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METWOOD INC  
Form 10QSB  
February 24, 2003

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

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the quarterly period ended December 31, 2002

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-05391

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  No

Number of shares of common stock outstanding as of February 14, 2003: 12,043,549

Transitional Small business Disclosure Format (Check one) Yes  No

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## METWOOD, INC. & SUBSIDIARY CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2002

|   | (Unaudited)<br>December 31,<br>2002 |
|---|-------------------------------------|
|   | -----                               |
| ASSETS                                      |                                     |
| Current Assets                              |                                     |
| Accounts receivable                         | 179,856                             |
| Inventory                                   | 283,735                             |
| Prepaid expenses                            | 27,885                              |
|   | -----                               |
| Total current assets                        | 491,476                             |
| Property and Equipment                      |                                     |
| Furniture, fixtures and equipment           | 33,457                              |
| Computer hardware, software and peripherals | 66,315                              |
| Website development                         | 11,800                              |
| Machinery and shop equipment                | 169,090                             |
| Vehicles                                    | 162,418                             |
| Buildings and improvements                  | 674,406                             |
| Land  | 177,000                             |
|   | -----                               |
|   | 1,294,486                           |
| Less accumulated depreciation               | (235,428)                           |

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|                            |             |
|----------------------------|-------------|
| Net property and equipment | 1,059,058   |
| Goodwill                   | 253,088     |
|                            | -----       |
| TOTAL ASSETS               | \$1,803,622 |
|                            | =====       |

See accompanying notes to consolidated financial statements.

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METWOOD, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEET  
AS OF DECEMBER 31, 2002

(Unaudited)  
December 31,  
2002

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

|                                       |          |
|---------------------------------------|----------|
| Bank overdrafts                       | \$52,029 |
| Accounts payable and accrued expenses | 103,864  |
| Income taxes currently payable        | 17,752   |
| Bank line of credit                   | 210,153  |
|                                       | -----    |
| Total current liabilities             | 383,798  |

Long-Term Liabilities

|                               |         |
|-------------------------------|---------|
| Deferred income tax liability | 41,045  |
|                               | -----   |
| Total liabilities             | 424,843 |
|                               | -----   |

Stockholders' Equity

|  |           |
|--|-----------|
| Common stock, \$.001 par, 100,000,000 shares authorized;<br>12,043,549 shares issued and outstanding | 12,043    |
| Common stock not yet issued (\$.001 par, 4,000 shares)   | 4         |
| Additional paid-in capital   | 1,336,206 |
| Retained earnings  | 30,526    |
|  | -----     |
| Total stockholders' equity   | 1,378,779 |
|  | -----     |

TOTAL LIABILITIES  
AND STOCKHOLDERS' EQUITY

\$1,803,622

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See accompanying notes to consolidated financial statements.

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METWOOD, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME (LOSS)  
FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2002 AND 2001

|                                      | Three Months Ended   |                      | Six Months Ended     |                      |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                      | December 31,<br>2002 | December 31,<br>2001 | December 31,<br>2002 | December 31,<br>2001 |
| <b>REVENUES</b>                      |                      |                      |                      |                      |
| Sales                                | \$479,767            | \$396,098            | \$950,618            | \$834,               |
| Cost of sales                        | (341,833)            | (167,123)            | (603,112)            | (416,                |
| Gross profit                         | 137,934              | 228,975              | 347,506              | 418,                 |
| <b>ADMINISTRATIVE EXPENSES</b>       |                      |                      |                      |                      |
| Advertising                          | 3,346                | 22,770               | 6,543                | 31,                  |
| Consulting                           | 3,900                | -                    | 8,425                |                      |
| Depreciation                         | 12,566               | 15,000               | 24,239               | 30,                  |
| Employee benefit programs            | 8,531                | 5,944                | 19,356               | 10,                  |
| Insurance                            | 11,006               | 14,029               | 22,255               | 18,                  |
| Office expense                       | 17,127               | 7,453                | 28,106               | 10,                  |
| Other                                | 5,826                | 893                  | 11,404               | 1,                   |
| Payroll taxes                        | 2,535                | 9,536                | 13,625               | 19,                  |
| Professional fees                    | 33,115               | 12,530               | 54,529               | 17,                  |
| Property taxes                       | 6,596                | 5,527                | 6,596                | 5,                   |
| Repairs and maintenance              | 93                   | 13,700               | 2,546                | 24,                  |
| Salaries and wages                   | 99,422               | 91,841               | 193,660              | 161,                 |
| Telephone                            | 4,993                | 3,541                | 9,602                | 8,                   |
| Travel                               | 3,980                | -                    | 6,972                |                      |
| Utilities                            | 1,800                | 2,739                | 3,897                | 4,                   |
| Vehicle expenses                     | 1,584                | 1,053                | 10,870               | 2,                   |
| Total administrative expenses        | 216,420              | 206,556              | 422,625              | 346,                 |
| Operating income (loss)              | (78,486)             | 22,419               | (75,119)             | 71,                  |
| Other income (expense)               | (756)                | 1,644                | (815)                | 2,                   |
| Income before income taxes           | (79,242)             | 24,063               | (75,934)             | 74,                  |
| Income tax provision (benefit)       | (3,728)              | 16,743               | (2,313)              | 16,                  |
| Net income (loss)                    | \$ (75,514)          | \$7,320              | \$ (73,621)          | \$57,                |
| Basic and diluted earnings per share | **                   | **                   | **                   | **                   |
| Weighted average number of shares    | 12,042,571           | 11,756,550           | 12,048,060           | 11,772,              |

