METALCLAD CORP
Form 10-Q
November 07, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

OR

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

For the transition period from __________ to __________

Commission File Number 0-2000

METALCLAD CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	95-2368719
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2 Corporate Plaza, Suite 125, Newport Beach, CA	92660
(Address of Principal Executive Office)	(Zip Code)

Registrant's telephone number, including area code
(949) 719-1234

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 (X) No (   ).

As of June 30, 2001, the registrant had 7,448,015 shares outstanding of its Common Stock, $.10 par value.

METALCLAD CORPORATION AND SUBSIDIARIES

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PART I

FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

METALCLAD CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2001 (Unaudited)	December 31, 2000

ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,324,853	$ 354,345
Accounts receivable, less allowance for doubtful accounts of $50,000 at September 30, 2001 and December 31, 2000	1,896,303	3,965,975
Costs and estimated earnings in excess of billings on uncompleted contracts	59,305	82,920
Inventories	162,543	114,129
Prepaid expenses and other current assets	326,180	137,486
Receivables from related parties, net	218,939	95,814
Total current assets	3,988,123	4,850,669
Property, plant and equipment, net	375,754	336,497
Assets of discontinued operations	4,946,549	4,905,754
Note receivable-sale of Mexican assets	779,402	779,402
Other assets	24,311	25,765
	$10,114,139	$10,898,087

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,106,321	$2,166,727
Current liabilities--discontinued operations	166,483	90,139
Accrued expenses	711,595	722,369
Billings in excess of costs and estimated earnings on uncompleted contracts	57,332	26,724
Current portion of long-term debt	87,871	62,451
Note payable-bank revolving credit line	1,000,000	-
Convertible zero coupon notes	-	1,029,194
Total current liabilities	3,129,602	4,097,604
Long-term debt, less current portion	174,767	123,489
Convertible subordinated debentures	-	310,000
Total liabilities	3,304,369	4,531,093
Shareholders' equity:		
Preferred stock, par value $10; 1,500,000 shares authorized; none issued	-	-
Common stock, par value $.10; 80,000,000 shares authorized; 7,448,015 and		

6,581,114 issued and outstanding at September 30, 2001 and December 31, 2000, respectively	744,801	658,111
Additional paid-in capital	68,496,871	67,659,747
Accumulated deficit	(60,352,295)	(59,871,257)
Officers' receivable	(524,184)	(524,184)
Accumulated other comprehensive income	(1,555,423)	(1,555,423)
	6,809,770	6,366,994
	$10,114,139	$10,898,087

See Notes to Consolidated Financial Statements

METALCLAD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Nine Months Ended		Three Months Ended	
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001	Sept. 30, 2000
Revenues--Insulation				
Contract revenues	$14,508,774	$12,160,415	$3,313,995	$4,025,152
Other	11,449	10,008	-	739
	14,520,223	12,170,423	3,313,995	4,025,891
Operating costs and expenses--Insulation				
Contract costs and expenses	12,522,155	10,755,011	2,729,162	3,625,244
Selling, general and administrative expenses	1,152,548	1,079,475	407,450	358,476
	13,674,703	11,834,486	3,136,612	3,983,720
Gross operating profit	845,520	335,937	177,383	42,171
Corporate expense	(823,010)	(1,537,378)	(155,359)	(664,705)
Operating profit (loss)	22,510	(1,201,441)	22,024	(622,535)
Interest expense	(103,874)	(192,858)	(19,844)	(61,952)
Other income (expense),net	2,293	9,627	213	8,855
Income (loss) from continuing operations	(79,071)	(1,384,672)	2,393	(684,486)
Loss from discontinued				

operations	(401,967)	(63,187)	(130,159)	-
Net income (loss)	($ 481,038)	($1,447,859)	($ 127,766)	($ 684,486)
Weighted average number of common shares	7,084,676	5,193,941	7,448,015	5,341,057
Earnings (loss) per share of common stock, continuing operations--basic & diluted	($.01)	($.27)	$.00	($.13)
Loss per share of common stock, discontinued operations-basic & diluted	($.06)	($.01)	($.02)	$.00
Loss per share of common stock--basic & diluted	($.07)	($.28)	($.02)	($.13)

