

METWOOD INC
Form 10-Q
November 13, 2009

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

FORM 10-Q

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

For the quarterly period ended September 30, 2009

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

For the transition period from _____ to _____

Commission File Number 000-05391

METWOOD, INC.

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

NEVADA
(State or other jurisdiction
of incorporation)

83-0210365
(IRS Employer
Identification No.)

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

(540) 334-4294
(Registrant's telephone number, including area code)

N/A

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

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

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

Large accelerated filer Non-accelerated filer
Accelerated filer Smaller reporting company

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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 []

As of October 31, 2009, the number of shares outstanding of the registrant's common stock, \$0.001 par value (the only class of voting stock), was 12,231,797 shares.

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METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

| | (UNAUDITED) September 30, 2009 | (AUDITED) June 30, 2009 |
|---|--------------------------------------|-------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 176,862 | \$ 199,868 |
| Accounts receivable, net | 419,564 | 383,673 |
| Inventory | 905,987 | 912,169 |
| Recoverable income taxes | 114,639 | 90,533 |
| Prepaid expenses | 40,002 | 49,239 |
| Total current assets | 1,657,054 | 1,635,482 |
| Property and Equipment | | |
| Leasehold and land improvements | 210,652 | 208,233 |
| Furniture, fixtures and equipment | 103,698 | 101,319 |
| Computer hardware, software and peripherals | 214,729 | 211,861 |
| Machinery and shop equipment | 400,140 | 403,731 |
| Vehicles | 378,141 | 378,141 |
| | 1,307,360 | 1,303,285 |
| Less accumulated depreciation | (861,202) | (834,811) |
| Net property and equipment | 446,158 | 468,474 |
| Goodwill | 253,088 | 253,088 |
| TOTAL ASSETS | \$ 2,356,300 | \$ 2,357,044 |

See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

| | (UNAUDITED) September 30, 2009 | (AUDITED) June 30, 2009 |
|---|--------------------------------------|-------------------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 126,994 | \$ 85,269 |
| Total current liabilities | 126,994 | 85,269 |
| Long-term Liabilities | | |
| Deferred income taxes, net | 77,414 | 82,344 |
| Total long-term liabilities | 77,414 | 82,344 |
| Total liabilities | 204,408 | 167,613 |
| Stockholders' Equity | | |
| Common stock, \$.001 par, 100,000,000 shares authorized; 12,231,797 shares issued and outstanding at September 30, 2009 | | |
| | 12,232 | 12,232 |
| Common stock not yet issued (\$.001 par, 8,150 shares) | 8 | 8 |
| Additional paid-in capital | 1,544,268 | 1,544,268 |
| Retained earnings | 595,384 | 632,923 |
| Total stockholders' equity | 2,151,892 | 2,189,431 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 2,356,300 | \$ 2,357,044 |

See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended September 30, | |
|--------------------------------------|-------------------------------------|-------------|
| | 2009 | 2008 |
| REVENUES | | |
| Construction sales | \$557,716 | \$1,006,111 |
| Engineering sales | 44,411 | 56,236 |
| Gross sales | 602,127 | 1,062,347 |
| Cost of construction sales | 350,908 | 478,003 |
| Cost of engineering sales | 41,620 | 50,197 |
| Gross cost of sales | 392,528 | 528,200 |
| Gross profit | 209,599 | 534,147 |
| ADMINISTRATIVE EXPENSES | | |
| Advertising | 19,317 | 18,490 |
| Depreciation | 13,534 | 14,615 |
| Insurance | 11,871 | 19,832 |
| Payroll expenses | 153,943 | 165,145 |
| Professional fees | 19,462 | 28,178 |
| Rent | 19,800 | 19,800 |
| Research and development | - | 4,400 |
| Travel | 4,776 | 6,291 |
| Vehicle | 8,814 | 13,284 |
| Other | 32,595 | 44,616 |
| Total administrative expenses | 284,112 | 334,651 |
| Operating income (loss) | (74,513) | 199,496 |
| Other income | 7,938 | 3,214 |
| Income (loss) before income taxes | (66,575) | 202,710 |
| Income taxes (benefit) | (29,036) | 81,099 |
| Net income (loss) from operations | \$(37,539) | \$121,611 |
| Basic and diluted earnings per share | ** | \$0.01 |
| Weighted average number of shares | 12,231,797 | 12,229,364 |

