

Edgar Filing: METWOOD INC - Form 10QSB

METWOOD INC
Form 10QSB
November 18, 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 September 30, 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 November 17, 2004:
12,167,499

Transitional Small Business Disclosure Format (Check one) Yes No

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, 2004	1-2
Consolidated Statements of Income for the Three Months Ended September 30, 2004 and 2003	3
Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2004 and 2003	4

Edgar Filing: METWOOD INC - Form 10QSB

Notes to Consolidated Financial Statements	5-9
Item 2 Management's Discussion and Analysis	10-15
Item 3 Controls and Procedures	15
PART II - OTHER INFORMATION	
Item 6 Exhibits and Reports on Form 8-K	16
Signatures	16
Index to Exhibits	17
Exhibits	18-22

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED CONDENSED BALANCE SHEET
SEPTEMBER 30, 2004
(UNAUDITED)

ASSETS	
	2004
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 63,526
Accounts Receivable, net of allowance of \$10,262	451,529
Inventory	653,790
Other Current Assets	3,029
TOTAL CURRENT ASSETS	1,171,874
PROPERTY AND EQUIPMENT	
Furniture, fixtures and equipment	53,649
Computer hardware, software and peripherals	62,414
Machinery and shop equipment	286,232
Vehicles	232,336
Buildings and improvements Land and land improvement	193,142
	1,680,357
Accumulated Depreciation	(382,652)
Total property and equipment	1,297,705
OTHER ASSETS	
Goodwill	253,088
Net Other Assets	253,088
TOTAL ASSETS	\$ 2,722,667

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Edgar Filing: METWOOD INC - Form 10QSB

Current Liabilities:	
Accounts Payable	\$ 186,055
Accrued Expenses	40,205
Customer deposits	5,200
Current maturities of long-term debt	34,000
Bank line of credit	371,824
Income taxes payable	134,827

TOTAL CURRENT LIABILITIES	772,112

Long-term debt, excluding current maturities	81,800
Deferred Income Taxes, net	86,014

TOTAL LONG-TERM LIABILITY	167,814
Commitment	
STOCKHOLDERS' EQUITY	
Common Stock (\$.001par value, 100,000,000 shares authorized: 11,877,499 shares issued and outstanding)	11,877
Common Stock Subscribed but not Issued (\$.001 par, 2950 shares)	3
Additional Paid-in-Capital	1,304,598
Retained Earnings	466,263

TOTAL STOCKHOLDERS' EQUITY	1,782,741

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,722,667
	=====

The accompanying notes are an integral part of the financial statements

2

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED INCOME STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003
(UNAUDITED)

	Three Months Ended Se	
	2004	
	-----	-----
REVENUES:		
Construction sales	\$ 922,426	\$
Engineering sales	192,395	
	-----	-----
Gross Sales	1,114,821	
Cost of construction sales	495,804	
Cost of engineering sales	110,218	
	-----	-----
Gross cost of sales	606,022	

Edgar Filing: METWOOD INC - Form 10QSB

Gross Profit	508,799	-----	---
ADMINISTRATIVE EXPENSES:			
Advertising	46,729		
Constructure/bidding data	4,841		
Depreciation	15,535		
Dues and publications	6,387		
Insurance	13,211		
Office expenses	6,174		
Payroll expenses	122,411		
Professional fees	24,624		
Telephone	6,611		
Travel	3,426		
Vehicle	9,466		
Other	24,735		
		-----	---
Total administrative expenses	284,152	-----	---
OPERATING INCOME	224,647	-----	---
OTHER INCOME (EXPENSE:)	(4,200)	-----	---
INCOME BEFORE INCOME TAX	220,447	-----	---
INCOME TAXES	\$ 82,000	-----	---
NET INCOME	\$ 138,447	=====	=====
Basic and diluted earning per share	0.01	=====	=====
Weighted Average Common Shares Outstanding	11,872,249	=====	=====

** Less than .01

The accompanying notes are an integral part of the financial statements

Edgar Filing: METWOOD INC - Form 10QSB

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$	138,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		29,937
Common stock issued for services		-
Provision for deferred income taxes		7,000
(Increase) decrease in operating assets:		
Accounts receivable		(72,325)
Inventory		(20,565)
Prepaid expenses		37,845
Increase (decrease) in operating liabilities:		
Accounts payable, accrued expenses and customer deposits		(161,797)
Current income taxes payable		75,000

NET CASH PROVIDED BY OPERATING ACTIVITIES		33,542
CASH FLOWS FROM INVESTMENT ACTIVITIES:		
Property, plant and equipment: Purchases		(14,735)

