METALCLAD CORP
Form 10-Q
May 11, 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 March 31, 2001

OR

(X) 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

As of March 31, 2001, the registrant had 6,981,114 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

	March 31, 2001 (Unaudited)	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 706,213	$ 354,345
Accounts receivable, less allowance for doubtful accounts of $50,000 at March 2001 and December 2000, respectively	3,329,044	3,965,975
Costs and estimated earnings in excess of billings on uncompleted contracts	145,770	82,920
Inventories	144,803	114,129
Prepaid expenses and other current assets	106,199	137,486
Receivables from related parties, net	193,579	195,814
Total current assets	4,625,608	4,850,669
Property, plant and equipment, net	410,100	336,497
Net assets of discontinued operations	4,915,907	4,905,754
Note receivable sale of Mexican assets	779,402	779,402
Other assets	25,989	25,765
	$10,757,006	$10,898,087

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable	$ 1,615,164	$ 2,166,727
Current liabilities, net discontinued operations	201,371	90,139
Accrued expenses	749,752	722,369
Billings in excess of costs and estimated earnings on uncompleted contracts	156,364	26,724
Current portion of long-term debt	79,930	62,451
Convertible zero coupon notes	1,059,463	1,029,194
Total current liabilities	3,862,044	4,097,604
Long-term debt, less current portion	196,516	123,489
Convertible subordinated debentures	310,000	310,000
Total liabilities	4,368,560	4,531,093
Commitments and Contingencies (Note M)		
Shareholders' equity :		
Preferred stock, par value $10; 1,500,000 shares authorized; none issued	-	-
Common stock, par value $.10; 80,000,000 shares authorized; 6,981,114, and 6,581,114 issued and outstanding at March 2001 and December 2000, respectively	698,111	658,111
Additional paid-in capital	68,019,747	67,659,747
Accumulated deficit	(60,243,535)	(59,871,257)
Officer's receivable	(530,454)	(524,184)
Accumulated other comprehensive income	(1,555,423)	(1,555,423)
	6,388,446	6,366,994
	$10,757,006	$10,898,087

See Notes to Consolidated Financial Statements

METALCLAD CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2001	2000
	(Unaudited)	
Revenues		
Contract revenues	$5,590,802	$4,209,807
Material sales	18,394	35,873
Other	8,208	7,133
	5,617,404	4,252,813
Operating costs and expenses		
Contract costs and expenses	4,997,509	3,800,653
Cost of material sales	11,726	19,593
Selling, general and administrative	405,732	351,821
	5,414,967	4,172,067

Gross operating profit	202,437	80,746
Corporate expense	(308,408)	(374,051)
Operating loss	(105,971)	(293,305)
Interest expense	(41,997)	(69,680)
Other income, net	6,916	9,734
Loss from continuing operations	(141,052)	(353,251)
Loss from discontinued operations	(231,226)	-
Net loss	$ (372,278)	$ (353,251)
Weighted average number of common shares	6,598,336	5,088,652
Loss per share of common stock, continuing operations - basic and diluted	$(.02)	$(.07)
Loss per share of common stock, discontinued operations - basic and diluted	$(.04)	-
Loss per share of common stock - basic and diluted	$(.06)	$(.07)

See Notes to Consolidated Financial Statements

METALCLAD CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2001	2000
Cash flows from operating activities:		
Net loss	$ (372,278)	$ (353,251)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	231,226	-
Depreciation and amortization	29,080	20,583
Loss on disposal of fixed assets	1,592	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	636,931	(1,275,439)
Decrease (increase) in unbilled receivables	(62,850)	(157,991)
Decrease (increase) in inventories	(30,674)	(47,680)
Decrease (increase) in prepaid expenses and other assets	31,287	32,488
Decrease (increase) in receivables from related parties	2,235	(13,099)
Increase (decrease) in accounts payable and accrued expenses	(524,180)	691,680
Increase (decrease) in billings over cost	129,640	47,353
Increase in other assets	(224)	(2,000)

Net cash provided (used) in continuing operations	71,785	(1,057,356)
Net cash used in discontinued operations	(130,147)	(242,517)
Net cash used in operating activities	(58,362)	(1,299,873)
Cash flows from investing activities:		
Capital expenditures continuing operations	(105,775)	(27,267)
Proceeds from sale of assets continuing operations	1,500	-
Net cash used in investing activities	(104,275)	(27,267)
Cash flows from financing activities:		
Proceeds from long-term borrowings	136,109	100,377
Payments on long-term borrowings continuing operations	(15,334)	(9,403)
Borrowing by an officer	(6,270)	(6,759)
Proceeds from sale of stock	400,000	-
Proceeds from exercise of warrants	-	933,500
Net cash provided by continuing operations	514,505	1,017,715
Net cash provided (used) in discontinued operations	-	-
Net cash provided by financing activities	514,505	1,017,715
Increase (decrease) in cash and cash equivalents	351,868	(309,425)
Cash and cash equivalents at beginning of period	354,345	769,176
Cash and cash equivalents at end of period	$ 706,213	$ 459,751
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 19,478	$ 13,032

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Period Ended March 31, 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 three months ended March 31, 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 March 31, 2001 and December 31, 2000 is approximately $4,715,000 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 financing offering consists 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, which as of this filing has been fully committed. As of March 31, 2001, $400,000 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. Management intends to pursue redemption of the remaining outstanding principal as soon as practical.

