Stella-JoneS

**Source:** **Stella-Jones Inc.**

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# STELLA-JONES REPORTS FIRST QUARTER RESULTS
## Annual and Special Meeting of Shareholders Later this Morning

- **Sales growth of 69.2% to $112.0 million**
- **Net earnings of $7.7 million compared with $5.3 million last year, up 44.4%**
- **Diluted EPS of $0.61, versus $0.42 in the first quarter of 2008**

**MONTREAL, QUEBEC – May 6, 2009 -** Stella-Jones Inc. (TSX: SJ) today announced financial results for its first quarter ended March 31, 2009. The Company reported strong growth in sales and profitability driven by the contribution from the operating facilities of The Burke-Parsons-Bowlby Corporation (“BPB”), acquired on April 1, 2008.

| **Financial highlights**<br>(in thousands of dollars, except per share data) | **Quarters ended March 31,**<br>**2009** | <br>**2008** |
|---|---|---|
| Sales | **111,954** | 66,182 |
| Gross profit | **22,519** | 13,856 |
| Cash flow from operations [1] | **11,321** | 7,328 |
| Net earnings for the period | **7,687** | 5,323 |
| Per share - basic ($) | **0.61** | 0.43 |
| Per share - diluted ($) | **0.61** | 0.42 |
| Weighted average shares outstanding (basic, in ‘000s) | **12,566** | 12,348 |

1 Before changes in non-cash working capital components.

Sales amounted to $112.0 million, an increase of $45.8 million, or 69.2% over last year’s sales of $66.2 million. The contribution from the BPB operations amounted to approximately $37.3 million. Organically, sales increased by approximately 3.0%, reflecting strong demand in the Company’s utility pole product category. Fluctuations in the value of the Canadian dollar, Stella-Jones’ reporting currency, increased the value of U.S. dollar denominated sales by approximately $6.7 million compared with the same period last year.

Driven by the BPB acquisition, railway tie sales reached $61.4 million, an increase of 90.0% over last year. Sales of utility poles grew 35.0% to $37.3 million, reflecting better market conditions, as last year’s corresponding quarter was marked by more competitive pricing in the United States and adverse weather in Canada that delayed utility pole installation. Sales in the industrial lumber category reached $10.5 million, up from $2.1 million last year, on the strength of BPB's ancillary product sales, while sales of consumer lumber decreased 34.0% to $2.7 million as a result of a slower start to the renovation season in Canada.

"We are satisfied with our first quarter results, a period characterized by seasonal volatility in most of our geographical markets and product categories," said Brian McManus, President and Chief Executive Officer of Stella-Jones. "As the integration of BPB's operations continues to progress, we are increasingly well positioned to capture market opportunities that may arise to further reinforce our continental reach in core product categories."

Gross profit was $22.5 million or 20.1% of sales, up from $13.9 million or 20.9% of sales last year. The improvement in gross profit dollars essentially reflects the contribution of the BPB operations. However, gross profit as a percentage of sales declined primarily as a result of a different product mix, partially offset by plant specialization and economies of scale from increased volume.

Net earnings for the period increased to $7.7 million or $0.61 per share, fully diluted, in 2009, compared with $5.3 million or $0.42 per share, fully diluted, in 2008. Cash flow from operating activities before changes in non-cash working capital components rose 54.5% to $11.3 million.

As at March 31, 2009, the Company's long-term debt, including the current portion, amounted to $106.7 million, representing a ratio of total long-term debt to shareholders' equity of 0.63:1, down from 0.66:1 three months earlier. Meanwhile, working capital stood at $163.8 million, up from $156.9 million as at December 31, 2008, reflecting greater business activity and the seasonal inventory build-up.

"Our solid cash flow generation should lead to further debt reduction as we enter seasonal peak demand," said George Labelle, Senior Vice-President and Chief Financial Officer. "We remain focused on keeping our costs in line and improving efficiencies in our operations. Ongoing identification of additional efficiencies from the BPB integration process is progressively bringing BPB's operating margin in line with comparable operations in our plant network."

