METWOOD INC
Form 10-Q
February 25, 2009

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2008

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from ________ to ________

Commission File Number 000-05391

METWOOD, INC.
(Exact name of small business issuer as specified in its charter)

NEVADA 83-0210365
(State or other jurisdiction of incorporation) (IRS Employer Identification No.)

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

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

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

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

Indicate by check mark whether the regiatrant 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 [X]

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

As of February 24, 2009, the number of shares
outstanding of the registrant's common stock,
$0.001 par value (the only class of voting stock), was 12,295,899 shares.

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METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	(UNAUDITED) December 31, 2008	(AUDITED) June 30, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 43,212	$ 67,880
Accounts receivable	462,822	535,799
Inventory	1,490,336	1,492,924
Recoverable income taxes	3,868	45,955
Prepaid expenses	77,089	53,184
Total current assets	2,077,327	2,195,742
Property and Equipment		
Leasehold and land improvements	208,233	174,385
Furniture, fixtures and equipment	94,319	86,341
Computer hardware, software and peripherals	198,238	197,817
Machinery and shop equipment	407,555	407,103
Vehicles	387,651	369,451
	1,295,996	1,235,097
Less accumulated depreciation	(772,631)	(703,815)
Net property and equipment	523,365	531,282
Goodwill	253,088	253,088
TOTAL ASSETS	$ 2,853,780	$ 2,980,112

See accompanying notes to consolidated financial statements.

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METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

	(UNAUDITED) December 31, 2008	(AUDITED) June 30, 2008
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 254,361	$ 316,948
Bank line of credit	-	150,000
Customer deposits	-	36,000
Total current liabilities	254,361	502,948
Long-term Liabilities		
Deferred income taxes, net	135,102	121,588
Total long-term liabilities	135,102	121,588
Total liabilities	389,463	624,536
Stockholders' Equity		
Common stock, $.001 par, 100,000,000 shares authorized; 12,295,899 shares issued and outstanding at December 31, 2008	12,296	12,091
Common stock not yet issued ($.001 par, 2,150 shares)	2,162	200
Additional paid-in capital	1,542,050	1,542,057
Retained earnings	907,809	801,228
Total stockholders' equity	2,464,317	2,355,576
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,853,780	$ 2,980,112

See accompanying notes to consolidated financial statements.

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

	Three Months Ended December 31, 2008	2007	Six Months Ended December 31, 2008	2007
REVENUES				
Construction sales	$ 788,428	$ 1,121,774	$ 1,794,539	$ 2,263,288
Engineering sales	78,632	68,796	134,868	137,451
Gross sales	867,060	1,190,570	1,929,407	2,400,739
Cost of construction sales	533,417	728,851	1,011,420	1,451,249
Cost of engineering sales	44,637	57,733	94,834	121,081
Gross cost of sales	578,054	786,584	1,106,254	1,572,330
Gross profit	289,006	403,986	823,153	828,409
ADMINISTRATIVE EXPENSES				
Advertising	24,407	26,699	42,897	47,530
Depreciation	15,713	16,290	30,329	32,274
Insurance	18,274	16,925	38,106	38,259
Payroll expenses	157,664	168,190	322,810	333,784
Professional fees	5,855	5,905	34,032	33,513
Rent	19,800	19,650	39,600	39,300
Research and development	22,115	-	26,515	7,576
Travel	4,669	3,070	10,960	16,864
Vehicle	12,762	14,249	26,045	27,721
Other	60,050	70,142	104,667	114,915
Total administrative expenses	341,309	341,120	675,961	691,736
Operating income (loss)	(52,303)	62,866	147,192	136,673
Other income	11,789	6,021	14,990	6,725
Income (loss) before income taxes	(40,514)	68,887	162,182	143,398
Income taxes (benefit)	(25,498)	28,105	55,601	48,057
Net income	$ (15,016)	$ 40,782	$ 106,581	$ 95,341
Basic and diluted earnings per share	**	**	$ 0.01	$ 0.01
Weighted average number of shares	12,295,899	12,114,769	12,261,678	12,052,265

**Less than $0.01

See accompanying notes to consolidated financial statements.

