METALCLAD CORP
Form 10-K
March 30, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

OR

(   ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the year ended December 31, 2000

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 ID No.)
2 Corporate Plaza, Suite 125 Newport Beach, California	92660
(Address of Principal Executive Office)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock -- $.10 Par Value
(Title of Class)

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 (   )

Indicate by check mark if disclosure of delinquent filers pursuant to

Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

The aggregate market value of the Common Stock held by non-affiliates of the registrant on March 15, 2000 was approximately $7,000,000, based upon the average of the bid and asked prices of the Common Stock, as reported on The Nasdaq Stock Market .

The number of shares of the Common Stock of the registrant outstanding as of March 15, 2001 was 6,581,114.

Documents incorporated by reference:

Portions of the Company's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company's 2000 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

PART I

All statements, other than statements of historical fact, included in this Form 10-K, including without limitation the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business", are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). 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-K. Such potential risks and uncertainties include, without limitation, the ability to recover the consideration for the sale of the Company's businesses in Mexico, the outcome of the Company's NAFTA claim for damages against Mexico, 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-K 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.

ITEM 1. BUSINESS

(a) General Development of Business

Corporate Structure. The Company, incorporated originally in 1947 as an Arizona corporation, was reincorporated in Delaware on November 24, 1993. The Company has wholly owned subsidiaries in both the United States and Mexico. The Company's United States subsidiaries include Eco-Metalclad ("Eco-MTLC"), a Utah corporation, Metalclad Insulation Corporation ("MIC"), a California corporation and Metalclad Environmental Contractors ("MEC"), a California corporation. The Company's Mexican subsidiaries include Eco Administracion, S.A. de C.V. ("ECOPSA"), Consultoria Ambiental Total, S.A. de CV. ("CATSA") and Confinamiento Tecnico de Residues Industriales, S.A. de C.V. ("COTERIN"). Each of the Mexican subsidiaries is a corporation of

variable capital.

Unless otherwise indicated, the term "Company" refers to Metalclad Corporation and its United States and Mexican subsidiaries.

The Company's principal executive offices are located at 2 Corporate Plaza Drive, Suite 125, Newport Beach, California 92660 and its telephone number is (949) 719-1234. MIC and MEC serve their clients from their headquarters in Anaheim, California. Eco-MTLC maintains its offices in Newport Beach, California and the Company's Mexican subsidiaries' offices are located in the city of San Luis Potosi, Mexico.

Business in the United States. For over 30 years, the Company has been providing insulation and asbestos abatement services, primarily on the West Coast. Through MIC and MEC, the Company provides these services to a wide range of industrial, commercial and public agency clients. Insulation services include the installation of high- and low-temperature insulation on pipe, ducts, furnaces, boilers, and other types of industrial equipment and commercial applications. Asbestos abatement services include removal and disposal of asbestos-containing products in similar applications. The Company fabricates specialty items for the insulation industry and sells insulation material and accessories incident to its services business to its customers as well as to other contractors. A diverse list of clientele includes refineries, utilities, chemical/petrochemical plants, manufacturing facilities, commercial properties, office buildings, and various governmental facilities.

Business in Mexico. In 1991, the Company embarked on a strategy to develop an integrated industrial waste management business in Mexico. Through acquisitions and development of projects, it was the Company's intent to provide a full-service network of locations, including treatment and disposal facilities, to provide professional, environmentally safe, handling and disposal of industrial waste streams.

After eight years of developing this business, the Company determined that its efforts would not be successful due to political opposition in Mexico. In 1997, the Company filed a $90 million claim under the North American Free Trade Agreement ("NAFTA") to recover the value of its investment in a completed, but unopened, treatment, storage and disposal ("TSD") facility in San Luis Potosi. This facility is held by ECOPSA and COTERIN. See Item 3--Legal Proceedings and Note B of the Financial Statements. Because of political interference with a second project that was under construction and approximately 90 percent complete in Aguascalientes, the Company is considering the filing of a second NAFTA claim. In 1999, the Company sold its operating and project development subsidiaries in Mexico and withdrew from the Mexican market. See Note B of the Financial Statements.

(b) Financial Information About Industry Segments

The Company, through MIC and MEC, is engaged in insulation services, asbestos abatement services, and insulation material sales, such activities constituting one industry segment. The development and operation of the industrial waste treatment business, commenced in November 1991 through ECO-MTLC and conducted by the Company's Mexican subsidiaries, had previously been reported as a separate industry segment for 1996 and 1997 and is now being reported as discontinued operations.

(c) Narrative Description of Business

Introduction

Industrial Waste Management Business. Since the Company has sold its operations and withdrawn from Mexico and this market segment, its only activity in this segment is the ongoing NAFTA arbitration and the receivable associated with the sale of businesses in Mexico.

Insulation Contracting Services

Background. The Company's insulation contracting services include the installation of high- and low-temperature insulation on pipe, ducts, furnaces, boilers, and various other types of equipment. Insulation services are provided for new construction and maintenance of existing facilities. The Company is a licensed general contractor and typically provides project management, labor, tools, equipment and materials necessary to complete the installation.

The Company usually performs substantially all of the work required to complete its contracts, generally subcontracting to others the scaffolding and painting. In a typical insulation contract, the Company obtains plans and specifications prepared by the owner of a facility or its agent. In projects where the customer is the owner of the facility, the Company acts as the general contractor. The Company also works as a subcontractor for other general contractors. Insulation contracts for new construction may require one or more years to complete. Maintenance contracts typically extend over a period of one or more years.

The Company's insulation contracting business has historically included, among other things, maintenance, removal, repair, and re-installation of insulation on existing facilities and equipment. These activities included asbestos removal services in most cases in which the insulation at such facilities has included asbestos-containing material ("ACM").

The Company removes all forms of ACM after first treating the asbestos with water and a wetting agent to minimize fiber release. Dry removal is conducted in special cases where wetting is not feasible, provided Environmental Protection Agency ("EPA") approval is obtained. The Company's workers also remove pipe insulation by cutting the wrapping into sections in an enclosed containment area or utilizing special "glovebags" which provide containment around the section of pipe insulation being removed. In some instances, the Company performs asbestos removal and provides related re-insulation contracting services, including insulation material sales; in other cases, the Company performs only asbestos removal services. The Company believes that the removal of ACM provides the best and most cost-effective solution for most asbestos abatement projects.

Insulation Contracts. The Company obtains contracts, which ordinarily fall within one of the types set forth below, on the basis of either competitive bids or direct negotiations:

Cost-plus. These contracts, sometimes referred to as "time and materials" contracts, generally provide for reimbursement of costs incurred by the Company and the payment of a fee equal to a percentage of the cost of construction. They generally provide for monthly payments covering both reimbursement for costs incurred to date and a portion of the fee based upon the amount of work performed and are customarily not subject to retention of fees or costs.

Fixed-price. These contracts generally require the Company to perform all work for an agreed upon price, often by a specified date. Such contracts usually provide for increases in the contract price if the Company's construction costs increase due to changes in or delays of the project initiated or caused by the customer or owner or by escalating

project labor rates. However, absent causes resulting in increases in contract prices, the Company takes certain risks associated with its fixed prices. Under these types of contracts the Company receives periodic payments based on the work performed to date, less certain retentions. The amounts retained are held by the customer pending either satisfactory completion of the Company's work or in some cases, satisfactory completion of the entire project.

In accordance with industry practice, most of the Company's contracts are subject to termination or modification by the customer, with provision for the recovery of costs incurred and the payment to the Company of a proportionate part of its fees, in the case of a cost-plus contract, and overhead and profit, in the case of a fixed price contract. At various times, contracts that the Company has with its customers have been terminated or modified. However, such termination or modification occurs in the regular course of the Company's business due to changes in the work to be performed as determined by the customer. No single termination or modification has had or is expected to have a material adverse impact on the Company's business.

Operations and Employee Safety. All contract work is performed by trained Company personnel and supervised by project managers trained and experienced in construction and asbestos abatement. Each employee involved in asbestos abatement must complete a general training and safety program conducted by the Company. Training topics include approved work procedures, instruction on protective equipment and personal safety, dangers of asbestos, methods for controlling friable asbestos and asbestos transportation and handling procedures. In addition, all full-time employees engaged in asbestos abatement activities are required to attend a minimum four-day course approved by EPA and the Occupational Safety and Health Administration ("OSHA") and all supervisors of abatement projects are required to attend a nine-hour first aid/CPR/safety course and an eight-hour EPA/AHERA refresher course annually. One of the Company's full-time employees and 54 hourly employees have been trained and certified as "competent individuals" under EPA regulations relating to the training of asbestos abatement workers. All employees are issued detailed training materials and the Company typically conducts a job safety analysis in the job bidding stage.

The Company requires the use of protective equipment and sponsors periodic medical examination of all field employees. During removal procedures, ACM is generally wetted to minimize fiber release and filtration devices are used to reduce contamination levels. Air monitoring to determine asbestos fiber contamination levels is conducted on all abatement projects involving the removal of friable asbestos. The Company has a comprehensive policy and procedure manual that covers all activities of an asbestos abatement project and the specific responsibilities and implementation of Company procedures and policies to be followed on each project. The manual is reviewed periodically by management and updated to insure compliance with federal, state, and local regulations, to include information from in-house project reviews findings, and to include updated information regarding industry practices. To separate its responsibilities and to limit liability, the Company utilizes third party, unaffiliated laboratories for asbestos sampling analysis and licensed independent waste haulers for the transportation and disposal of asbestos waste from its projects.

Materials and Supplies. The Company purchases its insulating and asbestos abatement materials and supplies from a number of national manufacturers and the Company is not dependent on any one source for these materials and accessories used in its insulation services and asbestos abatement business.