See Notes to Consolidated Financial Statements

METALCLAD CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For Nine Months Ended Sept. 30, 2001	Sept. 30, 2000
Cash flows from operating activities:		
Net loss	$ (481,038)	($1,447,859)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	401,967	63,187
Depreciation and amortization	95,307	72,745
Loss on disposal of fixed assets	1,592	-
Issuance of stock for interest	13,813	-
Changes in operating assets & liabilities:		
Decrease (increase) in accounts receivable	2,069,672	(848,624)
Decrease (increase) in unbilled receivables	23,615	(40,032)
Decrease (increase) in inventories	(48,414)	12,731
Decrease in prepaid expenses and other assets	(188,694)	(84,810)
Decrease (increase) in receivables from related parties	(23,125)	20,427
(Decrease) increase in accounts payable and accrued expenses	(1,071,180)	1,054,920
Increase in billings over costs	30,608	4,003
Increase (decrease) in other assets	1,454	(2,679)
Net cash provided by (used in) continuing operations	825,577	(1,195,991)
Net cash used in discontinued operations	(366,416)	(384,806)
Net cash provided by (used in) operating activities	459,161	(1,580,797)

Cash flows from investing activities:		
Capital expenditures	(137,657)	(81,127)
Proceeds from sale of assets	1,500	-
Net cash used in investing activities	(136,157)	(81,127)
Cash flows from financing activities:		
Proceeds from long-term borrowings	1,202,438	266,975
Payments on long-term borrowings	(1,154,934)	(36,052)
Borrowings by officers, secured by stock (net)	-	(22,160)
Proceeds from sale of stock and warrants	600,000	-
Proceeds from exercise of warrants	-	2,195,889
Net cash provided by financing activities	647,504	2,404,652
Increase (decrease) in cash and cash equivalents	970,508	742,728
Cash and cash equivalents at beginning of period	354,345	769,176
Cash and cash equivalents at end of period	$1,324,853	$1,511,904
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 261,200	$ 88,499

Disclosure of noncash investing and financing activities:

During the nine months ended September 30, 2000, the Company converted approximately $845,000 of zero coupon notes payable into 430,000 shares of common stock.

During the nine months ended September 30, 2001, the Company converted approximately $324,000 of convertible subordinated debentures, principal and interest into 266,900 shares of common stock.

See Notes to Consolidated Financial Statements
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Period Ended June 30, 2001
(Unaudited)

1. The accompanying unaudited consolidated financial statements of Metalclad Corporation and its subsidiaries (the "Company") have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management all adjustments (which consist only of normal recurring adjustments) necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2001 are not necessarily indicative of what results will be for the year ending December 31, 2001. These statements should be read in conjunction with the consolidated financial statements and notes thereto, and the report of independent auditors which was qualified due to substantial doubt about the Company's ability to continue as a going concern, included in the Company's Form 10-K for the year ended December 31, 2000.

2. Included in net assets of discontinued operations at September 30, 2001 and December 31, 2000 is approximately $4,780,000 and $4,816,000, respectively. These assets represent the Company's net investment in its completed hazardous waste treatment facility in the State of San Luis Potosi, Mexico, known as "El Confin". Upon payment of the NAFTA award by Mexico, the landfill will become the property of the Mexican government and its net asset value will be written off by the Company. For the nine months ended September 30, 2001, the Company has expensed $402,000 in costs, primarily consisting of legal fees. (See Part II, Item 5 and Note 7.)

3. In March, 2001, the Company initiated an effort to raise additional capital in support of its defense of its NAFTA award and for working capital for its headquarter's operations. The privately-placed financing offering consisted of an investment unit, priced at $1.00, comprised of one share of common stock and one common stock purchase warrant exercisable at $1.50. The Company's goal was to raise $600,000. As of September 30, 2001, $600,000 of proceeds from this financing was received.

4. During the quarter ended March 31, 2001, the Company and the holder of its Five-Year Zero Coupon Notes reached agreement under the terms of the notes, to apply the maximum interest rate of 15% (default rate) to the outstanding notes, effective February 1, 2001. This was in lieu of any formal review or redemption options available to the holder.

In June 2001, a notice of redemption was received by the Company from the holders of the zero coupon convertible notes and the Company subsequently secured bank financing to redeem the notes. On July 16th, the Noteholders were paid in full all principal and interest due, totaling $1,098,000, and the notes were cancelled. These notes bore interest at the rate of 15%.