NET CASH (USED IN) INVESTMENT ACTIVITIES		(14,735)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from (repayments of) note payable		(892)
Net borrowings from (repayments of) related party		-
Net borrowings under line-of-credit agreement		-
Common stock issued for cash		7,875

NET CASH PROVIDED BY FINANCING ACTIVITIES		6,983

NET INCREASE IN CASH AND CASH EQUIVALENTS		25,790
CASH AND CASH EQUIVALENTS:		
Beginning of period		37,736

End of period		63,526
		=====

The accompanying notes are an integral part of the financial statements

METWOOD, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004
(UNAUDITED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity- Metwood, Inc. ("Metwood") was organized under the laws of the

Edgar Filing: METWOOD INC - Form 10QSB

Commonwealth of Virginia on April 7, 1993. On June 30, 2000, Metwood entered into an Agreement and Plan of Reorganization in which the majority of its outstanding common stock was acquired by a publicly held Nevada shell corporation. The acquisition was a tax-free exchange for federal and state income tax purposes and was accounted for as a reverse merger in accordance with Accounting Principles Board ("APB") Opinion No. 16. Upon acquisition, the name of the shell corporation was changed to Metwood, Inc., and Metwood, Inc., the Virginia corporation, became a wholly owned subsidiary of Metwood, Inc., the Nevada corporation. The publicly traded shell corporation had not had a material operating history for several years prior to the merger. Effective January 1, 2002, Metwood acquired certain assets of Providence Engineering, PC ("Providence"), a professional engineering firm with customers in the same proximity as Metwood. The total purchase price of \$350,000 was paid with \$60,000 in cash and with 290,000 shares of the Company's common stock to the two Providence shareholders. These shares were valued at the closing active quoted market price of the stock at the effective date of the purchase, which was \$1.00 per share. One of the shareholders of Providence was also an officer and existing shareholder of Metwood prior to the acquisition. On January 15, 2004, Metwood purchased from that shareholder and retired 137,500 of the originally issued 290,000 shares for \$25,000. The initial purchase transaction was accounted for under the purchase method of accounting. The purchase price was allocated as follows:

Accounts receivable	\$	75,000
Fixed assets		45,000
Goodwill		230,000

Total	\$	350,000

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

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

5

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, 2004 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2005.

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 -----

Edgar Filing: METWOOD INC - Form 10QSB

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, 2004, the allowance for doubtful accounts was \$10,262. Specific customer receivables are considered past due when they are outstanding beyond their contractual terms and are charged off to the allowance for doubtful accounts when determined uncollectible. For both the three months ended September 30, 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.

6

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 and 2004 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

Edgar Filing: METWOOD INC - Form 10QSB

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 carry forwards, 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 September 30, 2004 and 2003, the expenses relating to research and development were \$-0- and \$-0-, 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

months ended September 30, 2003 have been reclassified to conform to the September 30, 2004 financial statement presentation.

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.

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

Edgar Filing: METWOOD INC - Form 10QSB

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 months ended September 30, 2004 and 2003 are as follows:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
Net income	\$ 138,447	\$ 43,908
Income per share - basic and fully diluted	0.01	**
Weighted average number of shares	11,872,249	12,053,245

** Less than \$.01

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the three months ended September 30, 2004 and 2003 are summarized as follows:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
Cash paid for income taxes	\$ 0	\$ 0
Cash paid for interest	\$ 6,469	\$ 5,592

8

NOTE 4 - RELATED-PARTY TRANSACTIONS

For the three months ended September 30, 2004 and 2003, we had sales of \$50,288 and \$9,526 respectively, to our shareholder and CEO, Robert Callahan. As of September 30, 2004, the related receivable was \$20,667.

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 September 30, 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 September 30, 2004 was \$371,824.

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 months ended September 30, 2004 and 2003, as excerpted

Edgar Filing: METWOOD INC - Form 10QSB

from internal management reports, is as follows:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,	
	2004	2003
Construction:		

Sales	\$ 922,426	\$ 523,148
Cost of sales	(495,804)	(301,414)
Corporate and other expenses	(358,102)	(186,933)
	-----	-----
Segment income	\$ 68,520	\$ 34,801
 Engineering:		

Sales	\$ 192,395	\$ 72,650
Cost of sales	(110,218)	(37,478)
Corporate and other expenses	(12,250)	(26,065)
	-----	-----
Segment income	\$ 69,927	\$ 9,107

9

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

Edgar Filing: METWOOD INC - Form 10QSB

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.

