November 13, 2007 17:05 ET

Stella-Jones Increases Sales by 9.9% in the Third Quarter

- Q3 sales grow by 9.9% to $74.8 million - Q3 net earnings increase 4.3% - Gross profit margin and cash flow further improved

MONTREAL, QUEBEC--(Marketwire - Nov. 13, 2007) - Stella-Jones Inc. (TSX:SJ) is pleased to announce solid financial results for its third quarter ended September 30, 2007. Driven by acquisitions, sales rose by nearly 10% compared with the same period in 2006, while margins, both on an absolute and percentage basis, reflected further efficiency gains.

Sales for the third quarter ended September 30, 2007 reached $74.8 million, an increase of $6.7 million, or 9.9%, over last year's third quarter sales of $68.1 million. The Arlington, Washington facility, acquired on February 28, 2007, accounted for a large part of this increase. Organically, sales experienced a modest decline owing to the negative impact of a stronger Canadian dollar and to the forest industry strike in southern British Columbia that began on July 20, 2007 and continued until October 21, 2007. The strike forced the suspension of operations at the New Westminster treating facility and at Stella-Jones' pole peeling joint venture in Maple Ridge.

For the nine-month period ended September 30, 2007, sales reached $221.3 million, an increase of 26.9% over the $174.3 million in sales recorded in the same period last year. In addition to the acquisition of the Arlington facility, the increase reflects the nine-month contribution from the Carseland, Alberta facility, versus only three months in 2006.

During the third quarter, sales of utility poles grew by 7.0% to $32.8 million, reflecting the sales contribution of the newly acquired Arlington facility and despite the negative impact of the labour conflict in British Columbia. Railway tie sales increased 13.1% to $26.8 million. The addition of a new treatment cylinder at the Bangor, Wisconsin facility earlier this year allowed the Company to improve its market share. Residential lumber sales rose to $10.5 million, an increase of 16.2%, largely attributable to a strong renovation market across Canada. Industrial lumber sales were up marginally to $4.6 million, with strength in Eastern Canada offset by the impact of the strike in British Columbia.

"We are pleased with our third quarter results, given the challenges caused by the labour situation in British Columbia and the negative impact of converting our US denominated results to our reporting currency, the Canadian dollar", said Brian McManus, President and CEO of Stella-Jones. "The strength of our multi-plant network was well demonstrated, as we shifted production to various locations in order to maintain a high level of customer service during the labour disruption."

GROSS PROFIT MARGIN IMPROVES BY 100 BASIS POINTS

Gross profit further improved in the three-month period ended September 30, 2007, both in dollar terms and as a percentage of sales. Gross profit amounted to $17.9 million or 23.9% of sales, up from $15.6 million or 22.9% of sales in the corresponding period in 2006, an increase of 14.8%. For the first nine months of 2007, gross profit stood at $54.1 million or 24.4% of sales, representing an increase of 38.6% over the $39.0 million or 22.4% of sales achieved for the same period last year.

"The integration and optimization of our expanded production capacity is yielding greater efficiencies and increased throughput", said George Labelle, Senior Vice-President and Chief Financial Officer. "In addition, a solid cash flow generation enabled Stella-Jones to reduce its total indebtedness by nearly $14.0 million during the quarter, which advantageously positions the Company for future expansion."

Net earnings were $7.1 million, or $0.56 per share, fully diluted, in the third quarter ended September 30, 2007, compared with $6.8 million, or $0.55 per share, fully diluted, in the corresponding period of 2006. For the nine-month period ended September 30, 2007, net earnings reached $21.3 million, or $1.68 per share, fully diluted, versus $1.36 last year on a fully diluted basis.

OUTLOOK

"With our Western facilities now back in full production, we are once again on track to continue our focus on operational efficiency and leveraging growth opportunities. While near term results will be affected by the rapid rise in the Canadian dollar, management remains confident about the future, as end markets for the Company's core products continue to enjoy solid fundamentals", 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 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 third quarter ended September 30, 2007 have not been reviewed by the Company's external auditors.

(Signed)

George Labelle

Senior Vice-President and Chief Financial Officer

Montreal, Quebec

November 13, 2007

CONSOLIDATED BALANCE SHEETS

as at September 30, 2007 and December 31, 2006	Sept. 30, 2007 unaudited ($)	December 31, 2006 ($)
ASSETS		
CURRENT ASSETS		
Accounts receivable	41,759,675	32,113,553
Derivative financial instruments	1,120,652	-
Inventories	130,285,086	

		117,441,115
Prepaid expenses	1,161,746	2,325,219
Future income taxes	356,000	356,000
	174,683,159	152,235,887
CAPITAL ASSETS	71,773,412	59,925,656
DERIVATIVE FINANCIAL INSTRUMENTS	321,098	-
OTHER ASSETS	543,702	1,088,343
FUTURE INCOME TAXES	425,000	425,000
	247,746,371	213,674,886

LIABILITIES

CURRENT LIABILITIES

Bank indebtedness	42,821,150	42,286,469
Accounts payable and accrued liabilities	19,793,229	22,299,399
Income taxes	1,233,917	2,964,247
Future income taxes	392,228	-
Current portion of long-term debt	5,767,122	3,797,096
Current portion of asset retirement obligations	935,759	922,929

