October 31, 2006 16:06 ET

Stella-Jones Announces Substantial Q3 Sales and Earnings Growth

Q3 sales increase 59% to $68.1 million Net earnings more than double to $7.2 million Sales continue to grow organically and through acquisition

MONTREAL, QUEBEC--(CCNMatthews - Oct. 31, 2006) - Stella-Jones Inc.(TSX:SJ) today announced strong financial results for its third quarter ended September 30, 2006. The Company reported significant gains in sales and net earnings resulting from sustained growth in its core utility pole and railway tie categories as well as the contribution of its newly-acquired facility in Western Canada.

Sales in the third quarter reached $68.1 million, an increase of $25.3 million, or 59.1%, over the $42.8 million reported for the same period in 2005. Net earnings were $7.2 million, or $0.60 per share, more than double the $3.5 million, or $0.34 per share reported one year ago. Sales and earnings increases for the year-to-date have been equally strong. Sales grew 45.5% in the first nine months of fiscal 2006 to reach $174.3 million, from the $119.8 million recorded in the same period one year ago. Net earnings for the nine-month period also substantially surpassed the corresponding period in 2005, rising from $9.2 million, or $0.89 per share, to $17.2 million, or $1.52 per share.

Growth strategy driving top and bottom line results

"The healthy results we have achieved in the third quarter are a validation of our strategy to grow the Company both organically and through acquisition while focussing on operational efficiencies," said Brian McManus, President and CEO of Stella-Jones. "As expected, our new Alberta facility made a substantial contribution to our top and bottom line performance and we look forward to even stronger results as we fully integrate this plant. The continued strength in our key markets, particularly utility poles and railway ties in Canada and the United States, is an encouraging indication of our organic growth potential."

The significant sales increase during the quarter was the result of gains in three of the Company's four product categories, the exception being industrial lumber. Utility pole sales benefited significantly from the addition of the Carseland, Alberta facility, gaining 57.4% to reach $30.7 million, compared to $19.5 million in the third quarter of 2005. Third quarter sales of railway ties totalled $23.8 million, a 63.0% improvement over the $14.6 million recorded during the same quarter in 2005. Consumer lumber sales also increased significantly, rising to $9.1 million from $2.7 million in the same period last year, with the Carseland facility responsible for most of the increase in this category. Industrial lumber sales declined to $4.6 million in the third quarter from $6.0 million in same period in 2005. All product categories are ahead of last year on a year-to-date basis.

Gross margins on product sales also improved, both in dollar terms and as a percentage of sales. Third quarter gross margins grew to $15.6 million, or 22.9% of sales, up from $9.3 million, or 21.6% of sales, in the same period in 2005. For the nine-month period ended September 30, 2006, gross margins now total $39.0 million, representing 22.4% of sales. This compares to $24.2 million, or 20.2% of sales for the same nine-month period in 2005.

"Our gross margin improvements are a reflection of the operational initiatives we have implemented to optimize profitability coupled with the effect of increased prices and a better product mix," said George Labelle, Senior Vice-President and Chief Financial Officer. "We are pleased with our performance in the third quarter, especially given that we have not yet completed the integration of our cost-saving policies at the new Carseland facility. We expect to further improve our margins and bottom line results going forward at this location."

Selling and administrative expenses for the third quarter of 2006 were $3.1 million, up from the $2.4 million reported in the prior year. For the nine-month period, these expenses increased to $8.3 million from the $6.6 million reported in the corresponding period in 2005. The increases in both the quarter and nine-month period are due to additional selling expenses at the Bangor, Wisconsin facility acquired in August of 2005 and the Carseland facility acquired in July of this year, as well as increased provisions under the Company's employee profit sharing plan.

Q3 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, a Canadian manufacturer of wood utility poles based in Western Canada. Bell Pole Company was also involved in the remanufacturing and treating of dimensional lumber in Alberta. The acquisition was effective on July 1, 2006.

