August 08, 2006 13:30 ET

Stella-Jones Reports Significant Sales and Earnings Growth in its Second Quarter Results

MONTREAL, QUEBEC--(CCNMatthews - Aug. 8, 2006) -

- Q2 sales grow 33% to $61.4 million
- Net earnings increase 46% to $6.0 million
- Sustained growth in core railway tie and utility pole categories

Stella-Jones Inc. (TSX:SJ) today announced strong financial results for its second quarter ended June 30, 2006. The Company recorded substantial gains in sales and net earnings as the result of increased activity in its core railway tie and utility pole categories and the benefits of its ongoing focus on operational improvements.

Sales in the second quarter reached $61.4 million, an increase of $15.4 million, or 33.4%, over the $46.0 million reported for the same period in 2005. Net earnings were $6.0 million, or $0.55 per share, up 46.3% compared to the $4.1 million, or $0.40 per share reported one year ago. Sales and earnings increases for the six-month period have been equally strong. Sales grew 38.2% in the first six months of fiscal 2006 to reach $106.3 million, from the $76.9 million recorded in the same period one year ago. Net earnings for the six-month period also increased over the corresponding period in 2005, rising from $5.6 million, or $0.55 per share, to $9.9 million, or $0.91 per share.

Second quarter results maintain positive momentum

"Our solid performance in the second quarter is a satisfying indication of the ongoing strength of our core markets," said Brian McManus, President and CEO of Stella-Jones. "Once again, the sustained level of sales opportunities in our two largest product categories, railway ties and utility poles, has resulted in our maintaining the positive growth momentum that we have built over the last several quarters. With the addition of our new facilities in Western Canada, we look forward to further improving our top and bottom line performance through the remainder of 2006."

Continued buoyancy in the Company's two main product categories, railway ties and utility poles, was responsible for the significant sales increase during the quarter. Second quarter sales in the railway ties category grew 65.6% over the same period in 2005, with the majority of that increase related to the contribution of the Company's treating facility in Bangor, Wisconsin, acquired in August 2005. Solid gains were also recorded in the utility poles category, with sales increasing 20.1% from last year. The second quarter sales increase was somewhat tempered by decreased activity in the Company's industrial and consumer lumber categories. Consumer lumber sales were lower by 5.7% compared to the second quarter of 2005. Industrial lumber sales declined by 12.8% in the second quarter compared to last year, but are up for the first six months of the year following a strong first quarter.

Gross margins on product sales also improved, both in dollar terms and as a percentage of sales. Second quarter gross margins grew to $14.1 million, or 22.9% of sales, up from $9.7 million, or 21.0% of sales, in the same period in 2005. For the six-month period ended June 30, 2006, gross margins now total $23.4 million, representing 22.0% of sales. This compares to $15.0 million, or 19.4% of sales for the same six-month period in 2005.

"Our ongoing focus on continuous improvement throughout the organization, coupled with the economies-of-scale we are generating as a larger company, has contributed significantly to our improved gross margins," said George Labelle, Senior Vice-President and Chief Financial Officer. "In addition, we expect that our new facilities in Western Canada will quickly integrate our cost-efficient processes and contribute to our top and bottom line performance going forward."

Selling and administrative expenses for the second quarter of 2006 were $3.3 million, up from the $2.3 million reported in the prior year. For the six-month period, these expenses increased to $5.2 million from the $4.2 million reported in the corresponding period in 2005. The increases in both the quarter and six-month period are the result of the Company's additional selling expenses associated with the Bangor, Wisconsin treating facility acquired in August of 2005 and increased provisions under the Company's employee profit sharing plan.

Q2 Event

- On June 30, 2006, the Company announced that it had acquired, through a wholly-owned subsidiary, substantially all of the assets and operations of Bell Pole Company ("Bell Pole"), a Canadian manufacturer of wood utility poles based in Western Canada. Bell Pole is also involved in the remanufacturing and treating of dimensional lumber in Alberta. The acquisition was effective on July 1, 2006.