Marketing and Sales

Insulation Contracting Services. The Company currently obtains most of its insulation contracting business from existing customers and referrals by customers, engineers, architects, and construction firms. Additional business is obtained by referrals obtained through labor, industry, and trade association affiliations.

Projects are also awarded through competitive bidding although major companies frequently rely on selected bidders chosen by them based on a variety of criteria such as adequate capitalization, bonding capability, insurance carried, and experience. The Company is frequently invited in this manner to bid on projects and obtains a significant amount of its contracts through the competitive bidding process. The Company believes that its bids are competitively priced and anticipates that in the future its bids will continue to be competitively priced with bids submitted by others.

The Company's marketing and sales effort emphasizes its experience, reputation for timely performance, and knowledge of the insulation and asbestos abatement industry. The Company is a member of the Western Insulation Contractors Association, the National Insulation Contractors Association, and various local business associations.

Curtom-Metalclad Joint Venture. In 1989, the Company entered into a joint venture with a minority service firm, which qualifies for preferential contract bidding because of minority status, with the Company owning a 49% interest in the joint venture. The joint venture, known as "Curtom-Metalclad," submits bids for insulation and asbestos abatement services. When contracts are obtained by the joint venture, the Company performs the work specified in the contract as a subcontractor to the joint venture. The Company also receives an interest in 49% of the profits or losses of the joint venture.

Insulation Material Sales. The current emphasis in this area is to primarily warehouse and supply material for projects where other Company services are provided. The warehoused material is based on economics of bulk purchases of the most commonly used products or projected needs on future known projects, to handle emergencies, and to supply material sales direct to other users as available and when solicited.

Customers. The Company's insulation customers are categorized as Industrial or Commercial. The industrial customers are predominately public utilities (power, natural gas and water/water treatment), major oil companies for oil refineries and petrochemical plants, chemical and food processors, other heavy manufacturers, and engineering/construction companies. The Commercial customers are primarily government installations, schools, hospitals, institutions, an array of manufacturing/commercial facilities, and the general or mechanical construction contractors. The Company anticipates that a significant portion of its revenues in 2001 will continue to be from work performed for Southern California Edison, ARCO, and Equilon.

Competition. Competition in the insulation contracting services business is intense and is expected to remain intense in the foreseeable future. Competition includes a few national and regional companies that provide integrated services and many regional and local companies that provide insulation and asbestos abatement specialty contracting services. Most of the national and regional competitors providing integrated services are well established and have substantially greater marketing, financial, and technological resources than the Company. The regional and

local specialty contracting companies which compete with the Company either provide one service or they provide integrated services by subcontracting part of their services to other companies. The Company believes that the primary competitive factors in these areas are price, technical performance, and reliability. The Company obtains a significant number of its insulation service contracts through the competitive bidding process. The Company believes that its bids are competitively priced and anticipates that in the future its bids will continue to be competitively priced with bids submitted by others.

Insurance and Bonding. The Company's combined general liability and contractor pollution insurance policy provides base coverage of $1,000,000 per occurrence and excess liability coverage of $10,000,000. The Company's current insulation and asbestos abatement services customers do not generally require performance bonds. The Company believes, however, that its current bonding arrangements are adequate for the Company's anticipated future needs. The Company has historically carried insurance for liability associated with the sale of asbestos bearing materials. Because of the age of the Company there have been several different insurance carriers. As claims are made for liability associated with asbestos those claims are managed by counsel for the Company and submitted to the appropriate insurance carrier for defense depending upon the date the claim originated. It has been more than 25 years since the Company sold any asbestos bearing material. The Company believes that there is adequate insurance coverage remaining and believes it has no material exposure to any future claims.

Government Regulation

Insulation Services and Material Sales Regulation. The Company, as a general contractor and insulation specialty contractor, is subject to regulation requiring it to obtain licenses from several state and municipal agencies. Other than licensing, the Company's industrial insulation services and material sales business is not subject to material or significant regulation.

Asbestos Abatement Regulation. Asbestos abatement operations are subject to regulation by federal, state, and local governmental authorities, including OSHA and the EPA. In general, OSHA regulations set maximum asbestos fiber exposure levels applicable to employees and the EPA regulations provide asbestos fiber emission control standards. The EPA requires use of accredited persons for both inspection and abatement. In addition, a number of states have promulgated regulations setting forth such requirements as registration or licensing of asbestos abatement contractors, training courses for workers, notification of intent to undertake abatement projects and various types of approvals from designated entities. Transportation and disposal activities are also regulated. The Company believes that similar legislation may be adopted in other states and in local building codes.

OSHA has promulgated regulations specifying airborne asbestos fiber exposure standards for asbestos workers, engineering and administrative controls, workplace practices, and medical surveillance and worker protection requirements. OSHA's construction standards require companies removing asbestos on construction sites to utilize specified control methods to limit employee exposure to airborne asbestos fibers, to conduct air monitoring, to provide decontamination units and to appropriately supervise operations. EPA regulations restrict the use of spray applied ACM and asbestos insulation, establish procedures for handling ACM during demolition and renovations, and prohibit visible emissions during removal, transportation and disposal of ACM.

The Company believes that it is substantially in compliance with all regulations relating to its asbestos abatement operations, and currently has all material government permits, licenses, qualifications and approvals required for its operations.

Backlog. The Company's backlog for insulation services at December 31, 2000 and December 31, 1999 was $20,500,000 and $21,700,000, respectively. Backlog is calculated in terms of estimated revenues on fixed-price and cost-plus projects in progress or for which contracts have been executed. The Company believes that backlog as of any date is not necessarily indicative of future revenues. The Company estimates that its entire backlog as of December 31, 2000 will be completed during the next eighteen months. The majority of the Company's present business is on cost-plus contracts for which backlog is estimated. The Company fulfills product and supply orders promptly, and there is no backlog in the material sales business.

Employees. As of December 31, 2000, the Company had four full-time employees in its executive offices and 14 full-time employees in its insulation business, for a total of 18 employees. These include three executive officers, project managers/estimators, purchasing, accounting, and office staff.

As of December 31, 2000, the Company employed approximately 142 hourly employees for insulation contracting services, nearly all of whom are members of the International Association of Heat and Frost Insulators and Asbestos Workers ("AFL-CIO"). The Company is a party to agreements with various local chapters of various trade unions. The number of hourly employees employed by the Company fluctuates depending upon the number and size of projects that the Company has under construction at any particular time. It has been the Company's experience that hourly employees are generally available for its projects, and the Company has continuously employed a number of them on various projects over an extended period of time. The Company considers its relations with its hourly employees and the unions representing them to be good and has experienced no recent work stoppages due to strikes by such employees. Additionally, the trade union agreements the Company is a party to include no strike, no work stoppage provisions.

Directors and Executive Officers of the Company

The names, ages, and positions of the Company's directors and executive officers (including certain significant executive officers of the Company's principal subsidiaries) are listed below:

Name	Age	Director or Officer Since	Current Position with the Company
Anthony C. Dabbene	49	1996	Chief Financial Officer, Director
Bruce H. Haglund	49	1983	Secretary, General Counsel, Director
Grant S. Kesler	57	1991	President, Chief Executive Officer, Director
Raymond J. Pacini	45	1999	Director
Robert D. Rizzo	55	1999	President MIC/MEC
J. Thomas Talbot	65	1999	Director

Anthony C. Dabbene has been the Chief Financial Officer for the Company since January 1996 and a Director since May 1997. Prior to his employment with the Company, Mr. Dabbene was employed by LG & E Energy Corp. for 10 years, including service as Vice President and Controller to

the Energy Services Group. From 1973 to 1985, he was employed by EBASCO Services Incorporated, where he was Manager - Finance and Administration for the Western region from 1981 to 1985.

Bruce H. Haglund has served as Secretary-General Counsel of the Company since 1983 and served as a Director of the Company from 1983 to July 1991 and again in 1999. Mr. Haglund is a principal in the law firm of Gibson, Haglund & Paulsen in Orange County, California where he has been engaged in the private practice of law since 1980. He is also a member of the Boards of Directors of Aviation Distributors, Inc., HydroMaid International, Inc., Renaissance Golf Products, Inc., and VitriSeal, Inc.

Grant S. Kesler has served as a Director of the Company since February 1991 and has been Chief Executive Officer since May 1991. From 1982 to May 1991, he was employed by Paradigm Securities, Inc., a company he formed in 1982. In 1975, he was General Counsel to Development Associates, a real estate development firm. Earlier, he was engaged in the private practice of law, served as an assistant attorney general for the State of Utah, and served as an intern to the chief justice of the Utah Supreme Court.

Raymond J. Pacini is the President, Chief Executive Officer, and a Director of California Coastal Communities, Inc. (formerly Koll Real Estate Group, Inc.), where he has been since 1990. Prior to 1998, he was the Executive Vice President and Chief Financial Officer of Koll Real Estate Group, Inc.

Robert D. Rizzo joined the Company as President of Metalclad Insulation in November 1999. Prior to joining Metalclad, Mr. Rizzo was project manager for major projects at PDG Environmental, Inc.. He has over 25 years experience in finance, engineering and construction. Mr. Rizzo has a B.S. in Civil Engineering and an MBA.

J. Thomas Talbot is the owner of The Talbot company, an investment and asset management company. Mr. Talbot has been the Chief Executive Officer of HAL, Inc., the parent company of Hawaiian Airlines and was a founder or co-founder of Jet American Airlines (sold to Alaska Airlines), Air California, and Southwest Airlines. He currently serves on the boards of directors of The Hallwood Group, Inc., Fidelity National Financial, Inc., California Coastal Communities, Inc., Competisys LLC and The Pacific Club. Mr. Talbot holds a B.A. in Economics from Stanford University and a J.D. from Hastings College of Law, University of California, Berkeley.

