

PATIENT INFOSYSTEMS INC  
Form 10QSB  
November 14, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

**FORM 10-QSB**

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

For the quarterly period ended: September 30, 2005

**OR**

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

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

Commission 0-22319  
file number:

PATIENT INFOSYSTEMS, INC.

(Exact name of small business issuer as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

16-1476509  
(I.R.S. Employer Identification No.)

46 Prince Street, Rochester, NY 14607

(Address of principal executive offices)

(585) 242-7200

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(Issuer's telephone number, including area code)

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 last 90 days. Yes  No

Indicate by checkmark whether applicant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 11, 2005, 14,783,854 shares of the Company's common stock, par value \$0.01 per share, were outstanding.

Transitional Small Business Disclosure Format (check one) Yes  No

**PART I. FINANCIAL INFORMATION**

## Item 1. Financial Statements

## PATIENT INFOSYSTEMS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (UNAUDITED) AS OF

ASSETS	September 30, 2005	December 31, 2004
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 162,652	\$ 229,298
Accounts receivable	1,073,685	1,960,355
Prepaid expenses and other current assets	336,558	224,916
Total current assets	1,572,895	2,414,569
Property and equipment, net	774,429	877,213
<b>OTHER ASSETS:</b>		
Intangible assets	2,458,089	2,372,483
Goodwill	11,139,731	11,237,278
<b>TOTAL ASSETS</b>	<b>\$ 15,945,144</b>	<b>\$ 16,901,543</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,074,505	\$ 1,483,684
Accrued salaries and wages	731,066	879,523
Accrued expenses	793,866	311,534
Accrued dividends	1,829,648	1,317,495
Current maturities of long-term debt	8,997,352	21,355
Deferred revenue	144,853	269,246
Total current liabilities	13,571,290	4,282,837
LINE OF CREDIT	-	7,200,000
LONG-TERM DEBT	68,043	19,325
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock - \$.01 par value: shares authorized: 20,000,000		
Series C, 9% cumulative, convertible, issued and outstanding - 65,800 as of September 30, 2005 and 75,000 as of December 31, 2004	658	750
Series D, 9% cumulative, convertible, issued and outstanding - 869,572 as of September 30, 2004 and 840,118 as of December 31, 2005	8,696	8,401
Common stock - \$.01 par value: shares authorized: 80,000,000; issued and outstanding - 10,800,118 as of September 30, 2005, 9,638,150 as of December 31, 2004	108,001	96,382
Additional paid-in capital	54,844,593	54,346,793
Deferred debt issuance cost	(1,186,095)	(1,689,244)
Accumulated deficit	(51,470,042)	(47,363,701)
Total stockholders' equity	2,305,811	5,399,381
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 15,945,144</b>	<b>\$ 16,901,543</b>

See notes to unaudited consolidated financial statements.



PATIENT INFOSYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATION (UNAUDITED)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
<b>REVENUES</b>				
Disease, Demand and Care Management Fees	\$ 2,358,619	\$ 1,967,444	\$ 8,324,601	\$ 5,991,597
Ancillary Benefits Management Fees	1,022,468	1,406,376	3,370,469	4,476,082
Total revenues	3,381,087	3,373,820	11,695,070	10,467,679
<b>COSTS AND EXPENSES</b>				
Cost of sales	2,879,064	2,801,762	9,784,706	8,578,400
Sales and marketing	452,235	363,123	1,500,810	1,060,756
General and administrative	1,347,695	611,089	3,194,311	2,256,920
Research and development	37,000	31,451	109,697	89,685
Total costs and expenses	4,715,994	3,807,425	14,589,524	11,985,761
OPERATING LOSS	(1,334,907)	(433,605)	(2,894,454)	(1,518,082)
<b>OTHER EXPENSE</b>				
Financing Cost	(310,069)	(203,158)	(903,095)	(545,908)
Other expense, net	(125,786)	(21,552)	(308,792)	(76,698)
NET LOSS	(1,770,762)	(658,315)	(4,106,341)	(2,140,688)
CONVERTIBLE PREFERRED STOCK DIVIDENDS	(210,459)	(205,902)	(620,033)	(699,018)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (1,981,221)	\$ (864,217)	\$ (4,726,374)	\$ (2,839,706)
NET LOSS PER SHARE - BASIC AND DILUTED	\$ (0.18)	\$ (0.09)	\$ (0.46)	\$ (0.39)
WEIGHTED AVERAGE COMMON SHARES	10,753,881	9,638,067	10,261,006	7,202,947

See notes to unaudited consolidated financial statements.

