0	103.8	96.5	103.3	110.5	118.3	126.5	135.4
<b>Net revenues</b>	<b>2,849.4</b>	<b>2,598.8</b>	<b>2,235.1</b>	<b>472.5</b>	<b>388.2</b>	<b>1,727.9</b>	<b>1,826.7</b>	<b>2,024.4</b>	<b>2,211.8</b>	<b>2,312.0</b>	<b>2,416.9</b>	<b>2,526.7</b>
<b>OSB as % of Net Revenues</b>	<b>61.4%</b>	<b>60.0%</b>	<b>54.2%</b>	<b>48.3%</b>	<b>54.7%</b>	<b>49.3%</b>	<b>55.4%</b>	<b>57.7%</b>	<b>59.2%</b>	<b>59.0%</b>	<b>58.7%</b>	<b>58.4%</b>
OSB - North America	829.7	528.4	109.6	(31.7)	(21.0)	(161.8)	(5.0)	73.9	159.2	177.4	196.7	217.1
Composite Wood Products/Siding	54.2	45.2	67.1	11.3	7.0	44.9	44.9	49.9	54.9	59.9	64.9	69.9
Engineered Wood Products/Lumber	7.2	34.1	33.3	3.3	(3.0)	10.6	10.6	20.0	25.0	25.0	30.0	45.0
Other (includes timberlands before sale)	14.7	13.1	(5.4)	(3.5)	(2.0)	(8.3)	(8.3)	0.0	2.0	2.0	2.0	2.0
Corporate and other	(192.6)	(89.3)	(95.4)	(21.5)	(25.0)	(89.9)	(89.9)	(97.0)	(97.0)	(97.0)	(97.0)	(97.0)
<b>Operating Income</b>	<b>713.2</b>	<b>531.5</b>	<b>109.2</b>	<b>(42.1)</b>	<b>(44.0)</b>	<b>(204.5)</b>	<b>(47.7)</b>	<b>46.8</b>	<b>144.1</b>	<b>167.3</b>	<b>196.6</b>	<b>237.0</b>
Cost of goods sold	1,824.9	1,783.2	1,826.8	446.6	364.1	1,652.0	1,640.6	1,705.5	1,791.6	1,864.6	1,936.2	2,001.6
Depreciation and amortization	145.1	132.7	128.0	27.2	27.0	110.9	110.9	109.9	108.9	107.9	106.9	105.9
Cost of timber harvested												
Selling and administrative	166.2	151.3	166.8	36.7	41.1	157.2	157.2	162.2	167.2	172.2	177.2	182.2
Other operating credits and charges		9.7		(47.7)		(34.3)	(34.3)					
Interest expense	(65.3)	(39.1)	(49.4)	(7.7)	(10.5)	(38.2)	(38.2)	(43.9)	(43.9)	(43.9)	(43.9)	(43.9)
Interest income	45.6	55.8	95.7	20.4	20.5	84.7	84.7	70.0	70.0	70.0	70.0	70.0
Foreign exchange gains (losses)	9.7	(1.4)	(2.5)	(15.0)	2.0	(28.5)	(28.5)					
Pretax income	703.2	546.8	153.0	(92.1)	(32.0)	(220.8)	(64.0)	73.0	170.3	193.4	222.7	263.1
Tax rate	39.8%	31.1%	15.8%	-40.7%	33.0%	49.8%	171.9%	33.0%	33.0%	33.0%	33.0%	33.0%
Taxes	(280)	(169.9)	(24)	38	11	110	110	(24)	(56)	(64)	(73)	(87)
Minority interest						8	8					
Equity income		(1)	4	4								
Pre-tax income from discontinued operations	(5)	(32.2)	(3)	(21)								
Taxes on discontinued operations	2	11.5	1	8								
Income from discontinued operations	(3)	(20.7)	(2)	(13)	0	0	0	0	0	0	0	0
Net income	421	376.9	127	(68)	(21)	(152)	10	49	114	130	149	176
Extraordinary or one-time items						3	0					
Net income	421	376.9	127	(67.8)	(21.4)	(148)	10	49	114	130	149	176
Basic shares out	108.3	109.1	105.1	104.0	104.0	104.1	104.0	104.0	104.0	104.0	104.0	104.0
FD shares out	109.6	109.7	105.5	104.3	104.3	104.3	104.3	104.3	104.3	104.3	104.3	104.3
<b>EPS - FD from continuing ops</b>	<b>\$3.84</b>	<b>\$3.43</b>	<b>\$1.20</b>	<b>(\$0.65)</b>	<b>(\$0.21)</b>	<b>(\$1.42)</b>	<b>\$0.09</b>	<b>\$0.47</b>	<b>\$1.09</b>	<b>\$1.24</b>	<b>\$1.43</b>	<b>\$1.69</b>
Dividends per share	\$0.40	\$0.60	\$0.60			\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60
Cash flow per FD share	\$9.17	\$39.32	\$48.69	(\$0.40)	(\$0.54)	\$0.20	\$1.11	\$1.58	\$2.27	\$2.43	\$2.63	\$2.91
Book value per FD share	\$16.13	\$18.62	\$19.60			\$17.80	\$17.30	\$17.17	\$17.66	\$18.31	\$19.14	\$20.23
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>3Q 2007</b>	<b>4Q 2007</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>
OSB Volume (mm sf 3/8" basis)	5,489	5,533	5,769	1,384	1,200	5,392	5,392	5,581	5,692	5,806	5,922	6,041
Wood-based siding (mm sf 3/8" basis)	1,033	963	953	176	190	855	760	771	783	795	807	819
Engineered I-joist (mm lineal feet)	89	166	149	34	21	126	84	85	87	88	89	90
Laminated veneer lumber (LVL,000 cubic ft)	11,860	11,184	9,467	1,985	1,985	8,300	8,300	8,591	8,891	9,202	9,524	9,858
OSB Price (\$ per 000 sf 7/16" basis)	370	320	220	166	177	162	188	225	248	252	257	263
Industrial particleboard	373		250			230	230	251	251	251	251	251
OSB Price Realization	319	282	212	165	177	159	188	209	230	235	239	244
OSB EBIT Total Cost (000 sf 3/8" incl depn)	167	187	195	188	190	193	193	196	202	204	206	208