Outlook

"The positive momentum we have generated over the last several quarters is propelling Stella-Jones to another record year," said Mr. McManus. "We continue to be enthusiastic about the continued strength across all our product categories, particularly in our core utility pole and railway tie markets. The transition of the Carseland facility is proceeding smoothly and we are optimistic that we can further leverage our market leadership in the Canadian wood pole market. We anticipate this product category will continue to be our largest in the fourth quarter. We are equally encouraged by the sustained demand in our railway tie category, which we expect will continue to benefit from the overall strength of the railroad industry."

"After a slow start to the year, consumer lumber sales in Eastern Canada began to pick up in the third quarter. We expect this trend will continue through the end of the year. The consumer lumber category will also continue to generate increased volume in Western Canada due to the addition of our new facility in Carseland. Despite sales declines in industrial lumber during the last two quarters following a strong start to the year, we expect this to remain a solid product category given our position as a proven supplier in this market. In addition, strategic acquisitions will continue to be an integral part of our growth plan and we will continue to pursue opportunities that meet our stringent investment criteria," 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, 2006 have not been reviewed by the Company's external auditors.

(Signed)

George Labelle, Senior Vice-President and Chief Financial Officer

CONSOLIDATED BALANCE SHEETS

as at September 30, 2006 and December 31, 2005	September 30, 2006 ($) unaudited	December 31, 2005 ($)
ASSETS		
CURRENT ASSETS		
Accounts receivable	41,714,113	21,059,721
Inventories	100,092,426	77,316,420
Prepaid expenses	2,046,776	1,611,755
Future income taxes	570,000	550,000
	144,423,315	100,537,896
PROPERTY, PLANT AND EQUIPMENT	59,412,005	37,003,106
OTHER ASSETS	297,084	---
NOTE RECEIVABLE	279,425	---
FUTURE INCOME TAXES	375,000	350,000
	204,786,829	137,891,002

LIABILITIES

CURRENT LIABILITIES

Bank indebtedness	38,800,938	21,311,735
Accounts payable and accrued liabilities	21,785,771	17,452,438
Income taxes payable	2,698,768	2,227,785
Current portion of asset retirement obligations	674,772	---
Current portion of long-term debt	3,693,003	4,061,370
	67,653,252	45,053,328
LONG-TERM DEBT	28,979,308	21,139,874
ASSET RETIREMENT OBLIGATIONS	1,498,726	---
FUTURE INCOME TAXES	5,349,000	5,089,000
EMPLOYEE FUTURE BENEFITS	1,109,896	978,649
	104,590,182	72,260,851

SHAREHOLDERS' EQUITY

CAPITAL STOCK	44,708,776	26,228,300
CUMULATIVE TRANSLATION ADJUSTMENT	(622,832)	(201,646)

RETAINED EARNINGS	56,110,703	39,603,497
	100,196,647	65,630,151
	204,786,829	137,891,002

See accompanying Notes to these interim consolidated financial statements

CONSOLIDATED STATEMENTS OF EARNINGS
unaudited

	three months ended Sept. 30,		nine months ended Sept. 30,	
	2006 ($)	2005 ($)	2006 ($)	2005 ($)
SALES	68,072,607	42,845,299	174,340,725	119,765,278
EXPENSES				
Cost of sales	52,505,916	33,585,407	135,344,816	95,546,509

Selling and administrative	3,112,421	2,389,127	8,296,633	6,639,651
Foreign exchange loss (gain)	(455,371)	206,027	(430,768)	151,198
Amortization of property, plant and equipment	871,754	846,421	2,457,886	2,403,872
Gain on disposal of property, plant and equipment	---	---	(26,783)	---
	56,034,720	37,026,982	145,641,784	104,741,230
OPERATING EARNINGS	12,037,887	5,818,317	28,698,941	15,024,048
INTEREST ON LONG-TERM DEBT	622,588	264,961	1,506,378	680,160
OTHER INTEREST	437,717	244,271	1,069,740	623,274
EARNINGS BEFORE INCOME TAXES	10,977,582	5,309,085	26,122,823	13,720,614
PROVISION FOR INCOME TAXES	3,728,283	1,788,311	8,960,812	4,564,311