## PATIENT INFOSYSTEMS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	<b>Nine Months Ended <u>September 30,</u> <u>2005</u></b>	<b>Nine Months Ended <u>September 30,</u> <u>2004</u></b>
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (4,106,341)	\$ (2,140,688)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,392,213	788,203
Compensation expense related to warrants	44,750	245,463
Decrease (increase) in accounts receivable	886,670	(226,869)
(Increase) decrease in prepaid expenses and other current assets	(63,542)	38,904
Decrease in accounts payable	(409,179)	(153,586)
(Decrease) increase in accrued salaries and wages	(148,457)	86,651
Increase (decrease) in accrued expenses	225,764	(791,330)
Decrease in deferred revenue	(124,393)	(42,837)
<b>Net cash used in operating activities</b>	<b>(2,302,515)</b>	<b>(2,196,089)</b>
<b>INVESTING ACTIVITIES:</b>		
Property and equipment additions	(199,528)	(259,820)
Property and equipment disposals and retirements	24,277	4,206
Acquisition of CBCA Care Management, net	-	(7,235,000)
Additional expenses related to ACS acquisition	-	(45,343)
<b>Net cash used in investing activities</b>	<b>(175,251)</b>	<b>(7,535,957)</b>
<b>FINANCING ACTIVITIES:</b>		
Borrowing from Line of Credit	1,780,000	4,000,000
Decrease in bank overdraft	-	(189,608)
Other borrowing or payments on debt	44,715	(285,722)
Proceeds from the sale of capital stock	590,443	7,343,039
Expenses related to the sale of capital stock	(4,038)	(579,106)
		412,857

**Stockholders' Equity**

Common stock, \$.001 par, 100,000,000 shares authorized;

12,231,797 shares issued and outstanding at December 31, 2009

Common stock not yet issued (\$.001 par, 8,150 shares)

Additional paid-in capital

Retained earnings

12,232

12,232

8

8

1,544,268

1,544,268

397,996

436,838

Total stockholders' equity	1,954,504	1,993,346
TOTAL LIABILITIES		
AND STOCKHOLDERS' EQUITY	\$ 2,198,164	\$ 2,406,203

See accompanying notes to consolidated financial statements.

METWOOD, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
<b>REVENUES</b>				
Construction sales	\$522,927	\$504,661	\$1,203,718	\$1,062,376
Engineering sales	32,725	48,181	90,354	92,592
Gross sales	555,652	552,842	1,294,072	1,154,968
Cost of construction sales	283,757	327,022	731,553	677,930
Cost of engineering sales	42,726	42,300	81,737	83,919
Gross cost of sales	326,483	369,322	813,290	761,849
Gross profit	229,169	183,520	480,782	393,119
<b>ADMINISTRATIVE EXPENSES</b>				
Advertising	35,280	22,576	49,997	41,894
Depreciation	9,185	13,121	19,435	26,654
Insurance	5,118	9,159	9,593	21,030
Payroll expenses	144,293	151,165	295,920	305,107
Professional fees	6,545	13,712	31,318	33,175
Rent	19,800	19,800	39,600	39,600
Repairs and maintenance	14,484	3,238	22,520	6,812
Travel	5,482	5,702	10,707	10,478
Vehicle	12,981	14,203	23,113	23,017
Other	44,527	35,773	86,983	64,794
Total administrative expenses	297,695	288,449	589,186	572,561
Operating loss	(68,526 )	(104,929 )	(108,404 )	(179,443 )
Other income	3,914	7,497	7,353	15,521
Loss before income taxes	(64,612 )	(97,432 )	(101,051 )	(163,922 )
Income tax benefit	(42,338 )	(11,693 )	(62,209 )	(40,654 )
Net loss from operations	\$(22,274 )	\$(85,739 )	\$(38,842 )	\$(123,268 )
Basic and diluted deficit per share	**	**	\$-	\$(0.01 )
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,	
	2010	2009
<b>OPERATIONS</b>		
Net loss	\$ (38,842 )	\$ (123,268 )
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	44,683	56,073
Provision for (reversal of) deferred income taxes	(8,325 )	(19,378 )
(Increase) decrease in operating assets:		
Accounts receivable	135,449	93,667
Inventory	(64,325 )	67,340
Recoverable income taxes	(53,884 )	(16,410 )
Other operating assets	(551 )	19,867
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(133,147 )	2,810
Net cash (used for) from operating activities	(118,942 )	80,701
<b>INVESTING</b>		
Capital expenditures	(90,206 )	(6,111 )
Net cash used for investing activities	(90,206 )	(6,111 )
<b>FINANCING</b>		
Decrease in borrowings from related party	(27,725 )	-
Net cash used for financing activities	(27,725 )	-
Net increase (decrease) in cash	(236,873 )	74,590
Cash, beginning of the year	403,512	199,868
Cash, end of the period	\$ 166,639	\$ 274,458

See accompanying notes to consolidated financial statements

METWOOD, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2009  
(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 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. The transaction was accounted for under the purchase method of accounting. 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 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.

