

METWOOD INC  
Form 10-Q  
November 18, 2008

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended September 30, 2008

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

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

Commission File Number 000-05391

METWOOD, INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

83-0210365

(State or other jurisdiction of incorporation)

(IRS Employer Identification No.)

819 Naff Road, Boones Mill, VA 24065

(Address of principal executive offices) (Zip code)

(540) 334-4294

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a  
non-accelerated filer, or a smaller reporting company as defined by Rule 12b-2 of the Exchange Act:

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange  
Act): Yes  No

As of November 14, 2008, the number of shares outstanding of the registrant's common stock,

\$0.001 par value (the only class of voting stock), was 12,295,899 shares.

---

METWOOD, INC. AND SUBSIDIARY  
TABLE OF CONTENTS - FORM 10-QSB

PART I - FINANCIAL INFORMATION	Page(s)
Item 1 Financial Statements	
Consolidated Balance Sheet As of September 30, 2008 (Unaudited) and June 30, 2008	3-4
Consolidated Statements of Income (Unaudited) for the Three Months Ended September 30, 2008 and 2007	5
Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended September 30, 2008 and 2007	6
Notes to Consolidated Financial Statements	7
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Item 4 Controls and Procedures	11
PART II - OTHER INFORMATION	
Item 6 Exhibits and Reports on Form 8-K	12
Signatures	13
Index to Exhibits	14

Table of ContentsMETWOOD, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

	(UNAUDITED) September 30, 2008	(AUDITED) June 30, 2008
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 58,262	\$ 67,880
Accounts receivable	415,173	535,799
Inventory	1,474,191	1,492,924
Recoverable income taxes	-	45,955
Prepaid expenses	49,283	53,184
<b>Total current assets</b>	<b>1,996,909</b>	<b>2,195,742</b>
Property and Equipment		
Leasehold and land improvements	195,987	174,385
Furniture, fixtures and equipment	94,319	86,341
Computer hardware, software and peripherals	208,521	197,817
Machinery and shop equipment	397,272	407,103
Vehicles	369,451	369,451
	1,265,550	1,235,097
Less accumulated depreciation	(737,950)	(703,815)
<b>Net property and equipment</b>	<b>527,600</b>	<b>531,282</b>
Goodwill	253,088	253,088
<b>TOTAL ASSETS</b>	<b>\$ 2,777,597</b>	<b>\$ 2,980,112</b>

See accompanying notes to consolidated financial statements.

Table of ContentsMETWOOD, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEET

	(UNAUDITED) September 30, 2008	(AUDITED) June 30, 2008
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 143,692	\$ 316,948
Bank line of credit	-	150,000
Customer deposits	-	36,000
Income taxes	46,831	-
<b>Total current liabilities</b>	<b>190,523</b>	<b>502,948</b>
<b>Long-term Liabilities</b>		
Deferred income taxes, net	109,901	121,588
<b>Total long-term liabilities</b>	<b>109,901</b>	<b>121,588</b>
<b>Total liabilities</b>	<b>300,424</b>	<b>624,536</b>
<b>Stockholders' Equity</b>		
Common stock, \$.001 par, 100,000,000 shares authorized; 12,295,899 shares issued and outstanding at September 30, 2008	12,296	12,091
Common stock not yet issued (\$.001 par, 2,150 shares)	2	200
Additional paid-in capital	1,542,050	1,542,057
Retained earnings	922,825	801,228
<b>Total stockholders' equity</b>	<b>2,477,173</b>	<b>2,355,576</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,777,597</b>	<b>\$ 2,980,112</b>

See accompanying notes to consolidated financial statements.

Table of Contents

## METWOOD, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007  
(UNAUDITED)

	Three Months Ended September 30,	
	2008	2007
<b>REVENUES</b>		
Construction sales	\$ 1,006,111	\$ 1,141,513
Engineering sales	56,236	68,655
Gross sales	1,062,347	1,210,168
Cost of construction sales	478,003	722,397
Cost of engineering sales	50,197	63,348
Gross cost of sales	528,200	785,745
Gross profit	534,147	424,423
<b>ADMINISTRATIVE EXPENSES</b>		
Advertising	18,490	20,831
Depreciation	14,615	15,984
Insurance	19,832	21,334
Payroll expenses	165,145	165,594
Professional fees	28,178	27,608
Rent	19,800	19,650
Research and development	4,400	7,576
Travel	6,291	13,794
Vehicle	13,284	13,472
Other	44,616	44,773
Total administrative expenses	334,651	350,616
Operating income	199,496	73,807
Other income	3,214	704
Income before income taxes	202,710	74,511
Income taxes	81,099	19,952
Net income	\$ 121,611	\$ 54,559
Basic and diluted earnings per share	\$ 0.01	**
Weighted average number of shares	12,229,364	11,989,761

\*\*Less than \$0.01

See accompanying notes to consolidated financial statements.

