May 03, 2007 07:45 ET

Growth Continues to Yield Positive Bottom Line Results for Stella-Jones' First Quarter

Annual and Special Meeting of Shareholders Later this Morning

MONTREAL, QUEBEC--(CCNMatthews - May 3, 2007) - Stella-Jones Inc. (TSX:SJ)

- Q1 sales grow 38.1% to $61.9 million

- Net earnings increase 73.3% to $6.1 million

- Margins continue to improve

Stella-Jones Inc. (TSX:SJ) is pleased to announce solid financial results for its first quarter ended March 31, 2007. Sales rose markedly compared to the same period in 2006, while margins, both on an absolute and percentage basis also showed positive momentum. The positive impact of recent acquisitions combined with a continued focus on operational efficiency and cost reductions led to the Company's strongest first quarter results in its history.

Sales for the first quarter ended March 31, 2007 reached $61.9 million, an increase of $17.1 million, or 38.1% over last year's first quarter sales of $44.9 million. The Arlington, Washington facility, which was acquired on February 28, 2007, contributed $2.8 million to first quarter sales, or 16.4% of the increase for the quarter. Gross margins improved substantially in the first three months of 2007, both in dollar terms and as a percentage of sales. Gross margins improved to $15.9 million or 25.7% of sales, from $9.3 million or 20.8% of sales in the same period in 2006, an increase of 70.0%. Net earnings were $6.1 million, or $0.50 per share in the first quarter ended March 31, 2007 compared to $3.5 million, or $0.32 per share in the corresponding period in 2006.

Two-pronged growth strategy continues to yield results

"Stella-Jones continued to see strong growth in the first quarter," said Brian McManus, President and CEO of Stella-Jones. "Our recently acquired assets contributed significantly to both the top and bottom line during the quarter, but I am also pleased to see that organic growth was also one of the cornerstones of the Company's solid performance for the quarter."

Three of the Company's four product categories posted sales increases during the three-month period ended March 31, 2007 compared to the same period last year. Utility pole sales more than doubled to $30.6 million, up $15.3 million, compared to the first three months of 2006, with the Carseland, Alberta and Arlington, Washington facilities contributing most of the increase. Organic growth in utility poles sales also made a significant impact on the first quarter results. Railway ties sales increased $3.3 million, or 15.7% to $24.6 million, driven by a strong contribution from the Bangor, Wisconsin facility. Residential lumber sales posted a gain of $1.9 million, or 104.9% over the same period last year. Industrial lumber sales were off to a slow start this year, with a $3.5 million, or 52.3% decline, as severe weather on the Eastern seaboard significantly affected sales volumes during the quarter.

"Our margins continued to improve during the first quarter," said George Labelle, Senior Vice-President and Chief Financial Officer. "In fact, our gross margins as a percentage of sales improved in every product category compared to the same period last year, aside from the residential lumber category. Economies of scale, operational efficiencies and better throughput were the main drivers of the continued margin improvement. A favourable product mix and improved product pricing were also responsible for the strong first quarter results."

Outlook

"Stella-Jones is enjoying a strong start to 2007 after having posted a solid performance in 2006, and we are optimistic about further potential for growth in 2007," said Mr. McManus.

"Firstly, end markets for the Company's products are continuing to enjoy strong fundamentals. Demand for utility poles is strong and our February 28th, 2007 acquisition in the Pacific Northwest will allow us to continue to leverage market opportunities and synergies for all of Stella-Jones' facilities. We are looking for the full-period contribution of these assets in coming quarters. In railway ties, the expansion of the Bangor, Wisconsin facility with an additional treating cylinder is proceeding on time and on budget, and it should start to favourably impact results through higher production capacity. In residential lumber, we expect a solid performance going forward, while our industrial lumber sales should recover as the weather issues that had plagued the Eastern seaboard subside in coming quarters".

"Secondly, we remain focused on delivering strong bottom line performance to shareholders by integrating the recently acquired assets, as well as leveraging the opportunities for external growth that are currently available. In this regard, the American market will likely continue to play a significant role in Stella-Jones' future expansion," concluded Mr. McManus.