	70,943,405	72,270,140
LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES	43,923,471	28,096,118
FUTURE INCOME TAXES	6,270,848	5,960,036
ASSET RETIREMENT OBLIGATIONS	267,512	414,635
EMPLOYEE FUTURE BENEFITS	1,319,077	1,112,177
	122,724,313	107,853,106
SHAREHOLDERS' EQUITY		
CAPITAL STOCK	45,974,587	45,473,435
CONTRIBUTED SURPLUS	3,734,551	2,416,650
RETAINED EARNINGS	78,032,525	58,004,374
ACCUMULATED OTHER COMPREHENSIVE LOSS	(2,719,605)	(72,679)
	125,022,058	105,821,780
	247,746,371	213,674,886

See accompanying Notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

unaudited

for the nine months ended September 30, 2007 and 2006	2007 ($)	2006 ($)
BALANCE - BEGINNING OF YEAR	58,004,374	38,781,497
Net earnings for the period	21,259,738	15,722,011
Dividends on common shares	(1,231,587)	(654,805)
BALANCE - END OF PERIOD	78,032,525	53,848,703

See accompanying Notes

CONSOLIDATED STATEMENTS OF EARNINGS

unaudited

	three months ended Sept. 30, 2007 ($)	three months ended Sept. 30, 2006 ($)	nine months ended Sept. 30, 2007 ($)	nine months ended Sept. 30, 2006 ($)
SALES	74,815,652	68,072,607	221,274,583	174,340,725
EXPENSES				
Cost of sales	56,942,818	52,505,916	167,207,755	135,344,816
Selling and administrative	4,375,504	3,819,421	13,074,403	10,511,633
Foreign exchange loss (gain)	290,354	(455,371)	775,526	(430,768)
Amortization of capital assets	1,390,751	871,754	3,757,763	2,457,886
Gain on disposal of capital assets	(47,860)	-	(63,857)	(26,783)
	62,951,567	56,741,720	184,751,590	147,856,784
OPERATING EARNINGS	11,864,085	11,330,887	36,522,993	26,483,941
INTEREST ON				

LONG-TERM DEBT	731,755	622,588	2,136,820	1,506,378
OTHER INTEREST	613,718	437,717	2,017,385	1,069,740
EARNINGS BEFORE INCOME TAXES	10,518,612	10,270,582	32,368,788	23,907,823
PROVISION FOR INCOME TAXES	3,434,542	3,481,283	11,109,050	8,185,812
NET EARNINGS FOR THE PERIOD	7,084,070	6,789,299	21,259,738	15,722,011
NET EARNINGS PER COMMON SHARE	0.57	0.56	1.73	1.39
DILUTED NET EARNINGS PER COMMON SHARE	0.56	0.55	1.68	1.36

See accompanying Notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
unaudited

	three months ended Sept. 30,		nine months ended Sept. 30,	
	2007	2006	2007	2006
	($)	($)	($)	($)
NET EARNINGS FOR THE PERIOD	7,084,070	6,789,299	21,259,738	15,722,011
Other comprehensive income (loss):				
Net change in unrealized losses on translating financial statements of self-sustaining foreign operation	(1,691,909)	13,336	(3,584,063)	(421,186)
Change in fair value of derivatives designated as cash flow hedges (net of income tax (recovery) of ($19,775) for the three month period ended September				

30, 2007 and $224,465 for the nine month period ended September 30, 2007)	(76,268)	-	368,352	-
	(1,768,177)	13,336	(3,215,711)	(421,186)
COMPREHENSIVE INCOME	5,315,893	6,802,635	18,044,027	15,300,825

See accompanying Notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

unaudited

	three months ended Sept. 30,		nine months ended Sept. 30,	
	2007	2006	2007	2006
	($)	($)	($)	($)
Cash flows from operating activities				
Net earnings for the period	7,084,070	6,789,299	21,259,738	15,722,011
Adjustments for				
Amortization of capital assets	1,390,751	1,056,925	3,757,763	

				2,643,057
Gain on disposal of capital assets	(15,942)	-	(31,939)	(26,783)
Employee future benefits	80,300	43,749	206,900	131,247
Stock-based compensation	527,281	720,455	1,405,845	2,255,361
Future income taxes	216,000	(180,000)	216,000	(560,000)
	9,282,460	8,430,428	26,814,307	20,164,893
CHANGE IN NON-CASH WORKING CAPITAL COMPONENTS				
Decrease (increase) in				
Accounts receivable	6,750,068	575,175	(7,315,815)	(13,613,232)
Inventories	(3,402,859)	932,398	(8,472,021)	3,321,899
Prepaid expenses	1,663,177	895,548	1,214,068	(68,723)
Increase (decrease) in				
Accounts payable and accrued liabilities	1,047,024	1,908,307	(1,879,741)	2,458,541
Income taxes	(875,636)	2,151,582	(1,728,613)	482,717
	5,181,774	6,463,010	(18,182,122)	(7,418,798)