**OUTLOOK**

"The weakness of the global economy continues to call for a cautious outlook. However, the essential role played by our products in infrastructure projects that governments often initiate during times of economic slowdown could stimulate demand. As maintenance and new installation undertakings may involve many of our clients in the railway and electrical transmission and distribution industries, the strength and reliability of our continental plant network will be key elements in potentially securing additional business volume, as we pursue our strategic objective of continental expansion and consolidation," concluded Mr. McManus.

**CONFERENCE CALL**

Stella-Jones will hold a conference call to discuss these results on Wednesday, May 6, 2009, at 1:30 PM Eastern Time. Interested parties can join the call by dialling 1-416-644-3426 (Toronto or overseas) or 1-800-814-4890 (elsewhere in North America). Parties unable to call in at this time may access a tape recording of the meeting by calling 1-877-289-8525 and entering the passcode 21304594#. This tape recording will be available on Wednesday, May 6, 2009 as of 3:30 PM Eastern Time until 11:59 PM Eastern Time on Wednesday, May 13, 2009.

**ABOUT STELLA-JONES**

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

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| **HEAD OFFICE** | **EXCHANGE LISTINGS** | **INVESTOR RELATIONS** |
|---|---|---|
| 3100 de la Côte-Vertu Blvd.<br>Suite 300<br>Saint-Laurent, Québec<br>H4R 2J8<br>Tel.: (514) 934-8666<br>Fax: (514) 934-5327 | The Toronto Stock Exchange<br>Stock Symbol (TSX): SJ<br><br>**TRANSFER AGENT AND REGISTRAR**<br><br>Computershare Investor Services Inc. | George Labelle<br>Senior Vice-President and<br>Chief Financial Officer<br>Tel.: (514) 934-8665<br>Fax: (514) 934-5327<br>glabelle@stella-jones.com |

# NOTICE

The interim unaudited consolidated financial statements of Stella-Jones Inc. for the first quarter ended March 31, 2009 have not been reviewed by the Company's external auditors.

(Signed)

George Labelle
Senior Vice-President and Chief Financial Officer

Montréal, Québec
May 6, 2009

## CONSOLIDATED BALANCE SHEETS

*(in thousands of dollars)*

*as at March 31, 2009 and December 31, 2008*

| | March 31, 2009 unaudited ($) | December 31, 2008 ($) |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Accounts receivable | 59,426 | 41,501 |
| Derivative financial instruments (Note 2) | --- | 381 |
| Inventories | 243,347 | 223,199 |
| Prepaid expenses | 5,577 | 5,910 |
| Income taxes receivable | 3,093 | 3,778 |
| Future income taxes | 2,328 | 2,338 |
| | 313,771 | 277,107 |
| CAPITAL ASSETS | 110,155 | 108,763 |
| DERIVATIVE FINANCIAL INSTRUMENTS (Note 2) | --- | 347 |
| INTANGIBLE ASSETS (Note 3) | 10,642 | 10,773 |
| GOODWILL (Note 3) | 6,594 | 6,367 |
| OTHER ASSETS | 3,858 | 3,343 |
| FUTURE INCOME TAXES | 796 | 846 |
| | 445,816 | 407,546 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Bank indebtedness | 99,981 | 81,560 |
| Accounts payable and accrued liabilities | 41,211 | 28,694 |
| Customer deposits | 1,725 | 2,971 |
| Derivative financial instruments (Note 2) | 513 | 266 |
| Future income taxes | --- | 118 |
| Current portion of long-term debt | 4,863 | 4,914 |
| Current portion of asset retirement obligations | 673 | 717 |
| Current portion of non-compete payable | 1,028 | 969 |
| | 149,994 | 120,209 |
| LONG-TERM DEBT | 101,881 | 100,845 |
| FUTURE INCOME TAXES | 16,882 | 16,625 |
| ASSET RETIREMENT OBLIGATIONS | 1,479 | 577 |
| EMPLOYEE FUTURE BENEFITS | 1,604 | 1,541 |
| DERIVATIVE FINANCIAL INSTRUMENTS (Note 2) | 714 | 1,303 |
| NON-COMPETE PAYABLE | 5,105 | 5,334 |
| | 277,659 | 246,434 |
| **SHAREHOLDERS' EQUITY** | | |
| CAPITAL STOCK | 49,973 | 49,910 |
| CONTRIBUTED SURPLUS | 1,982 | 1,905 |
| RETAINED EARNINGS | 110,479 | 105,055 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | 5,723 | 4,242 |
| | 168,157 | 161,112 |
| | 445,816 | 407,546 |