Table of Contents

METWOOD, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007  
(UNAUDITED)

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 121,611	\$ 54,559
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	34,135	33,611
Provision for deferred income taxes	(11,687)	17,458
(Increase) decrease in operating assets:		
Accounts receivable	125,349	(156,369)
Inventory	18,733	50,689
Recoverable income taxes	45,955	2,494
Other operating assets	(822)	39,382
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(209,270)	41,539
Current income taxes payable	46,831	-
Net cash from operating activities	170,835	83,363
<b>CASH FLOWS USED FOR INVESTING ACTIVITIES</b>		
Net expenditures for fixed assets	(30,453)	(104,024)
Net cash used for investing activities	(30,453)	(104,024)
<b>CASH FLOWS (USED FOR) FROM FINANCING ACTIVITIES</b>		
Decrease in credit line	(150,000)	-
Proceeds from issuance of common stock	-	26,614
Purchase of treasury stock	-	(1,800)
Net cash (used for) from financing activities	(150,000)	24,814
Net (decrease) increase in cash	(9,618)	4,153
Cash, beginning of the year	67,880	38,287
Cash, end of the period	\$ 58,262	\$ 42,440

See accompanying notes to consolidated financial statements.



Table of Contents

METWOOD, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2008  
 (UNAUDITED)

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. In 2002 Metwood purchased from that shareholder and retired 15,000 of the originally issued 290,000 shares for \$15,000 and in 2004 purchased from that shareholder and retired the remaining 275,000 of the originally issued 290,000 shares for \$50,000. 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

During the year ended June 30, 2003, liabilities assumed at the date of acquisition were identified and paid. The amount of the liabilities paid was \$23,088, and this amount was added to goodwill.

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. and its wholly owned subsidiary, Providence Engineering, PC, 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 September 30, 2008 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2009.

Fair Value of Financial Instruments - For certain of the Company's financial instruments, none of which are held for trading, including cash, 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 September 30, 2008, the allowance for doubtful accounts was \$5,000. Specific customer receivables are considered past due when they are outstanding beyond their contractual terms and are charged off to bad debt expense when determined uncollectible. For the three months ended September 30, 2008 recovery of bad debts was \$520 and for the period ended September 30, 2007, the amount of bad debts charged off was \$2,554.

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 is recorded as a gain or loss.

Goodwill - The Company accounts for goodwill and intangibles under SFAS No. 142, "Goodwill and Other Intangible Assets." As such, goodwill is not amortized, but is subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate there may be an impairment. The Company performed its required annual goodwill impairment test as of June 30, 2008 using discounted cash flow estimates and found that there was no impairment of goodwill.

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.



Table of Contents

Revenue Recognition - Revenue is recognized when goods are shipped and earned or when services are performed, provided collection of the resulting receivable is probable. If any material contingencies are present, revenue recognition is delayed until all material contingencies are eliminated. Further, no revenue is recognized unless collection of the applicable consideration is probable.

Income Taxes - Income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes." A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting and for net operating loss carryforwards, where applicable. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Research and Development - The Company performs research and development on its metal/wood products, new product lines, and new patents. Costs, if any, are expensed as they are incurred. Research and development costs for the three months ended September 30, 2008 and 2007 were \$4,400 and \$7,576, respectively.

Earnings Per Common Share - Basic earnings per share amounts are based on the weighted average shares of common stock outstanding. If applicable, diluted earnings per share would assume the conversion, exercise or issuance of all potential common stock instruments such as options, warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. This presentation has been adopted for the quarters presented. There were no adjustments required to net income for the years presented in the computation of diluted earnings per share.

Recent Accounting Pronouncements - In March 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133," ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities, including (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133, and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This standard becomes effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As SFAS 161 only requires enhanced disclosures, this standard will have no impact of the Company's financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141 (revised 2007), "Business Combinations," which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS No. 141 (revised) is effective for fiscal years beginning after December 15, 2008 and will apply prospectively to business combinations completed on or after that date. We are currently assessing the potential impact that adoption of SFAS No. 141 (revised) would have on our financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51," which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. We are currently assessing the potential impact that adoption of SFAS No. 160 would have on our financial statements.

In May 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board's amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The FASB has stated that it does not expect SFAS No. 162 will result in a change in current practice. The application of SFAS No. 162 will have no effect on the Company's financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts--an interpretation of FASB Statement No. 60" ("SFAS No. 163"). SFAS No. 163 interprets Statement 60 and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of that Statement. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. The Company is currently evaluating the impact of SFAS No. 163 on its financial statements but does not expect it to have an effect on the Company's financial position, results of operations or cash flows.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 applies to convertible debt securities that, upon conversion, may be settled by the issuer fully or partially in cash. FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years after December 15, 2008, and must be applied on a retrospective basis. Early adoption is not permitted. The Company is assessing the potential impact of this FSP on the convertible debt issuances.

