

METWOOD INC  
Form 10QSB  
May 05, 2006

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-QSB  
\_\_\_\_\_

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2006**

**TRANSITION REPORT UNDER SECTION 12 OR 15(d) OF THE EXCHANGE  
ACT**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 000-05391**

\_\_\_\_\_

**METWOOD, INC.**  
(Exact name of registrant as specified in its charter)

\_\_\_\_\_

**NEVADA**  
(State or other jurisdiction  
of incorporation)

**83-0210365**  
(IRS Employer  
Identification No.)

**819 Naff Road, Boones Mill, VA 24065**  
(Address of principal executive offices)

**(540) 334-4294**  
(Issuer's telephone number)

\_\_\_\_\_

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Number of shares of common stock outstanding as of May 5, 2006: 11,905,299

Transitional Small Business Disclosure Format (Check one) Yes  No

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**METWOOD, INC. AND SUBSIDIARY**  
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## Item 1 Financial Statements

**METWOOD, INC. AND SUBSIDIARY**  
**Consolidated Condensed Balance Sheet**  
**March 31, 2006**  
*(unaudited)*

## ASSETS

## CURRENT ASSETS

|   |    |                  |
|---|----|------------------|
| Cash and Cash Equivalents                         | \$ | 181,817          |
| Accounts Receivable, net of allowance of \$10,262 |    | 389,792          |
| Inventory   |    | 792,237          |
| Recoverable Income Taxes                          |    | 5,127            |
| Other Current Assets                              |    | 90,999           |
| <b>TOTAL CURRENT ASSETS</b>                       |    | <b>1,459,972</b> |

## PROPERTY AND EQUIPMENT

|   |                |
|---|----------------|
| Furniture, fixtures and equipment           | 75,851         |
| Computer hardware, software and peripherals | 147,558        |
| Machinery and shop equipment                | 266,806        |
| Leasehold improvements                      | 117,957        |
| Vehicles                                    | 316,488        |
|   | 924,660        |
| Accumulated Depreciation                    | (447,026)      |
| <b>Net Property and Equipment</b>           | <b>477,634</b> |

## OTHER ASSETS

|                     |                     |
|---------------------|---------------------|
| Goodwill            | 253,088             |
| Net Other Assets    | 253,088             |
| <b>TOTAL ASSETS</b> | <b>\$ 2,190,694</b> |

## LIABILITIES AND STOCKHOLDERS' EQUITY

## LIABILITIES

## Current Liabilities:

|                                  |    |                |
|----------------------------------|----|----------------|
| Accounts Payable                 | \$ | 168,910        |
| Accrued Expenses                 |    | 25,285         |
| Customer Deposits                |    | 5,000          |
| Income Taxes Payable             |    | 17,775         |
| <b>TOTAL CURRENT LIABILITIES</b> |    | <b>216,970</b> |

|                                    |                |
|------------------------------------|----------------|
| Deferred Income Taxes, net         | 103,959        |
| <b>TOTAL LONG-TERM LIABILITIES</b> | <b>320,929</b> |

## STOCKHOLDERS' EQUITY

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Common Stock (\$.001par value, 100,000,000 shares  
authorized:

|   |        |
|---|--------|
| 11,905,299 shares issued and outstanding) | 11,905 |
|---|--------|

Common Stock Subscribed but not Issued (\$.001 par,  
2,950 shares)

3

|                            |           |
|----------------------------|-----------|
| Additional Paid-in-Capital | 1,307,933 |
|----------------------------|-----------|

|                   |         |
|-------------------|---------|
| Retained Earnings | 549,924 |
|-------------------|---------|

|                                   |                  |
|-----------------------------------|------------------|
| <b>TOTAL STOCKHOLDERS' EQUITY</b> | <b>1,869,765</b> |
|-----------------------------------|------------------|

**TOTAL LIABILITIES AND STOCKHOLDERS'  
EQUITY**

**\$ 2,190,694**

The accompanying notes are an integral part of the consolidated financial statements

