METWOOD INC
Form 10QSB
November 13, 2006

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 September 30, 2006

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

Number of shares of common stock outstanding as of November 11, 2006: 11,923,999

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

METWOOD, INC. AND SUBSIDIARY

TABLE OF CONTENTS - FORM 10-QSB

Table of Contents

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2006
(UNAUDITED)

ASSETS

Current Assets		
Cash and cash equivalents	$	97,526
Accounts receivable		494,965
Deposits		6,200
Inventory		1,064,421
Prepaid expenses		67,314
Total current assets		1,730,426
Property and Equipment		
Leasehold improvements		119,233
Furniture, fixtures and equipment		75,851
Computer hardware, software and peripherals		166,173
Machinery and shop equipment		268,019
Vehicles		321,165
		950,441
Less accumulated depreciation		(483,521)
Net property and equipment		466,920
Goodwill		253,088
TOTAL ASSETS	$	2,450,434

See accompanying notes to consolidated financial statements.

Table of Contents

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2006
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable and accrued expenses	$	239,455
Income taxes		54,159
Total current liabilities		293,614
Long-term Liabilities		
Deferred income taxes, net		111,932
Total liabilities		405,546
Stockholders' Equity		
Common stock, $.001 par, 100,000,000 shares authorized;		
11,923,999 shares issued and outstanding		11,924
Common stock not yet issued ($.001 par, 2,150 shares)		2
Additional paid-in capital		1,319,317
Retained earnings		713,645
Total stockholders' equity		2,044,888
TOTAL LIABILITIES		
AND STOCKHOLDERS' EQUITY	$	2,450,434

See accompanying notes to consolidated financial statements.

Table of Contents

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

		2006		2005
REVENUES				
Construction sales	$	1,105,956	$	1,201,594
Engineering sales		44,568		54,204
Gross sales		1,150,524		1,255,798
Cost of construction sales		570,608		687,345
Cost of engineering sales		45,919		37,656
Gross cost of sales		616,527		725,001
Gross profit		533,997		530,797
ADMINISTRATIVE EXPENSES				
Advertising		30,514		69,073
Bad debts		23,061		-
Depreciation		13,031		12,671
Insurance		19,354		15,986
Payroll expenses		189,557		164,366
Professional fees		22,300		20,970
Rent		18,600		18,600
Research and development		8,000		-
Telephone		9,071		6,089
Travel		9,809		5,738
Vehicle		9,073		3,083
Other		34,681		36,971
Total administrative expenses		387,051		353,547
Operating income		146,946		177,250
Other income (expense)		3,077		(1,309)
Income before income taxes		150,023		175,941
Income taxes		56,349		54,446
Net income	$	93,674	$	121,495
Basic and diluted earnings per share	$	0.01	$	0.01
Weighted average number of shares		11,908,958		11,882,166

See accompanying notes to consolidated financial statements.

5

Table of Contents

METWOOD, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 93,674	$ 121,495
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	29,086	27,145
Provision for deferred income taxes	4,778	9,513
(Increase) decrease in operating assets:		
Accounts receivable	11,861	(45,323)
Inventory	(81,450)	91,028
Recoverable income taxes	-	29,854
Other operating assets	(2,639)	(53,446)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(16,520)	(95,333)
Current income taxes payable	(7,429)	15,079
Net cash from operating activities	31,361	100,012
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Expenditures for fixed assets	(33,715)	(44,732)
Net cash used for investing activities	(33,715)	(44,732)
Net (decrease) increase in cash	(2,354)	55,280
Cash, beginning of the year	99,880	234,607
Cash, end of the period	$ 97,526	$ 289,887

See accompanying notes to consolidated financial statements.

Table of Contents

METWOOD, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(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.

Table of Contents

METWOOD, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(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 September 30, 2006 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2007.

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 September 30, 2006, 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 the three months ended September 30, 2006 and 2005, the amount of bad debts charged off was $23,061 and $-0-, respectively, including chargeoffs for the three months ended September 30, 2006 relating to receivables which have been awarded to the Company as a result of lawsuits whose collectibility is doubtful.

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, 2006 using discounted cash flow estimates and found that there was no impairment of goodwill."

8

Table of Contents

METWOOD, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(UNAUDITED)

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. For the three months ended September 30, 2006 and 2005, the expenses relating to research and development were $8,000 and $-0-, respectively.

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

Recent Accounting Pronouncements - In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation ("FIN") No. 48, "Uncertainty in Income Taxes." FIN 48 applies to all tax positions within the scope of Statement 109 and clarifies when and how to recognize tax benefits in the financial statements with a two-step approach to recognition and measurement. FIN 48 will become effective for fiscal years beginning after December 15, 2006. Management continues to evaluate the effect that adoption of FIN 48 will have on the Company's consolidated results of operations and financial position.