ITEM 2. PROPERTIES

The Company leases space for its offices and warehouse facilities under leases of varying terms at rentals aggregating approximately $21,775 per month. The Company's executive offices are located in Newport Beach, California, which consists of approximately 3,000 square feet leased at a current rate of $6,675 per month. The Newport Beach lease expires in September 2002. Facilities in Anaheim, California house the Southern California industrial insulation services and the insulation material sales operations. The Anaheim facility consists of 26,000 square feet of office and warehouse space that is leased at the current rate of $15,100 per month. The Anaheim lease expires in April 2002.

ECOPSA owns an approximately 92-hectare parcel (approximately 227 acres) of land in Santa Maria del Rio near San Luis Potosi, Mexico.

COTERIN owns approximately 2,200 acres of land near La Pedrera in the Mexican State of San Luis Potosi on which El Confin is located.

ITEM 3. LEGAL PROCEEDINGS

Given the Company's long history in the insulation business and in the sale of insulation materials, it is subject to various claims related to prior asbestos-related business as well as its current business. While the number of these claims is over 300, the Company believes it has adequate insurance in place, had adequate insurance in prior years, and is vigorously defending all claims. The Company does not believe that these claims, individually or in the aggregate, will have a material adverse effect on its financial condition.

On October 2, 1996, following a long period of negotiation with the Mexican government in an effort to open its hazardous waste TSD facility in San Luis Potosi, Mexico, the Company filed a Notice of Claim under the provisions of the North American Free Trade Agreement ("NAFTA"). The notice was filed with the International Center for the Settlement of Investment Disputes (ICSID) in Washington, D.C. pursuant to the provisions of the NAFTA. On January 2, 1997, the Company filed its actual claim with ICSID, after which a three-member tribunal was impaneled which includes one arbitrator from Mexico, one from the United States and a third, chosen jointly by the parties, from Great Britain. The first hearing was held in Washington, D.C. on July 15, 1997.

On October 13, 1997, the Company filed its Memorial, which included the claim and all of the evidence supporting the claim, including expert witness studies and the like. The basis of the Company's claim against Mexico was one likened to expropriation. The Company's position is since it was not being allowed to operate a legally authorized project, it had in essence been taken by the Mexican government and they should, therefore, be responsible for paying fair compensation under the provision of the NAFTA. A fair market valuation was done on behalf of the Company, which indicated the fair market value of this business was $90,000,000.

On February 17, 1998, the United Mexican States ("Mexico") responded to the Company's claim to the Tribunal by filing a "counter-memorial". On August 21, 1998 the Company filed its "reply" to Mexico's counter-memorial, and on April 19, 1999 Mexico filed its "rejoinder". A pre-hearing conference took place July 6, 1999 and the final hearing took place in Washington, D.C. from August 30 to September 9, 1999. Post-hearing briefs were filed by Metalclad, Mexico and the United States government on November 8, 1999.

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 in damages, 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 and a decision is not anticipated until May 2001. However, regardless of the decision rendered, the Company anticipates an appeal to the British Columbia Court of Appeals. There is no definitive timetable for completion of this process. Estimates range from several months to over a year. Interest continues to accrue until paid.

If the favorable decision were upheld by the Canadian courts, all damages awarded to the Company would be due and payable by the United Mexican States as an obligation of the government of Mexico. Both NAFTA and other international treaties provide mechanisms for ensuring collection and it is anticipated that all damages awarded could be collected or collateralized; however, there can be no assurance that the Company will not encounter additional collection delays.

The Company has devoted substantial resources in the pursuit of its claim under the NAFTA. It has given counsel broad authority in the employment of experts and others it feels necessary to properly pursue the Company's claim. The officers of the Company have spent substantial amounts of time and resources in assisting the Company's NAFTA counsel and will continue to do so until completion. There is no assurance, however, that the Company will remain successful. If the Award is ultimately reversed, the impact will be material and adverse (see Note B to the financial statements).

On July 7, 1999, Morton Associates, a Virgin Islands Corporation, filed suit in federal court in Los Angeles against the Company requesting a declaratory judgment interpreting certain anti-dilution provisions of a warrant agreement owned by Morton. The Company defended the case on several grounds. Other holders of similar warrant agreements have reached a settlement with the Company. In August 2000, Morton and the Company reached an agreement whereby Morton received its additional ratchet adjustment of 318,400 shares. This adjustment fixed Morton's total warrants at 398,000 shares exercisable at $2.50 per share, expiring on February 28, 2001. In September 2000, Morton exercised 210,000 warrants in exchange for common shares of the Company, for which the Company received $425,000 net after deducting $100,000 in settlement costs.

On November 13, 2000, the Company filed a complaint in the Superior Court of California against a former employee, the U.S. parent of the buyer and its representative for breach of contract, fraud, collusion and other causes of action in connection with the Company's sale of its Mexican businesses. This case is one where the Company has suffered damages and continues to accrue damages and a monetary award is sought as the remedy. No trial date has yet been set. No assurances can be given on the outcome. (See Note C to the financial statements.)

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

On November 20, 2000, 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 are as follows:

	For	Against
Grant S. Kesler	5,078,671	349,956
Anthony C. Dabbene	5,080,271	348,356
Bruce H. Haglund	5,080,271	348,356
Raymond Pacini	5,080,271	348,356
J. Thomas Talbot	5,080,271	348,356

B. To ratify the adoption of the Metalclad Corporation 2000 Omnibus

Stock Option and Incentive Plan. The results were as follows:

For:	2,175,336
Against:	835,090
Abstain:	23,235

C. To ratify the appointment of Moss Adams LLP as the independent public accountants of the Company for the year ended December 31, 2000. The results were as follows:

For:	5,130,992
Against:	248,564
Abstain:	49,071

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on The Nasdaq Small Cap Stock Market under the symbol "MTLC." Effective July 2, 1999 the Company implemented a 1 for 10 reverse stock split. The following table sets forth, for the fiscal periods indicated, the high and low sales prices for the Common Stock, adjusted for the stock split, as reported by Nasdaq:

	Sales Price	
	High	Low
Fiscal Year Ended December 31, 1998		
1st Fiscal Quarter Ended March 31, 1998	11 7/8	11 1/4
2nd Fiscal Quarter Ended June 30, 1998	10 5/8	13 1/3
3rd Fiscal Quarter Ended September 30, 1998	6 7/8	6 1/4
4th Fiscal Quarter Ended December 31, 1998	4 1/16	3 3/4
Fiscal Year Ended December 31, 1999		
1st Fiscal Quarter Ended March 31, 1999	6 5/8	2 3/16
2nd Fiscal Quarter Ended June 30, 1999	4 11/16	1 1/4
3rd Fiscal Quarter Ended September 30, 1999	4 15/16	1 9/16
4th Fiscal Quarter Ended December 31, 1999	6 5/8	3 15/16
Fiscal Year Ended December 31, 2000		
1st Fiscal Quarter Ended March 31, 2000	5 9/16	3 1/4
2nd Fiscal Quarter Ended June 30, 2000	3 7/8	3
3rd Fiscal Quarter Ended September 30, 2000	4 5/8	2 7/32
4th Fiscal Quarter Ended December 31, 2000	2 29/32	1 1/4

The Company has not paid any cash dividends on its Common Stock since its incorporation and anticipates that, for the foreseeable future, earnings, if any, will continue to be retained for use in its business. As of March 15, 2001, the approximate number of record holders of the Company's Common Stock was 1,621.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is derived from the consolidated financial statements of the Company and should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

	Year Ended December 31,				7 Months Ended Dec.31,(4)	
	2000	1999	1998	1997	1996	
	(in thousands, except per share amounts)					
Statement of Operations Data (1)						
Revenues from continuing operations	$17,769	$13.422	$10,009	$8,971	$5,519	
Loss from continuing operations	(1,702)	(1,971)	(1,775)	(2,000)	(1,706)	
Loss from discontinued operations (2)	(63)	(2,228)	(3,003)	(2,610)	(1,574)	
Net loss	(1,765)	(4,199)	(4,778)	(4,610)	(3,280)	
Earnings per share:(3)						
Net loss per common share, continuing operations - basic and diluted	$(0.31)	$(0.50)	$(0.58)	$(0.68)	$(0.60)	
Net loss per common share, discontinued operations - basic and diluted	$(0.01)	$(0.57)	$(0.99)	$(0.89)	$(0.50)	
Net loss per common share - basic and diluted	$(0.32)	$(1.07)	$(1.57)	$(1.57)	$(1.10)	
Weighted average shares outstanding(3)	5,470,002	3,918,912	3,036,277	2,943,806	2,891,045	2,
Balance Sheet Data						
Total assets(5)	$10,898	8,974	11,356	11,598	14,250	
Convertible notes	1,029	2,071	1,640	1,500	-	
Convertible debentures (2)	310	360	1,202	20	229	
Shareholders' equity (deficit)(2)(5)	6,367	4,657	3,936	8,244	11,259	
Common shares outstanding(3)	6,581,114	4,859,498	3,056,912	3,006,387	2,912,324	2,

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(1) In the fourth quarter of 1998, the Company committed to a plan to discontinue its operations and to seek a buyer. Consequently, the Statement of Operations Data has been restated to reflect decision.

(2) During the year ended May 31, 1996 a substantial portion of the convertible subordinated debe into shares of common stock. Additionally, $2,100,000 of the Company's long term debt was conver

(3) Effective July 2, 1999, the Company implemented a 1 for 10 reverse stock split. All prior pe restated.

(4) Effective June 1, 1996, the Company changed its fiscal year end to December 31.

(5) Restated to reflect reclassification of certain related party receivables.