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**METWOOD, INC. AND SUBSIDIARY**  
**Consolidated Income Statements**  
**For the three and nine months ended March 31, 2006 and 2005**  
**(unaudited)**

|                                      | Three Months Ended March 31, |              | Nine Months Ended March 31, |              |
|--------------------------------------|------------------------------|--------------|-----------------------------|--------------|
|                                      | 2006                         | 2005         | 2006                        | 2005         |
| <b>REVENUES</b>                      |                              |              |                             |              |
| Construction Sales                   | \$ 880,085                   | \$ 985,773   | \$ 2,906,438                | \$ 2,817,162 |
| Engineering sales                    | 53,277                       | 96,021       | 186,319                     | 276,828      |
| Gross Sales                          | 933,362                      | 1,081,794    | 3,092,757                   | 3,093,990    |
| Cost of construction sales           | 523,106                      | 560,395      | 1,721,908                   | 1,467,463    |
| Cost of engineering sales            | 45,241                       | 50,331       | 120,190                     | 175,175      |
| Gross cost of sales                  | 568,347                      | 610,726      | 1,842,098                   | 1,642,638    |
| Gross Profit                         | 365,015                      | 471,068      | 1,250,659                   | 1,451,352    |
| <b>ADMINISTRATIVE EXPENSES:</b>      |                              |              |                             |              |
| Advertising                          | 64,811                       | 13,087       | 188,252                     | 101,620      |
| Construction/bidding data            | 375                          | 3,148        | 7,212                       | 14,547       |
| Depreciation                         | 15,081                       | 9,216        | 40,910                      | 42,252       |
| Dues and publications                | 2,186                        | (3,437)      | 9,433                       | 7,505        |
| Insurance                            | 13,247                       | 9,010        | 46,200                      | 43,146       |
| Office expenses                      | 10,982                       | 22,814       | 43,559                      | 50,002       |
| Payroll expenses                     | 182,984                      | 154,465      | 519,772                     | 425,445      |
| Professional fees                    | 9,567                        | 6,057        | 36,799                      | 34,772       |
| Rent                                 | 18,600                       | 18,600       | 55,800                      | 18,700       |
| Repairs and maintenance              | 3,367                        | 600          | 6,520                       | 600          |
| Telephone                            | 8,683                        | 7,577        | 24,521                      | 20,858       |
| Travel                               | 12,609                       | 9,897        | 30,636                      | 19,673       |
| Vehicle                              | 11,798                       | 5,769        | 26,220                      | 21,706       |
| Other                                | 25,083                       | 16,965       | 77,795                      | 53,280       |
| Total administrative expenses        | 379,373                      | 273,768      | 1,113,629                   | 854,106      |
| OPERATING INCOME (LOSS)              | (14,358)                     | 197,300      | 137,030                     | 597,246      |
| OTHER INCOME (EXPENSE)               | 1,916                        | (372,689)    | 11,344                      | (369,395)    |
| INCOME (LOSS) BEFORE INCOME TAXES    | (12,442)                     | (175,389)    | 148,374                     | 227,851      |
| INCOME TAXES                         | 10,193                       | 53,500       | (47,262)                    | (83,500)     |
| NET INCOME (LOSS)                    | \$ (2,249)                   | \$ (121,889) | \$ 101,112                  | \$ 144,351   |
| Basic and diluted earnings per share | \$ **                        | \$ (0.01)    | \$ 0.01                     | \$ 0.01      |

Weighted Average Common

|                    |            |            |            |            |
|--------------------|------------|------------|------------|------------|
| Shares Outstanding | 11,905,299 | 11,877,499 | 11,891,054 | 11,875,749 |
|--------------------|------------|------------|------------|------------|

\*\* Less than .01

The accompanying notes are an integral part of the consolidated financial statements

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**METWOOD, INC. AND SUBSIDIARY**  
**Consolidated Statements of Cash Flows**  
**For the nine months ended March 31, 2006 and 2005**  
**(unaudited)**