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\*\*Less than \$.01

See accompanying notes to consolidated financial statements.

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METWOOD, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2002 AND 2001

|  | 2002        | 2001      |
|--|-------------|-----------|
| CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES  |             |           |
| Net income (loss)  | \$ (73,621) | \$57,642  |
| Adjustments to reconcile net income (loss) to net cash from (used for) operating activities: |             |           |
| Depreciation   | 38,036      | 30,000    |
| Changes in operating assets and liabilities:   |             |           |
| Decrease (increase) in accounts receivable   | 6,982       | (21,806)  |
| Increase in inventory  | (20,578)    | (49,374)  |
| Increase in prepaid expenses   | (20,379)    |           |
| Increase (decrease) in accounts payable and accrued expenses                                 | (8,374)     | 7,322     |
| Decrease in current income taxes payable   | (31,748)    |           |
| Increase in deferred income taxes  | 29,435      | 2,270     |
| Net cash from (used for) operating activities  | (80,247)    | 26,054    |
| CASH FLOWS USED FOR INVESTING ACTIVITIES   |             |           |
| Expenditures for building and improvements   | (13,593)    | (92,263)  |
| Expenditures for equipment   | (76,933)    | (41,113)  |
| Net cash used for investing activities   | (90,526)    | (133,376) |
| CASH FLOWS FROM FINANCING ACTIVITIES   |             |           |
| Increase in bank overdrafts  | 52,029      |           |
| Common stock retired   | (15,000)    |           |
| Common stock issued for services   | 3,500       |           |
| Common stock issued for equipment  |             | 15,000    |
| Repayment of note payable  | (7,997)     |           |
| Net borrowings (repayments) under line-of-credit agreement                                   | 60,153      | 100,000   |
| Net cash from financing activities   | 92,685      | 115,000   |
| Net increase (decrease) in cash  | (78,088)    | 7,678     |
| Cash, beginning of the year  | 78,088      | 25,924    |
| Cash, end of the period  | \$ -        | \$33,602  |

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See accompanying notes to consolidated financial statements.

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METWOOD, INC. AND SUBSIDIARY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002  
(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 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, paying \$60,000 in cash and issuing 290,000 common shares to the two Providence shareholders. These shares were valued at the closing quoted stock price of \$1.00 per share at the effective date of the purchase. See the Company's Annual Report on Form 10-KSB for the year ended June 30, 2002 for additional disclosures. 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 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 unaudited condensed financial statements included herein include the accounts of Metwood, Inc. (the Nevada corporation) and its wholly owned subsidiary (the Virginia corporation) on a consolidated basis, prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. For further information, refer to the Company's Annual Report on Form 10-KSB for the year ended June 30, 2002.

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In the opinion of management, the unaudited condensed consolidated financial statements contain all the adjustments necessary in order to make the financial

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statements not misleading. The results for the period ended December 31, 2002 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2003.

Accounts Receivable - Accounts receivable are charged to an allowance for doubtful accounts as they are deemed uncollectible based upon a periodic review of the accounts. At December 31, 2002, the allowance was \$821 and has been netted against accounts receivable for balance sheet presentation.

Credit is extended to customers based on an evaluation of their financial condition, and collateral is not required. The Company performs ongoing credit evaluations of its customers.

