

METWOOD INC
Form 10QSB
May 17, 2004

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

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, 2004

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)

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 14, 2004: 11,920,049

Transitional Small Business Disclosure Format (Check one) Yes No

METWOOD, INC. AND SUBSIDIARY
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METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2004
(UNAUDITED)

ASSETS

Current Assets

Cash	\$ 60,732
Accounts receivable	316,078
Inventory	498,248
Prepaid expenses	76,728

Total current assets	951,786
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Property and Equipment

Furniture, fixtures and equipment	40,026
Computer hardware, software and peripherals	100,419
Machinery and shop equipment	214,967
Vehicles	174,939
Buildings and improvements	852,585
Land and land improvements	193,142

1,576,078
(324,431)

Less accumulated depreciation

Net property and equipment	1,251,647
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Goodwill

253,088

TOTAL ASSETS	\$ 2,456,521
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See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY
 CONSOLIDATED BALANCE SHEET
 AS OF MARCH 31, 2004
 (UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Accounts payable and accrued expenses	\$ 280,862
Bank line of credit	528,200
	<hr/>
Total current liabilities	809,062
Long-term Liabilities	
Note payable	1,274
Deferred income taxes	72,154
	<hr/>
Total long-term liabilities	73,428
	<hr/>
Total liabilities	882,490
	<hr/>
Stockholders' Equity	
Common stock, \$.001 par, 100,000,000 shares authorized; 11,920,049 shares issued and outstanding	11,920
Common stock not yet issued (\$.001 par, 4,950 shares)	5
Additional paid-in capital	1,321,679
Retained earnings	240,427
	<hr/>
Total stockholders' equity	1,574,031
	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$2,456,521
	<hr/>

See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF INCOME
 FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2004 AND 2003
 (UNAUDITED)

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	Three Months Ended March 31,		Nine Months Ended March 31,	
	2004	2003	2004	2003
REVENUES				
Construction sales	\$ 662,509	\$ 311,809	\$ 1,890,383	\$ 1,182,594
Engineering sales	77,969	72,225	221,071	151,857
Gross sales	740,478	384,034	2,111,454	1,334,451
Cost of construction sales	451,561	104,627	1,109,966	637,230
Cost of engineering sales	50,185	46,424	133,455	122,674
Gross cost of sales	501,746	151,051	1,243,421	759,904
Gross profit	238,732	232,983	868,033	574,547
ADMINISTRATIVE EXPENSES				
Advertising	34,205	17,144	46,153	23,686
Depreciation	12,805	8,817	38,312	32,124
Insurance	15,121	9,977	35,020	26,391
Payroll and property taxes	8,418	8,630	30,665	28,852
Professional fees	12,635	9,686	30,829	64,215
Research and development	6,923	7,500	22,826	22,482
Salaries and wages	96,662	105,895	315,303	299,355
Telephone	6,297	3,376	17,758	12,978
Vehicle	6,460	3,826	13,278	8,951
Other	44,369	32,536	121,324	103,049
Total administrative expenses	243,895	207,387	671,468	622,083
Operating income (loss)	(5,163)	25,596	196,565	(47,536)
Other income (expense)	(5,687)	(3,316)	558	(4,131)
Income (loss) before income taxes	(10,850)	22,280	197,123	(51,667)
Income taxes	(13,590)	551	62,329	(1,762)
Net income (loss)	\$ 2,740	\$ 21,729	\$ 134,794	\$ (49,905)
Basic and diluted earnings per share	**	**	\$ 0.01	**
Weighted average number of shares	11,941,203	12,043,549	12,017,609	12,046,578

**Less than \$.01

See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 2004 AND 2003
(UNAUDITED)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 134,794	\$(49,905)
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	71,332	58,779
Common stock issued for services	3,500	3,500
Changes in operating assets and liabilities		
Decrease in accounts receivable	4,240	24,718
Increase in inventory	(151,778)	(98,309)
Increase in prepaid expenses	(49,666)	(30,691)
Increase in accounts payable and accrued expenses	137,679	29,162
Increase (decrease) in current income taxes payable	37,500	(65,036)
Increase in deferred income taxes	24,829	32,831
	212,430	(94,951)
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Net expenditures for fixed assets	(146,382)	(257,448)
Common stock issued for equipment		1,801
	(146,382)	(255,647)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common stock retired	(25,000)	(15,000)
Net borrowings from related party	6,200	
Net borrowings (repayment) of note payable	2,802	(7,997)
Net borrowings under line-of-credit agreement	1,200	317,000
	(14,798)	294,003
Net increase (decrease) in cash	51,250	(56,595)
Cash, beginning of the year	9,482	78,088
Cash, end of the period	\$ 60,732	\$ 21,493

See accompanying notes to consolidated financial statements.

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METWOOD, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2004 (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. 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
	<hr/>
Total	\$ 350,000
	<hr/>

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.

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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, 2004 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2004.

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, and the bank lines of credit, 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.