|   | 2006             | 2005             |
|---|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                  |                  |
| Net Income  | \$ 101,112       | \$ 144,351       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |                  |
| Depreciation  | 80,375           | 42,252           |
| Net loss on sale of property and equipment  | -                | 368,813          |
| Provision for deferred income taxes   | 14,998           | -                |
| Common stock issued for services rendered   | 3,135            | -                |
| (Increase) decrease in operating assets:  |                  |                  |
| Accounts receivable   | 94,242           | (173,256)        |
| Inventory   | (62,776)         | (44,849)         |
| Recoverable income taxes  | 25,539           | -                |
| Other current assets  | (22,776)         | (107,374)        |
| Increase (decrease) in operating liabilities:                                     |                  |                  |
| Accounts payable, accrued expenses and customer deposits                          | (70,096)         | (167,382)        |
| Current income taxes payable  | (3,543)          | (19,327)         |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>160,210</b>   | <b>43,228</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                  |                  |
| Proceeds from sale of fixed assets  | -                | 600,000          |
| Purchases of property and equipment   | (213,000)        | (35,312)         |
| <b>NET CASH (USED IN) INVESTING ACTIVITIES</b>                                    | <b>(213,000)</b> | <b>564,688</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                  |                  |
| Repayment of long term debt   | -                | (125,020)        |
| Net borrowings from (repayment of ) related party                                 | -                | -                |
| Repayment under line of credit arrangement  | -                | (422,000)        |
| Common stock issued for cash  | -                | 7,875            |
| <b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>                        | <b>-</b>         | <b>(539,145)</b> |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                       | <b>(52,790)</b>  | <b>68,771</b>    |
| <b>CASH AND CASH EQUIVALENTS:</b>   |                  |                  |



|                     |         |         |
|---------------------|---------|---------|
| Beginning of period | 234,607 | 37,736  |
| End of period       | 181,817 | 106,507 |

The accompanying notes are an integral part of the consolidated financial statements

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METWOOD, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 MARCH 31, 2006  
 (UNAUDITED)

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## NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity — Metwood, Inc. (“Metwood”) was organized under the laws of the Commonwealth of Virginia on April 7, 1993. On June 30, 2000, Metwood entered into an Agreement and Plan of Reorganization in which the majority of its outstanding common stock was acquired by a publicly held Nevada shell corporation. The acquisition was a tax-free exchange for federal and state income tax purposes and was accounted for as a reverse merger in accordance with Accounting Principles Board (“APB”) Opinion No. 16. Upon acquisition, the name of the shell corporation was changed to Metwood, Inc., and Metwood, Inc., the Virginia corporation, became a wholly owned subsidiary of Metwood, Inc., the Nevada corporation. The publicly traded shell corporation had not had a material operating history for several years prior to the merger.

Effective January 1, 2002, Metwood acquired certain assets of Providence Engineering, PC (“Providence”), a professional engineering firm with customers in the same proximity as Metwood. The total purchase price of \$350,000 was paid with \$60,000 in cash and with 290,000 shares of the Company’s common stock to the two Providence shareholders. These shares were valued at the closing active quoted market price of the stock at the effective date of the purchase, which was \$1.00 per share. One of the shareholders of Providence was also an officer and existing shareholder of Metwood prior to the acquisition. On January 15, 2004, Metwood purchased from that shareholder and retired 137,500 of the originally issued 290,000 shares for \$25,000. The initial purchase transaction was accounted for under the purchase method of accounting. The purchase price was allocated as follows:

|                     |    |         |
|---------------------|----|---------|
| Accounts receivable | \$ | 75,000  |
| Fixed assets        |    | 45,000  |
| Goodwill            |    | 230,000 |
| Total               | \$ | 350,000 |

The consolidated company (“the Company”) provides construction-related products and engineering services to residential customers and contractors, commercial contractors, developers and retail enterprises, primarily in southwestern Virginia.

Basis of Presentation — The financial statements include the accounts of Metwood, Inc. (a Nevada corporation) and its wholly owned subsidiary, Metwood Inc. (a Virginia corporation) prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission. All significant intercompany balances and transactions have been eliminated.

In the opinion of management, the unaudited condensed consolidated financial statements contain all the adjustments necessary in order to make the financial statements not misleading. The results for the period ended March 31, 2006 are not necessarily indicative of the results to be expected for the entire fiscal year ending June

30, 2006.

**Fair Value of Financial Instruments** — For certain of the Company's financial instruments, none of which are held for trading, including cash, recoverable income taxes, accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities.

**Management's Use of Estimates** — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Accounts Receivable** — The Company grants credit in the form of unsecured accounts receivable to its customers based on an evaluation of their financial condition. The Company performs ongoing credit evaluations of its customers. The estimate of the allowance for doubtful accounts, which is charged off to bad debt expense, is based on management's assessment of current economic conditions and historical collection experience with each customer. At March 31, 2006, the allowance for doubtful accounts was \$10,262. Specific customer receivables are considered past due when they are outstanding beyond their contractual terms and are charged off to the allowance for doubtful accounts when determined uncollectible. For the three and months ended March 31, 2006 and 2004, the bad debt expense was \$-0- for all periods.

