METWOOD INC
Form 10QSB
February 17, 2004

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

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2003

[ ] 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__X___ No______

Number of shares of common stock outstanding as of February 16, 2004: 12,057,549

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

METWOOD, INC. AND SUBSIDIARY
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METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2003
(UNAUDITED)

ASSETS	
Current Assets	
Cash	$ 98,087
Accounts receivable	363,763
Inventory	385,354
Prepaid expenses	51,739
Total current assets	898,943
Property and Equipment	
Furniture, fixtures and equipment	39,651
Computer hardware, software and peripherals	100,419
Machinery and shop equipment	211,967
Vehicles	170,939
Buildings and improvements	794,030
Land and land improvements	180,142
	1,497,148
Less accumulated depreciation	(300,111)
Net property and equipment	1,197,037
Goodwill	253,088
TOTAL ASSETS	$ 2,349,068

See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2003
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Accounts payable and accrued expenses	$ 151,782
Bank line of credit	535,000

Total current liabilities	686,782
Long-term Liabilities	
Note payable	1,656
Deferred income tax	64,331
Total liabilities	752,769
Stockholders' Equity	
Common stock, $.001 par, 100,000,000 shares authorized; 12,057,549 shares issued and outstanding	12,058
Common stock not yet issued ($.001 par, 4,950 shares)	5
Additional paid-in capital	1,346,541
Retained earnings	237,695
Total stockholders' equity	1,596,299
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,349,068

See accompanying notes to consolidated financial statements.

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METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2003 AND 2002
(UNAUDITED)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	**2002**	**2003**	**2002**
REVENUES				
Construction sales	$ 704,727	$ 433,588	$ 1,227,874	$ 870,785
Engineering sales	70,691	46,179	143,102	79,833
Gross sales	775,418	479,767	1,370,976	950,618
Cost of construction sales	357,230	300,106	658,404	518,021
Cost of engineering sales	45,485	41,727	82,963	85,091
Gross cost of sales	402,715	341,833	741,367	603,112
Gross profit	372,703	137,934	629,609	347,506
ADMINISTRATIVE EXPENSES				
Advertising	5,033	3,346	11,948	6,543
Depreciation	12,870	12,566	25,507	24,239
Insurance	11,219	11,006	19,900	22,255
Payroll and property taxes	15,222	9,131	22,247	20,221
Professional fees	12,893	33,115	18,194	54,529
Research and development	8,700	7,511	15,903	14,982
Salaries and wages	111,941	99,422	218,642	193,660
Telephone	5,747	4,993	11,461	9,602

	Three Months Ended December 31,		Six Months Ended December 31,	
Vehicle	910	1,584	6,817	10,870
Other	49,020	33,746	77,261	65,724
Total administrative expenses	233,555	216,420	427,880	422,625
Operating income (loss)	139,148	(78,486)	201,729	(75,119)
Other income (expense)	88	(756)	6,252	(815)
Income (loss) before income taxes	139,236	(79,242)	207,981	(75,934)
Income taxes	51,082	(3,728)	75,919	(2,313)
Net income (loss)	$ 88,154	$ (75,514)	$ 132,062	$ (73,621)
Basic and diluted earnings per share	**	**	$ 0.01	**
Weighted average number of shares	12,057,549	12,042,571	12,055,396	12,048,060

**Less than $.01

See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2003 AND 2002
(UNAUDITED)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 132,062	$ (73,621)
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	47,012	38,036
Common stock issued for services	3,500	3,500
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	(44,511)	6,982
Increase in inventory	(38,884)	(20,578)
Increase in prepaid expenses	(24,677)	(20,379)
Decrease in accounts payable and accrued expenses	(15,702)	(8,374)
Increase (decrease) in current income taxes payable	58,913	(31,748)
Increase in deferred income taxes	17,006	29,435
Net cash from (used for) operating activities	134,719	(76,747)
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Expenditures for fixed assets	(67,452)	(90,526)
Net cash used for investing activities	(67,452)	(90,526)

	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in bank overdrafts	--	52,029
Common stock retired	--	(15,000)
Net borrowings from related party	10,154	--
Net borrowings (repayment) of note payable	3,184	(7,997)
Net borrowings under line-of-credit agreement	8,000	60,153
Net cash from financing activities	21,338	89,185
Net increase (decrease) in cash	88,605	(78,088)
Cash, beginning of the year	9,482	78,088
Cash, end of the period	$ 98,087	$ --

See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003
(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, P.C. (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. 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.