On July 16, 2001, the Company secured new bank financing in the form of a $1,000,000 60-day bridge loan, bearing a floating rate of interest based upon the bank's reference rate plus 1%. As of the closing on July 16th, the interest rate was 7.75%. The bridge loan is secured by the assets of the Company's insulation subsidiary and guaranteed by the Company.

On September 16, 2001, the $1,000,000 bridge loan was converted to an accounts receivable revolving line of credit. The interest rate is based on the bank's reference rate plus .25%. During the period, this interest rate ranged between 6.75% and 6.25%.

5. In June 2001, the Board of Directors approved the granting of options to purchase 425,000 shares of common stock exercisable at $2.00 per share, vesting over a three-year period as follows: Mr. Kesler, 200,000 shares; Mr. Dabbene, 150,000 shares; Mr. Pacini, 25,000 shares; Mr. Talbot, 25,000 shares; and Mr. Haglund, 25,000 shares. Additionally, under the Company's Formula Award Rider to the 2000 Omnibus Stock Option and Incentive Plan, the members of the Compensation Committee each received option awards, as of June 1, 2000, for 20,000 shares of common stock, exercisable at $2.00 per share and vesting over a three-year period. On June 1, and June 6, 2001, the quoted market price of the Company's common stock was $1.60 and $1.50, respectively.

6. The gain or loss per share amounts for the nine months ended September 30, 2001 and September 30, 2000 were computed by dividing the net gain or loss by the weighted average shares outstanding during the applicable period. A calculation of dilutive potential common shares was performed in accordance with the treasury stock method, which assumes that proceeds from the exercise of all warrants and options are used to repurchase common stock at market value. Upon calculation of the weighted average stock price for the quarter ended September 30, 2001, it was determined that the options and warrants were anti-dilutive for the periods presented.

7. On October 26, 2001, the Company completed the settlement agreement with the United Mexican States. All documents have been signed and Mexico has taken possession of the landfill facility. In return, the Company received payment of US $16,002,433. This closes all present NAFTA related claims proceedings. (See Part II, Item 5.)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

All statements, other than statements of historical fact, included in this Form 10-Q, including without limitation the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve assumptions, known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of Metalclad Corporation (the "Company") to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements contained in this

Form 10-Q. Such potential risks and uncertainties include, without limitation, competitive pricing and other pressures from other businesses in the Company's markets, economic conditions generally and in the Company's primary markets, availability of capital, cost of labor, and other risk factors detailed herein and in other of the Company's filings with the Securities and Exchange Commission. The forward-looking statements are made as of the date of this Form 10-Q and the Company assumes no obligation to update the forward-looking statements or to update the reasons actual results could differ from those projected in such forward-looking statements. Therefore, readers are cautioned not to place undue reliance on these forward-looking statements.

Results of Operations

General. The Company's revenues are generated in the United States from insulation and asbestos abatement services and, prior to 1998, the collection of waste oils and solvents for recycling, placement and servicing of parts washing machines, brokering the disposal of waste and remediation services in Mexico.

From November 1991 to 1998, the Company was actively involved in doing business in Mexico. The Company's initial focus was the development of facilities for the treatment, storage and disposal of industrial hazardous waste.

During the fourth quarter of 1998, the Company determined that its efforts at building its business in Mexico would not be allowed to succeed. The Company's investment in El Confin resulted in an arbitration under the NAFTA treaty, its investment in Aguascalientes had been blocked just prior to the project's completion, and its other businesses were impacted due to the loss of these projects and the synergy they would have provided. Consequently, the Company committed to a plan to discontinue its Mexican operations to minimize future losses and halted any further investment in Mexico.

In October 1999, the Company completed a sale of its ongoing Mexican operations and development assets, specifically excluding the landfill assets associated with its NAFTA claim.

Three Months Ended September 30, 2001 and 2000:

Insulation Business. Total revenues from the insulation business for the three months ended September 30, 2001 were $3,314,000 as compared to $4,026,000 for the comparable period ended September 30, 2000, a decrease of 18%. This decrease is primarily due to the seasonality of work with major customers. Total operating expenses for the three months ended September 30, 2001 were $3,137,000 as compared to $3,984,000 for the comparable period ended September 30, 2000, a decrease of 21%. This decrease is in line with the decrease in revenues.