No dividends were paid or declared during the years ended December 31, 2000, 1999, 1998, 1997 or the seven months ended December 31, 1996, or the fiscal year ended May 31, 1996.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

This discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, which are subject to the "safe harbor" created by those sections. The Company's actual future results could differ materially from those projected in the forward-looking statements. The Company assumes no obligation to update the forward-looking statements or such factors.

Presentation of Financial Statements

The financial statements of the Company reflect the Company's ongoing business in the insulation contracting segment and the discontinuance of its waste management segment in Mexico. The net assets of the Company's business in Mexico are now classified as discontinued operations. Financial statements of prior periods have been restated to reflect the Company's decision to discontinue operations in Mexico.

With the Company having significant financial transactions in Mexico, it has been affected by the continued decline of the Mexico peso. In November 1994, the value of the peso was 3.4 to the U.S. dollar. As of December 31, 2000, the value of the peso was 9.65 to the U.S. dollar. As of December 31, 2000, the Company has a foreign currency translation adjustment of $(1,555,423) in the equity section of its balance sheet.

Results of Operations

General. Historically, the Company's revenues were generated primarily by (i) revenues in the United States from insulation services and sales of insulation products and related materials; and (ii) revenues in Mexico from the collection of waste oils and solvents for recycling, rental of parts washing machines, brokering the disposal of waste and remediation services.

As discussed in Note B to the consolidated financial statements, during the fourth quarter of 1998 the Company committed to a plan to discontinue its Mexican operations and to seek to identify potential buyers for its Mexican business. Consequently, the Company's Mexican operations are classified as discontinued operations. In October 1999, the Company completed the sale of its ownership interests in certain Mexican assets previously classified as discontinued operations. The sale specifically excluded those Mexican assets involved in the NAFTA claim. The terms of this sale stipulate payment of the purchase price in stages as various benchmarks are achieved in the operation of the business, as well as the buyer's assumption of all liabilities. The Company received an initial cash payment of $125,000 and recorded a receivable of $779,000 representing the Company's basis in the assets sold; however, no gain or loss will be recorded on the payments until 100% of the Company's net investment is recovered.

Under the terms of the sale, the Company can receive up to $5,000,000 in payments as certain specific milestones are met. The most significant milestone payments are associated with the buyer's ability to complete and open the Aguascalientes landfill project. If the buyer can obtain all necessary authorizations, complete construction and open the facility, payments totaling $1,125,000 will be due the Company under the milestone payment schedule. 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 Company cannot assure the outcome of such a case. If the Company is not successful in this litigation, it could result in writing off the $779,000 note receivable. (See Note C to the financial statements.)

Net assets totaling $4,816,000 are related to the NAFTA claim, are not a part of the sale described above, and the ultimate disposition of which is dependent on the final decision. Relative to the NAFTA assets on August 30, 2000, the tribunal awarded the Company $16,685,000 in damages, 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 and a decision is not anticipated until May 2001. However, regardless of the decision rendered, the Company anticipates an appeal to the British Columbia Court of Appeals. There is no definitive timetable for completion of this process. Estimates range from several months to over a year. Interest continues to accrue until paid. (See Notes B and M to the financial statements.)

Twelve Months Ended December 31, 2000 Compared to
Twelve Months Ended December 31, 1999.

Insulation Business. Total revenues were $17,769,000 in 2000 as compared to $13,422,000 for 1999, an increase of 32%. This increase is attributed to work performed under the Company's various maintenance agreements, particularly with ARCO, and the Company's continuing efforts in the commercial insulation market.

Contract Revenues. Contract revenues for the twelve months ended December 31, 2000 were $17,674,000 as compared to $13,135,000 for the twelve months ended December 31, 1999, an increase of 35%. This increase is attributed to the Company's efforts to diversify its client base, including its entry into the commercial insulation market. The Company's accounts receivable have also increased due to the increased contract revenues and the timing of cash receipts.

Contract and Material Costs. Contract and material costs and expenses for the twelve months ended December 31, 2000 were $15,753,000 as compared to $11,606,000 for the twelve months ended December 31, 1999, an increase of 36% which is attributed to the increased level of direct costs associated with higher revenues.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $1,553,000 for the twelve months ended December 31, 2000 as compared to $1,297,000 for the twelve months ended December 31, 1999, an increase of 20%. This increase reflects a one-time retention bonus paid to employees and increased legal costs associated with asbestos claims.

Gross Operating Profit. Gross Operating Profit for the year ended December 31, 2000 was $463,000 as compared to $520,000 for the twelve months ended December 31, 1999, a decrease of 11%. This decrease is primarily due to an increase in the operations, selling, general and administrative expenses, as discussed above, partially offset by higher gross profit margins.

Discontinued Operations. Loss from discontinued operations for the twelve months ended December 31, 2000 was $63,000 compared to a loss of

$2,228,000 for the twelve months ended December 31, 1999. The 2000 loss primarily represents legal fees paid to the International Centre for Settlement of Investment Disputes ("ICSID") as the Company's share of the final NAFTA arbitration costs. These expenses were not anticipated in the 1999 year end accrual of costs for discontinued operations. Management cannot reasonably estimate future losses going forward as the schedule on completion of this claim is beyond the Company's control. However, the Company is currently not aware of any other requirements or filings necessary while it awaits the court's decision. It is believed that future costs, if any, will not be material, pending the final disposition. Future costs, if any, will be charged to operations as incurred.

Corporate Expense. Corporate expenses were $1,948,000 for the twelve months ended December 31, 2000 as compared to $2,140,000 for the twelve months ended December 31, 1999, a decrease of 9%. The decline was achieved by reductions in staffing and costs.

Interest Expense. Interest expense was $257,000 for the twelve months ended December 31, 2000 compared to interest expense of $392,000 for the twelve months ended December 31, 1999. This reduction in interest expense was primarily due to the conversions of debt to equity during the year.

Consolidated Results. The net loss for the year ended December 31, 2000 was $1,765,000 as compared to $4,199,000 for 1999, a decrease of 58%. This decreased loss is attributable to completion of the NAFTA claim arbitration and the discontinuance of business in Mexico. Losses from continuing operations were $1,702,000 versus $1,971,000, a decline of 14%.

Twelve Months Ended December 31, 1999 Compared to
Twelve Months Ended December 31, 1998.

Insulation Business. Total revenues from the insulation business for the twelve months ended December 31, 1999 were $13,422,000 as compared to $10,009,000 for the twelve months ended December 31, 1998, an increase of 34%.

Contract Revenues. Contract revenues for the twelve months ended December 31, 1999 were $13,135,000 as compared to $9,912,000 for the twelve months ended December 31, 1998, 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. The Company's accounts receivable have also increased due to the increased contract revenues and the timing of cash receipts.

Contract and Material Costs. Contract and material costs and expenses for the twelve months ended December 31, 1999 were $11,606,000 as compared to $8,620,000 for the twelve months ended December 31, 1998, an increase of 35%. This increase is consistent with the Company's increase in revenues.

Selling, General and Administrative Costs. Selling, general and administrative costs for the twelve months ended December 31, 1999 were $1,297,000 as compared to $993,000 for the twelve months ended December 31, 1998, an increase of 31% due to the increased volume of work for the year.

Gross Operating Profit. Gross operating profit for the year ended December 31, 1999 was $520,000 as compared to $395,000 for the twelve months ended 1998, an increase of 32%. This increase is attributed to the Company's efforts to diversify its client base, including its entry into the commercial insulation market.

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. Due to losses incurred in excess of Company estimates at the measurement date, the Company recorded additional losses from discontinued operations of $2,228,000 for the twelve months ended December 31, 1999, net of previously accrued losses of $450,000 at December 31, 1998. Such additional losses are a result of the following changes in facts from the December 31, 1998 measurement date: A) The Company's Mexican operating losses exceeded management's original estimate by $780,000. These additional losses were a direct result of a delay in the closing of the sale of the non-NAFTA related assets due to unforeseen additional legal document requirements in Mexico as well as impacts on the businesses' operations after the sale was made known. B) The $450,000 accrual did not contain any provisions for the Company's direct costs of pursuing its NAFTA claim. The full extent of the NAFTA hearing process was unknown until the middle of the third quarter, as witness lists, court fees, procedures, etc. could not have been anticipated earlier. As a result of the hearing process, the Company incurred additional costs of $868,000, which it could not have reasonably foreseen at December 31, 1998. Additionally, the Company wrote off $585,000 of foreign currency losses previously included in the equity section of its balance sheet and associated with the assets sold.

The Company concluded its NAFTA arbitration hearing September 9, 1999. The Tribunal issued its decision on August 30, 2000 in favor of the Company. In October 2000, Mexico filed an action in the Supreme Court of British Columbia, Canada, seeking to have the Tribunal's decision set aside or annulled. On March 2, 2001, the hearing on the matter was completed. A decision on the case is pending. The Company is, therefore, awaiting the finality of this case to determine the disposition of the NAFTA assets. Management cannot reasonably estimate future losses going forward as the schedule on completion of this claim is beyond the Company's control. However, the Company is currently not aware of any other requirements or filings necessary while it awaits the court's decision. It is believed that future costs, if any, will not be material, pending the final disposition. Future costs, if any, will be charged to operations as incurred.

Corporate Expense. Corporate expenses were $2,140,000 for the twelve months ended December 31, 1999 as compared to $1,984,000 for the twelve months ended December 31, 1998, an increase of 8%. The net increase was primarily due to an increase in outside services for accounting, consulting and shareholder expenses related to various statutory filings.

Interest Expense. Interest expense for the twelve months ended December 31, 1999 was $392,000 as compared to interest expense of $193,000 for the twelve months ended December 31, 1998. This is due to the addition of interest-bearing debt during the second half of 1998 and amendments to the zero coupon notes increasing the interest rate during 1999, as well as new interest bearing debt in 1999.

