Hardwoods Announces 2011 Second Quarter Results and Declares Quarterly Dividend

TRADING SYMBOL: **Toronto Stock Exchange - HWD**

A conference call to discuss second quarter 2011 financial results will be held on Tuesday, August 9, 2011 at 8:00 a.m. Pacific Time (11:00 a.m. Eastern). The call can be accessed by dialing: 1-888-231-8191 or 647-427-7450. A replay will be available until August 26, 2011 at: 1-855-859-2056 or 416-849-0833 (Passcode 85298376 followed by the number sign).

LANGLEY, BC, Aug. 8, 2011 /CNW/ - This press release discusses financial results for Hardwoods Distribution Income Fund (the "Fund") for the three and six-month periods ended June 30, 2011. During these periods, the Fund held, indirectly, securities which represented an 80% ownership interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP (collectively, "Hardwoods").

Subsequent to the end of the second quarter, the Fund was converted to a publicly traded corporation named Hardwoods Distribution Inc. ("HDI" or the "Company"). As part of that process, unitholders of the Fund exchanged their units for common shares of Hardwoods Distribution Inc. on a one-for-one basis. Concurrently, HDI acquired the remaining 20% interest in the securities of Hardwoods that the Fund did not previously own, and the Fund was wound up into HDI. Hardwoods Distribution Inc. now owns 100% of Hardwoods, and trades on the Toronto Stock Exchange under the symbol HWD.

HDI is one of North America's largest wholesale distributors of hardwood lumber and related sheet good products, operating a network of 26 distribution centres in the US and Canada.

Second Quarter Highlights

(For the three months ended June 30, 2011)

- Second quarter revenue increased 8.6% to $56.7 million compared to the second quarter of 2011.
- EBITDA increased 6.5% to $2.5 million compared to the second quarter of 2011.
- Second quarter profit increased 1.1% to $1.5 million compared to the second quarter of 2011.
- Distributable Cash increased to $2.4 million or $0.130 per unit, from $2.1 million or $0.117 per unit in the same period in the prior year.
- Unitholders of the Fund voted 99.9% in favour of converting the Fund to a corporation. The conversion was completed on July 1, 2011.
- The Fund's US operating subsidiary renewed its US$25 million revolving credit facility for an additional four-year term under more favourable terms, including improved borrowing rates, a more flexible covenant and an enhanced calculation of the borrowing base under the facility.
- The Board of Directors announce a quarterly dividend of $0.02 per share, payable on October 31, 2011 to shareholders of record on October 20, 2011.

"Our market expansion strategies continued to drive sales growth in both the second quarter and first half of 2011," said Lance Blanco, President and CEO of Hardwoods. "The addition of experienced sales reps in high-potential markets, our increased emphasis on the commercial and institutional markets, and successful leveraging of our import program were key factors in the 8.6% and 8.0% year-over-year increase in sales for the second quarter and first six months respectively. This is the fifth consecutive quarter in which we have improved our sales performance compared to the same quarter in the previous year."

"We view these gains as significant given the negative impact of a stronger Canadian dollar and continued weakness in the US residential construction market. While new housing starts increased to a seasonally adjusted rate of 629,000 units in June according the US Census Bureau, this is still roughly half the 1.2 million homes per year that economists say must be built to reflect a long term sustainable housing market. Hardwood lumber pricing also remained flat, although we were able to capitalize on slightly stronger prices for sheet goods with increased volumes of imported products."

"I am pleased to report that our higher sales contributed to improved second quarter gross profit, EBITDA, profit and Distributable Cash results. This was despite a slight reduction in gross margins and an increase in operating expense. Our margins continue to be constrained by a combination of weak market demand and strong competition, but remain in line with our expectations for this point in the market cycle. The higher operating costs reflect increased staffing to support sales growth and non-recurring expenses related to our recent conversion to a corporation. Six-month operating costs also reflect the absence of a one-time $0.3 million recovery from a lawsuit settlement that helped reduce our 2010 first half expense results. Factoring out the impact of these unusual items, our second quarter and year-to-date Distributable Cash performance would have improved by 25% in both periods, as demonstrated in the table below."

Selected Unaudited Consolidated Financial Information
(in thousands of dollars except per unit amounts)

	3 months ended June 30, 2011	3 months ended June 30, 2010	6 months ended June 30, 2011	6 months ended June 30, 2010
Distributable Cash as reported	$ 2,373	$ 2,105	$ 2,910	$ 3,097
Add (deduct)				
Corporate conversion costs	271	-	571	-
Proceeds received from litigation settlement	-	-	-	(320)
Adjusted Distributable Cash	$ 2,644	$ 2,105	$ 3,481	$ 2,777

"Overall we are encouraged by our improving results and by our increased ability to generate cash. Based on this performance, our Board of Directors has declared a quarterly dividend of $0.02 per share to be paid on October 31st of this year. The decision to initiate a dividend reflects our confidence in our ability to continue generating improved performance for our investors," said Mr. Blanco.