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

	Six Months Ended December 31, 2008	2007
OPERATIONS		
Net income	$ 106,581	$ 95,341
Adjustments to reconcile net income		
to net cash from operating activities:		
Depreciation	68,817	67,441
Provision for deferred income taxes	13,514	11,308
Common stock subscribed not yet issued	1,960	0
(Increase) decrease in operating assets:		
Accounts receivable	72,978	(60,673)
Inventory	2,588	(6,125)
Recoverable income taxes	42,087	57,077
Other operating assets	(23,905)	56,650
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(98,590)	(4,038)
Current income taxes payable	-	20,350
Net cash from operating activities	186,030	237,331
INVESTING		
Net expenditures for fixed assets	(60,899)	(106,095)
Net cash used for investing activities	(60,899)	(106,095)
FINANCING		
Decrease in credit line	(150,000)	(25,000)
Proceeds from issuance of common stock	201	26,614
Purchase of treasury stock	-	(1,800)
Net cash (used for) from financing activities	(149,799)	(186)
Net (decrease) increase in cash	(24,668)	131,050
Cash, beginning of the year	67,880	38,287
Cash, end of the period	$ 43,212	$ 169,337

See accompanying notes to consolidated financial statements.

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METWOOD, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008
(UNAUDITED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity - Metwood, Inc. ("Metwood") was organized under the laws of the Commonwealth of Virginia on April 7, 1993. On June 30, 2000, Metwood entered into an Agreement and Plan of Reorganization in which the majority of its outstanding common stock was acquired by a publicly held Nevada shell corporation. The acquisition was a tax-free exchange for federal and state income tax purposes and was accounted for as a reverse merger in accordance with Accounting Principles Board ("APB") Opinion No. 16. Upon acquisition, the name of the shell corporation was changed to Metwood, Inc., and Metwood, Inc., the Virginia corporation, became a wholly owned subsidiary of Metwood, Inc., the Nevada corporation. The publicly traded shell corporation had not had a material operating history for several years prior to the merger.

Effective January 1, 2002, Metwood acquired certain assets of Providence Engineering, PC ("Providence"), a professional engineering firm with customers in the same proximity as Metwood. The total purchase price of $350,000 was paid with $60,000 in cash and with 290,000 shares of the Company's common stock to the two Providence shareholders. These shares were valued at the closing active quoted market price of the stock at the effective date of the purchase, which was $1.00 per share. One of the shareholders of Providence was also an officer and existing shareholder of Metwood prior to the acquisition. In 2002 Metwood purchased from that shareholder and retired 15,000 of the originally issued 290,000 shares for $15,000 and in 2004 purchased from that shareholder and retired the remaining 275,000 of the originally issued 290,000 shares for $50,000. The initial purchase transaction was accounted for under the purchase method of accounting. The purchase price was allocated as follows:

Accounts receivable	$ 75,000
Fixed assets	45,000
Goodwill	230,000
Total	$350,000

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

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

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

In the opinion of management, the unaudited condensed consolidated financial statements contain all the adjustments necessary in order to make the financial statements not misleading. The results for the period ended December 31, 2008 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2009.

Fair Value of Financial Instruments - For certain of the Company's financial instruments, none of which are held for trading, including cash, accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities.

Management's Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable - The Company grants credit in the form of unsecured accounts receivable to its customers based on an evaluation of their financial condition. The Company performs ongoing credit evaluations of its customers. The estimate of the allowance for doubtful accounts, which is charged off to bad debt expense, is based on management's assessment of current economic conditions and historical collection experience with each customer. At December 31, 2008, the allowance for doubtful accounts was $5,000. Specific customer receivables are considered past due when they are outstanding beyond their contractual terms and are charged off to bad debt expense when determined uncollectible. For the three months ended December 31, 2008 and 2007, the amount of bad debts charged off was $-0- and $4,181, respectively. For the six months ended December 31, 2008, the amount of bad debts recovered was $520, and for the period ended December 31, 2007, the amount of bad debts charged off was $4,181.