**Inventory** — Inventory, consisting of metal and wood raw materials, is located on the Company's premises and is stated at the lower of cost or market using the first-in, first-out method.

**Property and equipment** — Property and equipment are recorded at cost and include expenditures for improvements when they substantially increase the productive lives of existing assets. Maintenance and repair costs are expensed to operations as incurred. Depreciation is computed using the straight-line method over the assets' estimated useful lives, which range from three to forty years.

When a fixed asset is disposed of, its cost and related accumulated depreciation are removed from the accounts. The difference between undepreciated cost and the proceeds from disposition is recorded as a gain or loss.

**Patents** — The Company has been assigned several key product patents developed by certain Company officers. No value has been recorded in the Company's financial statements because the fair value of the patents was not determinable within reasonable limits at the date of assignment.

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Recent Accounting Pronouncements— In December 2004, the FASB issued SFAS No. 123(R), "Accounting for Stock-Based Compensation". SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123(R) requires that the fair value of such equity instruments be recognized as expense in the historical financial statements as services are performed. Prior to SFAS 123(R), only certain pro-forma disclosures of fair value were required. SFAS 123(R) shall be effective for the Company as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The adoption of this new accounting pronouncement is expected to have a material impact on the financial statements of the Company commencing with the third quarter of the year ending September 30, 2006. Small business issuers need not comply with the new standard until fiscal periods beginning after December 15, 2005. We already disclose expense of employee stock options for annual and quarterly periods on fair value calculation according to SFAS No.123.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs" (SFAS 151). This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that those items be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 are effective for inventory costs incurred in fiscal years beginning after June 15, 2005.

## NOTE 2 — EARNINGS PER SHARE

Net income and earnings per share for the three and nine months ended March 31, 2006 and 2005 are as follows:

|  | For the Three Months Ended<br>December 31, |              | For the Nine Months Ended<br>December 31, |            |
|--|--|--------------|---|------------|
|  | 2006                                       | 2005         | 2006                                      | 2005       |
| Net income (loss)                          | \$ (2,249)                                 | \$ (121,889) | \$ 101,112                                | \$ 144,351 |
| Income per share - basic and fully diluted | **   | (0.01)       | .01                                       | .01        |
| Weighted average number of shares          | 11,905,299                                 | 11,877,499   | 11,891,054                                | 11,875,749 |

\*\*Less than \$.01

## NOTE 3 — SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the three and nine months ended March 31, 2006 and 2005 are summarized as follows:

|  | For the Three Months Ended<br>March 31, | For the Nine Months Ended<br>March 31, |
|--|---|--|
|--|---|--|

|                            | 2006  | 2005     | 2006  | 2005  |
|----------------------------|-------|----------|-------|-------|
| Cash paid for income taxes | \$ -- | \$ --    | \$ -- | \$ -- |
| Cash paid for interest     | \$ -- | \$ 6,469 | \$ -- | \$ -- |

#### NOTE 4 — RELATED-PARTY TRANSACTIONS

For the three and nine months ended March 31, 2006 and 2005, we had sales of \$-0-, \$-0-, \$-0- and \$50,288, respectively, to our shareholder and CEO, Robert Callahan. As of March 31, 2006, the related party receivable was \$-0-.

#### NOTE 5 — BANK CREDIT LINE

We have available a \$600,000 revolving line of credit with a local bank. We paid off this loan in full during the year ended June 30, 2005 from some of the proceeds from the sale of our land and building. Interest was payable monthly on the outstanding balance at the prime lending rate, which was 6.25% as of March 31, 2006. The note was secured by accounts receivable, equipment, general intangibles, inventory, and furniture and fixtures. The note was personally guaranteed by the Company's CEO. The balance outstanding as of March 31, 2006 was \$-0-.