**Less than \$0.01

See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Three Months Ended September 30, | |
|---|-------------------------------------|------------|
| | 2009 | 2008 |
| OPERATIONS | | |
| Net income (loss) | \$ (37,539) | \$ 121,611 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation | 26,391 | 34,135 |
| Reversal of deferred income taxes | (4,930) | (11,687) |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | (36,599) | 125,349 |
| Inventory | 6,183 | 18,733 |
| Recoverable income taxes | (24,106) | 45,955 |
| Other operating assets | 9,945 | (822) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | 41,725 | (209,270) |
| Current income taxes payable | - | 46,831 |
| Net cash from (used for) operating activities | (18,930) | 170,835 |
| INVESTING | | |
| Capital expenditures | (4,076) | (30,453) |
| Net cash used for investing activities | (4,076) | (30,453) |
| FINANCING | | |
| Decrease in credit line | - | (150,000) |
| Net cash used for financing activities | - | (150,000) |
| Net increase in cash | (23,006) | (9,618) |
| Cash, beginning of the year | 199,868 | 67,880 |
| Cash, end of the period | \$ 176,862 | \$ 58,262 |

See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2009
(UNAUDITED)

NOTE 1 - ORGANIZATION AND
OPERATIONS

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. The transaction was accounted for under the purchase method of accounting. Liabilities assumed at the date of acquisition were identified, paid and 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

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

In the opinion of management, the unaudited condensed consolidated financial statements contain all the adjustments necessary in order to make the financial statements not misleading. The results for the period ended September 30, 2009 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2010.

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 - We grant credit in the form of unsecured accounts receivable to our customers based on an evaluation of their financial condition. We perform ongoing credit evaluations of our 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, 2009, the allowance for doubtful accounts was \$5,000. Specific customer receivables are considered past due when they are outstanding beyond their contractual terms and are charged off to bad debt expense when determined uncollectible. For the three months ended September 30, 2009, the amount of bad debts charged off was \$-0-. For the three months ended September 30, 2008, recovery of bad debts was \$520.

Inventory - Inventory, consisting of metal and wood raw materials, is located on our 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 - We account 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. We performed our required annual goodwill impairment test as of June 30, 2009 using discounted cash flow estimates and found that there was no impairment of goodwill.

Impairment of Long-lived Assets - We evaluate our long-lived assets for indications of possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amounts to the future net undiscounted cash flows which the assets are expected to generate. Should an impairment exist, the impairment would be measured by the amount by which the carrying amount of the assets exceeds the projected discounted future cash flows arising from the asset. There have been no such impairments of long-lived assets through September 30, 2009.

Patents - We have been assigned several key product patents developed by certain Company officers. No value has been recorded in our financial statements because the fair value of the patents was not determinable within reasonable limits at the date of assignment.

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 - We perform research and development on our metal/wood products, new product lines, and new patents. Costs, if any, are expensed as they are incurred. Research and development costs for the three months ended September 30, 2009 and 2008 were \$-0- and \$4,400, 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 June 2009, the FASB issued SFAS No. 168 ("SFAS 168"), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. SFAS 168 identifies the FASB Accounting Standards Codification as the authoritative source of generally accepted accounting principles in the United States. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We do not expect the adoption of SFAS 168 to have a material impact on our consolidated financial statements.

In April 2009, the FASB issued SFAS No. 167 ("SFAS 167"), Amendments to FASB Interpretation No 46(R). SFAS 167 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity ("VIE"), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. SFAS 167 is effective for annual reporting periods beginning after November 15, 2009. The adoption of SFAS No. 167 is not expected to have a material impact on our consolidated financial statements.

In April 2009, the FASB issued three FASB Staff Positions ("FSP") that are intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP 157-4 clarifies the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. FSP 115-2 and FSP 124-2 establish a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down through earnings versus other comprehensive income. FSP 107-1 and APB 28-1 expand the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to interim periods. All three FSPs are effective for the Company beginning July 1, 2009. The adoption of SFAS 165 did not have a material impact on our consolidated financial statements.