Income Taxes. Due to the losses incurred during the twelve months ended December 31, 1999 and 1998, the Company did not record a provision for income taxes. At December 31, 1999, the Company has approximately $22,000,000 and $8,000,000 in net operating loss carryforwards available for U.S. federal and California taxes, respectively. See Note I to the consolidated financial statements.

Consolidated Results. The net loss for the twelve months ended December 31, 1999 was $4,199,000 as compared to a net loss of $4,778,000 for the twelve months ended December 31, 1998. This loss is attributed to the increased interest cost associated with new capital to complete the NAFTA

claim as well as the write off of foreign currency losses associated with the sold Mexican assets. The 1999 loss is less than 1998 primarily due to the discontinuance of the Mexican operations.

Liquidity and Capital Resources

In November 1991, the Company completed the acquisition of Eco-Metalclad, Inc. ("ECO-MTLC"), commenced the development of the hazardous industrial waste treatment business in Mexico and began advancing cash to its Mexican subsidiaries for use in the Mexican business. Funding the development of the Company's Mexican business required substantial capital. To obtain capital for the development of the business of the Company in Mexico, the Company made private placements of its common stock and convertible subordinated debentures and obtained loans from financial institutions.

In the fourth quarter of 1998, the Company committed to a plan to discontinue its Mexican operations and to seek potential buyers for its Mexican business. Although no further investments are being made in Mexico, the Company continues to rely upon additional capital to maintain its NAFTA related assets, complete its NAFTA arbitration and support its remaining operations.

In July 1998, the Company issued $1,000,000 in 7% Convertible Debentures due in July 2001, netting the Company $875,000. In February, 1999 the Company redeemed $150,000 of these debentures. During 1999, the holder of these debentures converted all of the remaining principal and interest due into common stock of the Company.

In August 1998, the Company issued $350,000 in 10% Convertible Subordinated Debentures due in August 2001, netting the Company $308,000. During July 1999, the holder of these debentures converted the entire principal amount into common stock of the Company.

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. During the twelve months ended December 31, 2000 the note holder exercised its rights and converted $1,092,000 of note principal into 795,910 shares at an average price of $1.37. As a result of these conversions the note holder forfeited accrued interest in the amount of $161,000. As of December 31, 2000 the note holder reached the maximum allowable conversion option of the notes and presently cannot convert the notes into additional shares of the Company.

During August and September 1999, the Company issued $360,000 in three-year 10% Convertible Subordinated Debentures on terms similar to the previously issued debentures, with the conversion price being the lower of $2.50 or 75% of market. In the fourth quarter of 2000, $52,035 of debenture principal and interest was converted into 47,752 shares at an average price of $1.09 per share.

During the twelve months ended December 31, 1999, the Company received

approximately $2,783,000 from the exercise of warrants. Additionally, the Company issued 38,500 shares of its common stock to certain employees of the Company in exchange for $108,000 in payroll obligations.

The Company had positive working capital at December 31, 2000 of $753,000 compared to negative working capital of $854,000 at December 31, 1999. The Company had cash and cash equivalents at December 31, 2000 of $354,000 and $769,000 at December 31, 1999. Cash used in continuing operations for the twelve months ended December 31, 2000 was $2,331,000 compared to $1,177,000 for 1999. Cash used by discontinued operations for the twelve months ended December 31, 2000 was $403,000 compared to cash used of $2,008,000 for 1999. Cash used in operating activities for the twelve months ended December 31, 2000 was funded primarily by cash and cash equivalents on hand at the beginning of the year as well as the warrant exercises completed during the twelve months.

For the twelve months ended December 31, 2000 the Company generated negative cash flow from continuing operations of $2,331,000, of which $170,000 in negative cash flow related to the insulation business due primarily to larger than usual accounts receivable for work performed in December 2000. Given the Company's client base, the energy market problems in California could adversely affect the Company's ability to collect the receivable from one of its major clients, should they experience financial problems. The remaining negative cash flow is related to corporate activities; including corporate overheads, expenses associated with public companies, interest expense and on-going legal costs associated with pursuit of the Company's NAFTA claim. The Company will require substantial additional financing to continue pursuit of its NAFTA claim, along with general and administrative expenses without revenues to offset such expenses. The Company is aware of its ongoing cash needs and continues to work with its investment bankers and other sources to meet its ongoing needs through December 31, 2001. Given the Company's decision to discontinue operations in Mexico, and sell its businesses, the cash requirements in Mexico have greatly diminished. The Company is pursuing additional financing alternatives to maintain its operations, including equity financing, potential insider transactions, and accounts receivable financing. 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.

Reverse Stock Split

On June 2, 1999 the shareholders of the Company approved a reverse stock split of the Company's common stock in a ratio of one share for up to ten shares of its outstanding common stock.

Pursuant to this approval, the Board of Directors of the Company approved a reverse split of the common shares in a ratio of one share for every ten shares. This reverse split was effective on July 2, 1999.

Foreign Currency Translation

Effective January 1, 1999, Mexico is no longer considered to be "highly inflationary". However, the Company has discontinued its Mexican operations, therefore, the impact of this change had no effect on the Company's financial statements.

Impact of Inflation

The Company reflects price escalations in its quotations to its insulation customers and in its estimation of costs for materials and labor. For construction contracts based on a cost-plus or time-and-materials basis,

the effect of inflation on the Company is negligible. For projects on a fixed-price basis, the effect of inflation may result in reduced profit margin or a loss as a result of higher costs to the Company as the contracts are completed; however, the majority of the Company's contracts are completed within 12 months of their commencement and the Company believes that the impact of inflation on such contracts is insignificant.

Although inflation has been a significant factor in the Mexican economy in general since the devaluation, the Company does not anticipate that it will have a material impact on its current or remaining operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and schedules listed in the accompanying Index to Consolidated Financial Statements are attached hereto and filed as a part of this Report under Item 14.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 401 of Regulation S-K is set forth in the Company's 2001 Annual Meeting Proxy Statement which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2000. The Company's 2001 Annual Meeting Proxy Statement, exclusive of the information set forth under the captions "Report of the Compensation Committee" and "Company Performance," are incorporated herein by this reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 402 of Regulation S-K is set forth in the Company's 2000 Annual Meeting Proxy Statement which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2000. The Company's 2001 Annual Meeting Proxy Statement, exclusive of the information set forth under the captions "Report of the Compensation Committee" and "Company Performance," are incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 403 of Regulation S-K is set forth in the Company's 2001 Annual Meeting Proxy Statement which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2000. The Company's 2001 Annual Meeting Proxy Statement, exclusive of the information set forth under the captions "Report of the Compensation Committee" and "Company Performance," are incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In October 1994, in consideration of extraordinary contributions to the

Company, including but not limited to the pledge of 75,500 shares of common stock of the Company owned by them to facilitate necessary financings for the Company, the board of Directors approved a loan of $370,000 to each of Mr. Kesler and Mr. Neveau. Such borrowings are due 30 days after demand and bear annual interest at the prime rate of interest plus 7%. In February 1996 Messrs. Kesler and Neveau each repaid $150,000 to the Company. In March 1996, the notes were amended to modify the loan principal between Messrs. Kesler and Neveau as well as to adjust the interest rates, effective March 1, 1996 to a variable rate based upon the Company's quarterly investment rate. Repayment of these notes has been extended until completion of the NAFTA related proceedings. Mr. Kesler's note is secured by his employment agreement.

In June 1996, Mr. Neveau, Chairman of the Board of Directors, Senior Vice President, and a Director of the Company, resigned his position effective the next shareholders' meeting. As a result, the Company and Mr. Neveau renegotiated the terms of his employment agreement relative to compensation, benefits and stock options. Since May 1997, the Company has been offsetting payments due Mr. Neveau against his outstanding loan balance to the Company. There are no remaining payments due Mr. Neveau and his indebtedness to the Company as of December 31, 2000 was $74,000.

In November, 2000 the Board of Directors approved advances against legal costs on behalf of Mr. Kesler, in his pursuit of certain personal legal matters related to his position in the Company. As of December 31, 2000, Mr. Kesler owes the Company $57,000 related to these advances, which may be recoverable from pending litigation.

During the twelve months ended December 31, 2000, the Company incurred legal fees of $28,000 from the law firm of Gibson, Haglund & Paulsen, of which Bruce H. Haglund, general counsel, Director, and Secretary of the Company, is a principal; however, none of such fees have yet been paid. As of December 31, 2000, fees totaling $167,000 remain unpaid.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as part of this report on Form 10-K:

1. Financial Statements
   - Reports of Independent Public Accountants
   - Consolidated Balance Sheets
   - Consolidated Statements of Operations
   - Consolidated Statements of Shareholders' Equity
   - Consolidated Statements of Cash Flows
   - Notes to Consolidated Financial Statements

2. Schedules to Financial Statements
   - Schedule II - Valuation and Qualifying Accounts

All schedules, other than those listed above, are omitted, as the information is not required, is not material or is otherwise furnished.

3. Exhibits

The following exhibits are being filed with this Annual Report on Form 10-K and/or are incorporated by reference therein in accordance with the designated footnote references:

3. Restated and Amended Certificate of Incorporation and Bylaws of the Company, and all amendments thereto. (1)

3.1 Form of Certificate for Common Stock (2)

10.1 Form of 1993 Omnibus Stock Option and Incentive Plan (3)

10.2 Form of 1996 Omnibus Stock Option and Incentive Plan (4)

10.3 Employment Agreement between the Company and Grant S. Kesler dated January 1, 1998(5)

10.4 Employment Agreement between the Company and Anthony C. Dabbene dated January 1, 1998(5)

10.5 Form of 7% Convertible Debenture Due July 31, 2001 between the Company and The Shaar Fund Ltd. dated July 30, 1998 (6)

10.6 Form of 2000 Omnibus Stock Option and Incentive Plan (7)

10.7 Employment Agreement between MIC and Robert D. Rizzo dated September 1, 2000.

10.8 Decision of NAFTA Tribunal dated August 30, 2000(8)

22. List of Subsidiaries of the Registrant

23. Consents of Experts and Counsel

(b) Reports on Form 8-K

The Company filed Form 8-K/A on February 9, 2000, reporting the sale of Mexican assets.