Contract Revenues. Contract revenues for the three months ended September 30, 2001 were $3,314,000 as compared to $4,025,000 for the three months ended September 30, 2000, a decrease of 18%. This decrease is attributed to the seasonality of work with our client base and as a result of the California summer energy shortages, requiring power plants to delay their summer maintenance outages.

Contract and Material Costs. Contract and material costs and expenses were $2,729,000 for the three months ended September 30, 2001 as compared to $3,625,000 for the three months ended September 30, 2000, a decrease of 25%. This decrease is consistent with the Company's decrease in revenues.

Selling, General and Administrative Costs. Selling, general and administrative costs for the three months ended September 30, 2001 were $407,000 as compared to $358,000 for the comparable period ended September 30, 2000, an increase of 14%, primarily due to increased marketing efforts.

Discontinued Operations. Effective October 8, 1999, the Company sold its interests in Administracion Residuos Industriales, S.A. de C.V., Ecosistemas Nacionales, S.A. de C.V. and Ecosistemas El Llano, S.A. de C.V. The Company also intends to dispose of its interests in Ecosistemas del Potosi, S.A. de C.V. and Confinamiento Tecnico de Residuos Industriales, S.A. de C.V., pending resolution of the NAFTA claim. For the three months ended September 30, 2001, the Company has expensed $130,000 in fees for the continuing costs of the NAFTA proceedings. This amount has been expensed to discontinued operations for the three months ended September 30, 2001. It is believed that future costs, if any, will not be material.

Corporate Expense. Corporate expenses were $155,000 for the three months ended September 30, 2001 as compared to $665,000 for the three months ended September 30, 2000, a decrease of 77%. This decrease is due primarily to a reduction in legal fees associated with litigation, which was settled in the year ended 2000.

Interest Expense. Interest expense for the three months ended September 30, 2001 was $20,000 as compared to interest expense of $62,000 for the three months ended September 30, 2000. This decrease is due to the reduction in outstanding loan balances from September 2000 to September 2001, primarily as a result of conversions of debt to equity and the refinancing of debt.

Consolidated Results

The Company experienced a net loss of $128,000 for the three months ended September 30, 2001 as compared to a net loss of $684,000 for the comparable period ended September 30, 2000, a decrease of 81%. Net income from continuing operations was $2,000 for the three months ended September 30, 2001 as compared to a net loss from continuing operations of $684,000 for the comparable period ended September 30, 2000, primarily due to lower legal costs associated with completed litigation and higher gross operating profits as a result of improved margins in the insulation business.

Nine Months Ended September 30, 2001 and 2000:

Insulation Business. Total revenues from the insulation business for the nine months ended September 30, 2001 were $14,520,000 as compared to $12,170,000 for the comparable period ended September 30, 2000, an increase of 19%. This increase is primarily due to increased work with a major customer and the addition of several new clients. Total expenses for the nine months ended September 30, 2001 were $13,675,000 as compared to $11,834,000 for the comparable period ended September 30, 2000, an increase of 16%. This increase is in line with the increase in revenues.

Contract Revenues. Contract revenues for the nine months ended September 30, 2001 were $14,509,000 as compared to $12,160,000 for the nine months ended September 30, 2000, an increase of 19%. This increase is attributed to the Company's efforts to diversify its client base, including its entry into the commercial insulation market.

Contract and Material Costs. Contract and material costs and expenses were $12,522,000 for the nine months ended September 30, 2001 as compared to $10,755,000 for the nine months ended September 30, 2000, an increase of 16%. This increase is consistent with the Company's increase in revenues.

Selling, General and Administrative Costs. Selling, general and administrative costs for the nine months ended September 30, 2001 were $1,153,000 as compared to $1,079,000 for the comparable period ended September 30, 2000, an increase of 7%, due to the increased volume of work in the period and increased marketing efforts.

Discontinued Operations. Effective October 8, 1999, the Company sold its interests in Administracion Residuos Industriales, S.A. de C.V., Ecosistemas Nacionales, S.A. de C.V. and Ecosistemas El Llano, S.A. de C.V. The Company also intends to dispose of its interests in Ecosistemas del Potosi, S.A. de C.V. and Confinamiento Tecnico de Residuos Industriales, S.A. de C.V., pending resolution of the NAFTA claim. As of December 31, 2000, the Company's remaining provision for anticipated costs to complete the ongoing NAFTA claim process was $16,000. For the nine months ended September 30, 2001, the Company has expensed, net of this accrual, $402,000 in costs, primarily consisting of legal fees for the NAFTA proceedings. This net amount has been expensed to discontinued operations for the nine months ended September 30, 2001. It is believed that future costs, if any, will not be material.

