METWOOD INC
Form 10-Q
February 13, 2012

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

FORM 10-Q

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

For the quarterly period ended: December 31, 2011

or

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

For the transition period from: _____________ to _____________

METWOOD, INC

(Exact name of registrant as specified in its charter)

NEVADA	000-05391	83-0210365
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

819 Naff Road, Boones Mill, VA 24065
(Address of Principal Executive Offices) (Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 þ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of January 24, 2012, the number of shares outstanding of the registrant’s commons tock , $0.001

par value (the only class of voting stock), was 12,231,797 shares.

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METWOOD, INC. AND SUBSIDIARY

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METWOOD, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	(UNAUDITED) December 31, 2011	(AUDITED) June 30, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 129,259	$ 180,448
Accounts receivable, net	253,069	240,581
Inventory	954,844	855,864
Recoverable income taxes -	—	42,606
Other current assets	18,163	47,872
Total current assets	1,355,335	1,367,371
Property and Equipment		
Leasehold and land improvements	328,644	327,449
Furniture, fixtures and equipment	97,514	98,458
Computer hardware, software and peripherals	196,578	159,261
Machinery and shop equipment	457,688	457,688
Vehicles	394,183	420,533
	1,447,607	1,463,389
Less accumulated depreciation	-981,691	-935,093
Net property and equipment	465,916	528,296
Other Assets		
Deferred tax asset	51,787	157,792
Less valuation reserve	-5,923	-120,732
Total other assets	45,864	37,060
Goodwill	253,088	253,088
TOTAL ASSETS	2,120,203	2,185,815
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 86,699	$ 111,901
Note payable	0	5,359

Total current liabilities	86,699	117,260
Long-term Liabilities		
Note payable	—	24,529
Due to related company	124,888	136,942
Total long-term liabilities	124,888	161,471
Total liabilities	211,587	278,731
Stockholders' Equity		
Common stock, $.001 par, 100,000,000 shares authorized 12,231,797 shares issued and outstanding at December 31, 2011	12,232	12,232
Common stock not yet issued ($.001 par, 8,150 shares)	8	8
Additional paid-in capital	1,544,268	1,544,268
Retained earnings	352,108	350,576
Total stockholders' equity	1,908,616	1,907,084
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	2,120,203	2,185,815

See accompanying notes to consolidated financial statements.

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METWOOD, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2011	2010	2011	2010
REVENUES				
Construction sales	$556,441	$522,927	$1,061,773	$1,203,718
Engineering sales	12,500	32,725	14,856	90,354
Gross sales	568,941	555,652	1,076,629	1,294,072
Cost of construction sales	343,251	283,757	632,691	731,553
Cost of engineering sales	3,266	42,726	18,343	81,737
Gross cost of sales	346,517	326,483	651,034	813,290
Gross profit	222,424	229,169	425,595	480,782
ADMINISTRATIVE EXPENSES				
Advertising	8,588	35,280	21,115	49,997
Depreciation	9,776	9,185	19,608	19,435
Insurance	2,932	5,118	8,704	9,593
Payroll expenses	120,921	144,293	245,546	295,920
Professional fees	5,275	6,545	30,370	31,318
Rent	20,000	19,800	39,800	39,600
Repairs and maintenance	2,336	14,484	4,242	22,520
Travel	2,322	5,482	4,871	10,707
Vehicle	10,960	12,981	22,562	23,113
Other	20,301	44,527	45,613	86,983
Total administrative expenses	203,420	297,695	442,431	589,186
Operating income (loss)	19,004	-68,526	-16,836	-108,404
Other income	4,046	3,914	9,564	7,353
Loss before income taxes	23,050	-64,612	-7,272	-101,051
Income tax expense (benefit)	1,780	-42,338	-8,804	-62,209
Net income (loss) from operations	21,270	-22,274	1,532	-38,842

Basic and diluted deficit per share	**	**	**	**
Weighted average number of shares	12,231,797	12,231,797	12,231,797	12,231,797

** Less than $0.01

See accompanying notes to consolidated financial statements.