Summary of Results

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars except where noted)

	3 months ended	3 months ended	6 months ended	6 months ended

		June 30, 2011		June 30, 2010		June 30, 2011		June 30, 2010
Total sales	$	56,718	$	52,206	$	108,748	$	100,704
Sales in the US (US$)		*35,450*		*30,353*		*67,290*		*58,056*
Sales in Canada		*22,370*		*20,978*		*43,012*		*40,663*
Gross profit		10,085		9,323		19,184		17,952
Gross profit %		*17.8%*		*17.9%*		*17.6%*		*17.8%*
Operating expenses		(7,762)		(7,252)		(16,534)		(14,971)
Profit from operating activities		2,323		2,071		2,650		2,981
Add: Depreciation		219		316		450		646
Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	$	2,542	$	2,387	$	3,100	$	3,627
Add (deduct):								
Depreciation		(219)		(316)		(450)		(646)
Net finance cost		(47)		297		(782)		171
Income tax expense		(765)		(873)		(1,058)		(1,088)
Profit for the period	$	1,511	$	1,495	$	810	$	2,064
Basic and fully diluted profit per Class A Unit	$	0.10	$	0.10	$	0.06	$	0.14
Average Canadian dollar exchange rate for one US dollar		0.968		1.028		0.977		1.034

Distributable Cash and Cash Distributions

Selected Unaudited Consolidated Financial Information
(in thousands of dollars except per unit amounts)

		Three months ended June 30, 2011		Three months ended June 30, 2010		Six months ended June 30, 2011		Six months ended June 30, 2010
Net cash provided by (used in) operating activities	$	(2,862)	$	(3,318)	$	(2,034)	$	(6,897)
Increase (decrease) in non-cash operating working capital and income taxes paid / received		5,498		5,638		5,417		10,435
		2,636		2,320		3,383		3,538
Principal repayments on finance lease obligation		(175)		(192)		(343)		(387)
Capital expenditures		(88)		(23)		(130)		(54)
Distributable Cash	$	2,373	$	2,105	$	2,910	$	3,097
Distributions relating to the period:								
Class A Units		-		-		-		-
Class B Units(1)		-		-		-		-
Total Units	$	-	$	-	$	-	$	-
Weighted average outstanding units and per unit amounts:								
Class A Units outstanding		14,604,085		14,410,000		14,563,972		14,410,000
Class B Units outstanding		3,602,500		3,602,500		3,602,500		3,602,500
Total Units outstanding		18,206,585		18,012,500		18,166,472		18,012,500
Distributable Cash per Total Units	$	0.130	$	0.117	$	0.160	$	0.172
Distributions relating to the period:								
Class A Units	$	-	$	-	$	-	$	-
Class B Units(1)	$	-	$	-	$	-	$	-
Total Units	$	-	$	-	$	-	$	-
Payout ratio(2)		0.0%		0.0%		0.0%		0.0%

March 23, 2004
to June 30,

	2011
Cumulative since inception:	
Distributable Cash	82,545 [3]
Distributions relating to the period	66,754
Payout ratio[2]	80.9%

[1] On January 10, 2006, Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, limited partnerships in each of which the Fund owns an 80% interest, announced that quarterly distributions were suspended on the Class B LP and Class B US LP units. The Class B LP units and Class B US LP units represent a 20% interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, respectively. No distributions are to be paid on the Class B LP units and Class B US LP units unless distributions in stipulated minimum amounts are paid on the units in the limited partnerships held by the Fund, and in certain other circumstances. Accordingly, no distributions have been declared since the third quarter of 2005 to the non-controlling interests. No liability for distributions payable to the non-controlling interests is reflected in the June 30, 2011 balance sheet.

[2] Payout ratio measures the ratio of distributions by the Fund relating to the period to Distributable Cash for the period.

[3] Information for Q1 2010, Q2 2010, Q1 2011, and Q2 2011are in accordance with IFRS. All other periods are in accordance with Canadian GAAP.

Results from Operations - Three Months Ended June 30, 2011

For the three months ended June 30, 2011, total sales increased by 8.6% to $56.7 million, from $52.2 million in Q2 2010. The year-over-year sales growth reflects a 12.7% increase in underlying sales activity, partially offset by a 4.1% decrease in sales due to the negative effect of a stronger Canadian dollar on US sales. Sales in the United States, as measured in US dollars, increased by 16.8% to $35.5 million. Sales in Canada, a market which experienced more stable ongoing demand for hardwoods through the recent economic downturn, increased by 6.6% to $22.4 million.