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, 2003 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2004.

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

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

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, 2003, the allowance for doubtful accounts was $0. Specific customer receivables are considered past due when they are outstanding beyond their contractual terms and are charged off to the allowance for doubtful accounts when determined uncollectible. For both the three and six months ended December 31, 2003 and 2002, 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.

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. Transition to the new rules of SFAS 142 requires the completion of a transitional impairment test of goodwill within the first year of adoption. The Company adopted the provisions of SFAS 142 beginning July 1, 2002 and completed the transitional impairment test of goodwill as of July 1, 2002 and again as of June 30, 2003 using discounted cash flow estimates and found no goodwill impairment.

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.

Impairment of Long-Lived Assets In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 generally establishes a standard framework within which to measure impairment of long-lived assets and expands APB Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, to include a component of the entity rather than a segment of the business. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 has had no material effect on the Company s consolidated financial condition and consolidated cash flows.

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

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

Research and Development The Company performs research and development on its metal/wood products, new product lines, and new patents. Costs, if any, are expensed as they are incurred. For the three months ended December 31, 2003 and 2002, the expenses relating to research and development were $8,700 and $7,511, respectively. For the six months ended December 31, 2003 and 2002, research and development expenses were $15,903 and $14,982, respectively.

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

Reclassifications Certain items in the financial statements for the three and six months ended December 31, 2002 have been reclassified to conform to the December 31, 2003 financial statement presentation.

Recent Accounting Pronouncements In October 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which requires companies to record a liability for asset retirement obligations in the period in which they are incurred if a reasonable estimate of their fair value can be made. The statement applies to a company s legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, or development and (or) the normal operation of a long-lived asset. When a liability for an asset retirement obligation is initially recognized, a company capitalizes the asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability. The capitalized asset retirement cost is depreciated over the life of the respective asset, while the liability is accreted to its present value. Upon settlement of the liability, the obligation is settled at its recorded amount, or the company incurs a gain or loss. The statement is effective for fiscal years beginning after June 30, 2002. The adoption of this statement has had no material impact on the Company s consolidated financial condition or results of operations.

In April 2002, the FASB issued Statement No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This statement rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt ; an amendment of that statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements ; and FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers. This statement also amends FASB Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The adoption of this statement has had no material impact on the Company s consolidated financial condition or results of operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement nullifies Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This statement requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred instead of at the date an entity commits to an exit plan. The statement is effective for exit and disposal activities entered into after December 31, 2002. The adoption of this statement has had no material impact on the Company s consolidated financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123. This statement amends SFAS 123, Accounting for Stock-Based Compensation, to allow for alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. This statement also amends FASB No. 123 to require disclosure of the accounting method used for valuation in both annual and interim financial statements. It permits an entity to recognize compensation expense under the prospective method, modified prospective method, or the retroactive restatement method. If an entity elects to adopt this statement, financial statements for fiscal years beginning after December 15, 2003 must include this change in accounting for stock-based employee compensation.

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 material 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 June 15, 2003. The adoption of this statement has had no material impact on the Company s consolidated financial condition or results of operations.

NOTE 2 EARNINGS PER SHARE

Net income and earnings per share for the three and six months ending December 31, 2003 and 2002 are as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2003	**2002**	**2003**	**2002**
Net income (loss)	$ 88,154	$ (75,514)	$ 132,602	$ (73,621)
Income per share - basic and fully diluted	**	**	$ 0.01	**
Weighted average number of shares	12,057,549	12,042,571	12,055,396	12,048,060

**Less than $.01

NOTE 3 SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the three and six months ended December 31, 2003 and 2002 are summarized as follows:

For the Three Months Ended December 31,		For the Six Months Ended December 31,	
2003	**2002**	**2003**	**2002**

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
Cash paid for income taxes	$ --	$ --	$ --	$ --
Cash paid for interest	$ 5,553	$ 2,088	$ 11,145	$ 4,216

NOTE 4 RELATED-PARTY TRANSACTIONS

From time to time, the Company contracts with a construction company related through common ownership and from whom the Company earns equipment rental fees. There were no fees earned for the three and six months ended December 31, 2003 or 2002. The Company did, however, enter into certain agreements with the related party in which the related party transferred ownership of two vehicles to the Company in exchange for the Company s note. The net amount payable to the related party was $10,154 at December 31, 2003 and $0 at December 31, 2002. Also, for the three and six months ended December 31, 2003, the Company had sales of $2,643 and $12,169, respectively, to its shareholder and CEO, Robert M. Callahan. As of December 31, 2003, the related receivable was still outstanding.