In June 2008, the FASB issued FASB Staff Position ("FSP") EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, Earnings per Share. Under the guidance of FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and all prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. The Company is assessing the potential impact of this FSP on the earnings per share calculation.

## Edgar Filing: METWOOD INC - Form 10-Q

In June 2008, the FASB ratified EITF No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5"). EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early application is not permitted. The Company is assessing the potential impact of this EITF 07-5 on the financial condition and results of operations.

### NOTE 2 - EARNINGS PER SHARE

Net income and earnings per share for the three months ending September 30, 2008 and 2007 are as follows:

	For the Three Months Ended September 30,	
	2008	2007
Net income	\$ 121,611	\$ 54,559
Income per share - basic and fully diluted	\$ 0.01	\$ **
Weighted average number of shares	12,229,364	11,989,761

\*\*Less than \$0.01

### NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the three months ending September 30, 2008 and 2007 are summarized as follows:

	For the Three Months Ended September 30,	
	2008	2007
Cash paid for:		
Income taxes	\$ --	\$ --
Interest	\$ 444	\$ 356

### NOTE 4 - RELATED-PARTY TRANSACTIONS

From time to time, the Company contracts with a company related through common ownership for building and grounds-related maintenance services. There were no fees paid to the related company for the three months ended September, 2008 and 2007. For the three months ended September 30, 2008 and 2007, the Company had sales of \$14,046 and \$31,037, respectively, to the company referred to above.

### NOTE 5 - BANK CREDIT LINE

The Company has available a \$600,000 revolving line of credit with a local bank. The balance outstanding at September 30, 2008 was \$-0-.

### NOTE 6 - SEGMENT INFORMATION

Edgar Filing: METWOOD INC - Form 10-Q

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 months ended September 30, 2008 and 2007, as excerpted from internal management reports, is as follows:

	For the Three Months Ended September 30,	
	2008	2007
Construction:		
Sales	\$ 1,006,111	\$ 1,141,513
Intersegment expenses	(15,409)	(14,512)
Cost of sales	(478,003)	(722,397)
Corporate and other expenses	(399,364)	(353,865)
Segment income	\$ 113,335	\$ 50,739
Engineering:		
Sales	\$ 56,236	\$ 68,655
Intersegment revenues	15,409	14,512
Cost of sales	(50,197)	(63,348)
Corporate and other expenses	(13,172)	(15,999)
Segment income (loss)	\$ 8,276	\$ 3,820

NOTE 7 - OPERATING LEASE COMMITMENTS

On January 3, 2005, the Company entered into a ten-year commercial operating lease with a company related through common ownership. The lease covers various buildings and property which house our manufacturing plant, executive offices and other buildings with a current monthly rental of \$6,550. The lease expires on December 31, 2014. For the three months ended September 30, 2008 and 2007, we recognized rental expense for these spaces of \$19,800 and \$19,650, respectively.

Table of Contents

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 ("Mike") 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 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.

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

Providence

Providence is extensively involved in ongoing product research and development for Metwood. Additionally, Providence offers its customers civil engineering capabilities which include rezoning and special use submissions; erosion and sediment control and storm-water management design; residential, commercial, and religious facility site development design; and utility design, including water, sewer and onsite treatment systems. Providence's staff is familiar with construction practices and has been actively involved in construction administration and inspection on



multiple projects.

Providence also performs a variety of structural design and analysis work, successfully providing solutions for many projects, including retaining walls, residential framing, commercial building framing, light-gage steel fabrication drawings, metal building retrofits and additions, mezzanines, and seismic anchors and restraints.

Providence has designed numerous foundations for a variety of structures. Its foundation design expertise includes metal building foundations, traditional building construction foundations, atypical foundations for residential structures, tower foundations, and sign foundations for a variety of uses and applications.

Providence has also designed and drafted full building plans for several applications. When subcontracting with local professional firms, Providence has the ability to provide basic architectural, mechanical, electrical, and detailed civil and structural design services for these facilities.

Providence has reviewed designs by manufacturers for a variety of structures and structural components, including retaining walls, radio towers, tower foundations, sign foundations, timber trusses, light-gage steel trusses, and light-gage steel beams. This service enables clients to take generic designs and have them certified and approved for construction in the desired locality.