NET EARNINGS FOR THE PERIOD	7,249,299	3,520,774	17,162,011	9,156,303
NET EARNINGS PER COMMON SHARE	0.60	0.34	1.52	0.89
DILUTED NET EARNINGS PER COMMON SHARE	0.58	0.32	1.46	0.86

See accompanying Notes to these interim consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
unaudited

for the nine months ended Sept. 30, 2006 and 2005	2006 ($)	2005 ($)
BALANCE - BEGINNING OF YEAR	39,603,497	

		28,330,148
Net earnings for the period	17,162,011	9,156,303
Dividends on common shares	(654,805)	(512,118)
BALANCE - END OF PERIOD	56,110,703	36,974,333

See accompanying Notes to these interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
unaudited

	three months ended Sept. 30,		nine months ended Sept.30,	
	2006	2005	2006	2005
	($)	($)	($)	($)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings for the period	7,249,299	3,520,774	17,162,011	9,156,303

Adjustments for				
Amortization of property, plant and equipment	1,056,925	846,421	2,643,057	2,403,872
Loss (gain) on disposal of property, plant and equipment	---	2,961	(26,783)	32,081
Employee future benefits	43,749	30,000	131,247	105,000
Stock-based compensation	13,455	4,350	40,361	13,000
Future income taxes	67,000	(9,000)	215,000	(146,000)
	8,430,428	4,395,506	20,164,893	11,564,256
CHANGE IN NON-CASH WORKING CAPITAL COMPONENTS				
Decrease (increase) in				
Accounts receivable	575,175	2,315,951	(13,613,232)	(9,239,324)

Inventories	1,062,104	(5,209,271)	3,451,605	(6,244,032)
Prepaid expenses	895,548	273,962	(68,723)	476,200
Note receivable	1,675	---	(282,750)	---
Increase (decrease) in				
Accounts payable and accrued liabilities	2,357,972	(457,591)	2,908,206	4,879,416
Asset retirement obligations	2,173,498	---	2,173,498	---
Income taxes	2,151,582	507,274	482,717	(240,503)
	9,217,554	(2,569,675)	(4,948,679)	(10,368,243)
	17,647,982	1,825,831	15,216,214	1,196,013

FINANCING ACTIVITIES

Increase (decrease) in bank

indebtedness	464,660	8,070,095	17,795,365	13,958,649
Increase in long-term debt	10,301,855	6,150,995	13,001,855	6,165,995
Repayment of long-term debt	(861,073)	(868,253)	(5,398,494)	(2,801,309)
Dividends on common shares	---	---	(654,805)	(512,118)
Proceeds from issuance of common shares	18,308,192	5,057,028	18,440,016	5,148,003
	28,213,634	18,409,865	43,183,937	21,959,220
INVESTING ACTIVITIES				
Business acquisition	(54,931,944)	(16,960,441)	(54,931,944)	(16,960,441)
Purchase of property, plant and equipment	(932,382)	(2,509,532)	(3,521,923)	(5,529,069)
Purchase of note				

receivable	---	(872,025)	---	(872,025)
Proceeds from disposal of property, plant and equipment	---	106,302	49,230	206,302
Restricted cash	10,000,000	---	---	---
	(45,864,326)	(20,235,696)	(58,404,637)	(23,155,233)
EFFECT OF TRANSLATION ADJUSTMENT	2,710	---	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	956,381	518,963	2,400,811	1,203,242
Income taxes paid	1,530,064	976,364	8,248,502	4,629,641

See accompanying Notes to these interim consolidated financial statements

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

unaudited

NOTE 1 -- SIGNIFICANT 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 adjusted for the following changes resulting from the business acquisition described in Note 3 below. These unaudited interim consolidated financial statements and notes should be read in conjunction with the Company's latest annual consolidated financial statements.