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, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year ending June 30, 2011.

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 our customers. The estimate of the allowance for doubtful accounts, which is charged off to bad debt expense, is based on management's assessment of current economic conditions and historical collection experience with each customer. At December 31, 2010, 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, 2010, the amount of bad debts charged off was \$1,587 and \$35,744, respectively. For the three and six months ended December 31, 2009, bad debts charged off was \$-0-.

**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 the accounts. 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, 2010 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 future net 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, 2010.

**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 for the three months ended December 31, 2010 and 2009 were \$3,914 and \$960, respectively. For the six months ended December 31, 2010 and 2009, research and development costs were \$5,700 and \$960, 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 December 2009, the FASB issued Accounting Standards Update 2009-16 (ASU 2009-16), Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets, which improves financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The pending content that links to this paragraph is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, and for interim periods within that first annual reporting period and interim and annual reporting periods thereafter. This Update has not had a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, Improving Disclosures about Fair Value Measurements. This guidance requires new disclosures and clarifies certain existing disclosure requirements about fair value measurements. It requires a reporting entity to disclose significant transfers in and out of Level 1 and Level 2 fair value measurements, to describe the reasons for the transfers and to present separately information about purchases, sales, issuances and settlements for fair value measurements using significant unobservable inputs. This Update is

effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which is effective for interim and annual reporting periods beginning after December 15, 2010; early adoption is permitted. The adoption did not have a material effect on our consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements. ASU 2010-09 amends disclosure requirements within Subtopic 855-10. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between Subtopic 855-10 and the SEC's requirements. ASU 2010-09 is effective for interim and annual periods ending after June 15, 2010. The Company does not expect the adoption of ASU 2010-09 to have a material impact on its results of operations or financial position.

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

## NOTE 3 - EARNINGS PER SHARE

Net income (loss) and earnings per share for the three and six months ended December 31, 2010 and 2009 are as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2010	2009	2010	2009
Net income (loss)	\$(22,274 )	\$(85,739 )	\$(38,842 )	\$(123,268 )
Earnings per share - basic and fully diluted	\$ **	\$ **	\$ **	\$(0.01 )
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, 2010 and 2009 are summarized as follows:

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2010	2009	2010	2009
Cash paid for:				
Income taxes	\$--	\$--	\$--	\$--
Interest	\$--	\$--	\$--	\$--

## 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, 2010 and 2009. For the three months ended December 31, 2010 and 2009, we had sales of \$90,482 and \$2,696, respectively, to the company referred to above. For the six months ended December 31, 2010 and 2009, we had sales of \$98,922 and \$5,412 to the company. As of December 31, 2010 and 2009, the related receivable was \$-0- and \$1,961, respectively. See also Note 8.

## NOTE 6 - BANK CREDIT LINE

The Company has available a \$600,000 revolving line of credit with a local bank. The balance outstanding at December 31, 2010 and 2009 was \$-0-.

## NOTE 7 - SEGMENT INFORMATION

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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 before income taxes. These reportable segments are strategic business units that offer different products and services. Summarized revenue and expense information by segment for the three and six months ended December 31, 2010 and 2009, as excerpted from internal management reports, is as follows:

	For the Three Months		For the Six Months Ended	
	Ended		December 31,	
Construction:	December 31,	December 31,	2010	2009
	2010	2009	2010	2009
Sales	\$522,927	\$504,661	\$1,203,718	\$1,062,376
Intersegment expenses	(5,165 )	(6,570 )	(10,670 )	(19,110 )
Cost of sales	(283,757 )	(327,022 )	(731,553 )	(677,930 )
Corporate and other expenses	(251,124 )	(253,397 )	(501,888 )	(487,811 )
Segment income (loss)	\$(17,119 )	\$(82,328 )	\$(40,393 )	\$(122,475 )
<b>Engineering:</b>				
Sales	\$32,725	\$48,181	\$90,354	\$92,592
Intersegment revenues	5,165	6,570	10,670	19,110
Cost of sales	(42,726 )	(42,300 )	(81,737 )	(83,919 )
Corporate and other expenses	(6,919 )	(15,862 )	(24,336 )	(28,576 )
Segment income (loss)	\$(11,755 )	\$(3,411 )	\$(5,049 )	\$(793 )

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 \$6,600. The lease expires on December 31, 2014. For the three and six months ended December 31, 2010 and 2009, we recognized rental expense for these spaces of \$19,800 and \$39,600, respectively.