10

Providence

Providence is extensively involved in ongoing product research and development for Metwood. Additionally, Providence offers its customer's 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

Edgar Filing: METWOOD INC - Form 10QSB

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.

11

Status of Publicly Announced New Products or Services

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

Seasonality of Market

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

Competition

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

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

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

Dependence on One or a Few Major Customers

Edgar Filing: METWOOD INC - Form 10QSB

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.

12

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

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

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

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

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

Need for Government Approval of Principal Products

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

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

Activities

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

Costs and Effects of Compliance with Environmental Laws

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

Number of Total Employees and Number of Full-Time Employees

The Company had twenty-one employees at September 30, 2004, twenty of whom were full time.

Results of Operations

Net Income

The Company had net income of \$138,447 for the three months ended September 30, 2004, versus net income of \$43,908 for the three months ended September 30, 2003. This represents an increase in net income of \$94,539 for the three months ended September 30, 2004. The increase in net income for the quarter ended September 30, 2004 over 2003 resulted from gross sales, which increased by 87% to \$1,114,821 from \$595,558 for the three months in 2004 compared to 2003 and fairly constant administrative expenses.

Revenues

Gross sales were \$1,114,821 for the three months ended September 30, 2004 compared to \$595,558 for the same period in 2003, an increase of \$519,263, or 87%. These increases resulted from a combination of greater sales volume, an average increase of 20% in selling prices and materials costs decrease. 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 months ending September 30, 2004.

Expenses

Total administrative expenses were \$284,152 for the quarter ended September 30, 2004, versus \$194,325 for the quarter ended September 30, 2003, an increase of \$89,827 (46%). Areas of particular increase for the three months ended September 30, 2004 over 2003 were advertising (676%), professional fees (464%), vehicle expense (61%) and depreciation (23%). Advertising and professional fees increased as we attended more trade shows, ran more advertisements in industry trade magazines and incurred more trade show fees in order to increase in sales as mentioned above. Professional fees also increased due to increased audit and compliance fees, including Sarbanes-Oxley compliance, in maintaining our publicly traded status.

Edgar Filing: METWOOD INC - Form 10QSB

Liquidity and Capital Reserves

On September 30, 2004, the Company had cash of \$63,526 and working capital of \$399,763. Net cash provided by operating activities was \$33,542 for the three months ended September 30, 2004 compared to net cash provided by operating activities of \$103,246 for the three months ended September 30, 2003. The lesser provision of cash in the current year resulted primarily from a decrease in account payable, accrued expenses and customer deposits that required a current cash outlay.

Net cash used in investing activities was \$14,735 for the three months ended September 30, 2004 compared to net cash used of \$37,844 during the same period in the prior year. Cash flows used in investing activities for the current period were for shop equipment, office equipment, computers, software (\$4,991), vehicles (9,744).

Cash provided from financing activities totaled \$6,983 for the three months ended September 30, 2004 as compared to \$34,388 provided for the three months ended September 30, 2003. During the period ended September 30, 2004, the Company issued 15,750 unregistered and restricted common shares of stock for \$7,875 to unrelated individuals.

ITEM 3 - CONTROLS AND PROCEDURES

Quarterly Evaluation of Controls

As of the end of the period covered by this quarterly report on Form 10-QSB, we evaluated the effectiveness of the design and operation of (i) our disclosure controls and procedures ("Disclosure Controls"), and (ii) our internal control over financial reporting ("Internal Controls"). This evaluation ("Evaluation") was performed by our Chief Executive Officer, Robert M. Callahan ("CEO") and Shawn Callahan, our Chief Financial Officer. In this section, we present the conclusions of our CEO and CFO based on and as of the date of the Evaluation, (i) with respect to the effectiveness of our Disclosure Controls, and (ii) with respect to any change in our Internal Controls that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect our Internal Controls.

CEO and CFO Certifications

Attached to this annual report, as Exhibits 31.1 and 31.2, are certain certifications of the CEO and CFO, which are required in accordance with the Exchange Act and the Commission's rules implementing such section (the "Rule 13a-14(a)/15d-14(a) Certifications"). This section of the annual report contains the information concerning the Evaluation referred to in the Rule 13a-14(a)/15d-14(a) Certifications. This information should be read in conjunction with the Rule 13a-14(a)/15d-14(a) Certifications for a more complete understanding of the topic presented.