Corporate Expense. Corporate expenses were $823,000 for the nine months ended September 30, 2001 as compared to $1,537,000 for the nine months ended September 30, 2000, a decrease of 46%. This decrease is due primarily to a reduction in legal fees associated with prior litigation related to the warrant ratched provision, previously disclosed, which was settled in the year ended 2000.

Interest Expense. Interest expense for the nine months ended September 30, 2001 was $104,000 as compared to interest expense of $193,000 for the nine months ended September 30, 2000. This decrease is due to the reduction in outstanding loan balances from September 2000 to September 2001, primarily as a result of conversions of debt to equity and the refinancing of debt.

Consolidated Results

The Company experienced a net loss of $481,000 for the nine months ended September 30, 2001 as compared to a net loss of $1,448,000 for the comparable period ended September 30, 2000, a decrease of 67%. The net loss from continuing operations was $79,000 for the nine months ended September 30, 2001 as compared to a net loss of $1,385,000 for the comparable period ended September 30, 2000, primarily due to lower legal costs associated with completed litigation and higher gross operating profits as a result of an increased volume of work in the insulation business.

Liquidity and Capital Resources
690:

During the nine months ended September 30, 2000, the Company received approximately $934,000 from the exercise of warrants in exchange for issuing 291,000 new shares of common stock.

During the nine months ended September 30, 2001, the Company received approximately $600,000 for the issuance of 600,000 investment units, consisting of one share of common stock and one common stock purchase warrant exercisable at $1.50. (See Note 3.)

The Company had positive working capital at September 30, 2001 of $859,000 compared to positive working capital of $753,000 at December 31, 2000. The Company had cash and cash equivalents at September 30, 2001 of $1,325,000 and $354,000 at December 31, 2000. Cash provided by continuing operations for the nine months ended September 30, 2001 was $826,000 compared to cash used of $1,196,000 for the nine months ended September 30, 2000. Cash used by discontinued operations for the nine months ended September 30, 2001 was $366,000 compared to $385,000 for the nine months ended September 30, 2000. Cash used in operating activities for the nine months ended September 30, 2001 was funded primarily by proceeds from the sale of stock and warrants during the period and the collection of accounts receivable.

For the nine months ended September 30, 2001 the Company generated cash flow from continuing operations of $826,000, including $2,853,000 in positive cash flow related to the insulation business due primarily to a higher volume of work in the first nine months of 2001 versus 2000 and the collection of accounts receivable. The offsetting negative cash flow is related to corporate activities, the Company's NAFTA claim, along with general and administrative expenses without revenues to offset such expenses. On October 26, 2001, the Company completed the settlement agreement with the United Mexican States and received payment of US $16,002,433. (See Part II, Item 5, Other Information.)

PART II

OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

Litigation

In the ordinary course of its insulation business, certain parties have filed a substantial number of claims against the Company for actual and punitive damages. Presently, the number of these claims exceed 300. The potential aggregate value of the claims is in the range of $1,000,000 to $5,500,000. The Company continues to have adequate insurance coverage with financially sound carriers responding to these claims and does not foresee any significant financial exposure resulting from these claims. Throughout its history, the Company has maintained insurance policies that typically respond to these claims. Based on the advice of counsel, it is management's opinion that these actions, individually and in the aggregate, will not have a significant adverse impact on the Company's financial position or results of operations.

