

METWOOD INC  
Form 10QSB  
February 22, 2008

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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 December 31, 2007

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 small business issuer as specified in its charter)

NEVADA

83-0210365

(State or other jurisdiction of incorporation)  
Employer Identification No)

(IRS

\_\_\_\_\_  
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

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

Number of shares of common stock outstanding as of February 12, 2008: 12,091,399

Transitional Small Business Disclosure Format (Check one) Yes [ ] No [X]

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METWOOD, INC. AND SUBSIDIARY  
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METWOOD, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2007  
(UNAUDITED)

## ASSETS

Current Assets		
Cash and cash equivalents	\$	169,337
Accounts receivable		460,830
Deposits		15,091
Inventory		1,216,563
Prepaid expenses		45,557
Total current assets		1,907,378
Property and Equipment		
Leasehold and land improvements		165,963
Furniture, fixtures and equipment		81,351
Computer hardware, software and peripherals		190,694
Machinery and shop equipment		381,024
Vehicles		366,751
		1,185,783
Less accumulated depreciation		(646,798)
Net property and equipment		538,985
Goodwill		253,088
TOTAL ASSETS	\$	2,699,451

METWOOD, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2007  
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$	258,546
Income taxes		20,350
<b>Total current liabilities</b>		<b>278,896</b>
<b>Long-term Liabilities</b>		
Amounts owed to related-party company		8,787
Deferred income taxes, net		128,317
<b>Total long-term liabilities</b>		<b>137,104</b>
<b>Total liabilities</b>		<b>416,000</b>
<b>Stockholders' Equity</b>		
Common stock, \$.001 par, 100,000,000 shares authorized; 12,096,249 shares issued; 12,091,399 outstanding		12,096
Common stock not yet issued (\$.001 par, 2,150 shares)		2
Additional paid-in capital		1,345,759
Retained earnings		927,394
		2,285,251
Treasury stock, at cost		(1,800)
<b>Total stockholders' equity</b>		<b>2,283,451</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$</b>	<b>2,699,451</b>

See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2007 AND 2006  
(UNAUDITED)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2007	2006	2007	2006
<b>REVENUES</b>				
Construction sales	\$ 1,121,774	\$ 1,093,077	\$ 2,263,288	\$ 2,199,033
Engineering sales	68,796	42,891	137,451	87,459
Gross sales	1,190,570	1,135,968	2,400,739	2,286,492
Cost of construction sales	728,851	512,678	1,451,249	1,083,354
Cost of engineering sales	57,733	52,443	121,081	98,362
Gross cost of sales	786,584	565,121	1,572,330	1,181,716
Gross profit	403,986	570,847	828,409	1,104,776
<b>ADMINISTRATIVE EXPENSES</b>				
Advertising	26,699	31,032	47,530	61,546
Bad debts	4,181	409	4,181	23,470
Depreciation	16,290	13,326	32,274	26,357
Insurance	16,925	24,438	38,259	43,792
Payroll expenses	168,190	224,495	333,784	413,984
Professional fees	5,905	7,816	33,513	30,116
Rent	19,650	20,700	39,300	39,300
Telephone	9,454	10,459	17,489	19,529
Travel	3,070	10,024	16,864	19,833
Vehicle	14,249	11,148	27,721	20,220
Other	56,507	58,032	100,821	100,715
Total administrative expenses	341,120	411,879	691,736	798,862
Operating income	62,866	158,968	136,673	305,914
Other income (expense)	6,021	2,848	6,725	5,925
Income before income taxes	68,887	161,816	143,398	311,839
Income taxes	(28,105)	(62,658)	(48,057)	(119,007)
Net income	\$ 40,782	\$ 99,158	\$ 95,341	\$ 192,832
Basic and diluted earnings per share	\$ -	\$ 0.01	\$ 0.01	\$ 0.01
Weighted average number of shares	12,114,769	11,923,999	12,052,265	11,916,478

See accompanying notes to consolidated financial statements.



METWOOD, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2007 AND 2006  
(UNAUDITED)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 95,341	\$ 192,832
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	67,441	59,425
Provision for deferred income taxes	11,308	5,844
(Increase) decrease in operating assets:		
Accounts receivable	(60,673)	26,438
Inventory	(6,125)	(178,578)
Recoverable income taxes	57,077	-
Other operating assets	56,650	(18,850)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(4,038)	(9,313)
Current income taxes payable	20,350	(42,425)
Net cash from operating activities	237,331	35,373
<b>CASH FLOWS USED FOR INVESTING ACTIVITIES</b>		
Net expenditures for fixed assets	(106,095)	(59,408)
Net cash used for investing activities	(106,095)	(59,408)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Decrease in credit line	(25,000)	-
Proceeds from issuance of common stock	26,614	-
Purchase of treasury stock	(1,800)	-
Net cash used for financing activities	(186)	-
Net increase (decrease) in cash	131,050	(24,035)
Cash, beginning of the year	38,287	99,880
Cash, end of the period	\$ 169,337	\$ 75,845

See accompanying notes to consolidated financial statements.



METWOOD, INC. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2007  
 (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 December 31, 2007 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2008.

**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 December 31, 2007, 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 the three months ended December 31, 2007 and 2006, the amount of bad debts charged off was \$4,181 and \$409 respectively. For the six months ended December 31, 2007 and 2005, the amount of bad debts charged off was \$4,181 and \$23,470, respectively including chargeoffs relating to receivables whic

**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, 2007 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.

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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. There were no research and development costs for the three months ended December 31, 2007 or 2006. For the six months ended December 31, 2007 and 2006, the expenses relating to research and development were \$7,576 and \$8,000, 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 December 2007, the Financial Accounting Standards Board ("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. 141R 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. 160 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.