Principles of consolidation

These unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries, Guelph Utility Pole Company Ltd., I.P.B.-W.P.I. International Inc., Stella-Jones Corporation (since August 31, 2005) and since July 1, 2006, the consolidated accounts of Bell Pole Canada Inc. ("Bell Pole") - see Note 3 below, using the purchase method. The consolidated accounts of Bell Pole include the accounts of Bell Pole's 50% interest in Kanaka Creek Pole Company Limited, a joint venture which is accounted for under the proportionate consolidation method of accounting.

Property, plant and equipment

Roads related to timberlands and cutting rights acquired in the Bell Pole acquisition are being amortized on the basis of timber cut.

Timberlands and cutting rights acquired in the Bell Pole acquisition are being amortized on the basis of timber cut.

Asset retirement obligations

(i) Reforestation obligations:

The British Columbia Forest Act requires the industry to assume the costs of reforestation on certain harvest licences. Accordingly, the estimated present value of the cost of reforestation is recorded as timber is harvested. Reforestation costs are included in the cost of inventory and related cost of goods sold.

(ii) Site remediation obligations:

Site remediation obligations relate to the discounted present value of estimated future expenditures associated with the legal obligations of restoring the environmental integrity of certain properties acquired in the Bell Pole Company acquisition. The Company reviews estimates of future site remediation expenditures on an ongoing basis and records any revisions, along with accretion costs on existing obligations, in other expenses.

NOTE 2 -- EMPLOYEE FUTURE BENEFITS

For the three months ended September 30, 2006, the benefit cost recognized for employee future benefits was $47,790 (2005 - $34,546). For the nine months ended September 30, 2006, the benefit cost recognized for employee future benefits was $147,038 (2005 - $117,961).

NOTE 3-- BUSINESS ACQUISITION

Effective July 1, 2006, the Company, through a wholly-owned subsidiary, acquired substantially all of the assets and operations of Bell Pole Company, a Canadian manufacturer of wood utility poles based in western Canada. Bell Pole Company was also involved in the remanufacturing and treating of dimensional lumber in Alberta. Assets acquired include a treating plant located in Carseland, Alberta, several peeling facilities located throughout the province of British Columbia, as well as all inventories and accounts receivable. Assets acquired also include substantial cutting rights in British Columbia and Alberta.

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, 2006. The results of operations of Bell Pole have been included in the consolidated financial statements from the acquisition date.

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

Assets acquired	$
Current assets	34,455,814
Property, plant and equipment	21,706,657
Other assets	297,089
	56,459,560
Liabilities assumed	
Current liabilities	17,138,491
Long-term liabilities	1,436,560
	18,575,051
	37,884,509
Consideration	
Cash, including transaction costs of $2,500,967	37,884,509

Financing for the transaction was provided by the private placement of 1,060,000 subscription receipts issued on May 2, 2006 for a total consideration of $18.0 million. Following the closing of the acquisition, 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 $18.6 million, a $10.0 million debenture to the Fonds de solidarite des travailleurs du Quebec (F.T.Q.), as well as additional debt funding under existing and new bank facilities.

NOTE 4-- SHARE INFORMATION

As at October 30, 2006, the capital stock issued and outstanding consisted of 12,295,117 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 3 above. See Note 6 below.

NOTE 5-- 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 6-- SUBSEQUENT EVENT

On October 18, 2006, the Fonds de solidarite des travailleurs du Quebec (F.T.Q.), exercised all of their outstanding warrants allowing them to subscribe to 190,000 common shares of the Company at an exercise price of $4.10 per share. The Company has no other warrants outstanding.

CONTACT INFORMATION

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