***See accompanying Notes***

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

*(in thousands of dollars, except where specified otherwise)*
*(unaudited)*

| | three months ended March 31, 2009 (#) | 2008 (#) |
|---|---|---|
| **SHARE CAPITAL** | | |
| *(in thousands of shares)* | | |
| Shares outstanding – beginning of year | 12,565 | 12,341 |
| Stock option plan | --- | 9 |
| Share purchase plan | 5 | 2 |
| Shares outstanding – end of period | 12,570 | 12,352 |

| | ($) | ($) |
|---|---|---|
| Shares outstanding – beginning of year | 49,910 | 46,023 |
| Stock option plan | --- | 200 |
| Share purchase plan | 63 | 48 |
| Shares outstanding – end of period | 49,973 | 46,271 |
| **CONTRIBUTED SURPLUS** | | |
| Balance - beginning of year | 1,905 | 4,045 |
| Stock-based compensation | 77 | 402 |
| Exercise of stock options | --- | (67) |
| Balance – end of period | 1,982 | 4,380 |
| **RETAINED EARNINGS** | | |
| Balance - beginning of year | 105,055 | 80,745 |
| Net earnings for the period | 7,687 | 5,323 |
| Dividends on common shares | (2,263) | --- |
| Balance – end of period | 110,479 | 86,068 |
| **ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Balance - beginning of year | 4,242 | (3,056) |
| Other comprehensive income | 1,481 | 542 |
| Balance – end of period | 5,723 | (2,514) |
| **SHAREHOLDERS' EQUITY** | 168,157 | 134,205 |

*See accompanying Notes*

## CONSOLIDATED STATEMENTS OF EARNINGS

| *(in thousands of dollars, except per share data)* *(unaudited)* | three months ended March 31, 2009 ($) | 2008 ($) |
|---|---|---|
| SALES | 111,954 | 66,182 |
| EXPENSES | | |
| Cost of sales | 89,435 | 52,326 |
| Selling and administrative | 5,783 | 2,862 |
| Foreign exchange gain | (7) | (175) |
| Loss on derivative financial instruments | 850 | --- |
| Amortization of capital and intangible assets | 2,611 | 1,583 |
| Gain on disposal of capital assets | (31) | (30) |
| | 98,641 | 56,566 |
| OPERATING EARNINGS | 13,313 | 9,616 |
| INTEREST ON LONG-TERM DEBT | 1,573 | 956 |
| OTHER INTEREST | 565 | 450 |
| EARNINGS BEFORE INCOME TAXES | 11,175 | 8,210 |
| PROVISION FOR INCOME TAXES | 3,488 | 2,887 |
| NET EARNINGS FOR THE PERIOD | 7,687 | 5,323 |
| NET EARNINGS PER COMMON SHARE (Note 4) | 0.61 | 0.43 |
| DILUTED NET EARNINGS PER COMMON SHARE (Note 4) | 0.61 | 0.42 |