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.

Net Income Per Common Share - SFAS No. 128 requires dual presentation of basic and diluted earnings per share (EPS) with a reconciliation of the numerator and denominator of the EPS computations. 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. Accordingly, this presentation has been adopted for the years presented. There were no adjustments required to net income for the years presented in the computation of diluted earnings per share.

Web Site Development - The rules regarding capitalization versus expensing of web site development costs have been set forth in two American Institute of Certified Public Accountants (AICPA) publications, AICPA Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," and AICPA Emerging Issues Task Force (EITF) Issue No. 00-2, "Accounting for Web Site Development Costs." These publications require, in part, that all costs incurred during the application development stage of web site development be capitalized, all training and application maintenance costs incurred during the post-implementation (operations) stage be expensed, and all upgrades and enhancements incurred during the post-implementation (operations) stage be capitalized. As of December 31, 2002, the Company had capitalized \$11,800 in costs which have been incurred in the development stage of its web site.

New Accounting Standards - In June 2001 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 ("SFAS 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 using discounted cash flow estimates and found no goodwill impairment.

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### NOTE 2 - EARNINGS PER SHARE

Net income (loss) and earnings per share for the three and six months ending December 31, 2002 and 2001 are as follows:

|  | For the three months ended<br>December 31, |            |    |
|--|--|------------|----|
|  | 2002                                       | 2001       |    |
| Net income (loss)                          | \$(75,514)                                 | \$7,320    | \$ |
| Income per share - basic and fully diluted | **   | **         |    |
| Weighted average number of shares          | 12,042,571                                 | 11,756,550 | 12 |

\*\*Less than \$.01

### NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the three and six months ended December 31, 2002 and 2001 are summarized as follows:

|                | For the three months ended |         |
|----------------|----------------------------|---------|
|                | 2002                       | 2001    |
| Cash paid for: |                            |         |
| Income taxes   | \$ --                      | \$ --   |
| Interest       | \$ 2,088                   | \$2,110 |

### 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, 2002 or 2001, and there were no amounts receivable from the related party at December 31, 2002 or 2001.

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### NOTE 5 - BANK CREDIT LINE

During the six months ended December 31, 2002, the Company borrowed \$90,000 on its \$650,000 bank line of credit and repaid \$30,000, leaving a balance of \$210,000 outstanding. The available line of credit at December 31, 2002 was \$440,000. The loan is payable on demand, with interest payable at the bank's prime rate. The actual rate of interest in effect at December 31, 2002 was 4.25%. Accounts receivable, equipment, general intangibles, inventory, furniture and fixtures secure the loan under a signed Security Agreement dated February 25, 2002. The Company's shareholder and CEO guarantees the loan.

### NOTE 6 - SEGMENT INFORMATION

The Company operates in two principal business segments: (1)



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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. However, the Company's manufactured products must either be sold with their engineers' seal or with Building Officials Code Association (BOCA) approval. Summarized revenue and expense information by segment for the three and six months ended December 31, 2002 and 2001 follows:

|                                   | For the three months ended<br>December 31, |           | For the six months<br>ended December 31, |           |
|-----------------------------------|--|-----------|--|-----------|
|                                   | 2002                                       | 2001      | 2002                                     | 2001      |
| <b>Construction:</b>              |  |           |  |           |
| Revenues from external customers  | \$433,588                                  | \$396,098 | \$870,785                                | \$870,785 |
| Intersegment revenues             | \$ --                                      | \$ --     | \$ --                                    | \$ --     |
| Income (loss) before income taxes | \$(74,985)                                 | \$ 24,063 | \$(39,094)                               | \$ 24,063 |
| <b>Engineering:</b>               |  |           |  |           |
| Revenues from external customers  | \$ 46,179                                  | \$ --     | \$ 79,833                                | \$ 79,833 |
| Intersegment revenues             | \$ --                                      | \$ --     | \$ --                                    | \$ --     |
| Income (loss) before income taxes | \$ (4,257)                                 | \$ --     | \$(36,840)                               | \$ --     |

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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, 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, P.C. in a transaction accounted for under the purchase method of accounting.

##### Principal Products/Services and Markets

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 to withstand 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

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of steel with the convenience and familiarity of wood and wood fasteners.

The Company 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.