Inventory - Inventory, consisting of metal and wood raw materials, is located on the Company's premises and is stated at the lower of cost or market using the first-in, first-out method.

Property and Equipment - Property and equipment are recorded at cost and include expenditures for improvements when they substantially increase the productive lives of existing assets. Maintenance and repair costs are expensed to operations as incurred. Depreciation is computed using the straight-line method over the assets' estimated useful lives, which range from three to forty years. When a fixed asset is disposed of, its cost and related accumulated depreciation are removed from the accounts. The difference between undepreciated cost and the proceeds is recorded as a gain or loss.

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

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

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

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

Research and Development - The Company performs research and development on its metal/wood products, new product lines, and new patents. Costs, if any, are expensed as they are incurred. Research and development costs for the three months ended December 31, 2008 and 2007 were $22,115 and $-0-, respectively. For the six months ended December 31 2008 and 2007, the expenses relating to research and development were $26,515 and $7,576, respectively.

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

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

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

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

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

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

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

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

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

NOTE 2 - EARNINGS PER SHARE

Net income (loss) and earnings per share for the three and six months ending December 31, 2008 and 2007 are as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2008	2007	2008	2007
Net income (loss)	$ (15,016)	$ 40,782	$ 106,581	$ 95,341
Income per share - basic and fully diluted	$ **	$ **	$ 0.01	$ **
Weighted average number of shares	12,295,899	12,114,769	12,261,678	12,052,265

**Less than $0.01

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the three and six months ending December 31, 2008 and 2007 are summarized as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2008	2007	2008	2007
Cash paid for:				
Income taxes	$ --	$ --	$ --	$ --
Interest	$ --	$ --	$ 472	$ 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, 2008 and 2007. For the three months ended December 31, 2008 and 2007, the Company had sales of $1,832 and $52,179, respectively, to the company referred to above. For the six months ended December 31, 2008 and 2006, sales were $15,878 and $83,216, respectively. As of December 31, 2008, the related receivables outstanding were $2,439. See also Note 7.

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, 2008 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, 2008 and 2007, as excerpted from internal management reports, is as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
Construction:	2008	2007	2008	2007
Sales	$ 788,428	$ 1,121,774	$ 1,794,539	$ 2,263,288
Intersegment expenses	(12,351)	(22,102)	(27,760)	(36,614)
Cost of sales	(533,417)	(728,851)	(1,011,420)	(1,451,249)
Corporate and other expenses	(279,455)	(341,088)	(678,819)	(694,953)
Segment income	$ (36,795)	$ 29,733	$ 76,540	$ 80,472
Engineering:				
Sales	$ 78,632	$ 68,796	$ 134,868	$ 137,451
Intersegment revenues	12,351	22,102	27,760	36,614
Cost of sales	(44,637)	(57,733)	(94,834)	(121,081)
Corporate and other expenses	(24,567)	(22,116)	(37,753)	(38,115)
Segment income (loss)	$ 21,779	$ 11,049	$ 30,041	$ 14,869

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 $6,600. The lease expires on December 31, 2014. For the three and six months ended December 31, 2008 and 2007, we recognized rental expense for these spaces of $19,800, $39,600, $19,650, and $39,300, 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.

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.

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Competition

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

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

All of the raw materials used by the Company are readily available on the market from numerous suppliers. The light-gage metal used by the Company is supplied primarily by Marino-Ware, Telling Industries and Wheeling Corrugating Company. The Company's main sources of lumber are BlueLinx and The Contractor Yard. Gerdau Amersteel, Descosteel and Adelphia Metals provide the majority of the Company's rebar. Because of the number of suppliers available to the Company, its decisions in purchasing materials are dictated primarily by price and secondarily by availability. The Company does not anticipate a lack of supply to affect its production; however, a shortage might cause the Company to pass on higher materials prices to its buyers.

Dependence on One or a Few Major Customers

Presently the Company does not have any one customer whose loss would have a substantial impact on the Company's operations.