On January 2, 1997 the Company filed a claim against the United Mexican States under the provisions of the North American Free Trade Agreement. The Company alleged that since it was not being allowed to operate its legally authorized and completed landfill facility in San Luis Potosi, Mexico, it had been effectively expropriated. On August 30, 2000, the tribunal issued its decision. It ruled that Mexico had indirectly expropriated the Company's investment in its completed landfill facility. The tribunal awarded $16,685,000 with interest, accruing at 6% per annum compounded monthly, beginning October 15, 2000. On October 27, 2000, the United Mexican States filed a petition with the Supreme Court of British Columbia, Canada, seeking to have the award set aside by the court under the Commercial Arbitration Act of Canada. On November 14, 2000, the filing was amended to also seek a setting aside of the award under the International Commercial Arbitration Act. A hearing on the case was completed on March 2, 2001. On May 2, 2001 the Supreme Court of British Columbia issued its ruling, which upheld a finding of expropriation and upheld an award of damages to the Company, although modifying the interest calculation. On May 24, 2001, the Company was advised that Mexico would appeal again, this time to the British Columbia Court of Appeal. The appeal was joined with a cross-appeal by the Company and filed before the end of May 2001. On June 4, 2001, the United Mexican States made a written offer of settlement for $15,626,260 plus interest of $2,599 per day after June 1, 2001. The Company accepted the offer on June 11, 2001 provided that the payment be made without reduction or offset. On October 26, 2001, the Company completed the settlement agreement with the United Mexican States. All documents have been signed and Mexico has taken possession of the landfill facility. In return, the Company received payment of US $16,002,433. This closes all NAFTA related claims proceedings.

In October 1999, the Company completed a sale of its operating businesses and its development project located in Aguascalientes, Mexico. The sale specifically excluded those Mexican assets involved in the NAFTA claim. Under the terms of the sale the Company received an initial cash payment of $125,000. Furthermore, the sale terms stipulate payment of up to $5,000,000, in stages, as various benchmarks are achieved in the operation of the business as well as the buyer's assumption of all liabilities. To date, the Company believes that the buyer has not achieved any of the milestones necessary to trigger additional payments. Moreover, the Company believes that the buyer is in default of its agreement with the Company under the indemnity provisions and may have committed fraud in attempting to assign its interest in the companies purchased to a former employee of Metalclad. The Company has engaged counsel and believes it has a cause of action against the buyer and the former Company employee and the Orange County, California based parent of the buyer as a result of representations said parent made relative to giving the buyer financial support in its acquisition of the companies purchased. The defendants are now moving for an arbitration proceeding in Mexico, which would stay the actions in California pending its completion. The Company believes strongly in the merits of its case, but cannot assure its outcome. If the Company is not successful in this litigation, it would result in writing off the $779,000 note receivable, which was recorded at the date of sale.

ITEM 2. CHANGES IN SECURITIES

During the nine months ended September 30, 2001 the Company sold 600,000 investor units consisting of one share of common stock and one common stock purchase warrant, for a potential total of 1,200,000 common shares if all the warrants are exercised. These shares are unregistered and were sold pursuant to Rule 506 of Regulation D under the Securities Act of 1933. The Company received $600,000 in connection with this transaction.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On September 25, 2001, the Company held its Annual Meeting of Shareholders in Newport Beach, California. The following matters were presented for the approval of the shareholders with the results presented:

a. The election of five members to the Board of Directors of the Company, to serve until the next annual meeting. The results of the shareholders' votes were as follows:

	For	Against	Abstain
Grant S. Kesler	6,387,508	94,380	-
Anthony C. Dabbene	6,387,968	94,380	-
Bruce H. Haglund	6,387,943	94,380	-
Raymond J. Pacini	6,387,943	94,380	-
J. Thomas Talbot	6,387,968	94,380	-

b. To ratify the appointment of Moss Adams LLP as the independent public accountants of the Company for the year ended December 31, 2001. The results were as follows:

For	Against	Abstain
6,400,821	66,730	16,274

ITEM 5. OTHER INFORMATION

On October 26, 2001, the Company completed the settlement agreement with the United Mexican States. All documents have been signed and Mexico has taken possession of the landfill facility. In return, the Company received payment of US $16,002,433. This closes all present NAFTA related claims proceedings.

Listed below are the financial statements, pro forma financial information and exhibits filed as a part of this report:

-Unaudited Pro forma Condensed Consolidated Balance Sheets as of September 30, 2001

-Unaudited Pro forma Condensed Consolidated Statement of Operations for the Nine Months Ended September 30, 2001

-Notes to Unaudited Pro forma Condensed Consolidated Financial Statements

The pro forma data is presented for informational purposes and may not be indicative of the future results of operations and financial position of the Company or what the results of operations and financial position of the Company would have been had the disposition occurred immediately prior to the periods indicated.