The Company's primary products and services are:

- Girders and headers
- Floor joists
- Floor joist reinforcers

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- Roof and floor trusses
- Garage, deck and porch concrete pour-over systems
- Garage and post and beam buildings
- Engineering, design and custom building services

### Distribution Methods of the 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. The Company is currently in the process of establishing more relationships with wholesale yards to increase sales and to have the wholesale yards stock Metwood products. The Company relies on its own sales force for all outside sales but is anticipating utilizing the salespeople of wholesale yards as an additional sales force once the yards stock the Company's products. The Company is also 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.

### 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 a higher building rate in Virginia and North Carolina between the months of March and October. Accordingly, the Company's sales are greater in its fourth and first 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. Approximately 10% of these manufacturers capture approximately 80% of the market for these products. In addition, most of these manufacturers are better financed than the Company, and therefore better poised for market retention and expansion. The majority of these manufacturers,

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however, are using wood-only products, or products without metal reinforcement. The Company has identified only one other manufacturer in the western United States that manufactures a wood-metal floor truss similar to that of the Company. The Company holds four separate patents on its products (see Patents section below) that are unique only to the Company. The Company intends to continue to expand the wholesale marketing of its unique products to retailers and to license the Company's technology and products in order to increase its distribution outside of Virginia, North Carolina and the South.

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### 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. The Company's main sources of lumber are Lowe's, 84 Lumber Company, and Smith Mountain Building Supply. Gerdau Amersteel, Descosteel, and Adelpia Metals provide the majority of the Company's rebar supply. Because of the number of suppliers available to the Company, its decisions in purchasing materials is dictated primarily by price and secondarily by availability. The Company does not anticipate a lack of supply to ever affect its production, but rather a shortage may 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, the loss of which would have a substantial impact on the Company's operations. As the Company continues to expand its wholesale sales to retailers, a substantial impact would be more likely should such a customer be lost.

### Patents

The Company has four U.S. patents:

U.S. Patent No. 5,519,977, Joist Reinforcing Bracket, a bracket that reinforces wooden joists, provided 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.

The Company also has a patent pending on a modification of the floor joist patch kit. The Company expects that this patent will be granted from the U.S. Patent office within the next twelve months.

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

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patents to the Company.

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### Need for Government Approval of Principal Products

The Company's products must either be sold with an engineer's seal or Bureau Officials Code Association (BOCA) approval. Once BOCA approval is obtained, the products can be used in all fifty states. The Company's floor joist patch kit received BOCA approval in April 2001. The Company expects this to greatly assist in the uniform acceptability of the Company's 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 metal/wood products.

### Results of Operations

#### Net Income

The Company had net losses of \$75,514 and \$73,621, respectively, for the three and six months ended December 31, 2002, versus net income of \$7,320 and \$57,642, respectively, for the three and six months ended December 31, 2001. This represented decreases of \$82,834 and \$131,263, respectively, for the three and six months ended December 31, 2002 compared to the same periods in 2001. The decrease in income was a result of increased expenses related to the acquisition of Providence Engineering ("Providence"), particularly payroll and professional fees, as well as increased costs of materials, including new federal tariffs on steel and Canadian soft lumber.

#### Sales

Revenues were \$479,767 for the three months ended December 31, 2002, versus \$396,098 for the three months ended December 31, 2001, an increase of \$83,669, or 21%. Revenues for the six months ended December 31, 2002 were \$950,618 versus \$834,239 for the same prior-year period, an increase of \$116,379, or 14%. Approximately 50% of the increases for the periods were due to the sales contributed by Providence, with the remaining increases due to greater revenue from engineering and delivery charges and greater overall sales volume. The Company has engaged in an aggressive marketing campaign both through its updated and streamlined web site as well as attendance at numerous trade shows throughout the country. Average selling prices remained fairly constant.

#### Expenses

Total administrative expenses were \$216,420 for the three months ended December 31, 2002, versus \$206,556 for the three months ended December 31, 2001, an increase of \$9,864, or 5%. Notable differences were as follows:

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- Some expenses, such as certain depreciation and payroll taxes, have been reclassified for the three months ended December 31, 2002 to cost of sales in order to be more accurately matched against related revenues. Doing so resulted in a decrease in administrative expenses

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of approximately \$15,000 compared to what would have otherwise been reflected. Due to a change in accounting systems at January 1, 2002, information needed to similarly reclassify depreciation and payroll taxes for the three months ended December 31, 2001 is not available.

