METWOOD INC
Form 10QSB
May 14, 2008

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 March 31, 2008

[ ] TRANSITION REPORT UNDER SECTION 12 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ________ to ________

Commission File Number 000-05391

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

NEVADA	83-0210365
(State or other jurisdiction of incorporation)	(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 ____

Indicate by check marck whether the registrant is a shell company (as defind in Rule 12b-2 of the exchange Act). Yes _____ No __X__

Number of shares of common stock
outstanding as of May 14, 2008:
12,091,399

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

METWOOD, INC. AND SUBSIDIARY
TABLE OF CONTENTS

Table of Contents

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2008
(UNAUDITED)

ASSETS	
Current Assets	
Cash and cash equivalents	$ 136,015
Accounts receivable	389,858
Deposits	7,100
Inventory	1,404,828
Prepaid expenses	42,998
Total current assets	1,980,799
Property and Equipment	
Leasehold and land improvements	166,368
Furniture, fixtures and equipment	81,351
Computer hardware, software and peripherals	202,347
Machinery and shop equipment	391,370
Vehicles	349,651
	1,191,087
Less accumulated depreciation	(667,947)
Net property and equipment	523,140
Goodwill	253,088
TOTAL ASSETS	$ 2,757,027

Table of Contents

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2008
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Accounts payable and accrued expenses	$ 263,280
Income taxes	42,959
Total current liabilities	306,239
Long-term Liabilities	
Deferred income taxes, net	127,568
Total long-term liabilities	127,568
Total liabilities	433,807
Stockholders' Equity	
Common stock, $.001 par, 100,000,000 shares authorized;	
12,096,249 shares issued; 12,091,399 outstanding	12,096
Common stock not yet issued ($.001 par, 2,150 shares)	2
Additional paid-in capital	1,345,759
Retained earnings	967,163
	2,325,020
Treasury stock, at cost	(1,800)
Total stockholders' equity	2,323,220
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,757,027

Table of Contents

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2008 AND 2007
(UNAUDITED)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 31, 2008	Nine Months Ended March 31, 2007
REVENUES				
Construction sales	$ 966,826	$ 1,021,163	$ 3,230,114	$ 3,220,196
Engineering sales	55,847	35,691	193,298	123,149
Gross sales	1,022,673	1,056,854	3,423,412	3,343,345
Cost of construction sales	556,340	578,106	2,007,589	1,661,459
Cost of engineering sales	57,484	61,061	178,565	159,423
Gross cost of sales	613,824	639,167	2,186,154	1,820,882
Gross profit	408,849	417,687	1,237,258	1,522,463
ADMINISTRATIVE EXPENSES				
Advertising	39,486	40,004	87,016	101,550
Depreciation	15,915	14,212	48,189	40,569
Insurance	17,421	23,771	55,680	67,563
Payroll expenses	166,045	165,283	499,830	579,267
Professional fees	8,148	5,326	41,660	35,443
Rent	19,750	19,650	59,050	58,950
Research and development	11,615	-	19,191	8,000
Travel	3,356	13,576	20,220	33,409
Vehicle	11,851	11,124	39,572	31,344
Other	64,709	59,310	179,624	195,023
Total administrative expenses	358,296	352,256	1,050,032	1,151,118
Operating income	50,553	65,431	187,226	371,345
Other income	11,075	7,461	17,800	13,386
Income before income taxes	61,628	72,892	205,026	384,731
Income taxes	(21,860)	(25,663)	(69,917)	(144,670)
Net income	$ 39,768	$ 47,229	$ 135,109	$ 240,061
Basic and diluted earnings per share	**	**	$ 0.01	$ 0.02
Weighted average number of shares	12,091,399	11,923,999	12,065,215	11,918,949

**Less than $0.01

See accompanying notes to consolidated financial statements.