The Company filed Form 8-K on September 5, 2000, reporting the pro forma results of the NAFTA arbitration.

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(1) Filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by this reference.
(2) Filed with the Company's Registration Statement on Form S-1 dated December 15, 1987 and incorporated herein by this reference.
(3)Filed with the Company's Transition Report on Form 10-K for the five months ended May 31, 1993 and incorporated herein by this reference.
(4) Filed with the Company's Proxy Statement dated September 10, 1996 and incorporated herein by this reference.
(5) Filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by this reference.
(6) Filed with the Company's Form S-3/A dated July 2, 1999 and incorporated herein by this reference.
(7) Filed with the Company's Preliminary Proxy Statement dated October 20, 2000 and incorporated herein by this reference.
(8) Filed with the Company's Annual Report on Form 8-K dated September 5, 2000 and incorporated herein by this reference.

SUPPLEMENTAL INFORMATION

An annual report and a proxy statement shall be furnished to the security holders of the Company subsequent to the filing of this Form 10-K. The Company shall furnish copies of the annual report to security holders and the proxy statement to the Securities and Exchange Commission when it is

sent to the security holder.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/Anthony C. Dabbene

Anthony C. Dabbene
Chief Financial Officer
Date: March 30, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/Grant S. Kesler --------------------- Grant S. Kesler	Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2001
/s/Anthony C. Dabbene --------------------- Anthony C. Dabbene	Chief Financial Officer & Director (Principal Financial and Accounting Officer)	March 30, 2001
/s/Bruce H. Haglund --------------------- Bruce H. Haglund	Secretary & Director	March 30, 2001
/s/J. Thomas Talbot --------------------- J. Thomas Talbot	Director	March 30, 2001
/s/Raymond J. Pacini --------------------- Raymond J. Pacini	Director	March 30, 2001

CONSOLIDATED FINANCIAL STATEMENTS

and

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

For the year ended
December 31, 2000

METALCLAD CORPORATION

ITEM 14(A)(1) and (2)

METALCLAD CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following Consolidated Financial Statements of Metalclad Corporation and subsidiaries are included in Item 8:

Reports of Independent Public Accountants on Consolidated Financial Statements:

Report of Moss Adams LLP.....................................F-1

Financial Statements:

Consolidated Balance Sheets - December 31, 2000, 1999 and 1998...F-2

Consolidated Statements of Operations - the Years Ended December 31, 2000, 1999 and 1998...............................F-3

Consolidated Statements of Shareholders' Equity - the Years Ended December 31,2000, 1999 and 1998..........................F-4

Consolidated Statements of Cash Flows - the Years Ended December 31, 2000, 1999 and 1998...............................F-5

Notes to Consolidated Financial Statements.....................F-6

Supplementary Financial Statement Schedules:

Schedule II - Valuation and Qualifying Accounts................F-23

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors and Shareholders of Metalclad Corporation:

We have audited the accompanying consolidated balance sheets of Metalclad Corporation (a Delaware Corporation) and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three

years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Metalclad Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the financial statements, the Company has suffered recurring losses from operations and has a large accumulated deficit that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note A. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The data for the years ended December 31, 1999 and 1998 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

MOSS ADAMS LLP

Irvine, California
February 23, 2001

Metalclad Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 354,345	$ 769,176
Accounts receivable, less allowance for doubtful accounts of $50,000 and $20,000 at December 2000 and 1999, respectively	3,965,975	1,644,991
Costs and estimated earnings in excess of billings on uncompleted contracts	82,920	147,991
Inventories	114,129	161,832
Prepaid expenses and other current assets	137,486	125,630
Receivables from related parties, net	195,814	148,285
Total current assets	4,850,669	2,997,905

Property, plant and equipment, net	336,497	357,769
Net assets of discontinued operations	4,905,754	4,815,811
Note receivable--sale of Mexican assets	779,402	779,402
Other assets	25,765	23,086
	$10,898,087	$ 8,973,973
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,166,727	$ 898,745
Current liabilities, net -discontinued operations	90,139	339,936
Accrued expenses	722,369	499,076
Billings in excess of costs and estimated earnings on uncompleted contracts	26,724	-
Current portion of long-term debt	62,451	42,798
Convertible zero coupon notes	1,029,194	2,071,003
Total current liabilities	4,097,604	3,851,558
Long-term debt, less current portion	123,489	105,915
Convertible subordinated debentures	310,000	360,000
Total liabilities	4,531,093	4,317,473
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; 6,581,114, and 4,859,498 issued and outstanding at December 2000 and 1999, respectively	658,111	485,950
Additional paid-in capital	67,659,747	64,330,947
Accumulated deficit	(59,871,257)	(58,106,460)
Officer's receivable	(524,184)	(498,514)
Accumulated other comprehensive income	(1,555,423)	(1,555,423)
	6,366,994	4,656,500
	$10,898,087	$ 8,973,973

The accompanying notes are an integral part of these consolidated balance sheets.

Metalclad Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2000	1999	1998
Revenues			
Contract revenues	$17,673,680	$13,134,928	$ 9,912,194
Material sales	79,627	224,850	92,227
Other	15,545	62,136	4,250
	17,768,852	13,421,914	10,008,671
Operating costs and expenses			
Contract costs and expenses	15,703,563	11,404,866	8,548,872
Cost of material sales	49,263	200,623	71,316

Selling, general and administrative	1,552,696	1,296,615	993,369
	17,305,522	12,901,104	9,613,557
Gross operating profit	463,330	519,810	395,114
Corporate expense	(1,947,939)	(2,140,338)	(1,983,578)
Operating loss	(1,484,609)	(1,620,528)	(1,588,464)
Interest expense	(257,363)	(391,847)	(192,547)
Other income, net	40,362	41,215	5,536
Loss from continuing operations	(1,701,610)	(1,971,160)	(1,775,475)
Loss from discontinued operations	(63,187)	(2,227,534)	(3,002,914)
Net loss	$(1,764,797)	$(4,198,694)	$(4,778,389)
Weighted average number of common shares	5,470,002	3,918,912	3,036,277
Loss per share of common stock, continuing operations basic and diluted	$(.31)	$ (.50)	$ (.58)
Loss per share of common stock, discontinued operations basic and diluted	$(.01)	$ (.57)	$ (.99)
Loss per share of common stock basic and diluted	$(.32)	$(1.07)	$(1.57)

The accompanying notes are an integral part of these consolidated statements.

Metalclad Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
The Years Ended December 31, 2000, 1999 and 1998

	Common Stock Shares	Common Stock Amounts	Additional Paid-in Capital	Accumulated Deficit	Officer' Receivabl
Balance at December 31, 1997	30,063,870	$3,006,387	$56,962,689	$(49,129,377)	$ (455,46
Issuance of common stock	6,752	675	7,765	-	
Common stock issued under stock option and warrants	498,500	49,850	434,426	-	
Officer's loan; interest	-	-	-	-	(22,27
Net loss	-	-	-	(4,778,389)	
Balance at December 31, 1998	30,569,122	3,056,912	57,404,880	(53,907,766)	(477,73
Reverse stock split 1 for 10	(27,512,210)	(2,751,221)	2,751,221	-	
Issuance of common stock for services	38,500	3,850	103,950	-	
Debt conversions and interest	612,750	61,275	1,403,058	-	
Common stock issued under warrants	1,151,336	115,134	2,667,838	-	
Officer's loan; interest	-	-	-	-	(20,77
Foreign currency translation					

adjustment	-	-	-	-	
Net loss	-	-	-	(4,198,694)	
Balance at December 31, 1999	4,859,498	485,950	64,330,947	(58,106,460)	(498,51
Debt conversions and interest	843,662	84,366	1,220,706	-	
Common stock issued under warrants	877,954	87,795	2,108,094	-	
Officer's loan; interest	-	-	-	-	(25,67
Net loss	-	-	-	(1,764,797)	
Balance at December 31, 2000	6,581,114	$ 658,111	$67,659,747	$(59,876,257)	$ (524,18

The accompanying notes are an integral part
of these consolidated statements.

Metalclad Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended Decembe	
	2000	1999
Cash flows from operating activities:		
Net loss	$(1,764,797)	$(4,198,694)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	63,187	2,227,534
Depreciation and amortization	106,657	229,327
Provision for losses on accounts receivable	-	-
Issuance of stock for services and interest	-	107,800
Issuance of stock for debt conversions	2,035	1,464,333
Loss on disposal of fixed assets	13,878	-

Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(2,320,984)	(816,305)
Decrease (increase) in unbilled receivables	65,071	(4,319)
Decrease (increase) in inventories	47,703	14,865
Decrease (increase) in prepaid expenses and other assets	(11,856)	(69,138)
Decrease (increase) in receivables from related parties	(47,529)	70,650
Increase (decrease) in accounts payable and accrued expenses	1,491,275	(152,047)
Increase (decrease) in billings over cost	26,724	(71,280)
(Increase) decrease in other assets	(2,679)	20,076
Net cash used in continuing operations	(2,331,315)	(1,177,198)
Net cash used in discontinued operations	(402,927)	(2,008,131)
Net cash used in operating activities	(2,734,242)	(3,185,329)
Cash flows from investing activities:		
Capital expenditures - continuing operations	(99,263)	(171,809)
Proceeds (expenditures) - discontinued operations	-	125,000
Net cash used in investing activities	(99,263)	(46,809)
Cash flows from financing activities:		
Proceeds from long-term borrowings	300,877	901,472
Payments on long-term borrowings - continued operations	(52,422)	(182,292)
Borrowing by an officer	(25,670)	(20,778)
Proceeds from exercise of stock options	-	-
Proceeds from exercise of warrants	2,195,889	2,782,972
Net cash provided by continuing operations	2,418,674	3,481,374
Net cash provided (used) in discontinued operations	-	-
Net cash provided by financing activities	2,418,674	3,481,374
Effects of exchange rates on cash	-	-
Loss on foreign currency translations	-	-
Increase (decrease) in cash and cash equivalents	(414,831)	249,236
Cash and cash equivalents at beginning of period	769,176	519,940
Cash and cash equivalents at end of period	$ 354,345	$ 769,176
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 92,393	$ 71,060

Disclosure of noncash investing and financing activities:
During the twelve months ended December 31, 2000, the Company converted approximately $1,305,00
notes payable into 844,000 shares of common stock.