Dividend

On March 14, 2007, the Board of directors declared a dividend of $0.10 per share to holders of record on April 4, 2007 and payable on May 16, 2007. This was an eligible dividend.

Annual Shareholder Meeting

The Company holds its Annual and Special Meeting of Shareholders in Montreal this morning at 10:00 a.m. in the Salon Bleu at the Hotel Ritz-Carlton Montreal, 1228 Sherbrooke Street West, Montreal.

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 treated consumer lumber products and customized services to lumber retailers and wholesalers for outdoor applications. The Company's common shares are listed on the Toronto Stock Exchange.

Visit our website: www.stella-jones.com

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 first quarter ended March 31, 2007 have not been reviewed by the Company's external auditors.

(Signed)

George Labelle

Senior Vice-President and Chief Financial Officer

Montreal, Quebec

May 3, 2007

CONSOLIDATED BALANCE SHEETS

as at March 31, 2007 and December 31, 2006	March 31, 2007 unaudited ($)	December 31, 2006 ($)
ASSETS		
CURRENT ASSETS		
Accounts receivable	39,737,938	32,113,553
Derivative financial instruments	1,023,245	-
Inventories	134,657,187	117,441,115
Prepaid expenses	3,102,808	2,325,219
Future income taxes	356,000	356,000
	178,877,178	152,235,887
CAPITAL ASSETS	73,717,772	59,925,656
DERIVATIVE FINANCIAL INSTRUMENTS	47,753	-
OTHER ASSETS	1,076,476	1,088,343
FUTURE INCOME TAXES	425,000	425,000

	254,144,179	213,674,886

LIABILITIES

CURRENT LIABILITIES		
Bank indebtedness	55,129,442	42,286,469
Accounts payable and accrued liabilities	23,550,756	22,299,399
Income taxes	2,366,238	2,964,247
Future income taxes	337,671	-
Current portion of long-term debt	5,306,457	3,797,096
Current portion of asset retirement obligations	938,229	922,929
	87,628,793	72,270,140
LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES	45,917,983	28,096,118
FUTURE INCOME TAXES	5,974,682	5,960,036
ASSET RETIREMENT OBLIGATIONS	525,370	414,635
EMPLOYEE FUTURE BENEFITS	1,175,477	1,112,177

	141,222,305	107,853,106
SHAREHOLDERS' EQUITY		
CAPITAL STOCK	45,572,305	45,473,435
CONTRIBUTED SURPLUS	2,787,435	2,416,650
RETAINED EARNINGS	64,101,580	58,004,374
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	460,554	(72,679)
	112,921,874	105,821,780
	254,144,179	213,674,886

See accompanying Notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
unaudited

for the three months ended March 31, 2007 and 2006	2007 ($)	2006 ($)

BALANCE - BEGINNING OF YEAR	58,004,374	38,781,497
Net earnings for the period	6,097,206	3,518,184
BALANCE - END OF PERIOD	64,101,580	42,299,681

See accompanying Notes

CONSOLIDATED STATEMENTS OF EARNINGS
unaudited

	three months ended March 31,	
	2007	2006
	($)	($)
SALES	61,949,046	44,872,540

EXPENSES		
Cost of sales	46,058,215	35,524,478
Selling and administrative	3,533,329	2,497,919
Foreign exchange loss (gain)	67,869	(38,014)
Amortization of capital assets	1,066,587	782,644
Gain on disposal of capital assets	(11,497)	(26,783)
	50,714,503	38,740,244
OPERATING EARNINGS	11,234,543	6,132,296
INTEREST ON LONG-TERM DEBT	636,585	440,226
OTHER INTEREST	748,787	289,886
EARNINGS BEFORE INCOME TAXES	9,849,171	5,402,184
PROVISION FOR INCOME TAXES	3,751,965	1,884,000
NET EARNINGS FOR THE PERIOD	6,097,206	3,518,184