#### Distribution Methods of Products and Services

The Company's sales are primarily retail, directly to contractors and do-it-yourself homeowners in Virginia and North Carolina. Approximately 90% of the Company's sales are wholesale to lumberyards, home improvement stores, hardware stores, and plumbing and electrical suppliers in Virginia and North Carolina, including Lowe's and 84 Lumber. Metwood relies primarily on its own sales force to generate sales; additionally, however, the Company has distributors in Virginia, New York, Oklahoma, Arizona, Colorado and Pennsylvania and also utilizes the salespeople of wholesale yards stocking the Company's products as an additional sales force. Metwood intends to continue expanding the wholesale marketing of its unique products to retailers and to license the Company's technology and products to increase its distribution outside of Virginia, North Carolina and the South.

#### Status of Publicly Announced New Products or Services

The Company has acquired four new patents through assignment from Robert M. Callahan and Ronald B. 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 can be 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 tend to be greater in its fourth and first fiscal quarters. However, the Company is expanding into less weather-sensitive markets, such as Florida, Georgia, Arizona, South Carolina and Alabama in order to ameliorate seasonality factors. The Company builds an inventory of its

products throughout the winter and spring to support its sales season.

## Table of Contents

### 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 Marino-Ware, Telling Industries and Wheeling Corrugating Company. The Company's main sources of lumber are BlueLinx and The Contractor Yard. Gerdau Amersteel, Descosteel and Adelphia 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 has eight U.S. Patents:

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.

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 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 B. 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 employees at September 30, 2008, twenty-nine of whom were full time.

#### Results of Operations

##### Net Income

The Company had net income of \$121,611 for the three months ended September 30, 2008, versus \$54,559 for the three months ended September 30, 2007, an increase of \$67,052. The increase in net income for the three months ended September 30, 2008 compared to 2007 was attributable primarily to lower materials costs in the construction area as a percentage of gross sales (64% in 2007 versus 49% in 2008). Construction area sales decreased 12% comparing 2008 to 2007, but that decrease was offset by the lowered costs of goods sold. Some savings also occurred in insurance cost decreases (new carrier and better workers compensation experience ratings); lower repairs and maintenance expense; and payroll cost decreases. Less job installs cut down on the amount of overtime required, and some employees volunteered to take time off.

##### Sales

Revenues were \$1,062,347 for the three months ended September 30, 2008 compared to \$1,210,168 for the same period in 2007, a decrease of \$147,821, or 12%. The sales decline for the three-month period in 2008 versus 2007 reflects a general downturn in the building industry. Although the Company has sold product in over twenty-five states since July

2007, our local market is down 20%. Nonetheless, truss sales have increased over 2007, and the commercial market has overcome some of the residential downturn. The potential for increased sales volume as the Company goes forward is enhanced by the fact that we are now an authorized fabricator for the Dynatruss light-gauge steel truss system, begun in March 2008.

Table of Contents

Expenses

Total administrative expenses were \$334,651 for the three months ended September 30, 2008, versus \$350,616 for the three months ended September 30, 2007, a decrease of \$15,965 (5%). For the three months ended September 30, 2008 versus 2007, insurance costs declined 12%; office expense decreased 51%; and travel costs declined 54% due to elimination of shows; however, the savings in these areas was partially offset by increases in internet costs, repairs and maintenance, and other expenses.

Liquidity and Capital Reserves

On September 30, 2008, the Company had cash of \$58,262 and working capital of \$1,806,386. Net cash provided by operating activities was \$170,835 for the three months ended September, 2008 compared to \$83,363 for the three months ended September 30, 2007. The higher provision of cash from operating activities in the current year resulted primarily from the decrease in accounts receivable partially offset by a paydown of accounts payable.

Cash used in investing activities was \$30,453 for the three months ended September 30, 2008, compared to cash used of \$104,024 during the same period in the prior year. Cash flows used in investing activities for the current period were for shop equipment (\$452); computers and peripherals and furniture and fixtures (\$8,400); and leasehold and land improvements (\$21,601).

Cash used in financing activities was \$150,000 for the three months ended September 30, 2008 compared to cash provided of \$24,814 for the period ended September 30, 2007. The cash used in 2008 was to pay off the Company's credit line balance.

ITEM 4 - CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief

executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

We regularly review our system of internal control over financial reporting to ensure we maintain an effective internal control environment. As we grow geographically and with new product offerings, we continue to create new processes and controls as well as improve our existing environment to increase efficiencies. Improvements may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

See index to exhibits.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the quarter ended March 31, 2008.



Table of Contents

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: November 14, 2008

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

/s/ Shawn A. Callahan  
Shawn A. Callahan  
Chief Financial Officer

Table of Contents

INDEX TO EXHIBITS

NUMBER	DESCRIPTION OF EXHIBIT
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 (18U.S.C. 1350)</u>

\*Incorporated by reference on Form 8-K, filed February 16, 2000

\*\*Incorporated by reference on Form 8-K, filed February 16, 2000