	14,464,234	14,893,438	8,632,185	12,746,095
Financing activities				
Increase (decrease) in bank indebtedness	(15,100,554)	(7,231,364)	2,821,938	10,099,341
Increase in long-term debt	2,233,884	10,301,855	12,927,403	13,001,855
Repayment of long-term debt	(1,047,894)	(861,073)	(2,451,272)	(5,398,494)
Decrease in asset retirement obligations	(311,205)	-	(134,293)	-
Proceeds from issuance of common shares	124,765	18,308,192	413,208	18,440,016
Dividend on common shares	-	-	(1,231,587)	(654,805)
	(14,101,004)	20,517,610	12,345,397	35,487,913
INVESTING ACTIVITIES				
Decrease (increase) in other assets	393,407	1,675	515,007	(282,750)
Business acquisition	-	(44,483,051)	(16,975,602)	(44,483,051)
Purchase of capital assets	(1,655,695)	(932,382)	(5,812,210)	

				(3,521,923)
Proceeds from disposal of capital assets	25,000	-	168,877	49,230
Restricted cash	-	10,000,000	-	-
	(1,237,288)	(35,413,758)	(22,103,928)	(48,238,494)
EFFECT OF TRANSLATION ADJUSTMENT	874,058	2,710	1,126,346	4,486
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	-	-	-	-
CASH AND CASH EQUIVALENTS - BEGINNING AND END OF THE PERIOD	-	-	-	-
SUPPLEMENTAL DISCLOSURE				
Interest paid	1,495,179	956,381	3,277,386	2,400,811
Income taxes paid	4,131,234	1,530,064	12,731,440	8,248,502

See accompanying Notes

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The interim consolidated financial statements for the nine months ended September 30, 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.

- Handbook 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 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 September 30, 2007, the Company recorded a decrease of $76,268 in accumulated other comprehensive income, a decrease of $96,043 in short-term and long-term derivative financial instruments reported under assets and a decrease of $19,775 in future income tax liabilities. During the period, a gain on foreign exchange forward contracts of $520,422 was reclassified from other comprehensive income to sales.

For the nine-month period ended September 30, 2007, the Company recorded an increase of $368,352 in accumulated other comprehensive income, an increase of $592,817 in short-term and long-term derivative financial instruments reported under assets and an increase of $224,465 in future income tax liabilities. During the period, a gain on foreign exchange forward contracts of $1,211,551 was reclassified from other comprehensive income to sales.

In order to qualify for hedge accounting, the effectiveness of a financial instrument in offsetting changes in the fair value of the hedged item must be demonstrated. On a quarterly basis the Company assesses the effectiveness of its financial instruments both retroactively and prospectively. When a portion of a financial instrument becomes ineffective, the proportionate gain or loss recorded on the balance sheet is reclassified from other comprehensive income to foreign exchange gain or loss in the statement of earnings. For the three and nine month periods ended September 30th, 2007, the Company reclassified a gain of $200,836 from other comprehensive income to the statement of earnings as a portion of a forward contract became ineffective.

Impact of accounting pronouncements not yet implemented

The CICA has issued the following new Handbook Sections which are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007:

Handbook Section 3031, "Inventories", was issued in June 2007 and replaces the existing standard for inventories, Section 3030. The main features of the new Section are as follows:

- Measurement of inventories at the lower of cost and net realizable value

- Consistent use of either first-in, first-out or a weighted average cost formula to measure cost

- Reversal of previous write-downs to net realizable value when there is a subsequent increase to the value of inventories.

The new Section is effective for the Company beginning January 1, 2008. The Company is currently assessing the impact on its consolidated financial statements.

Handbook Section 3862, "Financial Instruments - Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

Handbook Section 3863, "Financial Instruments - Presentation", establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861, "Financial Instruments - Disclosure and Presentation". The Company does not expect that the adoption of this new section will have a significant effect on its consolidated financial statements.

Handbook Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's objectives, policies and processes for managing capital. The Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

NOTE 2 - EMPLOYEE FUTURE BENEFITS

For the three months ended September 30, 2007, the benefit cost recognized for employee future benefits was $63,300 (2006 - $47,790). For the nine months ended September 30, 2007, the benefit cost recognized for employee future benefits was $189,900 (2006 - $147,038).

NOTE 3 - ACCUMULATED OTHER COMPREHENSIVE LOSS

	2007	2006
	$	$

Balance - Beginning of 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 loss	(3,215,711)	(421,186)
Balance - End of period	(2,719,605)	(622,832)

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:

	$
Assets acquired	
Accounts receivable	3,792,494
Inventories	9,849,614
Prepaid expenses	143,523
Capital assets	12,605,534
	26,391,165
Liabilities assumed	
Obligation under capital lease	278,995
	26,112,170
Consideration	
Cash, including transaction costs of $386,528	16,975,602
Receivable from vendor	(168,749)
Long-term subordinated note payable to vendor	9,285,600
Reserve amount for transaction costs, included in accounts payable	19,717

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                                                  26,112,170
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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 November 12, 2007, the capital stock issued and outstanding consisted of 12,339,905 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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