**TABLE 3: ESTIMATED SOURCES AND USES**

Sources	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Net income	421	377	124	(148)	10	49	114	130	149	176
Depreciation	145	135	128	111	111	110	109	108	107	106
Unusual credits and charges, net	(5)	24	11	25						
Deferred tax	141		(29)	0	(28)	6	14	16	18	22
Asset sales	303	3,778	4,903	25	15					
Equity income, net dividends										
Minority interest	0	0	0	8	8	0	0	0	0	0
Common stock	41	(139)	6							
Debt		199	3	30						
Other	19	7	(2)							
<b>Total Sources</b>	<b>1,065</b>	<b>4,382</b>	<b>5,144</b>	<b>50</b>	<b>116</b>	<b>165</b>	<b>237</b>	<b>253</b>	<b>274</b>	<b>304</b>
<b>Uses</b>										
Capital expenditures	148	174	237	240	125	125	125	151	152	153
Acquisitions, investments	651	3,898	5,001	25						
Stock repurchases	4		41							
Purchase of minority interest										
Dividends	33	52	63	62	62	62	62	62	62	62
Cash settlements of contingencies										
Debt repayment	266	178	186							
Preferred redemptions										
Change in non-cash w/c	64	96	(43)							
Change in cash	(100)	(16)	(342)	(277)	(71)	(23)	50	40	60	88
<b>Total Uses</b>	<b>1,065</b>	<b>4,382</b>	<b>5,144</b>	<b>50</b>	<b>116</b>	<b>165</b>	<b>237</b>	<b>253</b>	<b>274</b>	<b>304</b>