***See accompanying Notes***

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| *(in thousands of dollars)* *(unaudited)* | three months ended March 31, 2009 ($) | 2008 ($) |
|---|---|---|
| NET EARNINGS FOR THE PERIOD | 7,687 | 5,323 |
| Other comprehensive income: | | |
| Net change in unrealized gains on translation of financial statements of self-sustaining foreign operation | 3,204 | 909 |
| Net change in unrealized losses on translation of long-term debt designated as a hedge of net investment in self-sustaining foreign operation | (1,516) | --- |
| Change in fair value (net of related taxes of $5 (2008 – related tax recovery of $56)) of derivatives designated as cash flow hedges | 13 | (213) |
| Reclassification to net earnings (net of related tax recovery of $99 (2008 – related tax recovery of $41)) of gains on cash flow hedges | (220) | (154) |
| | 1,481 | 542 |
| COMPREHENSIVE INCOME | 9,168 | 5,865 |

***See accompanying Notes***

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| *(in thousands of dollars)* *(unaudited)* | three months ended March 31, 2009 ($) | 2008 ($) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net earnings for the period | 7,687 | 5,323 |
| Adjustments for | | |
| Amortization of capital assets | 2,106 | 1,583 |
| Amortization of intangible assets | 505 | --- |
| Amortization of deferred financing charges | 17 | --- |
| Change in fair value of debt | 38 | --- |
| Gain on disposal of capital assets | (31) | (30) |
| Employee future benefits | 63 | 66 |
| Pension funds | 62 | --- |
| Stock-based compensation | 77 | 402 |
| Loss on derivative financial instruments | 850 | --- |
| Other | (53) | (16) |
| | 11,321 | 7,328 |
| CHANGES IN NON-CASH WORKING CAPITAL COMPONENTS | | |
| Accounts receivable | (20,040) | (13,338) |
| Inventories | (16,614) | (613) |
| Prepaid expenses | 464 | (640) |
| Income taxes receivable | 760 | (809) |
| Accounts payable and accrued liabilities | 12,817 | (6,746) |
| Customer deposits | (1,327) | --- |
| Asset retirement obligations | 93 | 377 |
| | (23,847) | (21,769) |
| | (12,526) | (14,441) |
| **CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES** | | |
| Increase in bank indebtedness | 16,731 | 15,766 |
| Increase in long-term debt | --- | 321 |
| Repayment of long-term debt | (1,775) | (1,212) |
| Proceeds from issuance of common shares | 63 | 181 |
| Non-compete payable | (387) | --- |
| | 14,632 | 15,056 |
| **CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES** | | |
| Increase in other assets | 32 | 29 |
| Purchase of capital assets | (1,618) | (674) |
| Assets held for sale | (565) | --- |
| Proceeds from disposal of capital assets | 45 | 30 |
| | (2,106) | (615) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS – DURING THE PERIOD | --- | --- |
| CASH AND CASH EQUIVALENTS – BEGINNING AND END OF THE PERIOD | --- | --- |
| SUPPLEMENTAL DISCLOSURE | | |
| Interest paid | 2,845 | 1,436 |
| Income taxes paid | 2,741 | 3,428 |

***See accompanying Notes***

## NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

The interim consolidated financial statements for the three months ended March 31, 2009 and 2008, 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, shareholders' equity, earnings, comprehensive income and cash flows.

The interim consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") on a basis consistent with those followed in the annual consolidated financial statements of the Company for the year ended December 31, 2008, except for new accounting policies that were adopted January 1, 2009, 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, its wholly-owned Canadian subsidiaries, Guelph Utility Pole Company Ltd., I.P.B.-W.P.I. International Inc., Stella-Jones Canada Inc. (formerly Bell Pole Canada Inc.) and its wholly-owned U.S. subsidiaries, Stella-Jones U.S. Holding Corporation, Stella-Jones Corporation, The Burke-Parsons-Bowlby Corporation, and Stella-Jones U.S. Finance Corporation. The consolidated accounts of Stella-Jones Canada Inc. 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 CICA issued the following accounting standard which was adopted by the Company effective January 1, 2009:

- Handbook Section 3064, "Goodwill and Intangible Assets" replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Section 1000, "Financial Statement Concepts" was amended according to Section 3064. This new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit oriented companies. The Company has assessed that the impact of this new accounting standard is not significant. Additionally, the new required disclosures have been included in Note 3.