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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, 2004, the allowance for doubtful accounts was \$0. 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 both the three and nine months ended March 31, 2004 and 2003, the bad debt expense was \$0.

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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Goodwill In June 2001 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. This statement requires that goodwill and intangible assets deemed to have an indefinite life not be amortized. Instead, such assets are to be tested for impairment annually or immediately if conditions indicate that such an impairment could exist. The Company adopted the provisions of SFAS 142 beginning July 1, 2002 and completed the transitional impairment test of goodwill as of July 1, 2002 and again as of June 30, 2003 using discounted cash flow estimates and found no goodwill impairment.

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. For the three months ended March 31, 2004 and 2003, the expenses relating to research and development were \$6,923 and \$7,500, respectively. For the nine months ended March 31, 2004 and 2003, research and development expenses were \$22,826 and \$22,482, 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.

Reclassifications Certain items in the financial statements for the three and nine months ended March 31, 2003 have been reclassified to conform to the March 31, 2004 financial statement presentation.

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Recent Accounting Pronouncements In April 2003, the FASB issued SFAS No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The effective date for implementation of this statement is for contracts entered into or modified after June 30, 2003. The adoption of this statement has had no impact on the Company's consolidated financial condition or results of operations.

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In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The remaining provisions of this statement are consistent with the Board's proposal to revise the definition of liabilities to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. This statement is effective for financial instruments entered into or modified after May 31, 2003, and is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this statement has had no material impact on the Company's consolidated financial condition or results of operations.

NOTE 2 EARNINGS PER SHARE

Net income and earnings per share for the three and nine months ended March 31, 2004 and 2003 are as follows:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2004	2003	2004	2003
Net income (loss)	\$ 2,740	\$ 21,729	\$ 134,794	\$ (49,905)
Income per share - basic and fully diluted	**	**	\$ 0.01	**
Weighted average number of shares	11,941,203	12,043,549	12,017,609	12,046,578

**Less than \$.01

NOTE 3 SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the nine months ended March 31, 2004 and 2003 are summarized as follows:

	For the Nine Months Ended March 31,	
	2004	2003
Cash paid for income taxes	\$	\$ 25,227
Cash paid for interest	\$ 19,587	\$ 6,697

For the nine months ended March 31, 2004, the Company, in a non-cash transaction, transferred land to a related party (further discussed in Note 4) with a book and fair market value of \$89,000.

NOTE 4 RELATED-PARTY TRANSACTIONS

From time to time, the Company contracts with a construction company related through common ownership which provides capital improvements and maintenance work on the Company's buildings and grounds. For the three and nine months ended

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March 31, 2004, the related party billed \$160,555 for its services. No services were billed to the Company for the three and nine months ended March 31, 2003. The Company also entered into certain agreements with the related party in which it transferred ownership of two vehicles to the Company in exchange for the Company's note. The net amount payable to the related party was \$6,200 at March 31, 2004 and \$0 at March 31, 2003.

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For the three and nine months ended March 31, 2004, the Company had sales of \$60,096 and \$72,265, respectively, to its shareholder and CEO, Robert Callahan. As of March 31, 2004, the related receivable was \$0.

The Company transferred land at its book and fair market value of \$89,000 in partial payment of the construction company's \$160,555 bill. Additionally, because the construction company is owned by Mr. Callahan, the Company's receivable from Mr. Callahan was settled by offsetting the balance owed by him at March 31, 2004 against the Company's payable to the related construction company.

NOTE 5 BANK CREDIT LINE

The Company has available a \$600,000 revolving line of credit with a local bank. Interest is payable monthly on the outstanding balance at the prime lending rate, which was 4.0% as of March 31, 2004. The note is secured by accounts receivable, equipment, general intangibles, inventory, and furniture and fixtures. The note is personally guaranteed by the Company's CEO. The balance outstanding as of March 31, 2004 was \$528,200.

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, 2004 and 2003, as excerpted from internal management reports, is as follows:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2004	2003	2004	2003
<u>Construction:</u>				
Sales	\$ 662,509	\$ 311,809	\$ 1,890,383	\$ 1,182,594
Cost of sales	(451,561)	(104,627)	(1,109,966)	(637,230)
Corporate and other expenses	(214,813)	(195,611)	(668,155)	(571,882)
	\$ (3,865)	\$ 11,571	\$ 112,262	\$ (26,518)
<u>Engineering:</u>				
Sales	\$ 77,969	\$ 72,225	\$ 221,071	\$ 151,857
Cost of sales	(50,185)	(46,424)	(133,455)	(122,674)
Corporate and other expenses	(21,179)	(15,643)	(65,084)	(52,570)
	\$ 6,605	\$ 10,158	\$ 22,532	\$ (23,387)

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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

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.

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.