#### NOTE 6 — SEGMENT INFORMATION

The Company operates in two principal business segments: (1) construction-related products and (2) engineering services. Performance of each segment is evaluated based on profit or loss from operations before income taxes. These reportable segments are strategic business units that offer different products and services. Summarized revenue and expense information by segment for the three and nine months ended March 31, 2006 and 2005, as excerpted from internal management reports, is as follows:

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|                              | For the Three Months Ended |              | For the Nine Months Ended |              |
|------------------------------|----------------------------|--------------|---------------------------|--------------|
|                              | March 31,                  |              | March 31,                 |              |
|                              | 2006                       | 2005         | 2006                      | 2005         |
| <b>Construction:</b>         |                            |              |                           |              |
| Sales                        | \$ 880,085                 | \$ 985,773   | \$ 2,906,438              | \$ 2,817,162 |
| Cost of sales                | (523,106)                  | (560,395)    | (1,721,908)               | (1,467,463)  |
| Corporate and other expenses | (362,725)                  | (537,954)    | (1,095,457)               | (1,246,005)  |
| Segment income (loss)        | \$ (5,746)                 | \$ (112,576) | \$ 89,073                 | \$ 103,694   |
| <b>Engineering:</b>          |                            |              |                           |              |
| Sales                        | \$ 53,277                  | \$ 96,021    | \$ 186,319                | \$ 276,828   |
| Cost of sales                | (45,241)                   | (50,331)     | (120,190)                 | (175,175)    |
| Corporate and other expenses | (4,539)                    | (36,377)     | (54,090)                  | (60,996)     |
| Segment income (loss)        | \$ 3,497                   | \$ (9,313)   | \$ 12,039                 | \$ 40,657    |

**NOTE 7 — OPERATING LEASE COMMITMENTS**

On January 3, 2005, we entered into a ten year commercial lease with a monthly rental of \$6,200. We lease various buildings on the same site which house our manufacturing plants, executive offices, among other buildings from a third party under a commercial operating lease which expires on December 31, 2014. Accordingly, for the three and nine months ended March 31, 2006 and 2005, we recognized rental expense for these spaces in the amount of \$18,600, \$55,800, \$-0- and \$-0- respectively.

**ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS**

*With the exception of historical facts stated herein, the matters discussed in this report are “forward-looking” statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such “forward-looking” statements include, but are not necessarily limited to, statements regarding anticipated levels of future revenues and earnings from operations of the Company. Readers of this report are cautioned not to put undue reliance on “forward-looking” statements, which are by their nature, uncertain as reliable indicators of future performance.*

**Description of Business****Background**

As discussed in detail in Note 1, the Company was incorporated under the laws of the Commonwealth of Virginia on April 7, 1993 and, on June 30, 2000, entered into a reverse merger in which it became the wholly owned subsidiary of a public Nevada shell corporation, renamed Metwood, Inc. Effective January 1, 2002, Metwood acquired certain assets of Providence Engineering, PC in a transaction accounted for under the purchase method of accounting.

**Principal Products/Services and Markets***Metwood*

Residential builders are aware of the superiority of steel framing vs. wood framing, insofar as steel framing is lighter; stronger; termite, pest, rot and fire resistant; and dimensionally more stable in withstanding induced loads. Although use of steel framing in residential construction has generally increased each year since 1980, many residential builders have been hesitant to utilize steel due to the need to retrain framers and subcontractors who are accustomed to a “stick-built” construction method where components are laid out and assembled with nails and screws. The Company’s founders, Robert Callahan and Ronald Shiflett, saw the need to combine the strength and durability of steel with the convenience and familiarity of wood and wood fasteners.

Metwood’s primary products and services are:

- Girders and headers
- Floor joists
- Floor joist reinforcers
- Roof and floor trusses
- Garage, deck and porch concrete pour-over systems
- Garage and post-and-beam buildings
- Engineering, design and custom building services

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Metwood manufactures light-gage steel construction materials, usually combined with wood or wood fasteners, for use in residential and commercial applications in place of more conventional wood products, which are inferior in terms of strength and durability. The steel and steel/wood products allow structures to be built with increased load strength and structural integrity and fewer support beams or support configurations, thereby allowing for structural designs that are not possible with wood-only products.

Status of Publicly Announced New Products or Services

The Company has acquired four new patents through assignment from Robert Callahan and Ronald Shiflett, the patent holders. All four patents reflect various modifications to the Company's Joist Reinforcing Bracket which will make it even easier for tradesmen to insert utility conduits through wood joists.