**TABLE 4: BALANCE SHEET**

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Cash and equivalents	1,153	1,325	1,063	786	715	692	742	782	842	930
Receivables	186	147	157	86	91	101	111	116	121	126
Inventories	216	240	246	156	164	182	199	208	218	227
Other current assets	50	80	38	85	85	85	85	85	85	85
<b>Total current assets</b>	<b>1,604</b>	<b>1,792</b>	<b>1,504</b>	<b>1,113</b>	<b>1,055</b>	<b>1,060</b>	<b>1,136</b>	<b>1,190</b>	<b>1,265</b>	<b>1,369</b>
Property, plant, equipment	1,804	1,850	2,046	2,261	2,371	2,496	2,621	2,772	2,924	3,077
Accumulated depreciation	(1,028)	(1,066)	(1,154)	(1,265)	(1,376)	(1,486)	(1,594)	(1,702)	(1,809)	(1,915)
Net PP&E	776	784	892	996	995	1,010	1,026	1,069	1,114	1,161
Timber and timberlands	92	98	99	99	99	99	99	99	99	99
Goodwill	277	274	274	274	274	274	274	274	274	274
Notes receivable from asset sales	404	333	333	333	333	333	333	334	335	336
Other assets	299	318	336	336	336	336	336	336	336	336
<b>Total assets</b>	<b>3,451</b>	<b>3,599</b>	<b>3,436</b>	<b>3,149</b>	<b>3,091</b>	<b>3,111</b>	<b>3,203</b>	<b>3,301</b>	<b>3,422</b>	<b>3,574</b>
Short-term debt	178	89	0	0	0	0	0	0	0	0
Current portion of contingency reserve	12	12	9	9	9	9	9	9	9	9
Accounts payable and other current	250	246	256	141	155	183	209	224	240	256
<b>Total current liabilities</b>	<b>440</b>	<b>346</b>	<b>265</b>	<b>150</b>	<b>164</b>	<b>192</b>	<b>218</b>	<b>233</b>	<b>249</b>	<b>265</b>
Long-term debt	226	408	318	348	348	348	348	348	348	348
Limited recourse notes payable	397	327	327	327	327	327	327	327	327	327
Deferred income taxes	518	377	364	364	336	342	356	372	391	413
Contingency reserves	42	31	26	26	26	26	26	26	26	26
Other long-term liab and minority interest	61	66	70	78	86	86	86	86	86	86
Liabilities transferred under contractual arran	0	0	0	0	0	0	0	0	0	0
Shareholders' equity	1,768	2,043	2,067	1,857	1,804	1,790	1,842	1,909	1,996	2,110
<b>Total liabilities and equity</b>	<b>3,451</b>	<b>3,598</b>	<b>3,436</b>	<b>3,149</b>	<b>3,091</b>	<b>3,111</b>	<b>3,203</b>	<b>3,301</b>	<b>3,422</b>	<b>3,574</b>

Receivables/sales	6.5%	5.6%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Inventories/sales	7.6%	9.2%	9.5%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
AP & other/sales	8.8%	9.4%	11.4%	8.2%	8.5%	9.0%	9.4%	9.7%	9.9%	10.1%

Source: Company reports, T Very Independent Research, LLC estimates.

VOLUMES AND PRICES OF ALL PRODUCT LINES COMPARE VERY WELL TO NATIONAL HOUSING AND REMODELLING MARKETS WITH NO WORSE THAN 10% DETERIORATIONS AND SOME POSITIVE CHANGES, SUGGESTING THAT SOME COMPETITORS LOSE THE ORDER RATHER THAN LPX

OSB and smart side volumes are down 9% and 17% respectively while hardboard, I-Joist, and LVL volumes are up 3%, 2% and 7% respectively compared to third quarter 2006, OSB, I-Joist and LVL prices are down only 4%, 9%, and 11% respectively while hardboard and smart side prices are up 2% and 4% respectively compared to third quarter of 2006. This is encouraging considering the housing market is down a significant amount compared to last year and continued to do even worse in the third quarter of 2007.

#### SELLING PRICES INCHING UP, WHICH RAISES THE POSSIBILITY OF A PROFIT IN THE MARCH 2008 QUARTER

Third quarter sale price rose 12% to \$165 from \$153 in the second quarter of 2007. If prices continue to rise slightly LPX may be able to turn a profit in the seasonal spring high of 2008.

Question: How much do selling prices, unit volume and implied costs need to be to generate a profit in March 2008

Assuming that LPX's EBITDA cost stays somewhat constant and their volume is approximately 1.4 billion square feet then they would need the OSB price to rise to \$195 per thousand square feet to begin to turn a profit for the entire company. The OSB segment would then have an EBIT of \$11 mm.

#### BUILDING BLOCKS TO TURN AROUND

For LPX to make a proper turn around with their EBITDA margin they will need to rationalize their plants. They need to organize their plants to maximize output while minimizing costs. One significant change needed is to shift output from Canada to the US to offset the decreasing value of the US dollar. Also LPX needs to focus their output to come from their newer plants rather than older less efficient ones.