Outlook

"We continue to see significant growth opportunities across all of our product categories, particularly in our core railway tie and utility pole markets," said Mr. McManus. "Railway ties were our largest product category, and we anticipate that sales in this category will remain strong throughout the year. We are encouraged by the ongoing organic growth in our second largest category, utility poles, where we still see substantial pent-up demand for replacing aging wood poles across Canada. The addition of our new facilities in Western Canada will reinforce our market position in the wood pole market. Beginning in the third quarter, we expect that quarterly utility pole sales will once again become our largest product category."

"The consumer lumber category has experienced a slow start to the year. However, we expect consumer lumber sales in Eastern Canada to recover later this year. Also, overall sales in this category will benefit significantly from the addition of our new facilities in Alberta. Finally, despite softer demand during the second quarter, industrial lumber sales are up for the first six months of the year and this product group is expected to remain a growth category given our position as a proven supplier on the East and West coasts, where marine applications predominate."

"Over the last several years, Stella-Jones has been successful in growing the Company by acting as an industry consolidator. Acquisitions will remain a key component of our growth strategy and we expect any future targets to be in our key railway tie and utility pole categories," concluded Mr. McManus.

ABOUT STELLA-JONES

Stella-Jones Inc. (TSX:SJ) is a leading North American producer and marketer of industrial treated wood products, specializing in the production of pressure treated railway ties as well as wood poles supplied to electrical utilities and telecommunications companies. Other principal products include marine and foundation pilings, construction timbers, highway guardrail posts and treated wood for bridges. The Company also provides customized services to lumber companies and wholesalers for the treatment of consumer lumber products for outdoor applications. The Company's common shares are listed on the Toronto Stock Exchange.

Except for historical information provided herein, this press release may contain information and statements of a forward-looking nature concerning the future performance of the Company. These statements are based on suppositions and uncertainties as well as on management's best possible evaluation of future events. Such factors may include, without excluding other considerations, fluctuations in quarterly results, evolution in customer demand for the Company's products and services, the impact of price pressures exerted by competitors, and general market trends or economic changes. As a result, readers are advised that actual results may differ from expected results.

NOTICE

The interim unaudited consolidated financial statements of Stella-Jones Inc. for the second quarter ended June 30, 2006 have not been reviewed by the Company's external auditors.

(Signed)

George Labelle

Senior Vice-President and Chief Financial Officer

Montreal, Quebec August 8, 2006

CONSOLIDATED BALANCE SHEETS

as at June 30, 2006 and December 31, 2005	June 30, 2006 ($) unaudited	December 31, 2005 ($)
ASSETS		
CURRENT ASSETS		
Accounts receivable	35,036,236	21,059,721
Inventories	74,314,631	77,316,420
Prepaid expenses	2,547,065	1,611,755
Future income taxes	560,000	550,000
Restricted cash (Note 5)	10,000,000	-
	122,457,932	100,537,896
PROPERTY, PLANT AND EQUIPMENT	37,823,535	37,003,106
NOTE RECEIVABLE	279,050	-
FUTURE INCOME TAXES	362,000	

		350,000
	160,922,517	137,891,002
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	38,303,626	21,311,735
Accounts payable and accrued liabilities	17,906,236	17,452,438
Income taxes payable	548,796	2,227,785
Current portion of long-term debt	3,738,610	4,061,370
	60,497,268	45,053,328
LONG-TERM DEBT	19,487,836	21,139,874
FUTURE INCOME TAXES	5,259,000	5,089,000
EMPLOYEE FUTURE BENEFITS	1,066,147	978,649
	86,310,251	72,260,851
SHAREHOLDERS' EQUITY		
CAPITAL STOCK	26,387,030	26,228,300
CUMULATIVE TRANSLATION ADJUSTMENT	(636,168)	(201,646)
RETAINED EARNINGS	48,861,404	