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 December 31, 2003. The note is secured by accounts receivable, equipment, general intangibles, inventory, and fixtures and furniture. The note is personally guaranteed by the Company s CEO. The balance outstanding as of December 31, 2003 was $535,000.

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, 2003 and 2002, as excerpted from internal management reports, is as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2003	2002	2003	2002
Construction:				
Sales	$ 704,727	$ 433,588	$ 1,227,874	$ 870,785
Intersegment expenses	--	--	(240)	(200)
Cost of sales	(357,230)	(300,106)	(658,404)	(518,021)
Corporate and other expenses	(266,411)	(198,526)	(453,343)	(392,840)
Segment income (loss)	$ 81,086	$ (65,044)	$ 115,887	$ (40,276)
Engineering:				
Sales	$ 70,691	$ 46,179	$ 143,102	$ 79,833
Intersegment revenues	--	--	240	200
Cost of sales	(45,485)	(41,727)	(82,963)	(85,091)
Corporate and other expenses	(18,138)	(14,922)	(44,204)	(28,287)
Segment income (loss)	$ 7,068	$ (10,470)	$ 16,175	$ (33,345)

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS

With the exception of historical facts stated herein, the matters discussed in this report are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such forward-looking statements include, but are not necessarily limited to, statements regarding anticipated levels of future revenues and earnings from operations of the Company. Readers of this report are cautioned not to put undue reliance on forward-looking statements, which are by their nature, uncertain as reliable indicators of future performance.

Description of Business

Background

As discussed in detail in Note 1, the Company was incorporated under the laws of the Commonwealth of Virginia on April 7, 1993 and, on June 30, 2000, entered into a reverse merger in which it became the wholly owned subsidiary of a public Nevada shell corporation, renamed Metwood, Inc. Effective January 1, 2002, Metwood acquired certain assets of Providence Engineering, PC in a transaction accounted for under the purchase method of accounting.

Principal Products/Services and Markets

Metwood

Residential builders are aware of the superiority of steel framing vs. wood framing, insofar as steel framing is lighter; stronger; termite, pest, rot and fire resistant; and dimensionally more stable in withstanding induced loads. Although use of steel framing in residential construction has generally increased each year since 1980, many residential builders have been hesitant to utilize steel due to the need to retrain framers and subcontractors who are accustomed to a stick-built construction method where components are laid out and assembled with nails and screws. The Company s founders, Robert (Mike) Callahan and Ronald Shiflett, saw the need to combine the strength and durability of steel with the convenience and familiarity of wood and wood fasteners.

Metwood manufactures light-gage steel construction materials, usually combined with wood or wood fasteners, for use in residential and commercial applications in place of more conventional wood products, which are inferior in terms of strength and durability. The steel and steel/wood products allow structures to be built with increased load strength and structural integrity and fewer support beams or support configurations, thereby allowing for structural designs that are not possible with wood-only products.

Metwood s primary products and services are:

· Girders and headers
· Floor joists
· Floor joist reinforcers
· Roof and floor trusses
· Garage, deck and porch concrete pour-over systems
· Garage and post-and-beam buildings ·
· Engineering, design and custom building services

Providence

Providence is extensively involved in ongoing product research and development for Metwood. Additionally, Providence offers its customers civil engineering capabilities which include rezoning and special use submissions; erosion and sediment control and storm-water management design; residential, commercial, and religious facility site development design; and utility design, including water, sewer and onsite treatment systems. Providence s staff is familiar with construction practices and has been actively involved in construction administration and inspection on multiple projects.

Providence also performs a variety of structural design and analysis work, successfully providing solutions for many projects, including retaining walls, residential framing, commercial building framing, light-gage steel fabrication drawings, metal building retrofits and additions, mezzanines, and seismic anchors and restraints.

Providence has designed numerous foundations for a variety of structures. Its foundation design expertise includes metal building foundations, traditional building construction foundations, atypical foundations for residential structures, tower foundations, and sign foundations for a variety of uses and applications.

Providence has also designed and drafted full building plans for several applications. When subcontracting with local professional firms, Providence has the ability to provide basic architectural, mechanical, electrical, and detailed civil and structural design services for these facilities.