#### CONTINUING SETBACKS

With the C\$ at US\$1.03 LPX is faced with higher costs for their Canadian productions. Also, crude oil at over \$90 a barrel results in higher costs for LPX. It does not appear as though crude oil prices will trend in the southern direction anytime soon. A third issue for LPX is competitive response. As LPX attempts to recover and reorganize it's plant usage competitors can also do similar things and can also find ways to take some of LPX's customers in areas where LPX reduces plant capacity. There is a tendency by some companies to buy local so the risk inherent from closing a plant or lowering it's production is that LPX could lose local business.

#### EXPECTED EBITDA COST AND MARGIN VERSUS ACTUAL

Our estimates for EBITDA cost and margin were \$186.07 and -13.3% compared to the actual of \$173.55 and -8.4% respectively. This is encouraging as it shows that LPX is making small improvements in their cost structure. This is a good sign for the future and gives hope to further cost reductions.

#### DIVIDEND CONTINUATION

LPX continues to pay its dividend even though it is losing money each quarter. This is resulting in a reduction in cash and equity in the business. Although at the moment LPX has the surplus equity to continue paying its dividend there is an issue of how long this can continue. Eventually the company will

run into a situation where they can no longer afford to pay the dividend, which we do not expect until 2010 or so.

This raises two important questions as to what will it take for LPX to begin making profit again? And two if they do not turn a profit soon at what point must they stop paying the dividend? The better than expected third-quarter 2007 cost and operating loss performance tend to reduce the severity of these issues, but the 2007 fourth-quarter downtime could create some adverse productivity issues to increase near term investor worries.

#### TARGET PRICE AND INVESTMENT VIEWPOINT

We raise our investment rating from Underweight to Neutral Weight (a) because the stock met our price target of \$15 and (b) cost controls and capital expenditure reductions suggest the sizes of losses should decline or that a remote chance of a profitable spring quarter exists. It appears the earnings trough is near its worst point, which was deeper and longer than we expected. Our price target of \$15 is near the 2008 to 2013 estimated book value per share.

Many building products including lumber and plywood should show price improvements when the housing market stabilizes or begins to rebound. For OSB, on the other hand, not only will we have to wait for housing to recover, but some capacity needs to be withdrawn to offset the supply that is in process of coming online over the next couple of years should keep OSB prices depressed further. It is not yet clear whether LPX's capacity withdrawals are large enough. Further, the rise in the C\$ to US \$1.04 has increased the marginal cost curve to increase OSB prices more than 20% from lows seen this past March.

#### RISKS

LPX is at risk of losing its large net cash position the longer the current difficult national housing market, OSB oversupply, strong C\$ and high energy cost environment continues. OSB prices currently have risen 20% from lows and are near but probably still below breakeven levels, as demand for housing starts weakens as new supply ramps up. The net cash balance LPX was wise or lucky enough to store in anticipation of the downturn could be reduced by the end of 2008. Currently trading just over book value, we would caution that book value could fall to \$15 or \$16 per share.

Further, cash balances may disappear as a source of investor comfort or risk minimization. It is possible that LPX finds a suitable acquisition target or business to develop on sufficiently cheap terms that it "cannot hold back." Thus, investors must be cognizant of the possibility that LPX uses more than \$0.5 billion in cash or more than \$0.5 billion in new debt to add another line of business to shift its debt-to-capital ratio above one-third.

#### CHANGE IN THIS RESEARCH OPERATION

This report reflects research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving Prudential Equities Group (PEG), which shut down on June 6, 2007 as noted. The continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar owing to the same primary author, but this coverage initiation

herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

## DISCLOSURES

“John Tumazos Very Independent Research, LLC” (JTVIR) is a Delaware Corporation with registration effective on August 27, 2007 as an investment advisor in the state of New Jersey owing to our place of business in New Jersey.

JTVIR is not a broker-dealer, and conducts no trades. Its primary business is to provide “unbundled” metals and paper industry securities and market research to institutions or corporations in a zero commission, electronic execution, electronic dissemination, unbundled format for a specified annual fee structure.

Our investment rating system for securities recommendations is Overweight, Neutral Weight or Underweight. Overweight or Underweight recommendations are estimated to vary from the relative performance of the S&P 500 by more than 10% annually, and the intended time horizon is up to 24 months. Our securities research is intended for institutional investors that might buy up to 10% of a given company, and as such focuses more towards longer-term dynamics impacting the net present value of future cash flows rather than “day trading” sorts of near-term issues.