39,603,497

74,612,266 65,630,151

160,922,517 137,891,002

See Subsequent Event (Note 5)
See accompanying Notes to these interim consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS
unaudited

	three months ended June 30, 2006 ($)	three months ended June 30, 2005 ($)	six months ended June 30, 2006 ($)	six months ended June 30, 2005 ($)
SALES	61,395,578	46,016,496	106,268,118	76,919,979
EXPENSES				
Cost of sales	47,314,422	36,337,585	82,838,900	

				61,961,102
Selling and administrative	3,282,293	2,388,860	5,184,212	4,250,524
Foreign exchange loss (gain)	62,617	(45,641)	24,603	(54,829)
Amortization of property, plant and equipment	803,488	800,849	1,586,132	1,557,451
Gain on disposal of property, plant and equipment	-	-	(26,783)	-
	51,462,820	39,481,653	89,607,064	67,714,248
OPERATING EARNINGS	9,932,758	6,534,843	16,661,054	9,205,731
INTEREST ON LONG-TERM DEBT	443,564	204,672	883,790	415,199
OTHER INTEREST	342,137	220,572	632,023	379,003
EARNINGS BEFORE INCOME TAXES	9,147,057	6,109,599	15,145,241	8,411,529
PROVISION FOR INCOME TAXES	3,139,529	2,017,000	5,232,529	2,776,000

NET EARNINGS FOR THE PERIOD	6,007,528	4,092,599	9,912,712	5,635,529
NET EARNINGS PER COMMON SHARE	0.55	0.40	0.91	0.55
DILUTED NET EARNINGS PER COMMON SHARE	0.53	0.39	0.87	0.54

See Subsequent Event (Note 5)
See accompanying Notes to these interim consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
unaudited

for the six months ended June 30, 2006 and 2005	2006 ($)	2005 ($)
BALANCE - BEGINNING OF YEAR	39,603,497	28,330,148
Net earnings for the period	9,912,712	

		5,635,529
Dividends on common shares	(654,805)	(512,118)
BALANCE - END OF PERIOD	48,861,404	33,453,559

See Subsequent Event (Note 5)
See accompanying Notes to these interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

unaudited	three months ended June 30,		six months ended June 30,	
	2006 ($)	2005 ($)	2006 ($)	2005 ($)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings for the period	6,007,528	4,092,599	9,912,712	5,635,529
Adjustments for				
Amortization of property, plant and equipment	803,488	800,849	1,586,132	1,557,451
Loss (gain) on				

disposal of property, plant and equipment	-	29,120	(26,783)	29,120
Employee future benefits	43,749	30,000	87,498	75,000
Stock-based compensation	13,455	4,650	26,906	8,650
Future income taxes	56,000	9,000	148,000	(137,000)
	6,924,220	4,966,218	11,734,465	7,168,750
CHANGE IN NON-CASH WORKING CAPITAL COMPONENTS				
Decrease (increase) in				
Accounts receivable	(8,037,433)	(5,891,935)	(14,188,407)	(11,555,275)
Inventories	6,867,518	717,313	2,389,501	(1,034,761)
Prepaid expenses	(936,786)	68,140	(964,271)	202,238
Note receivable	1,125	-	(284,425)	-
Increase (decrease) in				
Accounts payable and accrued liabilities	283,043	4,400,372	550,234	5,337,007
Income taxes	766,192	862,480	(1,668,865)	(747,777)
	(1,056,341)	156,370	(14,166,233)	(7,798,568)

	5,867,879	5,122,588	(2,431,768)	(629,818)
FINANCING ACTIVITIES				
Increase (decrease) in bank indebtedness	6,762,109	(2,633,598)	17,330,705	5,888,554
Increase in long-term debt	-	-	2,700 000	15,000
Repayment of long-term debt	(813,823)	(867,041)	(4,537,421)	(1,933,056)
Dividends on common shares	(654,805)	(512,118)	(654,805)	(512,118)
Proceeds from issuance of common shares	43,237	67,824	131,824	90,975
	5,336,718	(3,944,933)	14,970,303	3,549,355
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,209,075)	(1,277,655)	(2,589,541)	(3,019,537)
Proceeds from disposal of property, plant and equipment	-	100,000	49,230	100,000
Restricted cash (Note 5)	(10,000,000)	-	(10,000,000)	-