Second quarter gross profit increased to $10.1 million, from $9.3 million in Q2 2010. This reflects the higher sales revenue, partially offset by a slightly lower gross profit margin. Gross profit as a percentage of sales was 17.8%, compared to 17.9% in Q2 2010. Management views a 17.8% gross margin as appropriate given competitive conditions at this point in the business cycle.

Operating expenses in the second quarter were $7.8 million, compared to $7.3 million during the same period in 2010. The most significant contributor to the increase in operating expenses was $0.3 million related to the conversion of the Fund to a corporation. The balance primarily reflects higher personnel costs related to Hardwoods' market expansion strategies.

Second quarter EBITDA of $2.5 million, was up 6.5% from $2.4 million during the same period in 2010. This increase reflects higher gross profit, partially offset by higher operating expenses.

For the three months ended June 30, 2011 the Fund and its subsidiaries generated Distributable Cash of $2.4 million, or $0.130 per unit. By comparison, the Fund reported Distributable Cash of $2.1 million or $0.117 per unit in the second quarter of 2010. No distributions were paid to either the public unitholders (Class A Units) or to the Class B Units in either period.

Results from Operations - Six Months Ended June 30, 2011

For the six months ended June 30, 2011, total sales increased by 8.0% to $108.7 million, from $100.7 million in the first half of 2010. This performance improvement reflects an 11.8% increase in underlying sales activity, partially offset by a 3.8% decrease in sales due to the negative effect of a stronger Canadian dollar. The improvement in underlying sales reflects increased sheet goods sales, as well as strategic efforts to leverage Hardwoods' import program, add proven industry sales professionals to the staff and diversify the customer base. Sales in the United States, as measured in US dollars, increased by 15.9% to $67.3 million. Sales in Canada, in Canadian dollars, increased by 5.8% to $43 million.

First half gross profit increased to $19.2 million, from $18.0 million in the first six months of 2010. This gain reflects the higher sales revenue, partially offset by a weaker gross profit margin. Gross profit as a percentage of sales was 17.6% in the first half of 2011, in line with expectations, but lower than the 17.8% achieved during the same period in 2010.

First half operating expenses were $16.5 million, compared to $15.0 million during the same period in 2010. The $1.5 million increase in operating expenses reflects increased personnel costs to support higher sales, costs incurred to convert the Fund to a corporation, and the absence of a $0.3 million recovery from a lawsuit settlement that helped reduce first half 2010 expense results.

The Fund reported six-month EBITDA of $3.1 million, compared to $3.6 million during the same period in 2010. The $0.5 million decrease in EBITDA reflects higher operating expenses, partially offset by higher gross profit.

For the six months ended June 30, 2011 the Fund and its subsidiaries generated Distributable Cash of $2.9 million, or $0.160 per unit. By comparison, the Fund reported Distributable Cash of $3.1 million or $0.172 per unit in the first half of 2010. No distributions were paid to either the public unitholders (Class A Units) or to the Class B Units in either period.

Outlook

HDI's outlook going forward remains cautious. Although US residential construction activity has improved slightly from a year ago, the pace of new housing starts remains at historically low levels. Industrial and commercial construction markets are faring better, but here too, the pace of recovery is slow.

In Canada, industry forecasts continue to call for a slight dip in Canadian housing starts in 2011 compared to 2010. The stronger Canadian dollar is also having a negative impact on the competitiveness of Canadian manufacturers selling finished products into the US, while also reducing HDI's own selling prices for US-sourced lumber and panels.

Despite these challenges, HDI expects to achieve continued performance improvements in 2011 as it implements its new business strategy. The strategy focuses on:

1. Increasing end-market diversification with a stronger focus on the commercial and institutional construction markets;
2. Leveraging of the company's successful import program to grow sales and build market share; and
3. Achieving increased market share with a sharpened focus on larger, high-potential geographic markets.

Operating expenses are expected to continue trending somewhat higher in 2011 as these strategies are implemented and the Company supports increased sales activity.

Overall, HDI's priorities for the balance of the year remain unchanged with continued focus on executing the strategy while tightly managing the business.

A more detailed discussion of the Fund's financial performance can be found in its Management's Discussion and Analysis (MD&A) for the three months ended June 30, 2011. The MD&A will be posted, along with the Fund's condensed consolidated interim financial statements on SEDAR (www.sedar.com) and on the Fund's website http://www.hardwoods-inc.com.

About Hardwoods Distribution Inc.

Hardwoods Distribution Inc. ("HDI") is a publicly traded company that holds, indirectly, a 100% ownership interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP (collectively, "Hardwoods" or the "Business"). Formerly the Hardwoods Distribution Income Fund (the "Fund"), HDI was formed by the Fund in order to convert from an income trust structure to a corporation. The Fund was converted to a corporation by way of a plan of arrangement effective July 1, 2011.