NET EARNINGS PER COMMON SHARE	0.50	0.32
DILUTED NET EARNINGS PER COMMON SHARE	0.48	0.32

See accompanying Notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
unaudited

for the three months ended March 31, 2007 and 2006	2007 ($)	2006 ($)
NET EARNINGS FOR THE PERIOD	6,097,206	3,518,184
Other comprehensive income:		
Net change in unrealized losses on translating financial statements of a self-sustaining foreign operation	(184,337)	62,777

Change in fair value of derivatives designated as cash flow hedges (net of income taxes of $73,281)	148,784	-
	(35,553)	62,777
COMPREHENSIVE INCOME	6,061,653	3,580,961

See accompanying Notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

unaudited	three months ended March 31, 2007 ($)	2006 ($)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for the period	6,097,206	3,518,184
Adjustments for		
Amortization of capital assets	1,066,587	782,644
Gain on disposal of capital assets	(11,497)	(26,783)
Employee future benefits	63,300	43,749
Stock-based compensation	370,785	

		609,451
Future income taxes	-	(117,000)
	7,586,381	4,810,245
CHANGE IN NON-CASH WORKING CAPITAL COMPONENTS		
Increase in		
Accounts receivable	(3,965,929)	(6,169,445)
Inventories	(7,552,696)	(4,586,156)
Prepaid expenses	(639,343)	(31,080)
Increase (decrease) in		
Accounts payable and accrued liabilities	1,107,193	282,401
Income taxes	(568,118)	(2,429,500)
	(11,618,893)	(12,933,780)
	(4,032,512)	(8,123,535)
FINANCING ACTIVITIES		
Increase in bank indebtedness	13,043,878	10,634,477
Increase in long-term debt	10,568,704	2,700,000
Repayment of long-term debt	(572,326)	(3,739,069)
Increase in asset retirement obligations	126,035	

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Proceeds from issuance of common shares	98,869	88,587
	23,265,160	9,683,995
INVESTING ACTIVITIES		
Decrease (increase) in other assets	9,167	(292,000)
Business acquisition	(16,937,350)	-
Purchase of capital assets	(2,283,768)	(1,380,466)
Proceeds from disposal of capital assets	65,000	49,230
	(19,146,951)	(1,623,236)
EFFECT OF TRANSLATION ADJUSTMENT	(85,697)	62,776
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	-	-
CASH AND CASH EQUIVALENTS - BEGINNING AND END OF THE PERIOD	-	-

SUPPLEMENTAL DISCLOSURE

Interest paid	1,083,002	652,239
Income taxes paid	4,387,186	3,994,851

See accompanying Notes

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The interim consolidated financial statements for the three months ended March 31, 2007 and 2006, are unaudited and include estimates and adjustments that the Management of Stella-Jones Inc. (the "Company") consider necessary for a fair presentation of the financial position, results of operations, comprehensive income and cash flows.

The interim consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principals ("GAAP") on a basis consistent with those followed in the annual consolidated financial statements of the Company for the year ended December 31, 2006, except for new accounting policies that were adopted January 1, 2007, as described below. However, they do not include all disclosures required under GAAP for annual financial statements and should be read in conjunction with the Company's latest audited year-end consolidated financial statements and notes.

Certain comparative figures have been reclassified in order to comply with the basis of presentation adopted in the current year.

Principles of consolidation

The unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Guelph Utility Pole Company Ltd., I.P.B.-W.P.I. International Inc., Stella-Jones Corporation ("SJ Corp") and since July 1, 2006, the consolidated accounts of Bell Pole Canada Inc. ("Bell Pole"), using the purchase method. The consolidated accounts of Bell Pole include the accounts of a 50% interest in Kanaka Creek Pole Company Limited, a joint venture which is accounted for under the proportionate consolidation method of accounting.

Changes in accounting policies

The Canadian Institute of Chartered Accountants ("CICA") has issued the following new Handbook Sections which are effective for the Company's interim periods beginning on January 1, 2007:

- Handbook Section 3855, "Financial Instruments - Recognition and Measurement", describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial assets, except for those classified as held-to-maturity or loans and receivables, and derivative financial instruments must be measured at their fair value. All financial liabilities must be measured at their fair value if they are classified as held for trading purposes. If not, they are measured at their carrying value.