Providence has reviewed designs by manufacturers for a variety of structures and structural components, including retaining walls, radio towers, tower foundations, sign foundations, timber trusses, light-gage steel trusses, and light-gage steel beams. This service enables clients to take generic designs and have them certified and approved for construction in the desired locality.

Distribution Methods of Products and Services

The Company s sales are primarily retail, directly to contractors and do-it-yourself homeowners in Virginia and North Carolina. Approximately 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.

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 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 Adelphia Metals provide the majority of the Company s rebar. Because of the number of suppliers available to the Company, its decisions in purchasing materials are dictated primarily by price and secondarily by availability. The Company does not anticipate a lack of supply to affect its production; however, a shortage might cause the Company to pass on higher materials prices to its buyers.

Dependence on One or a Few Major Customers

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

Patents

The Company s eight U.S. Patents are:

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

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 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 DevelopmentActivities

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-seven employees at December 31, 2003, all of whom were full time.

Results of Operations

Net Income

The Company had net income of $88,154 and $132,062, respectively, for the three and six months ended December 31, 2003, versus net losses of $75,514 and $73,621, respectively, for the three and six months ended December 31, 2002. This represents increases of $163,668 and $205,683, respectively, for the three and six months ended December 31, 2003 compared to the same periods in 2002. The increase in income was attributable to substantially increased sales, net of their related income tax effect, and a higher profit margin achieved primarily from fixed costs which remained generally unchanged from prior periods matched against significantly higher sales volume.

Sales

Revenues were $775,418 for the three months ended December 31, 2003 compared to $479,767 for the same period in 2002, an increase of $295,651, or 62%. Revenues for the six months ended December 31, 2003 were $1,370,976 versus $950,618 for the same prior-year period, an increase of $420,358, or 44%. Average selling prices remained fairly constant.

The Company s significant growth in 2003 sales over 2002 resulted from several factors, all of which will continue to have a positive impact on sales into the future. Awareness of the Company s products has increased as a result of aggressive marketing campaigns, and its patented, innovative products are becoming known throughout the country. The Company s customer base continues to grow as a result. Additionally, new products using the technology of the Company s four newly issued patents began production at the beginning of the current fiscal year and contributed to the growth in revenues for the three and six months ending December 31, 2003.

Expenses

Total administrative expenses were $233,555 and $427,880 for the three and six months ended December 31, 2003, respectively, versus $216,420 and $422,625 for the three and six months ended December 31, 2002, respectively. This is an increase in expenses of $17,135 (8%) for the three months ended December 31, 2003 compared to the same period in 2002, and an increase of only $5,255 (1%) for the six-month period ended December 31, 2003 compared to 2002 . Decreases of approximately $20,000 and $36,000, respectively, for the three and six months ended December 31, 2003 over 2002 in professional fees were offset by increases in payroll and miscellaneous other costs.

Liquidity and Capital Reserves

On December 31, 2003, the Company had cash of $98,087 and working capital of $212,161. Net cash provided by operating activities was $131,219 for the six months ended December 31, 2003 compared to net cash used for operating activities of $80,247 for the six months ended December 31, 2002. The greater provision of cash in the current year resulted primarily from a higher sales volume and an increase in income taxes payable that did not require a current cash outlay.

Net cash used in investing activities was $67,452 for the six months ended December 31, 2003 compared to net cash used of $90,526 during the same period in the prior year. Cash flows used in investing activities for the current period were for building improvements ($9,072), shop equipment ($24,580), vehicles ($16,000) and office equipment, computers, software and engineering equipment ($17,800).

Cash provided by financing activities totaled $24,838 for the six months ended December 31, 2003 as compared with cash used in financing activities of $92,685 for the six months ended December 31, 2002. Cash was borrowed from the bank line of credit in both the current period and the prior year for operating capital and for the purchase of plant and equipment.

ITEM 3 CONTROLS AND PROCEDURES

The Company s management has reviewed the systems of internal controls and disclosures within the specified time frame of ninety days. Management believes that the systems in place allow for proper controls and disclosures of financial reporting information. There have been no changes in these controls since our last evaluation date.

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, 2003.

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 16, 2004

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

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

INDEX TO EXHIBITS

NUMBER	DESCRIPTION OF EXHIBIT
3(i)*	Articles of Incorporation
3(ii)**	By-Laws
31.1	Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18U.S.C. 1350)

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

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