## 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.

#### Principal Products/Services and Markets

##### Metwood

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

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

Metwood's primary products and services are:

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

##### Providence

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

multiple projects.

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

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

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

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

#### Distribution Methods of Products and Services

Our sales are primarily wholesale, directly to lumberyards, home improvement stores, hardware stores, and plumbing and electrical suppliers in Virginia and North Carolina. Metwood relies primarily on its own sales force to generate sales; additionally, however, the Company has distributors in Virginia, New York, Oklahoma, Arizona and Colorado and also utilizes the salespeople of wholesale yards stocking the Company's products as an additional sales force. We are an authorized vendor for Lowe's, Home Depot, 84 Lumber, Stock Building Supply, ProBuild, and many more. We have several stocking dealers of our square columns and reinforcing products. We will sell directly to contractors in areas where we do not have a dealer, but with our national dealer relationships, we typically have a dealer to use. We are in discussions with national engineered I-joist manufacturers who are interested in marketing the Company's products and expect to announce affiliations with these companies in the near future. Metwood intends to continue expanding the wholesale marketing of its unique products to retailers, to increase dealer sales, 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

We acquired four new patents through assignment from Robert Callahan and Ronald Shiflett, the patent holders. All four patents reflect various modifications to our Joist Reinforcing Bracket which will make it even easier for tradesmen to insert utility conduits through wood joists.

In October 2010, Metwood signed a letter of intent with Nuconsteel ("Nucon"), a Nucor company, to team with Nucon to increase our sales of the TUFFBEAM, TUFFJOIST, and RIMBEAM ("products"). We will provide, among other things, an unrestricted, exclusive license (except for defined Metwood territory) to Nucon to sell and manufacture all current and future products. Nucon will pay us a royalty for all products manufactured by Nucon and their sub-licensees and will sell us Nucon's complete line of NUJOIST product at the most favorable pricing. Nucon will also integrate Metwood into the Nucon Fabrication Network. Nucon will provide us with certain equipment in exchange for the exclusive rights granted in the agreement. The agreement will be in effect for two years with renewals for additional periods of one year.

#### Seasonality of Market

Our sales are subject to seasonal impacts, as our 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, our sales are greater in our fourth and first fiscal quarters. We build an inventory of our products throughout the winter and spring to support our sales season. Due to the seasonality of our local market, we are continuing our efforts to expand into markets that are not so seasonally impacted. We have shipped projects to Florida, Georgia, South Carolina, Arizona, Washington, and more. These markets have some seasonality, but increased exposure in these markets will help maintain stronger sales year round.

#### 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 ours. However, we have often found that our 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 we use are readily available on the market from numerous suppliers. The light-gage metal used by the Company is supplied primarily by Nuconsteel, Clark Western, and Wheeling Corrugating. Our main source of lumber is BlueLinx. Nucor Bar Mill provides the majority of our rebar. Because of the number of suppliers available to us, our decisions in purchasing materials are dictated primarily by price and secondarily by availability. We do not anticipate a lack of supply to affect our production; however, a shortage might cause us to pass on higher materials prices to our customers.

## Dependence on One or a Few Major Customers

For the three and six months ended December 31, 2010 and 2009, sales to certain customers amounted to more than 5% of total sales. Those customers and the related percent of sales greater than 5% were as follows:

	Three Months Ended		Six Months Ended		
	December 31,		December 31,		
	2010	2009	2010	2009	
84 Lumber	6	% 6	% 6	% -	
Craftman Construction	-	-	6	% -	
Davenport Development	-	-	7	% -	
Pacific Polysteel	-	6	% -	7	%
Price Buildings	-	20	% -	14	%
Probuild Co., LLC	6	% 7	% -	8	%
Straco, Inc.	-	6	% -	-	

## Patents

The Company has nine U.S. Patents:

U.S. Patent Nos. 5,519,977 and 7,347,031, "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.

## Need for Government Approval of Principal Products

Our products must either be sold with an engineer's seal or applicable building code approval. The Company's chief engineer has obtained professional licensure in several states, which permits products not building code approved to be sold and used with his seal. We expect his licensure in a growing number of states to greatly assist in the uniform acceptability of our products as we expand to new markets. Currently, we are seeking International Code Council ("ICC") code approval on our joist reinforcers and beams. Once that approval is obtained, our products can be used in all fifty states and will eliminate the need for an engineer's seal on individual products. To date, the Company's 2x10 floor joist reinforcer has

received both Bureau Officials Code Association approval (2001) and ICC approval (2004).