The Company has implemented the following classification:

Cash and cash equivalents are classified as assets held for trading and are measured at fair value.

Accounts receivable and loans to certain suppliers are classified as loans and receivables. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost.

Bank loans, accounts payable, credit facilities, notes, loans payable, and obligations under capital leases are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost.

- Handbook Section 1530, "Comprehensive Income", describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains or losses on available for sale financial instruments. Upon adoption of this section, the interim consolidated financial statements now include a statement of comprehensive income.

- Section 3251, "Equity", replaces Section 3250, "Surplus", and describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, "Comprehensive Income".

- Handbook Section 3865, "Hedges", describes when hedge accounting is appropriate. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period.

The Company enters into foreign exchange forward contracts to limit its exposure under contracted net cash inflows and outflows of US dollars. The Company also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. The Company has documented its use of derivative financial instruments and has concluded that they qualify for hedge accounting.

The adoption of these new standards translated into the following changes as at January 1, 2007: a $568,785 increase in accumulated other comprehensive income, a $848,933 increase in short-term and long-term derivative financial instruments reported under assets and a $280,148 increase in future tax liabilities.

For the three-month period ended March 31, 2007, the Company recorded an increase of $148,784 in accumulated other comprehensive income, an increase of $222,065 in short-term and long-term derivative financial instruments reported under assets and an increase of $73,281 in future income tax liabilities.

NOTE 2 - EMPLOYEE FUTURE BENEFITS

For the three months ended March 31, 2007, the benefit cost recognized for employee future benefits was $63,300 (2006 - $43,749).

NOTE 3 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	2007	2006
	$	$
Balance - Beginning of the year - Unrealized losses on translating financial statements of a self-sustaining foreign operation	(72,679)	(201,646)

Cumulative adjustment to opening balance due to the new accounting policies adopted regarding derivatives designated as cash flow hedges (net of income taxes of $280,148)	568,785	-
Adjusted opening balance	496,106	(201,646)
Other comprehensive income (loss)	(35,553)	62,777
Balance - End of period	460,554	(138,869)

NOTE 4 - BUSINESS ACQUISITION

On February 28, 2007, the Company's wholly owned US subsidiary, SJ Corp, acquired the assets of the wood utility pole business of J.H. Baxter & Co. ("Baxter"). Assets acquired include the Baxter production plant located in Arlington, Washington, its pole peeling facility in Juliaetta, Idaho as well as all inventories and accounts receivable relating to its wood pole business.

The acquisition has been accounted for using the purchase method and accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on Management's estimate of their fair value as of the acquisition date. The following fair value allocation is preliminary and is based on Management's best estimates and information known at the time of preparing these interim unaudited consolidated financial statements. Subsequent revisions to this preliminary fair value allocation, if any, are expected to be accounted for by December 31, 2007. The results of operations of Baxter have been included in the interim consolidated financial statements from the acquisition date.

The following is a summary of the net assets acquired at fair values:

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Assets acquired


Accounts receivable
3,792,494
Inventories
10,018,363
Prepaid expenses
143,523
Capital assets
12,605,534
-----------------------------------------------------------------
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26,559,914


Liabilities assumed


Obligation under capital lease
278,995
-----------------------------------------------------------------
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26,280,919
-----------------------------------------------------------------
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Consideration
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Cash, including transaction costs of $348,276
16,937,350
Long-term subordinated note payable to vendor
9,285,600
Reserve amount for transaction costs, included in
 accounts payable
57,969
-----------------------------------------------------------------
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26,280,919
-----------------------------------------------------------------
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-----------------------------------------------------------------
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Financing for the transaction was provided by a subordinated vendor note of US$8.0 million as well as additional debt funding under existing and new bank facilities. The new bank facilities are comprised of an increase of US$5.0 million in the operating line of credit of SJ Corp as well as a new 5-year term loan of US$4.0 million, both arranged with its existing US banker.

NOTE 5 - SHARE INFORMATION

As at May 2, 2007, the capital stock issued and outstanding consisted of 12,315,873 common shares (12,298,015 as at December 31, 2006).

NOTE 6 - 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.

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