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METWOOD, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended December 31,	
	2011	2010
OPERATIONS		
Net income (loss)		
Adjustments to reconcile net income to net cash from operating activities	$1,532	-38,842
Depreciation		
Provision for (reversal of) deferred income taxes(increase) decrease in operating assets:	46,598	44,683
Accounts receivable	-8,804	-8,325
Inventory	11,751	135,449
Recoverable income taxes	-98,979	-64,325
Other operating assets	42,606	-53,884
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	-25,203	-133,147
Net cash used for operating activities	-25,029	-118,942
INVESTING		
Capital expenditures	15,782	-90,206
Net cash provided by (used for) investing activities	15,782	-90,206
FINANCING		
Decrease in note payable	-29,888	—
Decrease in borrowings from related party	-12,054	-27,725
Net cash used for financing activities	-41,942	-27,725
Net decrease in cash	-51,189	-236,873
Cash, beginning of the year	180,448	403,512
Cash, end of the period	129,259	166,639

See accompanying notes to consolidated financial statements.

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METWOOD, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

(UNAUDITED)

NOTE 1 - ORGANIZATION AND OPERATIONS

Metwood, Inc. ("Metwood") was organized under the laws of the Commonwealth of Virginia on April 7, 1993. On June 30, 2000, Metwood entered into an Agreement and Plan of Reorganization in which the majority of its outstanding common stock was acquired by a publicly held Nevada shell coporation. 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 theCompany'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 $1.00per 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 ofaccounting. Liabilities assumed at the date of acquisition were identified, paid and added to goodwill.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

Basis of Presentation - The financial statements include the accounts of Metwood, Inc. and its whlly 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 havebeen 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, 2011 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2012.

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

Management's Use of Estimates - The preparation of consolidated financial statements in conformity

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

Accounts Receivable - We grant credit in the form of unsecured accounts receivable to our customers based on an evaluation of their financial condition. We perform ongoing credit evaluations of ourcustomers. 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, 2011, the allowance for doubtful accounts was $5,000. Specific customer receivables are considered past due when they are outstanding beyond their contractual terms and are charged off to bad debt expense when determined uncollectible. For the three and six months ended December 31, 2011, the amount of bad debts charged off was $-0- and $1,697, respectively. For the three and six months ended December 31, 2010,

bad debts charged off was $1,587 and $35,744, respectively.

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

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

Goodwill - We account for goodwill and intangibles under SFAS No. 142, “Goodwill and Other Intangible Assets.” As such, goodwill is not amortized, but is subject to annual impairment reviews, or more frequent reviews if events or circumstances indicate there may be an impairment. We performed our required annual goodwill impairment test as of June 30, 2011 using discounted cash flow estimates and found that there was no impairment of goodwill.

Impairment of Long-lived Assets - We evaluate our long-lived assets for indications of possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amounts to the futurenet undiscounted cash flows which the assets are expected to generate. Should an impairment exist, the impairment would be measured by the amount by which the carrying amount of the assets exceeds the projected discounted future cash flows arising from the asset. There have been no such impairments of long-lived assets through December 31, 2011.

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

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

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

Research and Development - We perform research and development on our metal/wood products, new product lines, and new patents. Costs, if any, are expensed as they are incurred. Research and development costs (refunded amounts) for the three months ended December 31, 2011 and 2010 were ($3,513) and $3,914, respectively. For the six months ended December 31, 2011 and 2010, research and development costs were $-0- and $5,700, 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 netincome for the years presented in the computation of diluted earnings per share.

Recent Accounting Pronouncements - In May 2011, the Financial Accounting Standards Board

(“FASB”) issued an Accounting Standards Update (“ASU”) No. 2011-04 amending Topic 820 that

substantially converged the requirements for fair value measurement and disclosure between the FASB and the International Accounting Standards Board (“IASB”). This ASU is largely consistent with existing fair value measurement principles under U.S. GAAP. This ASU is effective for the Company in its quarter beginning January 1, 2012 and is not expected to have a material impact on the Company's financial statements.