	(11,209,075)	(1,177,655)	(12,540,311)	(2,919,537)
EFFECT OF TRANSLATION ADJUSTMENT	4,478	-	1,776	-
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	-	-	-	-
CASH AND CASH EQUIVALENTS - BEGINNING AND END OF THE PERIOD	-	-	-	-
SUPPLEMENTAL DISCLOSURE				
Interest paid	792,191	368,191	1,444,430	684,279
Income taxes paid	3,065,161	1,146,520	6,718,438	3,653,277

See Subsequent Event (Note 5)
See accompanying Notes to these interim consolidated financial statements

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

unaudited

NOTE 1 - Accounting Policies

These unaudited interim consolidated financial statements have been prepared following the same accounting policies as the December 31, 2005 audited consolidated financial statements. These unaudited interim consolidated financial statements and notes should be read in conjunction with the Company's latest annual consolidated financial statements.

NOTE 2 - Employee Future Benefits

For the three months ended June 30, 2006, the benefit cost recognized for employee future benefits was $49,624 (2005 - $34,546). For the six months ended June 30, 2006, the benefit cost recognized for employee future benefits was $99,248 (2005 - $83,415).

NOTE 3 - Share Information

As at August 7, 2006, the capital stock issued and outstanding consisted of 11,997,419 common shares (10,880,840 as at December 31, 2005). On July 1, 2006, the Company exchanged 1,060,000 previously issued subscription receipts for an equal number of common shares to partially fund the business acquisition described in Note 5 below.

NOTE 4 - Seasonality

The Company's domestic operations follow a seasonal pattern, with pole, tie and industrial lumber shipments strongest in the second and third quarters to provide industrial end users with product for their summer maintenance projects. Consumer lumber treatment sales also follow the same seasonal pattern. Inventory levels of railway ties and utility poles are typically highest in the first quarter in advance of the summer shipping season. The first and fourth quarters usually generate similar sales.

NOTE 5 - Subsequent Event

Effective July 1, 2006, the Company, through a wholly-owned subsidiary, acquired substantially all of the assets and operations of Bell Pole Company ("Bell Pole"). The purchase price totalled $50.1 million of which approximately 60% was for inventory and receivables. Equity funding for the acquisition was provided by the private placement of 1,060,000 subscription receipts issued on May 2, 2006 for a total consideration of $18,020,000 ("Subscription Receipts"). On July 1, 2006, the Subscription Receipts were exchanged into common shares of the Company, on a one-for-one basis. The remainder of the purchase price was financed by the assumption of liabilities, totalling $15.1 million, a $10.0 million debenture to the Fonds de Solidarite des travailleurs du Quebec (F.T.Q.) issued effective July 1, 2006, as well as additional debt funding under existing and new bank facilities. On June 30, 2006, an amount of $10.0 million was drawn down under the Company's credit facilities and held on deposit as restricted cash to satisfy a condition precedent to closing. These funds were subsequently disbursed as part of the financing of the business acquisition. As at June 30, 2006, the Company had incurred approximately $700,000 of acquisition costs which have been capitalized in current assets. These costs will be allocated to the purchased assets in the third quarter. The purchase price allocation has not been completed and certain items such as fair value of assets and liabilities as of the acquisition date have not been finalized.

CONTACT INFORMATION

- Stella-Jones Inc.
  George T. Labelle, C.A.
  Senior Vice-President and Chief Financial Officer
  (514) 934-8665
  glabelle@stella-jones.com
  www.stella-jones.com
  or
  MaisonBrison
  Rick Leckner
  (514) 731-0000
  rickl@maisonbrison.com