These pro forma condensed consolidated financial statements should be read in conjunction with the historical consolidated financial statements and the related notes thereto of Metalclad Corporation, which are hereby incorporated by reference.

METALCLAD CORPORATION AND SUBSIDIARIES
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2001
(Unaudited)

	As reported in Form 10Q as of Sept. 30, 2001	Pro forma Adjustments	Pro forma as of Sept. 30, 2001
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,324,853	$16,002,433(1)	$17,327,286
Accounts receivable, net	1,896,303	-	1,896,303
Inventories	162,543	-	162,543
Receivables from related parties	218,939	-	218,939
Other current assets	385,485	-	385,485
Total current assets	3,988,123	16,002,433	19,990,556
Property, plant and equipment, net	375,754	-	375,754
Net assets of discontinued operations	4,946,549	(4,946,549)(2)	-
Note receivable-sale of Mexican assets	779,402	-	779,402
Other assets	24,311	-	24,311
	$10,114,139	$11,055,884	$21,170,023
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 1,106,321	$ -	$1,106,321
Other accounts payable	166,483	2,300,000(3,5)	2,466,483
Accrued expenses/income taxes	711,595	-	711,595
Current portion of long-term debt	145,203	-	145,203
Note payable-bank revolving credit line	1,000,000	-	1,000,000
Total current liabilities	3,129,602	2,300,000	5,429,602
Long-term debt, less current portion	174,767	-	174,767
	3,304,369	2,300,000	5,604,369
Shareholders' equity:			
Common stock	744,801	-	744,801
Additional paid in capital	68,496,871	-	68,496,871
Accumulated deficit	(60,352,295)	7,200,461(1,2,3,4,5)	(53,151,834)

Officers' receivable	(524,184)	-	(524,184)
Accumulated other comprehensive income	(1,555,423)	1,555,423(4)	-
	6,809,770	8,755,884	15,565,654
	$10,114,139	$11,055.994	$21,170,023

587:

589: See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

METALCLAD CORPORATION AND SUBSIDIARIES

PRO FORMA CONDENSED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001
(Unaudited)

	As reported in Form 10Q for the nine months ended Sept. 30, 2001	Pro forma Adjustments	Pro forma for the nine months ended Sept. 30, 2001
Revenue:			
Contract revenues	$14,508,774	$ -	$14,508,774
Other income	11,449	-	11,449
	14,520,223	-	14,520,223
Operating Costs and Expenses:			
Contract costs and expenses	12,522,155	-	12,522,155
Selling, general and admin.	1,152,548	-	1,152,548
Operating income-			
Insulation business	845,520	-	845,520
Corporate expense	(823,010)	-	(823,010)
Operating profit (loss)	22,510	-	22,510
Interest (expense)/income	(103,874)	-	(103,874)
Other income (expense)	2,293	-	2,293
Loss from continuing operations before income taxes	$ (79,071)	$ -	$ (79,071)
Weighted average number of shares	7,084,6766		
Gain(loss) per share of common stock, continuing operations-basic and diluted	($0.01)		

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

METALCLAD CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED PRO FORMA
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 Unaudited Pro Forma Adjustments:

(1) Record NAFTA cash settlement of $16,002,433.

(2) To write-off the balance of Net Assets of Discontinued Operations due to the transfer of title condition of the final NAFTA settlement. These assets are comprised of capitalized landfill costs in the US in the amount of $2,185,950, fixed assets recorded in Mexico in the amount of $2,275,509 and US goodwill net of accumulated Mexican entity losses of approximately $485,090. This $4,946,549 is net of approximately $15.5 million in previously expensed costs associated with the facility.

(3) To accrue certain estimated legal, compensation and administrative costs, of $2,100,000 associated with the NAFTA settlement, which were contingent upon settlement and receipt of the NAFTA award.

(4) Adjustment to record the recognition of the accumulated foreign currency translation losses of $1,555,423 associated with the net assets included in NAFTA settlement.

(5) To accrue estimated income taxes in the amount of $200,000 associated with Federal and State Alternative Minimum Tax.

SIGNATURES

Pursuant to 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.

METALCLAD CORPORATION

Date: November 6, 2001

By: /s/Anthony C. Dabbene

Anthony C. Dabbene
Chief Financial Officer
(Principal Accounting Officer)