In June 2011, the FASB issued ASU 2011-05 amending Topic 220 that addressed the presentation of comprehensive income in the financial statements. This accounting update allows an entity the optionto present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in twoseparate but consecutive statements. In addition, this ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity and does not change the items that must be reported in other comprehensive income or when an item ofother comprehensive income must be reclassified to net income. This ASU is effective for the Company in its quarter beginning January 1, 2012 and is not expected to have a material impact on the Company's financial statements other than modifying the presentation of comprehensive income.

In September 2011, the FASB issued ASU 2011-08 amending Topic 350 that allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwillimpairment test. Under this new ASU, if a Company chooses the qualitative method, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitativeassessment, that it is more likely than not that its fair value is less than its carrying amount. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company does not expect this ASU to have a material impact on its financial statements.

Management does not believe that any other recently issued accounting pronouncements would have a material effect on the accompanying consolidated financial statements.

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NOTE 3 - EARNINGS PER SHARE

Net income (loss) and earnings per share for the three and six months ended December 31, 2011 and 2010 areas follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2011	2010	2011	2010
Net income (loss)	$21,270	-22,274	$1,532	-38,842
Earnings per share - basic and fully diluted	**	**	**	**
Weighted average number of shares	12,231,797	12,231,797	12,231,797	12,231,797

**Less than $0.01

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the three and six months ended December 31, 2011 and 2010 are summarized as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2011	2010	2011	2010
Cash paid for:				
Income taxes	$ -	$ -	$ -	$ -
Interest	$ -	$ -	$110	$ -

NOTE 5 - RELATED-PARTY TRANSACTIONS

From time to time, we contract with a company related through common ownership for building and grounds- related maintenance services. There were no fees paid to the related company for the three and six months ended December 31, 2011 and 2010. For the three months ended December 31, 2011 and 2010, we had sales of$3,234 and $90,482, respectively, to the company referred to above. For the six months ended December 31, 2011 and 2010, we had sales of $12,054 and $98,922 to the company. As of December 31, 2011 and 2010, therelated receivable was $-0- and $-0-, respectively. See also Note 7.

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NOTE 6 - SEGMENT INFORMATION

We operate in two principal business segments: (1) construction-related products and (2) engineering services. Performance of each segment is evaluated based on profit or loss from operations beforeincome 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, 2011 and 2010, as excerpted from internal management reports, is as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
Construction:	2011	2010	2011	2010
Sales	$556,441	$522,927	$1,061,773	$1,203,718
Intersegment expenses	—	-5,165	-200	-10,670
Cost of sales	-343,251	-283,757	-632,691	-731,553
Other expenses	-197,334	-251,124	-424,438	-501,888
Segment income (loss)	$15,856	$(17,119)	$4,444	$(40,393)
Engineering:				
Sales	$12,500	$32,725	$14,856	$90,354
Intersegment revenues	—	5,165	200	10,670
Cost of sales	3,266	-42,726	-18,343	-81,737
Other income (expenses)	-10,352	-6,919	375	-24,336
Segment income (loss)	$5,414	$(11,755)	$(2,912)	$(5,049)

NOTE 8 - OPERATING LEASE COMMITMENTS

On January 3, 2005, the Company entered into a ten-year commercial operating lease with a company related through common ownership. The lease covers various buildings and property which house our manufacturing plant, executive offices and other buildings with a current monthly rental of $6,800. Thelease expires on December 31, 2014. For the three months ended December 31, 2011 and 2010, we recognized rental expense for these spaces of $20,000 and $19,800, respectively. For the six months ended December 31, 2011 and 2010, we recognized rental expense of $39,800 and $39,600,

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ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Description of Business

Background

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

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 pro