Pursuant to the conversion, all outstanding units of the Fund held by unitholders were exchanged for common shares of Hardwoods Distribution Inc. on a one-for-one basis. All of the Class B limited partner units in the Fund's operating subsidiaries, which represented a 20% equity interest in Hardwoods and were held by the former owners of the Business, were exchanged for common shares of Hardwoods Distribution Inc. on the basis of 0.3793 common shares per Class B limited partner unit. As a result of these arrangements, Hardwoods Distribution Inc. owns 100% of Hardwoods, whereas previously the Fund owned 80% of the Business, and the Fund has been wound up into HDI. Hardwoods Distribution Inc. is listed on the Toronto Stock Exchange and trades under the symbol HWD.

HDI's results are based upon the performance of Hardwoods.

About Hardwoods

Hardwoods is one of North America's largest distributors of high-grade hardwood lumber and sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. The Company currently operates a network of 26 distribution centers in the U.S. and Canada.

Non-GAAP Measures - EBITDA and Distributable Cash

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, where interest is defined as net finance expense as per the Fund's consolidated statement of comprehensive income. In addition to profit or loss, EBITDA is a useful supplemental measure of performance and cash available for distribution prior to debt service, changes in working capital, capital expenditures and income taxes.

References to "Distributable Cash" is to net cash provided by operating activities, before changes in non-cash operating working capital and cash income taxes, less capital expenditures and contributions to any reserves that the Boards of Directors of Hardwoods' operating entities determine to be reasonable and necessary for the operation of the businesses owned by these entities.

Hardwoods believes that, in addition to profit or loss, EBITDA and Distributable Cash are each a useful supplemental measure of operating performance that may assist investors in assessing their investment in HDI. Neither EBITDA nor Distributable Cash are earnings measures recognized by International Financial Reporting Standards ("IFRS") and they do not have a standardized meaning prescribed by IFRS. Investors are cautioned that EBITDA should not replace profit or loss (as determined in accordance with IFRS) as an indicator of our performance, nor should Distributable Cash replace cash flows from operating, investing and financing activities or as a measure of liquidity and cash flows. HDI's method of calculating EBITDA and Distributable Cash may differ from the methods used by other issuers. Therefore, the EBITDA and Distributable Cash results reported here may not be comparable to similar measures presented by other issuers. For reconciliation between EBITDA and profit or loss as determined in accordance with IFRS, and for reconciliation between Distributable Cash and net cash provided by operating activities as determined in accordance with IFRS, please refer to the Fund's Management's Discussion and Analysis (MD&A) for the three months ended June 30, 2011 which will be posted on SEDAR (www.sedar.com) and on HDI's website http://www.hardwoods-inc.com.

Additional guidance regarding disclosure of distributable cash and cash distributions was issued in 2007 in an interpretative release by the Canadian Institute of Chartered Accountants (the "CICA") in respect of "Standardized Distributable Cash in Income Trusts and other Flow Through Entities" and National Policy 41-201 of the Canadian Securities Administrators "Income Trusts and other Indirect Offerings" (collectively, the "Interpretative Guidance"). For disclosure and discussion of the Fund's Standardized Distributable Cash in accordance with the Interpretive Guidance, please refer to the Fund's Management's Discussion and Analysis (MD&A) for the three months ended June 30, 2011 which will be posted on SEDAR (www.sedar.com) and on the Fund's website http://www.hardwoods-inc.com

Forward-Looking Statements

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

This news release includes forward-looking statements. These involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "estimate", "expect", "may", "plan", "will", and similar terms and phrases, including references to assumptions. Such statements may involve, but are not limited to: that HDI's outlook going forward remains cautious; our belief that the stronger Canadian dollar is also having a negative impact on the competitiveness of Canadian manufacturers selling finished products into the US, while also reducing HDI's own selling prices for US-sourced lumber and panels; our expectation that HDI will achieve continued performance improvements in 2011 as it implements its new business strategy; and our expectation that operating expenses will continue to trend somewhat higher in 2011 as our strategies are implemented and the Company supports increased sales activity.

These forward-looking statements reflect current expectations of management regarding future events and operating performance as of the date of this news release. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to: national and local business conditions; political or economic instability in local markets; competition; consumer preferences; spending patterns and demographic trends; legislation or governmental regulation.

Although the forward-looking statements contained in this news release are based upon what management believes to be reasonable assumptions, management cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements reflect management's current beliefs and are based on information currently available.

All forward-looking information in this news release is qualified in its entirety by this cautionary statement and, except as may be required by law, HDI undertakes no obligation to revise or update any forward looking information as a result of new information, future events or otherwise after the date hereof.

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