#### Time Spent During the Last Two Fiscal Years on Research and Development Activities

Approximately fifteen percent of our 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

We do not incur any costs to comply with environmental laws. We are an environmentally friendly business in that our products are fabricated from recycled steel.

#### Number of Total Employees and Number of Full-Time Employees

The Company had twenty-one employees at December 31, 2010, all of whom were full time.

#### Results of Operations

##### Net Loss

We had a net loss of \$22,274 for the three months ended December 31, 2010, versus a net loss of \$85,739 for the three months ended December 31, 2009, a decrease of \$63,465. This decrease in net loss was attributable primarily to cost savings in materials. Construction sales increased 4% comparing 2010 to 2009; as a percentage of construction sales, cost of goods sold declined from 64% to 54% comparing 2010 to 2009. Engineering sales decreased 32% comparing 2010 to 2009, further contributing to the net loss for the quarter. Additionally, as a percentage of engineering sales, the cost of engineering sales increased from 88% to 130% comparing 2010 to 2009. Administrative expenses increased 3% comparing the three months ended December 31, 2010 to the same period in 2009. This increase did not significantly impact the bottom line for the quarter ended December 31, 2010 compared to the quarter ended December 31, 2009.

For the six months ended December 31, 2010 and 2009, we went from a net loss of \$123,268 to a net loss of \$38,842, a decrease in loss of \$84,426 comparing the two periods. Gross sales improved between the two periods, and though cost of sales did increase comparing 2010 and 2009, gross profit still improved \$87,663, or 22%, for the six months ended December 31, 2010 compared to 2009.

Management is currently discussing the possibility of taking the Company private as a means of raising capital, improving the bottom line, and removing the high compliance costs incurred as a public company. The present economic environment may make privatization the best option as the Company goes forward.

#### Sales

Revenues were \$555,652 for the three months ended December 31, 2010 compared to \$552,842 for the same period in 2009, an increase of \$2,810, or 1%. For the six-month periods ended December 31, 2010 and 2009, sales were \$1,294,072 and \$1,154,968, respectively, an increase of \$139,104, or 12%. The sales increase for both the three-month and six-month periods in 2010 versus 2009 were not significant enough to reflect an upturn in the overall economy; however, the Company remains optimistic that it may portend an improving building industry. Although we have sold product in over twenty-five states since July 2007, our local market nonetheless remains down more than 30%. The potential for increased sales volume as we go forward is enhanced by the fact that we are now an authorized fabricator for the NUTRUSS light-gauge steel truss system, begun in March 2010.

#### Expenses

Total administrative expenses were \$297,695 for the three months ended December 31, 2010, versus \$288,449 for the three months ended December 31, 2009, an increase of \$9,246. For the six months ended December 31, 2010, administrative expenses were \$589,186 compared to \$572,562 for the six months ended December 31, 2009. The biggest increase occurred in other expenses.

#### Liquidity and Capital Reserves

On December 31, 2010, we had cash of \$166,639 and working capital of \$1,469,440. Net cash used in operating activities was \$118,942 for the six months ended December 31, 2010 compared to net cash from operating activities of \$80,701 for the six months ended December 31, 2009. The lower provision of cash from operating activities in the current year resulted primarily from the decrease in accounts payable, recoverable income taxes and inventory.

Cash used in investing activities was \$90,206 for the six months ended December 31, 2010, compared to cash used of \$6,111 during the same period in the prior year. Cash flows used in investing activities for the current period were for shop equipment (\$85,022); computers and computer software (\$1,145); furniture and fixtures (\$442); and vehicles (\$12,697).

Cash used in financing activities was \$27,725 for the six months ended December 31, 2010 compared to cash used of \$-0- for the period ended December 31, 2009. The net cash used in 2010 was to pay off borrowings from a related party.

#### ITEM 4 - CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

We regularly review our system of internal control over financial reporting to ensure we maintain an effective internal control environment. As we grow geographically and with new product offerings, we continue to create new processes and controls as well as improve our existing environment to increase efficiencies. Improvements may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

See index to exhibits.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the quarter ended December 31, 2010.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 3, 2011

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

Date: February 3, 2011

/s/ Shawn A. Callahan  
Shawn A. Callahan  
Chief Financial Officer



INDEX TO EXHIBITS

NUMBER	DESCRIPTION OF EXHIBIT
3 (i)*	Articles of Incorporation
3(ii)**	By-Laws
31.1	<u>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</u>
31.2	<u>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</u>
32	<u>Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18U.S.C. 1350)</u>

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

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