During the twelve months ended December 31, 1999, the Company sold certain Mexican assets, prev
in net assets of discontinued operations, in exchange for a note receivable in the amount of $7

The accompanying notes are an integral part of these consolidated statements.

METALCLAD CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Metalclad Corporation (the "Company") is engaged in insulation services, including asbestos abatement and material sales, to customers primarily in California (the "Insulation Business"). The Company has also been engaged in the development of hazardous and non-hazardous industrial waste treatment and storage facilities, as well as the collection and recycling of industrial waste for disposition to landfills or as alternative fuels for cement kilns in Mexico (the "Mexican Business").

After several years of developing the Mexican Business, the Company determined that its efforts would not be successful due to political opposition in Mexico. On January 2, 1997, the Company filed its actual claim with ICSID, after which a three-member tribunal was impaneled which includes one arbitrator from Mexico, one from the United States and a third, chosen jointly by the parties, from Great Britain. On October 13, 1997, the Company filed a "memorial" with the NAFTA tribunal for its claim to recover the value of its landfill investment in Mexico. On February 17, 1998, the United Mexican States ("Mexico") responded to the Company's claim to the tribunal by filing a "counter-memorial". On August 21, 1998 the Company filed its "reply" to Mexico and on April 19, 1999 Mexico filed its "rejoinder". A pre-hearing conference took place July 6, 1999 and the final hearing took place in Washington, D.C. from August 30 to September 9, 1999. Post-hearing briefs were filed by the Company, the Mexican government and the United States government on November 8, 1999. 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 compensation be paid to the Company totaling $16,685,000 plus interest accruing at 6% per annum compounded monthly, beginning October 15, 2000, until paid. As of December 31, 2000, and pending collection, the financial statements do not include any amounts that have been awarded as a result of the NAFTA litigation.

On October 27, 2000, the United Mexican States filed a petition with the Supreme Court of British Columbia, Canada, seeking leave to appeal the award under the Commercial Arbitration Act of Canada. The Company was formally notified on November 27, 2000 that 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 March 2, 2001 and a decision is not anticipated until May 2001. However, regardless of the decision rendered, the Company anticipates an appeal to the British Columbia Court of Appeals. There is no definitive timetable for completion of this process. Estimates range from several months to over a year. Interest continues to accrue until paid.

Because of this arbitration, the Company's other businesses in Mexico, including its development of a second landfill facility in the State of Aguascalientes, have been impacted dramatically. Consequently, the Company has discontinued its businesses in Mexico, sold its operating and development businesses and is maintaining the NAFTA assets until completion of its arbitration. (See Notes B and M.)

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As shown in the financial statements, the Company has incurred recurring losses from operations and has a large accumulated deficit. Additionally, the Company may require substantial additional financing to complete its NAFTA claim and to fund general and administrative expenses without sufficient revenues to offset. These matters raise substantial doubt about the Company's ability to

continue as a going concern. The Company is continuing its efforts to reduce costs and increase its revenues. The Company is pursuing additional financing alternatives to maintain its operations including equity financings, potential transactions with insiders and potential accounts receivable financings. The financial statements to do not include any adjustments relating to the recoverability of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Principles of Consolidation/Investments

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Investments in other companies and joint venture corporations which are 20-50% owned are reported on the equity method. Significant intercompany accounts and transactions have been eliminated in consolidation. Direct costs incurred relating to the acquisition or formation of an equity method investment are capitalized and are amortized over five years.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The carrying amount approximates fair value because of the short maturity of those instruments.

Inventories

Inventories, which consist principally of insulation products and related materials, are stated at the lower of cost (determined on the first-in, first-out method) or market.

Depreciation and Amortization

Property, plant and equipment is stated at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of related assets which range from between five to seven years for machinery, equipment and leasehold improvements. Assets related to the Company's hazardous waste treatment facility located in Mexico are included in discontinued operations and will be disposed of upon resolution of the NAFTA claim. (See Note B.)

Revenue Recognition

Fixed price insulation installation and asbestos abatement contracts are accounted for by the percentage-of-completion method wherein costs and estimated earnings are included in revenues as the work is performed. If a loss on a fixed price contract is indicated, the entire amount of the estimated loss is accrued when known. Time and material contracts are accounted for under a cost plus fee basis. Retentions by customers under contract terms are due at contract completion.

Loss Per Share

The Company computes loss per share in accordance with Statement of Financial Accounting Standards ("SFAS") 128, "Earnings Per Share". This statement requires the presentation of both basic and diluted net loss per share for financial statement purposes. Basic net loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares outstanding. Diluted net loss per share includes the effect of the potential shares outstanding, including dilutive stock options and warrants using the treasury stock method.

Because the impact of options, warrants and convertible debt are antidilutive, there is no difference between the loss per share amounts computed for basic and diluted purposes. Weighted average share calculations for all periods presented have been adjusted to reflect the 1 for 10 reverse stock split. (See Note J.)

Stock-Based Compensation

The Company accounts for stock-based compensation for employees under the provisions of APB 25. As required, the Company complies with the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation". SFAS 123 requires the Company to disclose pro forma net income and earnings per share as if the fair value based accounting method of SFAS 123 had been used to account for stock based compensation. These disclosures are included in Note J.

Income Taxes

The Company accounts for income taxes using the liability method as prescribed by SFAS 109, "Accounting for Income Taxes".

Comprehensive Income - Foreign Currency Translation

In 1998, the Company adopted SFAS 130, "Reporting Comprehensive Income". This statement establishes rules for the reporting of comprehensive income and its components. Comprehensive income consists of net income and foreign currency translation adjustments and is presented in the Consolidated Statement of Shareholders' Equity. The adoption of SFAS 130 had no impact on total shareholders' equity. Prior year financial statements have been reclassified to conform to the SFAS 130 requirements.

As of January 1, 1997, Mexico has been deemed a highly inflationary economy. This results in the U.S. dollar being the functional currency of the Company's Mexican entities and the net exchange gain or losses resulting from the translation of assets and liabilities of the Mexican entities now being included in income, except for the effects of exchange rate changes on intercompany transactions of a long-term investment nature which are still recorded as a separate component of shareholders' equity.

Beginning January 1, 1999, Mexico is no longer deemed highly inflationary. However, the Company has discontinued its Mexican operations and therefore this will not impact future reported results of operations. (See Note B.)

Reclassifications

Certain reclassifications have been made to prior period consolidated financial statements to conform with the current year presentation.
Use of Estimates

New Accounting Pronouncements

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, as amended, Revenue Recognition in Financial Statements. SAB No. 101 provides guidance for revenue recognition and the SEC staff's views on the application of accounting principles to selected revenue recognition issues. We will adopt the provisions of SAB No. 101 in the first quarter of fiscal year 2001. We have not determined the impact the adoption of SAB No. 101 will have on our consolidated financial statements.

In March 2000, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 44, Accounting for Certain Transactions Involving Stock

Compensation. Interpretation No. 44 clarifies the application of APB Opinion No. 25 and is effective July 1, 2000. Interpretation No. 44 clarifies the definition of "employee" for purposes of applying APB Opinion No. 25, the criteria for determining whether a plan qualifies as a noncompensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and the accounting for an exchange of stock compensation awards in a business combination. We will adopt the provisions of FASB Interpretation No. 44 in the first quarter of fiscal year 2001. We have not determined the impact the adoption of Interpretation No. 44 will have on our consolidated financial statements.

In June 1998, the FASB issued SFAS No. 133, as amended, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 requires the recognition of all derivatives in the consolidated balance sheet as either assets or liabilities measured at fair value. We will adopt the provision of SFAS No. 133 in the first quarter of fiscal year 2002. We have not determined the impact the adoption of SFAS No. 133 will have on our consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for the Impairment of Long-Lived Assets

The Company addresses the realization of its assets as required by SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". This statement requires that long-lived assets and certain identifiable intangibles to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company has conducted this review and believes that no impairment currently exists and no material adjustments are necessary to the valuation of its assets.

NOTE B - DISCONTINUED OPERATIONS

In 1991, the Company embarked on a strategy to develop an integrated industrial waste management business in Mexico. After seven years of developing this business, the Company determined that its efforts would not be successful due to political opposition in Mexico. Consequently, in the fourth quarter of 1998, Management committed to a plan to sell its Mexican operations to a third party.

The Company's discontinued operations contain two components: 1) ongoing operations and development and 2) the landfill assets associated with its NAFTA claim. In the fourth quarter of 1999, the Company completed a sale of its ongoing businesses (see Note C). The Company's NAFTA assets will be retained until a final, enforceable decision is rendered in the claim.