On July 1, 2009, the Financial Accounting Standards Board Accounting Standards Codification™ ("Codification" or "ASC") became the single source of authoritative GAAP (other than rules and interpretive releases of the U.S. Securities and Exchange Commission). The Codification is topically based with topics organized by ASC number and updated with

Accounting Standards Updates (“ASUs”). ASUs will replace accounting guidance that historically was issued as FASB Statements (“SFAS”), FASB Interpretations (“FIN”), FASB Staff Positions (“FSP”), Emerging Issue Task Force (“EITF”) Issues or other types of accounting standards. The Codification became effective September 30, 2009 for the Company and disclosures within this Quarterly Report on Form 10-Q have been updated to reflect the change. Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

NOTE 3 - EARNINGS PER SHARE

Net income (loss) and earnings per share for the three months ending September 30, 2009 and 2008 are as follows:

| | For the Three Months Ended September 30, | |
|--|--|------------|
| | 2009 | 2008 |
| Net income (loss) | \$(37,539) | \$121,611 |
| Income per share - basic and fully diluted | ** | \$0.01 |
| Weighted average number of shares | 12,231,797 | 12,229,364 |

**Less than \$0.01

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the three September 30, 2009 and 2008 are summarized as follows:

| | For the Three Months Ended September 30, | |
|----------------|--|-------|
| | 2009 | 2008 |
| Cash paid for: | | |
| Income taxes | \$-- | \$-- |
| Interest | \$-- | \$444 |

NOTE 5 - RELATED-PARTY TRANSACTIONS

From time to time, we contract with a company related through common ownership for building and grounds-related maintenance services. There were no fees paid to the related company for the three months ended September 30, 2009 and 2008. For the three months ended September 30, 2009 and 2008, the Company had sales of \$32,020 and \$14,046, respectively, to the company referred to above. As of September 30, 2009 and 2008, the related receivable was \$2,916 and \$6,976. See also Note 8.

NOTE 6 - BANK CREDIT LINE

The Company has available a \$600,000 revolving line of credit with a local bank. The balance outstanding at September 30, 2009 and 2008 was \$-0-.

NOTE 7 - SEGMENT INFORMATION

We operate 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, 2009 and 2008, as excerpted from internal management reports, is as follows:

| | For the Three Months Ended September 30, | |
|------------------------------|--|-------------|
| | 2009 | 2008 |
| Construction: | | |
| Sales | \$557,716 | \$1,006,111 |
| Intersegment expenses | (12,540) | (15,409) |
| Cost of sales | (350,908) | (478,003) |
| Corporate and other expenses | (234,424) | (399,364) |
| Segment income | \$(40,156) | \$113,335 |
| Engineering: | | |
| Sales | \$44,411 | \$56,236 |
| Intersegment revenues | 12,540 | 15,409 |
| Cost of sales | (41,260) | (50,197) |
| Corporate and other expenses | (13,074) | (13,172) |
| Segment income (loss) | \$2,617 | \$8,276 |

NOTE 8 - 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 \$6,600. The lease expires on December 31, 2014. For the three months ended September 30, 2009 and 2008, we recognized rental expense for these spaces of \$19,800.

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, we were 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

Our sales are primarily wholesale, directly 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. We are an authorized vendor for Lowe's, Home Depot, 84 Lumber, Stock Building Supply, The Contractor Yard, and many more. We have several stocking dealers of our square columns and reinforcing products. We will sell directly to contractors in areas where we do not have a dealer, but with our national dealer relationships, we typically have a dealer to use. We are in discussions with national engineered I-joist manufacturers who are interested in marketing the Company's products and expect to announce affiliations with these companies in the near future. Metwood intends to continue expanding the wholesale marketing of its unique products to retailers, to increase dealer sales, 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

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

Seasonality of Market

Our sales are subject to seasonal impacts, as our 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, our sales are greater in our fourth and first fiscal quarters. We build an inventory of our products throughout the winter and spring to support our sales season. Due to the seasonality of our local market, we are continuing our efforts to expand into markets that are not so seasonally impacted. We have shipped projects to Florida, Georgia, South Carolina, Arizona, Washington, and more. These markets have some seasonality, but

increased exposure in these markets wil help maintain stronger sales year round.

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 ours. However, we have often found that our 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 we use 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, Telling Industries, Wheeling Corrugating, and Consolidated Systems, Inc. Our main sources of lumber are BlueLinx, Lowe's, 84 Lumber Company and Smith Mountain Building Supply. Gerdau Amersteel, Descosteel and Adelpia Metals provide the majority of our rebar. Because of the number of suppliers available to us, our decisions in purchasing materials are dictated primarily by price and secondarily by availability. We do not anticipate a lack of supply to affect our production; however, a shortage might cause us to pass on higher materials prices to our buyers.