In May 2005, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting changes and Error Corrections" (replacing Accounting Principles Board Opinion ("APB") No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - an Amendment of APB Opinion No. 28") which changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior period financial statements (to the extent practicable) of changes in accounting principle instead of recognition of the cumulative effect of the change in net income in the period of the change as required by APB No. 10. SFAS 154 also requires that a change in depreciation or amortization be accounted for as a change in accounting estimate effected by a change

METWOOD, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(UNAUDITED)

in accounting principle. The Company adopted SFAS 154 during the quarter ended September 30, 2006, and such adoption did not impact the Company's consolidated results of operations or financial position.

"In September 2006, the FASB issued Statement No. 157, ""Fair Value Measurements."" SFAS 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently assessing the impact that SFAS 157 will have on our consolidated results of operations or financial position."

"In September 2006, the SEC released Staff Accounting Bulletin (""SAB"") No. 108, ""Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements."" SAB 108 provides interpretive guidance on the SEC's views regarding the process of quantifying materiality of financial statement misstatements. SAB 108 is effective for fiscal years ending after November 15, 2006, with early application for the first interim period ending after November 15, 2006. The Company does not believe that the application of SAB 108 will have a material effect on our consolidated results of operations or financial position."

NOTE 2 - EARNINGS PER SHARE

Net income and earnings per share for the three months ending September 30, 2006 and 2005 are as follows:

		2006		2005
Net income	$	93,674	$	121,495
Income per share - basic and fully diluted	$	0.01	$	0.01
Weighted average number of shares		11,908,958		11,882,166

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the three months ended September 30, 2006 and 2005 are summarized as follows:

		2006		2005
Cash paid for:				
Income taxes	$	59,000	$	--
Interest	$	--	$	--

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 months ended September 30, 2006 and 2005. For the three months ended September 30, 2006 and 2005, the Company had sales of $25,248 and $0, respectively, to the company referred to above. As of September 30, 2006, the related receivables were still outstanding. See also Note 7.

Table of Contents

METWOOD, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(UNAUDITED)

NOTE 5 - BANK CREDIT LINE

The Company has available a $600,000 revolving line of credit with a local bank. The balance outstanding at September 30, 2006 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 months ended September 30, 2006 and 2005, as excerpted from internal management reports, is as follows:

Construction:	2006	2005
Sales	$ 1,105,956	$ 1,201,594
Intersegment expenses	(4,837)	-
Cost of sales	(570,608)	(687,345)
Corporate and other expenses	(436,151)	(398,307)
Segment income	$ 94,360	$ 115,942
Engineering:		
Sales	$ 44,568	$ 54,204
Intersegment revenues	4,837	-
Cost of sales	(45,919)	(37,656)
Corporate and other expenses	(4,172)	(10,995)
Segment income (loss)	$ (686)	$ 5,553

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 monthly rental of $6,200. The lease expires on December 31, 2014. For both the three months ended September 30, 2006 and 2005, we recognized rental expense for these spaces of $18,600.

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.*

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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-three employees at September 30, 2006, all of whom were full time.

Results of Operations

Net Income

The Company had net income of $93,674 for the three months ended September 30, 2006, versus $121,495 for the three months ended September 30, 2005, a decrease of $27,821. The decrease in net income was attributable primarily to higher administrative costs, since gross profit comparing 2006 to 2005 increased slightly.

Sales

Revenues were $1,150,524 for the three months ended September 30, 2006 compared to $1,255,798 for the same period in 2005, a decrease of $105,274, or 8%. The decrease in sales resulted primarily from a slight decrease in volume comparing the two periods. Average selling prices and gross margins remained fairly constant.

Table of Contents

Expenses

Total administrative expenses were $387,051 for the three months ended September 30, 2006, versus $353,547 for the three months ended September 30, 2005, an increase of $33,504 (9%). A decrease of approximately $40,000 in advertising in 2006 over 2005 was offset by increases in payroll, bad debt, and research and development expenses.

Liquidity and Capital Reserves

On September 30, 2006, the Company had cash of $97,526 and working capital of $1,436,812. Net cash provided by operating activities was $31,361 for the three months ended September 30, 2006 compared to $100,012 for the three months ended September 30, 2005. The lower provision of cash in the current year resulted primarily from purchases of inventory and a paydown in payables, partially offset by a net collection of accounts receivable for the period.

Cash used in investing activities was $33,715 for the three months ended September 30, 2006 compared to cash used of $44,732 during the same period in the prior year. Cash flows used in investing activities for the current period were for vehicles ($18,664), shop equipment $11,497), and computers and peripherals ($3,554).

No cash was provided from financing activities for the periods ended September 30, 2006 and 2005.

ITEM 3 - CONTROLS AND PROCEDURES

The management of Metwood, Inc. 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.

Table of Contents

PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

See index to exhibits.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the quarter ended September 30, 2006.

Table of Contents

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: November 11, 2006

By: /s/ Robert M. Callahan

Robert M. Callahan
Chief Executive Officer

By: /s/ Shawn A. Callahan

Shawn A. Callahan
Chief Financial Officer

Table of Contents

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