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METALCLAD CORP
Form 10-Q
August 01, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

OR

() 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
(Address of Principal Executive Office)

92660
(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

	June 30, 2001 ----- (Unaudited)	December 31, 2000 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,040,411	\$ 354,345
Accounts receivable, less allowance for doubtful accounts of \$50,000 at June 30, 2001 and December 31, 2000	2,759,198	3,965,975
Costs and estimated earnings in excess of billings on uncompleted contracts	202,063	82,920
Inventories	164,065	114,129
Prepaid expenses and other current assets	71,395	137,486
Receivables from related parties, net	218,779	95,814

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Total current assets	4,455,911	4,850,669
Property, plant and equipment, net	408,741	336,497
Assets of discontinued operations	4,933,299	4,905,754
Note receivable sale of Mexican assets	779,402	779,402
Other assets	23,989	25,765
	<u>\$10,601,342</u>	<u>\$10,898,087</u>
	=====	=====

See Notes to Consolidated Financial Statements

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$1,401,854	\$2,166,727
Current liabilities--discontinued operations	83,143	90,139
Accrued expenses	783,957	722,369
Billings in excess of costs and estimated earnings on uncompleted contracts	18,131	26,724
Current portion of long-term debt	87,105	62,451
Convertible zero coupon notes	1,092,332	1,029,194
	<u>3,466,522</u>	<u>4,097,604</u>
Long-term debt, less current portion	197,284	123,489
Convertible subordinated debentures	-	310,000
	<u>3,663,806</u>	<u>4,531,093</u>
	-----	-----
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 June 30, 2001 and December 31, 2000, respectively	744,801	658,111
Additional paid-in capital	68,496,871	67,659,747
Accumulated deficit	(60,224,529)	(59,871,257)
Officers' receivable	(524,184)	(524,184)
Accumulated other comprehensive income	(1,555,423)	(1,555,423)
	<u>6,937,536</u>	<u>6,366,994</u>
	<u>\$10,601,342</u>	<u>\$10,898,087</u>
	=====	=====

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See Notes to Consolidated Financial Statements
METALCLAD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Six Months Ended		Three Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Revenues--Insulation				
Contract revenues	\$11,103,510	\$8,084,152	\$5,512,708	\$3,874,345
Material sales	91,269	51,111	72,875	15,238
Other	11,449	9,269	3,241	2,136
	11,206,228	8,144,532	5,588,824	3,891,719
Operating costs and expenses--Insulation				
Contract costs and expenses	9,718,046	7,099,180	4,720,537	3,298,527
Cost of material sales	74,947	30,587	63,221	10,994
Selling, general and administrative expenses	745,098	720,999	339,366	369,178
	10,538,091	7,850,766	5,123,124	3,678,699
Gross operating profit	668,137	293,766	465,700	213,020
Corporate expense	(667,651)	(872,673)	(359,243)	(498,622)
Operating profit (loss)	486	(578,907)	106,457	(285,602)
Interest expense	(84,030)	(139,868)	(42,033)	(70,188)
Other income (expense), net	2,080	18,589	(4,836)	8,855
Income (loss) from continuing operations	(81,464)	(700,186)	59,588	(346,935)
Loss from discontinued operations	(271,808)	(63,187)	(40,582)	(63,187)
Net income (loss)	(\$ 353,272)	(\$ 763,373)	\$ 19,006	(\$ 410,122)
Weighted average number of common shares	6,899,995	5,119,575	7,195,592	5,150,498
Earnings (loss) per share of common stock, continuing operations--basic and diluted	(\$.01)	(\$.14)	\$.01	(\$.07)
Loss per share of common stock, discontinued operations--basic				

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and diluted	(\$.04)	(\$.01)	(\$.01)	(\$.01)
	=====	=====	=====	=====
Loss per share of common				
stock--basic and diluted	(\$.05)	(\$.15)	\$ -	(\$.08)
	=====	=====	=====	=====