Dependence on One or a Few Major Customers

For the three months ending September 30, 2009, sales to Price Buildings and Probuild East, LLC each accounted for approximately 9% of total sales; no other customer accounted for more than 5% of sales. For the three months ending September 30, 2008, sales to Architecture-Planning & Development accounted for 15% of total sales, and Probuild East, LLC accounted for approximately 11% of total sales. No other customer accounted for more than 6% of sales.

Patents

The Company has nine U.S. Patents:

U.S. Patent Nos. 5,519,977 and 7,347,031, "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.

Need for Government Approval of Principal Products

Our products must either be sold with an engineer's seal or applicable building code approval. The Company's chief engineer has obtained professional licensure in several states, which permits products not building code approved to be sold and used with his seal. We expect his licensure in a growing number of states to greatly assist in the uniform acceptability of our products as we expand to new markets. Currently, we are seeking International Code Council ("ICC") code approval on our joist reinforcers and beams. Once that approval is obtained, our products can be used in all fifty states and will eliminate the need for an engineer's seal on individual products. To date, the Company's 2x10 floor joist reinforcer has received both Bureau Officials Code Association approval (2001) and ICC approval (2004).

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

Approximately fifteen percent of our 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

We do not incur any costs to comply with environmental laws. We are an environmentally friendly business in that our 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, 2009, all of whom were full time.

Results of Operations

Net Loss

We had a net loss of \$37,539 for the three months ended September 30, 2009, versus net income of \$121,611 for the three months ended September 30, 2008, a decrease of \$159,150. The decrease in net income for the three months ended September 30, 2009 compared to 2008 was attributable to a general downturn in the economy, in particular, as it affects the Company, the building industry. Construction sales decreased 45% comparing 2009 to 2008, and as a percentage of sales, costs of goods sold increased 31% comparing 2009 to 2008. Engineering sales decreased 21% comparing 2009 to 2008, further contributing to the net loss for the quarter. Administrative expenses decreased 15% comparing the three months ended September 30, 2009 to the same period in 2008. However, this decrease did not significantly offset our 61% decline in gross profit in the quarter ended September 30, 2009 compared to the quarter ended September 30, 2008.

Management is currently discussing the possibility of taking the Company private as a means of raising capital, improving the bottom line, and removing the high compliance costs incurred as a public company. The present economic environment may make privatization the best option as the Company goes forward.

Sales

Revenues were \$602,127 for the three months ended September 30, 2009 compared to \$1,062,347 for the same period in 2008, a decrease of \$460,220, or 43%. The sales decline for the three-month period in 2009 versus 2008 reflects a general downturn in the building industry. Although we have sold product in over twenty-five states since July 2007, our local market is down more than 30%. The potential for increased sales volume as we go forward is enhanced by the fact that we are now an authorized fabricator for the Dynatruss light-gauge steel truss system, begun in March 2008.

Expenses

Total administrative expenses were \$284,112 for the three months ended September 30, 2009, versus \$334,651 for the three months ended September 30, 2008, a decrease of \$50,539. The biggest decline occurred in payroll expenses, vehicle and other costs.

Liquidity and Capital Reserves

On September 30, 2009, we had cash of \$176,862 and working capital of \$1,530,060. Net cash used for operating activities was \$18,930 for the three months ended September 30, 2009 compared to net cash from operating activities of \$170,835 for the three months ended September 30, 2008. The lower provision of cash from operating activities in the current year resulted primarily from the increase in accounts receivable and recoverable income taxes and the decrease in accounts payable and accrued expenses.

Cash used in investing activities was \$4,076 for the three months ended September 30, 2009, compared to cash used of \$30,453 during the same period in the prior year. Cash flows used in investing activities for the current period were for shop equipment (\$809); computer software (\$2869); furniture and fixtures (\$2,378); and leasehold improvements (\$2,420), less disposals of \$4,400.

Cash used in financing activities was \$-0- for the three months ended September 30, 2009 compared to cash used of \$150,000 for the period ended September 30, 2008. The cash used in 2008 was to pay off the Company's credit line

balance.

ITEM 4 - CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

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

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

(b) Changes in internal control over financial reporting.

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

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

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 September 30, 2009.

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: October 31, 2009

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

Date: October 31, 2009

/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 | <u>Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 31.2 | <u>Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 32 | <u>Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18U.S.C. 1350)</u> |

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

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