On July 1, 2007, we adopted the provisions of FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," which provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures. The Company does not believe the the application of FIN 48 will have a material effect on its consolidated results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We have not completed our evaluation of SFAS 159, but we do not currently believe that it will have a material impact on our results of operations or financial position.

#### NOTE 2 - EARNINGS PER SHARE

Net income and earnings per share for the three and six months ending December 31, 2007 and 2006 are as follows:

	For the Three Months Ended		For the Six Months Ended	
	2007	2006	2007	2006
Net income	\$ 40,782	\$ 99,158	\$ 95,341	\$ 192,832
Income per share - basic and fully diluted	\$ --	\$ 0.01	\$ --	\$ 0.01
Weighted average number of shares	12,114,769	11,923,999	12,052,265	11,916,478

#### NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the three and six months ended December 31, 2007 and 2006 are summarized as follows:

	For the Three Months Ended		For the Six Months Ended	
	December 31, 2007	2006	December 31, 2007	2006
Cash paid for:				
Income taxes	\$ --	\$ 96,588	\$ --	\$ 155,588
Interest	\$ --	\$ --	\$ 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 and six months ended December 31, 2007 and 2006. For the three months ended December 31, 2007 and 2006, the Company had sales of \$52,179 and \$6,633, respectively, to the company referred to above. For the six months ended December 31, 2007 and 2006, sales were \$83,216 and \$32,131, respectively. As of December 31, 2007, the related receivables

outstanding were \$116,679. See also Note 7.

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## NOTE 5 - BANK CREDIT LINE

The Company has available a \$600,000 revolving line of credit with a local bank. The balance outstanding at December 31, 2007 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 six months ended December 31, 2007 and 2006, as excerpted from internal management reports, is as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2007	2006	2007	2006
<b>Construction:</b>				
Sales	\$ 1,121,774	\$ 1,093,077	\$ 2,263,288	\$ 2,199,033
Intersegment expenses	(22,102)	(27,330)	(36,614)	(32,167)
Cost of sales	(728,851)	(512,678)	(1,451,249)	(1,083,354)
Corporate and other expenses	(341,088)	(460,604)	(694,953)	(896,687)
Segment income	\$ 29,733	\$ 92,465	\$ 80,472	\$ 186,825
<b>Engineering:</b>				
Sales	\$ 68,796	\$ 42,891	\$ 137,451	\$ 87,459
Intersegment revenues	22,102	27,330	36,614	32,167
Cost of sales	(57,733)	(52,443)	(121,081)	(98,362)
Corporate and other expenses	(22,116)	(11,085)	(38,115)	(15,257)
Segment income (loss)	\$ 11,049	\$ 6,693	\$ 14,869	\$ 6,007

## 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 and six months ended December 31, 2007 and 2006, we recognized rental expense for these spaces of \$19,650, \$39,300, \$19,300, and \$37,900, 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 ("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.



## 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 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 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-three employees at December 31, 2007, thirty-one of whom were full time.

#### Results of Operations

##### Net Income

The Company had net income of \$40,782 for the three months ended December 31, 2007, versus \$99,158 for the three months ended December 31, 2006, a decrease of \$58,376. The decrease in net income in 2007 compared to 2006 was attributable primarily to higher materials costs that were not offset with a comparable increase in sales. Sales increased only 5%, while cost of sales increased 39%. For the six months ended December 31, 2007 and 2006, the Company's net income was \$95,341 and \$192,832, respectively, a decrease of \$97,491. Decreased sales and increased materials costs comparing 2007 to 2006 account for the decline in net income



Revenues were \$1,190,570 for the three months ended December 31, 2007 compared to \$1,135,968 for the same period in 2006, a decrease of \$54,602, or 5%. For the six-month periods ended December 31, 2007 and 2006, sales were \$2,400,739 and \$2,286,492, respectively, an increase of \$114,247, or 5%. The sales decline for the three-month period in 2007 versus 2006 was the result of a weak housing market and a poor subprime market.

#### Expenses

Total administrative expenses were \$341,120 and \$691,736 for the three and six months ended December 31, 2007, versus \$411,879 and \$798,862 for the three and six months ended December 31, 2006, a decrease of \$70,759 (17%) and \$107,126 (13%), respectively. Decreases in advertising and in payroll expenses in 2007 over 2006 were the largest contributors to the overall decrease.

#### Liquidity and Capital Reserves

On December 31, 2007, the Company had cash of \$169,337 and working capital of \$1,628,482. Net cash provided by operating activities was \$237,331 for the six months ended December 31, 2007 compared to \$35,373 for the six months ended December 31, 2006. The higher provision of cash in the current year resulted primarily from refunded income taxes and an increase in other operating assets and expenses of a non-cash nature (depreciation and deferred income taxes).

Cash used in investing activities was \$106,095 for the six months ended December 31, 2007 compared to cash used of \$59,408 during the same period in the prior year. Cash flows used in investing activities for the current period were for vehicles (net \$1,250); shop equipment \$65,705; computers and peripherals and furniture and fixtures (\$9,461); website development (\$3,300); and leasehold and land improvements (\$26,379).

Cash used in financing activities was \$186 for the six months ended December 31, 2007 compared to \$-0- for the period ended December 31, 2006. Proceeds from the issuance of common stock of \$26,614 was offset by repayment of the Company's credit line (\$25,000) and by the cost of treasury stock (\$1,800).

#### ITEM 3 - CONTROLS AND PROCEDURES

The management of Metwood, Inc. 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 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 December 31, 2007.

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: February 12, 2008

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

Date: February 12, 2008

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



INDEX TO EXHIBITS

NUMBER	DESCRIPTION OF EXHIBIT
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 (18U.S.C. 1350)

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

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