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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 20% of the Company's sales are wholesale to lumberyards, home improvement stores, hardware stores, and plumbing and electrical suppliers in Virginia and North Carolina. Metwood relies primarily on its own sales force to generate sales; additionally, however, the Company has distributors in Virginia, New York, Oklahoma, Arizona and Colorado and also utilizes the salespeople of wholesale yards stocking the Company's products as an additional sales force. The Company is in discussions with national engineered I-joist manufacturers who are interested in marketing the Company's products and expects to announce affiliations with these companies in the near future. 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.

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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

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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 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'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

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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 twenty-one employees at March 31, 2004, twenty of whom were full time.

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Results of Operations

Net Income

The Company had net income of \$2,740 and \$134,794, respectively, for the three and nine months ended March 31, 2004, versus net income of \$21,729 and net losses of \$49,905, respectively, for the three and nine months ended March 31, 2003. This represents a decrease in net income of \$18,989 for the three months ended March 31, 2004, but an increase of \$184,699 for the nine months ended March 31, 2004 compared to the same periods in 2003. The decrease in net income for the quarter ended March 31, 2004 over 2003 resulted from higher administrative costs for those three months in 2004 compared to 2003 not offset by a comparable increase in gross profit. For the nine months ended March 31, 2004, the significant increase in net income over 2003 was attributable to increased sales volume, yet fairly constant administrative expenses.

Revenues

Gross sales were \$740,478 for the three months ended March 31, 2004 compared to \$384,034 for the same period in 2003, an increase of \$356,444, or 93%. Gross sales for the nine months ended March 31, 2004 were \$2,111,454 versus \$1,334,451 for the same prior-year period, an increase of \$777,003, or 58%. These increases resulted from a combination of greater sales volume and an average increase of 20% in selling prices.

The Company's significant growth in 2004 sales over 2003 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 three and nine months ending March 31, 2004.

Although gross sales nearly doubled for the quarter ended March 31, 2004 compared to the same period in 2003, materials costs tripled in 2004 compared to 2003. Skyrocketing metal costs accounted for most of the increase in those costs. Additionally, payroll expenses increased approximately 30% in 2004 over 2003. For the nine months ended March 31, 2004, materials costs doubled over 2003, again primarily due to higher metal prices. Materials costs as a percentage of sales was 47% in 2004, but only 40% for the nine months ended March 31, 2003. Because of the higher cost of materials, the Company's gross profit only increased 2% for the three months ended March 31, 2004 and 51% for the nine months then ended compared to the same periods in 2003, even though gross sales increased 93% and 58% for the three and nine months ended March 31, 2004 over 2003.

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Expenses

Total administrative expenses were \$243,895 for the quarter ended March 31, 2004, versus \$207,387 for the quarter ended March 31, 2003, an increase of \$36,508 (18%). Areas of particular increase for the three months ended March 31, 2004 over 2003 were advertising (100%), depreciation (45%), insurance (52%), and professional fees (30%). Salaries and wages

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decreased 9% only because the Company's President and CEO deferred his salary for a period in order to sustain cash flows for the buildup in inventory required to meet sales demands.

For the nine months ended March 31, 2004, administrative expenses were \$671,468 compared to \$622,083 for the nine months ended March 31, 2003, an increase of \$49,385 (8%). The largest percentage increases in 2004 over 2003 occurred primarily in advertising (95%), reflecting the Company's increased participation in trade shows around the country, and vehicle expense (48%), which mirrors the rise in gas prices. The only category which decreased for the nine months ended March 31, 2004 over the same period in 2003 was professional fees (52%).

Liquidity and Capital Reserves

On March 31, 2004, the Company had cash of \$60,732 and working capital of \$142,724. Net cash provided by operating activities was \$212,430 for the nine months ended March 31, 2004 compared to net cash used for operating activities of \$94,951 for the nine months ended March 31, 2003. The greater provision of cash in the current year resulted primarily from a higher sales volume and an increase in income taxes payable that did not require a current cash outlay.

Net cash used in investing activities was \$146,382 for the nine months ended March 31, 2004 compared to net cash used of \$255,647 during the same period in the prior year. Cash flows used in investing activities for the current period were for building and land improvements (\$169,628), shop equipment (\$27,580), vehicles (\$22,313) and office equipment, computers, software and engineering equipment (\$18,175) offset by disposals of assets with a net book value of \$91,314.

Cash used for financing activities totaled \$14,798 for the nine months ended March 31, 2004 as compared to \$294,003 provided for the nine months ended March 31, 2003. During the period ended March 31, 2004, the Company purchased from a former Providence shareholder and retired 137,500 shares of stock for \$25,000. Cash was also borrowed from the bank line of credit in both the current period and the prior year for operating capital and for the purchase of plant and equipment.

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.

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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, 2004.

SIGNATURES

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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 14, 2004

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

/s/ Annette G. Mariano
Annette G. Mariano
Chief Financial Officer

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INDEX TO EXHIBITS

<u>NUMBER</u>	<u>DESCRIPTION OF EXHIBIT</u>
3(i)*	Articles of Incorporation
3(ii)*	By-Laws
31.1	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
31.2	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
32	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

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

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