- Professional fees increased \$20,585 due to legal fees associated with patent applications as well as higher audit and accounting fees related to the purchase of Providence.
- Travel and vehicle expenses increased \$4,511 as a result of the Company's out-of-state marketing campaign at building trade shows;

### Liquidity and Capital Reserves

On December 31, 2002, the Company had a cash deficit of \$52,029 and working capital of \$107,678. Net cash used by operating activities was \$80,247 for the six months ended December 31, 2002 as compared to \$26,054 cash provided for the six months ended December 31, 2001. The difference was due primarily to increases in inventory and prepaid expenses.

Net cash used in investing activities was \$90,526 for the six months ended December 31, 2002 as compared to net cash used of \$133,376 during the same period ended December 31, 2001. Cash flows used in investing activities for the period were for a roof and other building improvements (\$13,593), vehicles (\$42,500), shop equipment (\$14,077) and computers, software and capitalized website development (\$20,356).

Cash provided by financing activities totaled \$92,685 for the six months ended December 31, 2002 as compared with cash provided by financing activities of \$115,000 for the six months ended December 31, 2001. 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.

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### 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.

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### PART II - OTHER INFORMATION

#### ITEM 5 - OTHER INFORMATION

##### Changes in Registrant's Certifying Accountant

###### (a) Previous independent accountant

- (i) On November 13, 2002, the Company dismissed Bongiovanni & Associates as its independent accountants.
- (ii) The reports of Bongiovanni & Associates on the financial statements for the years ended June 30, 2002 and June 30, 2001 did not contain an adverse

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opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

- (iii) The decision to change accountants was recommended by the Company's board of directors.
  - (iv) During the Company's most recent fiscal year ended June 30, 2002, there was a disagreement with the former accountant on a matter of accounting principle or practice that, if not resolved to the satisfaction of the former accountant, would have caused them to make reference to the subject matter of the disagreement in connection with their report. The subject matter of the disagreement was the capitalization of computer software developed by a shareholder of Providence and purchased by Metwood. This matter was discussed with the Company's board of directors and resolved to the satisfaction of both the Company and our former accountant. The Company has authorized the former accountant to respond fully to the inquiries of the successor accountant concerning the subject matter of the disagreement. In connection with the Company's audit for the fiscal year ended June 30, 2001, there were no disagreements with the former accountant on any matter of accounting principles or practice that, if not resolved to the satisfaction of the former accountant, would have caused them to make reference to the subject matter of the disagreement in connection with their report.
  - (v) The Company requested that Bongiovanni & Associates furnish it with a letter addressed to the SEC stating whether or not they agree with the above statements and, if not, stating the respects in which they do not agree. A copy of such letter was filed with the Commission noting its agreement with those statements.
- (b) New independent accountant
- (i) The Company engaged McLeod & Company as its new independent accountants as of November 13, 2002. During the two most recent fiscal years and through November 13, 2002, the Company has not consulted with McLeod & Company regarding either 1) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements, and McLeod & Company did not provide either a written report or oral advice on any such matters; or 2) any matter that was either the subject of a disagreement or a reportable event, each as defined in Item 304 of Regulation S-K.

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### 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, 2002.

### SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the

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registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 14, 2003

/s/ Robert M. Callahan

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Robert M. Callahan  
Chief Executive Officer

/s/ Annette G. Mariano

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Annette G. Mariano  
Chief Financial Officer

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Certification of Chief Executive Officer  
Securities Exchange Act rules 13a-14 and 15d-14  
As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Robert M. Callahan, Chief Executive Officer of Metwood, Inc., certifies that:

1. I have reviewed this quarterly report on Form 10-QSB of Metwood, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 131-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within ninety days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ Robert M. Callahan

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Robert M. Callahan  
Chief Executive Officer

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Certification of Chief Financial Officer  
Securities Exchange Act rules 13a-14 and 15d-14  
As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Annette G. Mariano, Chief Financial Officer of Metwood, Inc., certifies that:

1. I have reviewed this quarterly report on Form 10-QSB of Metwood, Inc.; 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly report fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined



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in Exchange Act Rules 131-14 and 15d-14) for the registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within ninety days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

/s/ Annette G. Mariano

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Annette G. Mariano  
Chief Financial Officer

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INDEX TO EXHIBITS

| NUMBER  | DESCRIPTION OF EXHIBIT    |
|---------|---------------------------|
| -----   | -----                     |
| 3(i)*   | Articles of Incorporation |
| 3(ii)** | By-Laws                   |

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

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