See Notes to Consolidated Financial Statements

METALCLAD CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For Six Months Ended	
	June 30,	June 30,
	2001	2000
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (353,272)	\$ (763,373)
Adjustments to reconcile net loss to		
net cash used in operating activities:		
Loss from discontinued operations	271,808	63,187
Depreciation and amortization	62,322	44,932
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	1,206,777	(885,702)
Decrease (increase) in unbilled receivables	(119,144)	(297,480)
Decrease (increase) in inventories	(49,936)	(18,491)
Decrease in prepaid expenses and other assets	66,091	91,864
Decrease (increase) in receivables from		
related parties	(22,965)	18,827
Increase (decrease) in accounts payable and		
accrued expenses	(703,285)	549,169
Increase (decrease) in billings over costs	(8,592)	22,418
Increase (decrease) in other assets	1,776	(2,000)
	-----	-----
Net cash provided by (used in) continuing		
operations	366,985	(1,176,649)
Net cash used in discontinued operations	(306,349)	(305,827)
	-----	-----
Net cash provided by (used in) operating activities	60,636	(1,482,476)
	-----	-----
Cash flows from investing activities:		
Capital expenditures--continuing operations	(137,657)	(59,675)
Proceeds from sale of assets continuing operations	1,500	-
	-----	-----
Net cash used in investing activities	(136,157)	(59,675)
	-----	-----
Cash flows from financing activities:		
Proceeds from long-term borrowings	196,658	183,828
Payments on long-term borrowings--continuing		

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operations	(35,071)	(22,336)
Borrowings by officers, secured by stock (net)	-	(14,135)
Proceeds from sale of stock and warrants	600,000	-
Proceeds from exercise of warrants	-	933,500
	-----	-----
Net cash provided by financing activities	761,587	1,080,857
	-----	-----
Increase (decrease) in cash and cash equivalents	686,066	(461,294)
Cash and cash equivalents at beginning of period	354,345	769,176
	-----	-----
Cash and cash equivalents at end of period	\$1,040,411	\$ 307,882
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 24,689	\$ 15,246
	=====	=====

Disclosure of noncash investing and financing activities:

During the six months ended June 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 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 six months ended June 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 June 30, 2001 and December 31, 2000 is approximately \$4,850,000 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. (See 8-K dated September 1, 2000.)

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

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common stock and one common stock purchase warrant exercisable at \$1.50. The Company's goal was to raise \$600,000. As of June 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.

A follow-on financing is in process to provide a revolving working capital credit line of \$1,000,000 to repay the bridge loan. The interest rate will be based on the bank's reference rate plus .25%. As of July 16, this interest rate would have been 7%.

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: Mrs. 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, the price of the Company's common stock was \$1.60 and \$1.50, respectively.

6. The gain or loss per share amounts for the six months ended June 30, 2001 and June 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 June 30, 2001, it was determined that no options or warrants were in the money for the periods presented.

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

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implied by such forward-looking statements contained in this Form 10-Q. Such potential risks and uncertainties include, without limitation, the ability to collect the NAFTA award, 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: Six Months ended June 30, 2001 and 2000

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.

Insulation Business. Total revenues from the insulation business for the six months ended June 30, 2001 were \$11,206,000 as compared to \$8,145,000 for the comparable period ended June 30, 2000, an increase of 38%. This increase is primarily due to increased work with a major customer and the addition of several new clients. Total expenses for the six months ended June 30, 2001 were \$10,538,000 as compared to \$7,851,000 for the comparable period ended June 30, 2000, an increase of 34%. This increase is in line with the increase in revenues.

Contract Revenues. Contract revenues for the six months ended June 30, 2001 were \$11,104,000 as compared to \$8,084,000 for the six months ended June 30, 2000, an increase of 37%. This increase is attributed to the Company's efforts to diversify its client base, including its entry into the commercial insulation market.

Material Sales. Material sales were \$91,000 for the six months ended June 30, 2001 as compared to \$51,000 for the six months ended June 30, 2000.

Contract and Material Costs. Contract and material costs and expenses were \$9,793,000 for the six months ended June 30, 2001 as compared to \$7,130,000 for the six months ended June 30, 2000, an increase of 37%. This increase is consistent with the Company's increase in revenues.

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Selling, General and Administrative Costs. Selling, general and administrative costs for the six months ended June 30, 2001 were \$745,000 as compared to \$721,000 for the comparable period ended June 30, 2000, an increase of 3%, 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 six months ended June 30, 2001, the Company has expensed, net of this accrual, \$272,000 in fees for the continuing costs of the NAFTA proceedings. This net amount has been expensed to discontinued operations for the six months ended June 30, 2001. It is believed that future costs, if any, will not be material and will be charged to operations as incurred.