Seasonality of Market

The Company's sales are subject to seasonal impacts, as its products are used in residential and commercial construction projects which tend to be at peak levels in Virginia and North Carolina between the months of March and October. Accordingly, the Company's sales are greater in its fourth and first fiscal quarters. The Company builds an inventory of its products throughout the winter and spring to support its sales season.

Competition

Nationally, there are over one hundred manufacturers of the types of products produced by the Company. However, the majority of these manufacturers are using wood-only products or products without metal reinforcement. Metwood has identified only one other manufacturer in the United States that manufactures a wood-metal floor truss similar to that of the Company. However, Metwood has often found that its products are the only ones that will work within many customers' design specs.

Sources and Availability of Raw Materials and the Names of Principal Suppliers

All of the raw materials used by the Company are readily available on the market from numerous suppliers. The light-gage metal used by the Company is supplied primarily by Dietrich Industries, Marino-Ware, and Consolidated Systems, Inc. The Company's main sources of lumber are Lowe's, 84 Lumber Company and Smith Mountain Building Supply. Gerdau Amersteel, Descosteel and Adelpia Metals provide the majority of the Company's rebar. Because of the number of suppliers available to the Company, its decisions in purchasing materials are dictated primarily by price and secondarily by availability. The Company does not anticipate a lack of supply to affect its production; however, a shortage might cause the Company to pass on higher materials prices to its buyers.

Dependence on One or a Few Major Customers

Presently the Company does not have any one customer whose loss would have a substantial impact on the Company's operations.



Patents

The Company's eight U.S. Patents are:

U.S. Patent No. 5,519,977, "Joist Reinforcing Bracket," a bracket that reinforces wooden joists with a hole for the passage of a utility conduit. The Company refers to this as its Floor Joist Patch Kit.

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U.S. Patent No. 5,625,997, “Composite Beam,” a composite beam that includes an elongated metal shell and a pierceable insert for receiving nails, screws or other penetrating fasteners.

U.S. Patent No. 5,832,691, “Composite Beam,” a composite beam that includes an elongated metal shell and a pierceable insert for receiving nails, screws or other penetrating fasteners. This is a continuation-in-part of U.S. Patent No. 5,625,997.

U.S. Patent No. 5,921,053, “Internally Reinforced Girder with Pierceable Nonmetal Components,” a girder that includes a pair of c-shaped members secured together so as to form a hollow box, which permits the girder to be secured within a building structure with conventional fasteners such as nails, screws and staples.

U.S. Patent Nos. D472,791S; D472,792S; D472,793S; and D477,210S, all modifications of Metwood’s Joist Reinforcing Bracket, which will be used for repairs of wood I-joists.

Each of these patents was originally issued to the inventors and Company founders, Robert Callahan and Ronald Shiflett, who licensed these patents to the Company.

Need for Government Approval of Principal Products

The Company’s products must either be sold with an engineer’s seal or applicable building code approval. Once that approval is obtained, the products can be used in all fifty states. The Company’s Floor Joist Reinforcer received Bureau Officials Code Association (“BOCA”) approval in April 2001. Currently, the Company’s chief engineer has obtained professional licensure in several states which permit products not building code approved to be sold and used with his seal. The Company expects his licensure in a growing number of states to greatly assist in the uniform acceptability of its products as it expands to new markets.

Time Spent During the Last Two Fiscal Years on Research and Development Activities

Approximately fifteen percent of the Company’s time and resources have been spent during the last two fiscal years researching and developing its metal/wood products, new product lines, and new patents.

Costs and Effects of Compliance with Environmental Laws

The Company does not incur any costs to comply with environmental laws. It is an environmentally friendly business in that its products are fabricated from recycled steel.

Number of Total Employees and Number of Full-Time Employees

The Company had thirty-six employees at March 31, 2006, thirty-five of whom were full time.

Results of Operations

Net Income

We had net income (loss) of \$(2,249), \$101,112, \$(121,889) and \$144,351 for the three and nine months ended March 31, 2006 and 2005, respectively. This represents an increase (decrease) in net income of \$119,640 and \$(43,239) for the three and nine months ended March 31, 2006 and 2005 compared to prior period amounts. The decreases in net income for the three and nine months ended March 31, 2006 over 2005 resulted from an increase in administrative expenses in the amounts of \$105,605 and \$259,523, respectively and a decrease in gross profit in the amounts of \$106,053 and \$200,693, respectively. We also experienced an increase in fuel costs in the 2005/2006 period compared to 2004/2005 which caused deterioration in our gross margins for 2005.