Except for Polymet Mining and Canyon Resources, neither JTVIR, its members or its employees own or have a financial interest in any securities discussed in this report. Our policy is full disclosure. Our only financial interest in a stock we regularly cover is Polymet Mining shares bought in April 2007.

Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon

Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d'Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thyphin Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or "due diligenced" for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

#### **ANALYST UNIVERSE COVERAGE:**

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec is a company not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to a pending takeover by Sherritt International. Alcan, which Rio Tinto soon will acquire, also will be discontinued from coverage. Bowater, which will merge with Abitibi-Consolidated, also will be dropped after the merger completion.

Subsequently, since September 2007 JTVIR, LLC has initiated coverage of new companies not previously covered in the former universe. These new companies include General Moly, Inc., Duluth Metals, Polymet Mining, Franconia Minerals, CVRD and Century Aluminum.

In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of "Overweight," "Neutral Weight," and "Underweight" most closely correspond with the more traditional ratings of "Buy," "Hold," and "Sell," respectively; however, please note that their meanings are not the same. (See the definitions above.) We believe that an investor's decision to buy or sell a security should always take into account, among other things, that the investor's particular investment objectives and experience, risk tolerance, and financial circumstances. Rather than being based on an expected deviation from a given benchmark (as buy, hold and sell recommendations often are), our stock ratings are determined on a relative basis (see the foregoing definitions).

There is no intention to "balance" the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a "bottoms up" manner based on the assets of each individual company.

#### **Price Target – Methods/Risks**

The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

**© pending John Tumazos Very Independent Research, LLC, 2007, all rights reserved, 11 Yellow Brook Road, Holmdel, NJ 07733**

Information contained herein is based on data obtained from recognized statistical services, issuer reports or communications, or other sources, believed to be reliable. Any statements nonfactual in nature constitute only current opinions, which are subject to change.

There are risks inherent in international investments, which may make such investments unsuitable for certain clients. These include, for example, economic, political, currency exchange rate fluctuations, and limited availability of information on international securities. John Tumazos Very Independent Research, LLC, and its affiliates, make no representation that the companies which issue securities that are the subject of their research reports are in compliance with certain informational reporting requirements imposed by the Securities Exchange Act of 1934.

If you did not receive this research report directly from John Tumazos Very Independent Research, LLC ("JTVIR"), you may be in violation of an existing subscription or copyright. Your access to, and receipt of, this report does not by itself operate to establish a relationship between you and JTVIR, as the case may be. Please note that JTVIR bears no responsibility for any recommendation(s) or advice that such firm or its representatives may provide to you, regardless of whether any such recommendation or advice is based in whole or in part on this report.

The views and the other information provided are subject to change without notice. This report and the others posted on [www.veryindependentresearch.com](http://www.veryindependentresearch.com) are issued without regard to the specific investment objectives, financial situation, or particular needs of any specific recipient and are not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not necessarily a guide to future results. Company fundamentals and earnings may be mentioned occasionally, but should not be construed as a recommendation to buy, sell, or hold the company's stock. Predictions, forecasts, estimates for any and all markets should not be construed as recommendations to buy, sell, or hold any security--including mutual funds, futures contracts, and exchange traded funds, or any similar instruments. The text, images, and other materials contained or displayed on any JTVIR product, service, report, email or website are proprietary to JTVIR, and constitute valuable intellectual property. No material from any part of <http://www.veryindependentresearch.com> may be downloaded, transmitted, broadcast, transferred, assigned, reproduced or in any other way used or otherwise disseminated in any form to any person or entity, without the explicit written consent of JTVIR. All unauthorized reproduction or other use of material from JTVIR shall be deemed willful infringement(s) of this copyright and other proprietary and intellectual property rights, including but not limited to, rights of privacy. JTVIR expressly reserves all rights in connection with its intellectual property, including without limitation the right to block the transfer of its products and services and/or to track usage thereof, through electronic tracking technology, and all other lawful means, now known or hereafter devised. JTVIR reserves the right, without further notice, to pursue to the fullest extent allowed by the law any and all criminal and civil remedies for the violation of its rights. The recipient should check any email and any

attachments for the presence of viruses. JTVIR accepts no liability for any damage caused by any virus transmitted by this company's emails or website.

Additional information on the securities discussed herein is available upon request. The applicable disclosures can be obtained by writing to: John Tumazos Very Independent Research, LLC, 11 Yellow Brook Road, Holmdel, NJ 07733 Attn: John C. Tumazos.