On January 20, 2009, the Emerging Issues Committee (EIC) of the Canadian Accounting Standards Board (AcSB) issued EIC Abstract 173, "Credit Risk and Fair Value of Financial Assets and Financial Liabilities", which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC Abstract 173 should be applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The Company has assessed that the impact of EIC Abstract 173 is not significant.

**NOTE 1 – (cont'd.)**

**Impact of accounting pronouncements not yet implemented**

The CICA issued the following accounting standards which will be adopted by the Company effective January 1, 2011:

- Handbook Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company is currently evaluating the impact of the adoption of this new accounting standard on its consolidated financial statements.

- Handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), "Consolidated and Separate Financial Statements". Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new accounting standards on its consolidated financial statements.

Additionally, in February 2008, Canada's Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") would be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting IFRS on its consolidated financial statements.

**NOTE 2 – HEDGING TRANSACTION**

On January 1, 2009, the Company ceased hedge accounting on its foreign exchange forward contracts. As these contracts were designated as cash flow hedges, their fair value incremental is recorded under "Accumulated Other Comprehensive Income" and will be recognized in earnings over the designated underlying period of foreign exchange forward contracts from March 2009 to December 2010.

**NOTE 3 – GOODWILL AND INTANGIBLE ASSETS**

Goodwill was recorded as part of a purchase price allocation of a previous year business acquisition. Goodwill is not amortized and will be subject to an annual impairment test, or more frequently, if events or changes in circumstances indicate that it might be impaired. For the three-month period ended March 31, 2009, no adjustments were required.

Intangible assets are comprised of customer relationships and non-compete agreements which are recorded at cost and amortized straight-line basis over their useful lives. The amortization method and estimated useful life are reviewed on an annual basis:

| | |
|---|---|
| Customer relationships | 3 to 10 years |
| Non-compete agreements | 6 years |

**NOTE 3 – (cont'd.)**

For the three-month period ended March 31, 2009, no additions and no impairment adjustments were recorded. The amortization expense for customer relationships and the non-compete agreements were $211,892 and $293,202 respectively. As at March 31, 2009, the net book value of these assets was as follows:

| *(in thousands of dollars)* | **Cost** $ | **Accumulated amortization** $ | **Net book value** $ |
|---|---|---|---|
| Customer relationships | 5,524 | 863 | 4,661 |
| Non-compete agreements | 7,177 | 1,196 | 5,981 |
| | 12,701 | 2,059 | 10,642 |

**NOTE 4 – EARNINGS PER SHARE**

The following table provides the reconciliation between net earnings per common share and diluted net earnings per common share for the three-month periods ended March 31:

| | **three months ended March 31,** | |
|---|---|---|
| | **2009** | **2008** |
| Net earnings applicable to common shares* | $7,687 | $5,323 |
| Weighted average number of common shares outstanding* | 12,566 | 12,348 |
| Effect of dilutive stock options* | 126 | 352 |
| Weighted average number of diluted common shares outstanding* | 12,692 | 12,700 |
| Net earnings per common share | $0.61 | $0.43 |
| Diluted net earnings per common share | $0.61 | $0.42 |

* *Net earnings are presented in thousands of dollars and share information is presented in thousands.*

**NOTE 5 – EMPLOYEE FUTURE BENEFITS**

The recognized cost for employee future benefits was as follows:

| | **three months ended March 31,** | |
|---|---|---|
| *(in thousands of dollars)* | **2009** ($) | **2008** ($) |
| Post retirement benefit program | 63 | 66 |
| Defined benefit pension plans | 62 | 38 |
| Contributions to multi-employer plans | 75 | 78 |
| Contributions to group retirement savings plans | 331 | 209 |

**NOTE 6 – SEASONALITY**

The Company's 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 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 7 – SEGMENT INFORMATION**

The Company operates within one dominant business segment, the production and sale of pressure treated wood.

**NOTE 8 – COMPARATIVE FIGURES**

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