Disclosure Controls and Internal Controls

Disclosure Controls are procedures designed with the objective of ensuring that information required to be disclosed in our reports filed with the Commission under the Exchange Act, such as this annual report, is recorded, processed, summarized and reported within the time period specified in the Commission's rules and forms. Disclosure Controls are also designed with the objective of ensuring that material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the applicable report is being prepared. Internal Controls, on the other hand, are procedures which are designed with the objective of providing reasonable assurance that (i) our transactions are properly authorized, (ii) the Company's

Edgar Filing: METWOOD INC - Form 10QSB

assets are safeguarded against unauthorized or improper use, and (iii) our transactions are properly recorded and reported, all to permit the preparation of complete and accurate financial statements in conformity with accounting principals generally accepted in the United States.

Limitations on the Effectiveness of Controls

Our management does not expect that our Disclosure Controls or our Internal Controls will prevent all error and all fraud. A control system, no matter how well developed and operated, can provide only reasonable, but not absolute assurance that the objectives of the control system are met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances so of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of a system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Evaluation

The CEO and CFO's evaluation of our Disclosure Controls and Internal Controls included a review of the controls' (i) objectives, (ii) design, (iii) implementation, and (iv) the effect of the controls on the information generated for use in this annual report. In the course of the Evaluation, the CEO and CFO sought to identify data errors, control problems, acts of fraud, and they sought to confirm that appropriate corrective action, including process improvements, was being undertaken. This type of evaluation is done on a quarterly basis so that the conclusions concerning the effectiveness of our controls can be reported in our quarterly reports on Form 10-QSB and annual reports on Form 10-KSB. The overall goals of these various evaluation activities are to monitor our Disclosure Controls and our Internal Controls, and to make modifications if and as necessary. Our external auditors also review Internal Controls in connection with their audit and review activities. Our intent in this regard is that the Disclosure Controls and the Internal Controls will be maintained as dynamic systems that change (including improvements and corrections) as conditions warrant.

Among other matters, we sought in our Evaluation to determine whether there were any significant deficiencies or material weaknesses in our Internal Controls, which are reasonably likely to adversely affect our ability to record, process, summarize and report financial information, or whether we had identified any acts of fraud, whether or not material, involving management or other employees who have a significant role in our Internal Controls. This information was important for both the Evaluation, generally, and because the Rule 13a-14(a)/15d-14(a) Certifications, Item 5, require that the CEO and CFO disclose that information to our Board (audit committee), and to our independent auditors, and to report on related matters in this section of the annual report. In the professional auditing literature, "significant deficiencies" are referred to as "reportable conditions". These are control issues that could have significant adverse affect on the ability to record, process, summarize and report financial data in the financial statements. A "material weakness" is

Edgar Filing: METWOOD INC - Form 10QSB

defined in the auditing literature as a particularly serious reportable condition where the internal control does not reduce, to a relatively low level, the risk that misstatement cause by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employee in the normal course of performing their assigned functions. We also sought to deal with other controls matters in the Evaluation, and in each case, if a problem was identified; we considered what revisions, improvements and/or corrections to make in accordance with our ongoing procedures.

Conclusions

Based upon the Evaluation, the Company's CEO and CFO have concluded that, subject to the limitations noted above, our Disclosure Controls are effective to ensure that material information relating to the Company is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared, and that our Internal Controls are effective to provide reasonable assurance that our financial statements are fairly presented inconformity with accounting principals generally accepted in the United States. Additionally, there has been no change in our Internal Controls that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to affect, our Internal Controls.

ITEM 4 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not have any material risk with respect to changes in foreign currency exchange rates, commodities prices or interest rates. We do not believe that we have any other relevant market risk with respect to the categories intended to be discussed in this item of this report.

15

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

None.

ITEM 2 - CHANGES IN SECURITIES

During the three months ended September 30, 2004, the Company issued 15,750 unregistered and restricted common shares of stock to unrelated individuals.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

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

During the three months ended September 30, 2004, the majority of the security holders voted to issue 15,750 unregistered and restricted common shares of stock to unrelated individuals.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Edgar Filing: METWOOD INC - Form 10QSB

See index to exhibits.

(b) Reports on Form 8-K

Registrant's Annual Report on Form 10-KSB for the year ended June 30, 2004 is incorporated by reference herein.

An 8-K was filed on November 12, 2004 for a Change in Registrant's Certifying Accountant, as incorporated by reference herein.

16

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.

/s/ Robert M. Callahan

Robert M. Callahan
Chief Executive Officer

Date: November 17, 2004

/s/ Shawn Callahan

Shawn 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 (18 U.S.C. 1350)

* incorporated by reference