5. The loss per share amounts for the three months ended March 31, 2001 and March 31, 2000 were computed by dividing the net loss by the weighted average shares outstanding during the applicable period.

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, 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: Three Months ended March 31, 2001 and 2000

General. The Company's revenues are generated in the United States from insulation and asbestos abatement services and, prior to 1998, from 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 three months ended March 31, 2001 were $5,617,000 as compared to $4,253,000 for the comparable period ended March 31, 2000, an increase of 32%. This increase is primarily due to increased work with a major customer and the addition of several new clients in the commercial market sector. Total expenses for the three months ended March 31, 2001 were $5,415,000 as compared to $4,172,000 for the comparable period ended March 31, 2000, an increase of 30%. This increase is in line with the increase in revenues.

Contract Revenues. Contract revenues for the three months ended March 31, 2001 were $5,591,000 as compared to $4,210,000 for the three months ended March 31, 2000, an increase of 33%. 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 $18,000 for the three months ended March 31, 2001 as compared to $36,000 for the three months ended March 31, 2000.

Contract and Material Costs. Contract and material costs and expenses were $5,009,000 for the three months ended March 31, 2001 as compared to $3,820,000 for the three months ended March 31, 2000, an increase of 31%. This increase is consistent with the Company's increase in revenues.

Selling, General and Administrative Costs. Selling, general and administrative costs for the three months ended March 31, 2001 were $406,000 as compared to $352,000 for the comparable period ended March 31, 2000, an increase of 15%, 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 three months ended March 31, 2001, the Company has not charged against the December 31, 2000 accrual. Additionally, $231,000 in fees for the continuing costs of the NAFTA proceedings has been expensed to discontinued operations for the three months ended March 31, 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 $308,000 for the three months ended March 31, 2001 as compared to $374,000 for the three months ended March 31, 2000. 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 March 31, 2001 was $42,000 as compared to interest expense of $70,000 for the three months ended March 31, 2000. This decrease is due to the reduction in outstanding loan balances from March 2000 to March 2001, primarily as a result of debt conversions to equity.

Consolidated Results

The Company experienced a net loss of $372,000 for the three months ended March 31, 2001 as compared to a net loss of $353,000 for the comparable period ended March 31, 2000, an increase of 5%. The net loss from continuing operations was $141,000 for the three months ended March 31, 2001 as compared to a net loss of $353,000 for the comparable period ended March 31, 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.

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 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 has 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. Management intends to pursue redemption of the remaining outstanding principal as soon as practical.

During the three months ended March 31, 2000, the Company received approximately $934,000 from the exercise of warrants, issuing 291,000 new shares of common stock.

During the three months ended March 31, 2001, the Company received approximately $400,000 for the issuance of 400,000 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 March 31, 2001 of $764,000 compared to positive working capital of $753,000 at December 31, 2000. The Company had cash and cash equivalents at March 31, 2001 of $706,000 and $354,000 at December 31, 2000. Cash provided by continuing operations for the three months ended March 31, 2001 was $72,000 compared to cash used of $1,057,000 for the three months ended March 31, 2000. Cash used by discontinued operations for the three months ended March 31, 2001 was $130,000 compared to $243,000 for the three months ended March 31, 2000. Cash used in operating activities for the three months ended March 31, 2001 was funded primarily by proceeds from the sale of stock during the period and the collection of accounts receivable.

For the three months ended March 31, 2001 the Company generated cash flow from continuing operations of $72,000, including $445,000 in positive cash flow related to the insulation business due primarily to a higher volume of work in the first three months of 2001 versus 2000. The offsettingnegative 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 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. 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 issued its ruling, which upheld a finding of expropriation and upheld an award of damages to the Company, although modifying the interest calculation. Management is currently studying the ruling to determine any future course of action. (See Item 6 below.)

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 are in the process of responding to the complaint. Subsequent to this response, discovery will commence. No hearing date has been set as yet. The Company believes strongly in the merits of its case, but cannot assume 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 quarter ended March 31, 2001 the Company sold 400,000 investor units consisting of one share of common stock and one common stock purchase warrant, for a potential total of 800,000 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.

Item 3. Defaults Upon Senior Securities

Not Applicable

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

None.

Item 5. Other Information

The Company filed its annual proxy form 14A on April 30, 2001 and announced its annual meeting will be held July 9, 2001, with proxies being mailed out approximately June 1, 2001.

Item 6. Exhibits and Reports on Form 8-K

Exhibit 1 British Columbia Supreme Court decision in the case of The United Mexican States v. Metalclad Corporation, dated May 2, 2001.

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: May 15, 2001

By: /s/Anthony C. Dabbene

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