#### Revenues

Gross sales were \$903,597, \$897,375, \$2,159,395 and \$2,012,195, respectively for the three and nine month's ended March 31, 2006, increases of \$6,222 and \$147,200, or 2% and 11%, respectively for 2005 and 2004. This increase resulted from a combination of greater sales volume, an average increase in selling prices and materials costs decrease.

The Company's significant growth in fiscal 2006 sales over fiscal 2005 resulted from several factors, all of which will continue to have a positive impact on sales into the future. Awareness of the Company's products has increased as a result of aggressive marketing campaigns, and its patented, innovative products are becoming known throughout the country. The Company's customer base continues to grow as a result. Additionally, new products using the technology of the Company's four newly issued patents began production at the beginning of the current fiscal year and contributed to the growth in revenues for the nine months ending March 31, 2006.

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Expenses

Total administrative expenses were \$379,373, \$276,768, \$1,113,629 and \$854,106 for the three and nine months ended March 31, 2006 and 2005 increases of \$105,605 (39%) and \$259,523 (30%), respectively. Areas of particular increase for the three and nine months ended March 31, 2006 over 2005 were rental expense due to the aforementioned lease back of our property (100%) and payroll expense due to increased sales volume (22%). We hired additional employees to handle our increase in sales volume in fiscal 2006. We also advertised more which generated the increase in sales above. Advertising expense increased by over 100% and 86% during the three and nine months ending March 31, 2006 compared to the prior periods in 2005, respectively.

Liquidity and Capital Resources

On March 31, 2006, we had cash of \$181,817 and working capital of \$1,243,002. Net cash provided by operating activities was \$160,210 for the nine months ended March 31, 2006 compared to net cash provided by operating activities of \$43,228 for the nine months ended March 31, 2005. The decreased provision of cash in the current fiscal 2006 period resulted primarily from an increase in inventory that used current cash. Our net income decreased during the fiscal 2006 period.

Net cash (used in) investing activities was \$213,000 for the nine months ended March 31, 2006 compared to net cash provided of \$564,688 during the same period in the prior year. Cash flows used in investing activities for the current period were for shop equipment, office equipment, computers, software and vehicles. Cash flows generated from investing activities in the prior period were the result of the sale of our building and other fixed assets and related leaseback.

Net cash provided by financing activities totaled \$ -0- for the nine months ended March 31, 2006 as compared to \$(539,145) (used in) financing activities for the nine months ended March 31, 2005. During the nine month period ended March 31, 2005, we issued 15,750 shares of restricted common stock for cash of \$7,875 and we repaid all of our long term debt. During the nine month period ended March 31, 2006, we issued 10,300 shares of restricted common stock for cash of \$3,435. During the prior period, we used the cash generated from the sale of our building and other fixed assets to pay down long term debt and all of the remaining balance on our bank line of credit.

ITEM 3 — CONTROLS AND PROCEDURES

The Company's management has reviewed the systems of internal controls and disclosures within the specified time frame of ninety days. Management believes that the systems in place allow for proper controls and disclosures of financial reporting information. There have been no changes in these controls since our last evaluation date.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

None

ITEM 2 — CHANGES IN SECURITIES

None

ITEM 3 — DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 — SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 — OTHER INFORMATION

None

ITEM 6— EXHIBITS AND REPORTS ON FORM 8-K

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**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 5, 2006

/s/ Robert M. Callahan  
Robert M. Callahan  
Chief Executive Officer

Date: May 5, 2006

/s/ Shawn Callahan  
Shawn Callahan  
Chief Financial Officer

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**INDEX TO EXHIBITS**

| <b><u>NUMBER</u></b> | <b><u>DESCRIPTION OF EXHIBIT</u></b>   |
|----------------------|--|
| 3(i)*                | Articles of Incorporation  |
| 3(ii)*               | By-Laws  |
| 31.1                 | <u>Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 31.2                 | <u>Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 32                   | <u>Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)</u>   |

\* Filed previously