Patents

The Company has eight U.S. Patents:

U.S. Patent No. 5,519,977, "Joist Reinforcing Bracket," a bracket that reinforces wooden joists with a hole for the passage of a utility conduit. The Company refers to this as its floor joist patch kit.

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

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

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

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

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

Need for Government Approval of Principal Products

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

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

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

Costs and Effects of Compliance with Environmental Laws

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

Number of Total Employees and Number of Full-Time Employees

The Company had thirty employees at December 31, 2008, twenty-nine of whom were full time.

Results of Operations

Net Income

The Company had a net loss of $15,016 for the three months ended December 31, 2008, versus net income of $40,782 for the three months ended December 31, 2007, a decrease of $55,798. The decrease in net income for the three months ended December 31, 2008 compared to 2007 was attributable to a general downturn in the economy, in particular, as it affects the Company, the building industry. Construction area sales decreased 30% comparing 2008 to 2007, and as a percentage of sales, costs of goods sold increased 3% comparing 2008 to 2007. Payroll expenses decreased for the three months ended December 31, 2008 compared to 2007 due to the decreased demand for the Company's products. Less job installs cut down on the amount of overtime required, and some exployees volunteered to take time off. Research and development costs for the three months ended December 31, 2008 compared to the same period in 2007 went from $-0- to $22,115, further diminishing the bottom line.

For the six months ended December 31, 2008 and 2007, net income decreased $468,749, or 21%. On the other hand, engineering gross profit increased both for the three and six months ended December 31, 2008 compared to 2007 (200% and 145%, respectively), while administrative expenses remained relatively constant for the three and six months period. Nevertheless, engineering net income contributions were not enough to overcome the loss in the construction segment of the Company.

Sales

Revenues were $867,060 for the three months ended December 31, 2008 compared to $1,190,570 for the same period in 2007, a decrease of $323,510, or 27%. For the six-month periods ended December 31, 2008 and 2007, sales were $1,929,407 and $2,400,739, respectively, a decrease of $471,332 (20%). The sales decline for the three and six-month periods in 2008 versus 2007 reflects a general downtown in the building industry. Although the Company has sold product in over twenty-five states since July 2007, our local market is down 20%. Nonetheless, truss sales have increased over 2007, and the commercial market has overcome some of the residential downturn. The potential for increased sales volume as the Company goes forward is enhanced by the fact that we are now an authorized fabricator for the Dynatruss light-gauge steel truss system, begun in March 2008.

Expenses

Total administrative expenses were $341,309 for the three months ended December 31, 2008, versus $341,120 for the three months ended December 31, 2007, a slight increase of $189. For the six months ended December 31, 2008, administrative expenses were $675,961 compared to $691,736 for the six months ended December 31, 2007. The biggest decline in both the three and six-month periods occurred in payroll expenses, travel and other costs. In the six-month period ended December 31, 2008 compared to 2007, those decreased expenses were offset somewhat by a jump in research and development costs.

Liquidity and Capital Reserves

On December 31, 2008, the Company had cash of $43,212 and working capital of $1,822,966. Net cash provided by operating activities was $186,030 for the six months ended December 31, 2008 compared to $237,331 for the six months ended December 31, 2007. The lower provision of cash from operating activities in the current year resulted primarily from the decrease in accounts payable and accrued expenses partially offset by a decrease in accounts receivable.

Cash used in investing activities was $60,899 for the six months ended December 31, 2008, compared to cash used of $106,095 during the same period in the prior year. Cash flows used in investing activities for the current period were for shop equipment $452); computers and peripherals and furniture and fixtures ($8,400); and leasehold and land improvements ($33,847), and vehicles ($18,200).

Cash used in financing activities was $149,799 for the six months ended December 31, 2008 compared to cash used of $186 for the period ended December 31, 2007. The cash used in 2008 was to pay off the Company's credit line balance ($150,000) offset by proceeds from the issuance of common stock ($201).

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.

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PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

See index to exhibits.

(b) Reports on Form 8-K

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

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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 24, 2009

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

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

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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