Table of Contents

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 2008 AND 2007
(UNAUDITED)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 135,109	$ 240,061
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	88,590	89,998
Provision for deferred income taxes	10,559	15,616
(Increase) decrease in operating assets:		
Accounts receivable	10,299	54,068
Inventory	(194,390)	(224,937)
Recoverable income taxes	57,077	-
Other operating assets	67,200	(1,593)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(8,090)	119,451
Current income taxes payable	42,959	(26,534)
Net cash from operating activities	209,313	266,130
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Net expenditures for fixed assets	(111,399)	(142,723)
Net cash used for investing activities	(111,399)	(142,723)
CASH FLOWS USED FOR FINANCING ACTIVITIES		
Decrease in credit line	(25,000)	-
Proceeds from issuance of common stock	26,614	-
Purchase of treasury stock	(1,800)	-
Net cash used for financing activities	(186)	-
Net increase in cash	97,728	123,407
Cash, beginning of the year	38,287	99,880
Cash, end of the period	$ 136,015	$ 223,287

Table of Contents

METWOOD, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 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.

7

Table of Contents

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

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 March 31, 2008 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2008.

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

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

Accounts Receivable - The Company grants credit in the form of unsecured accounts receivable to its customers based on an evaluation of their financial condition. The Company performs ongoing credit evaluations of its customers. The estimate of the allowance for doubtful accounts, which is charged off to bad debt expense, is based on management's assessment of current economic conditions and historical collection experience with each customer. At March 31, 2008, 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 bad debt expense when determined uncollectible. For the three months ended March 31, 2008 and 2007, the amount of bad debts charged off was $2,554 and $7,416 respectively. For the nine months ended March 31, 2008 and 2007, the amount of bad debts charged off was $6,735 and $30,887, respectively including chargeoffs relating to receivables which have been awarded to th

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

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

Goodwill- The Company accounts for goodwill and intangibles under SFAS No. 142, “Goodwill and Other Intangible Assets.” As such, goodwill is not amortized, but is subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate there may be an impairment. The Company performed its required annual goodwill impairment test as of June 30, 2007 using discounted cash flow estimates and found that there was no impairment of goodwill.

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

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

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 March 31, 2008 and 2007 were $11,615 and $-0-, respectively. For the nine months ended March 31, 2008 and 2007, the expenses relating to research and development were $19,191 and $8,000, respectively.

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

Recent Accounting Pronouncements- In 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. We are currently assessing t

On July 1, 2007, we adopted the provisions of FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," which provides a financial statement recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax

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

Table of Contents

NOTE 2 - EARNINGS PER SHARE

Net income and earnings per share for the three and nine months ending March 31, 2008 and 2007 are as follows:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2008	2007	2008	2007
Net income	$ 39,768	$ 47,229	$ 135,109	$ 240,061
Income per share - basic and fully diluted	**	**	$ 0.01	$ 0.02
Weighted average number of shares	12,091,399	11,923,999	12,065,215	11,918,949

**Less than $0.01

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION

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

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2008	2007	2008	2007
Cash paid for:				
Income taxes	$ --	$ --	$ --	$ 155,588
Interest	$ --	$ --	$ 2,073	$ --

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 nine months ended March 31, 2008 and 2007. For the three months ended March 31, 2008 and 2007, the Company had sales of $5,915 and $22,023, respectively, to the company referred to above. For the nine months ended March 31, 2008 and 2007, sales were $89,948 and $54,154, respectively. As of March 31, 2008, the related receivables outstanding were $3,725. 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 March 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 nine months ended March 31, 2008 and 2007, as excerpted from internal management reports, is as follows:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
Construction:	2008	2007	2008	2007
Sales	$ 966,826	$ 1,021,163	$ 3,230,114	$ 3,220,196
Intersegment expenses	(17,484)	(27,167)	(54,098)	(59,334)
Cost of sales	(556,340)	(578,106)	(2,007,589)	(1,661,459)
Corporate and other expenses	(360,520)	(364,505)	(1,055,474)	(1,261,193)
Segment income	$ 32,482	$ 51,385	$ 112,953	$ 238,210
Engineering:				
Sales	$ 55,847	$ 35,691	$ 193,298	$ 123,149
Intersegment revenues	17,484	27,167	54,098	59,334
Cost of sales	(57,484)	(61,061)	(178,565)	(159,423)
Corporate and other expenses	(8,561)	(5,953)	(46,675)	(21,209)
Segment income (loss)	$ 7,286			