Corporate Expense. Corporate expenses were \$668,000 for the six months ended June 30, 2001 as compared to \$873,000 for the six months ended June 30, 2000, a decrease of 23%. 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 six months ended June 30, 2001 was \$84,000 as compared to interest expense of \$140,000 for the six months ended June 30, 2000. This decrease is due to the reduction in outstanding loan balances from June 2000 to June 2001, primarily as a result of conversions of debt to equity.

Consolidated Results

The Company experienced a net loss of \$353,000 for the six months ended June 30, 2001 as compared to a net loss of \$763,000 for the comparable period ended June 30, 2000, a decrease of 54%. The net loss from continuing operations was \$81,000 for the six months ended June 30, 2001 as compared to a net loss of \$700,000 for the comparable period ended June 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

In the fourth quarter of 1998, the Company committed to a plan to discontinue its Mexican operations and in October 1999 completed a sale of its non-NAFTA related businesses. (See Note 2.) Although no further investments are being made in Mexico, the Company continues to require additional capital to maintain its remaining operations and complete the collection of its NAFTA award.

On July 30, 1999 the Company entered into an amendment of the terms of its Five-Year Zero Coupon Notes with the holder. The amendment included the conversion of accrued interest through July 30, 1999 into principal notes, the interest rate was adjusted from 9.3% to 12% effective July 31, 1999, the convertibility of the notes and the holder's redemption option on the notes was extended until the earlier of March 31, 2000 or completion of the NAFTA proceedings and the conversion rate per share will be at the lesser of 70% of the average market price per share or \$2.50 per share. In no event, however, can the holder convert its principal into common shares such that

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it would result in the holder obtaining shares that would exceed 19.99% of the outstanding common stock of the Company. Should the holder exercise its right to convert the notes, all accrued interest would be forfeited. As part of this amendment, the note holder agreed to exercise certain of its warrants and to purchase \$250,000 in additional notes. As of April 1, 2000, the holder had the right to convert the principal amount of the notes. The holder also has the right to require the Company to redeem these notes. During the quarter ended March 31, 2001, the holder and the Company 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. (See Note 4.)

During the six months ended June 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 six months ended June 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 June 30, 2001 of \$989,000 compared to positive working capital of \$753,000 at December 31, 2000. The Company had cash and cash equivalents at June 30, 2001 of \$1,040,000 and \$354,000 at December 31, 2000. Cash provided by continuing operations for the six months ended June 30, 2001 was \$367,000 compared to cash used of \$1,177,000 for the six months ended June 30, 2000. Cash used by discontinued operations for the six months ended June 30, 2001 was \$306,000 compared to \$306,000 for the six months ended June 30, 2000. Cash used in operating activities for the six months ended June, 2001 was funded primarily by proceeds from the sale of stock during the period and the collection of accounts receivable.

For the six months ended June 30, 2001 the Company generated cash flow from continuing operations of \$367,000, including \$1,098,000 in positive cash flow related to the insulation business due primarily to a higher volume of work in the first six 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. The Company is aware of its on going cash needs and continues to work with its investment bankers and other sources to meet its on going needs through December 31, 2001. The Company believes it will obtain the necessary funds to continue its planned operations throughout 2001; however, no assurances can be given that such funds will be available to the Company as required, while it awaits collection of the NAFTA award. (See Part II, Item 1. Legal Proceedings.)

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

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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. The parties are now attempting to close the transaction, at which time the appeal and cross appeal will be dismissed. As of the date of this report, the Company believes it has provided the United Mexican States all of the documents it needs to determine that there is no reason for any reduction or offset in the payment and has requested that the payment be made forthwith.

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. On November 13, 2000, a complaint was filed in Orange County with the Superior Court of California. The defendants have attempted on three occasions to have the complaint dismissed and have failed each time. Discovery has now commenced, but no date for trial has yet been set. 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.

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Item 2. Changes in Securities

During the six months ended June 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 3 Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

None.

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: August 1, 2001

By: /s/Anthony C. Dabbene

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