The loss from discontinued operations during fiscal 1999 includes a provision of $107,000 for anticipated costs to complete the ongoing NAFTA claim. For the twelve months ended December 31, 2000, the Company incurred additional costs of $91,000 which have been charged against the December 31, 1999 accrual. Additionally, $63,000 in fees for continuing costs of the NAFTA proceedings have been charged to discontinued operations, in 2000. Additionally, accumulated foreign currency losses of $1,555,000, currently

a component of shareholders' equity, will be written off upon disposition of the NAFTA assets.

The consolidated financial statements for prior periods have been restated to reflect the accounting for discontinued operations.

Net sales and loss from discontinued operations are as follows:

	Year Ended December 31,		
	2000	1999	1998
Net sales	$ -	$ 4,140,571	$ 5,232,554
Operating loss	-	(2,116,496)	(2,587,300)
Interest expense	-	(111,038)	(415,614)
Loss from discontinued operations	(63,187)	(2,227,534)	(3,002,914)

The net assets of discontinued operations are as follows:

	December 31,	
	2000	1999
Current assets	$ 19,029	$ 14,554
Current liabilities	(109,168)	(354,490)
Net current liabilities	(90,139)	(339,936)
Property, plant and equipment, net	4,466,890	4,377,369
Other assets	438,864	438,442
Net non-current assets	4,905,754	4,815,811
Net assets of discontinued operations	$4,815,615	$4,475,875

Included in net assets of discontinued operations, at December 31, 2000 is approximately $4,816,000 representing the Company's investment in its completed hazardous waste treatment facility in the State of San Luis Potosi, Mexico, known as "El Confin". The Company has been granted all necessary federal governmental authorizations to open and operate the facility but, as yet, has not received the support of the state and local governments. Consequently, on October 2, 1996, the Company filed a Notice of Intent to File Claim Under the North American Free Trade Agreement ("NAFTA"). The claim was filed with the International Centre for Settlement of Investment Disputes ("ICSID") in Washington, D.C. On January 13, 1997, the Secretary General of ICSID registered the Company's claim and notified both the United States and Mexican governments of the registration. A final hearing on the claim was completed on September 9, 1999. 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 and a decision is not anticipated until May 2001. However, regardless of the decision rendered, the Company anticipates an appeal to the British Columbia Court of Appeals. There is no definitive timetable for completion of this

process. Estimates range from several months to over a year. Interest continues to accrue until paid. If the favorable decision were upheld by the Canadian courts, all damages awarded to the Company would be due and payable by the United Mexican States as an obligation of the government of Mexico. Both NAFTA and other international treaties provide mechanisms for ensuring collection and it is anticipated that all damages could be collected or collateralized; however, there can be no assurance that the Company will not encounter collection difficulties or delays. Furthermore, should a decision be rendered against the Company, assets totaling $4,906,000 may be impaired and could potentially result in a write down should the Company be unable to sell or otherwise recover its investment.

NOTE C - NOTE RECEIVABLE - SALE OF MEXICAN ASSETS

In October 1999, the Company completed a sale of its operating businesses and development project located in Aguascalientes. The sale specifically excluded those Mexican assets involved in the NAFTA claim. The terms of this sale stipulate payment of the purchase price in stages as various benchmarks are achieved in the operation of the business as well as the buyer's assumption of all liabilities. The Company received an initial cash payment of $125,000 and recorded a receivable of $779,402 representing the Company's basis in the assets sold; however, no gain will be recorded on the payments until 100% of the Company's net investment is recovered.

Under the terms of the sale, the Company can receive up to $5,000,000 in payments as certain specific milestones are met. The most significant milestone payments are associated with the buyer's ability to complete and open the Aguascalientes landfill project. If the buyer can obtain all necessary authorizations, complete construction and open the facility, payments totaling $1,125,000 will be due the Company under the milestone payment schedule. Presently, the buyer has not completed any of the milestones associated with the Aguascalientes project. It is at least reasonably possible that the buyer may not complete any of the milestones. In the event that the buyer is not successful in its efforts to open the project or continue the businesses, the Company will be required to write down its receivable in the transaction.

On November 13, 2000, the Company filed a complaint in the Superior Court of California against a former employee, the U.S. parent of the buyer and its representative for breach of contract, fraud, collusion and other causes of action associated with this transaction. A trial date has not yet been set and no assurances can be given on the outcome.

The Company addresses the realization of its assets as required by SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". This statement requires that long-lived assets and certain identifiable intangibles to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company has conducted this review and believes that no impairment currently exists and no material adjustments are necessary to the valuation of its assets.

NOTE D - INVESTMENTS IN UNCONSOLIDATED AFFILIATES

In 1989, the Company entered into a joint venture with a minority service firm ("Curtom-Metalclad") to perform industrial insulation and industrial asbestos abatement services similar to those performed by the Company. When contracts are obtained by the joint venture, the Company performs the work specified in the contract as a subcontractor to the joint venture. Curtom-Metalclad's operations and financial position are not material to

the Company taken as a whole.

NOTE E - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	December 31,	
	2000	1999
Machinery and equipment	$ 546,649	$ 570,105
Automotive equipment	386,964	308,557
Leasehold improvements	3,039	3,039
	936,652	881,701
Less accumulated depreciation and amortization	(600,155)	(523,932)
	$ 336,497	$ 357,769

NOTE F - ACCRUED EXPENSES

Accrued expenses consist of the following:

	December 31,	
	2000	1999
Accrued interest	$ 15,500	$ 124,947
Wages, bonuses and taxes	244,316	46,893
Union dues	154,155	-
Accounting fees and legal fees	88,000	205,000
Insurance	179,803	58,345
Other	40,595	63,891
	$ 722,369	$ 499,076

NOTE G - CONVERTIBLE DEBT

Convertible Zero Coupon Notes

In December 1997, the Company issued $2,200,000 of Five Year Zero Coupon Secured Notes, due December 31, 2002, netting the Company $1,500,000. The effective interest rate of these notes is 9.33%. The Company is amortizing the difference between the value at maturity and the purchase price over five years. Upon the market price of the Company's common stock closing at or above $1.50 for ten consecutive trading days, the notes become convertible into common stock of the Company at $1.50 per share and the Company is to issue warrants to purchase 1,500,000 common shares of stock with an exercise price of $1.50 per share. Both the conversion price and warrant exercise price also contain anti-dilution provisions. Additionally, the notes are redeemable at the option of the holder, or the Company, any time after March 31, 2000. These notes are secured by 100% of the stock of Metalclad Insulation Corporation ("MIC"). The net equity value of MIC is $2,030,000 as of December 31, 2000. In February 1998, the conditions triggering convertibility of the notes and

the issuance of warrants were met.

In June 1998, the Company negotiated a bridge loan with the holder of these notes in the amount of $250,000. As additional consideration for the bridge loan, the Company issued 250,000 warrants exercisable at $1.25. In connection with this financing, certain amendments were made to the original Five Year Zero Coupon Notes which granted the holder an additional 400,000 warrants exercisable at $1.50 as part of the anti-dilution provision of the original warrants and clarifying the anti-dilution language contained in the original notes. The bridge loan was paid in its entirety from the proceeds of the Company's July 1998 financing. Due to the anti-dilution provisions contained in both the notes and the warrants, the holder of these notes had rights similar to those of the Company's existing warrant holders. As part of the Company's negotiations with the warrant holders to solve the issue of the ongoing anti-dilution effects on the number of shares underlying the warrants, the holder of these notes also had to be addressed to solve the anti-dilution provisions contained in the notes. In February 1999, the Company and the holder reached agreement on the conversion price of the notes, originally priced to convert at $15.00 per share, and are now convertible into shares of the Company's common stock at $2.50 per share.

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 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 months ended December 31, 2000 the note holder exercised its rights and converted $1,092,000 of note principal into 795,910 shares at an average price of $1.37. As a result of these conversions the note holder forfeited accrued interest in the amount of $161,000. As of December 31, 2000 the note holder reached the maximum allowable conversion option of the notes and presently cannot convert the notes into additional shares of the Company.

Convertible Subordinated Debentures

In July 1998, the Company issued $1,000,000 in 7% Convertible Debentures due in July 2001. The debentures are convertible into shares of the Company's common stock at $1.25 or 75% of current market price, whichever is lower. The Company has the option to redeem all or portions of this debenture at 125% of the principal amount of the redemption. The debenture also allows for a mandatory redemption in the event of an award in the NAFTA arbitration or, in certain cases, if the Company obtains additional equity investment. The mandatory redemption is also at 125% of the then-outstanding principal balance. In February 1999, the Company redeemed $150,000 of the principal amount of the debentures. As of December 31, 1999, all of these remaining debentures were converted into common stock of the Company.

In August 1998, the Company issued $350,000 in 10% Convertible Subordinated Debentures due in August 2001 on terms similar to the previously issued debentures. The debentures were convertible into shares of the Company's common stock at $1.25 per share through June 30, 1999. After June 30, the debentures are convertible at 75% of current market

price or $1.25 whichever is lower. As of December 31, 1999 all of these debentures were converted into common stock of the Company.

During the third quarter of 1999, the Company issued $360,000 in three-year 10% convertible subordinated debentures on terms similar to the previously issued debentures, with the conversion price being the lower of $2.50 per share or 75% of the market price per share. These debentures are due in August and September, 2002. In the fourth quarter of 2000, $52,035 of debenture principal and interest was converted into 47,752 shares at an average price of $1.09 per share.

NOTE H - LONG-TERM DEBT

Long-term debt consists of various notes payable to a finance company for vehicles used in the ordinary course of the Company's insulation business. The notes are secured by automotive equipment and bear interest at rates ranging from .9% to 8.65% for periods of 48 to 60 months with the last payment due in 2005. Principal maturities over the next five years average $37,200.

NOTE I - INCOME TAXES

There was no provision for income taxes for the periods presented due to losses incurred and the Company's inability to recognize certain loss carry forwards. The major deferred tax items are as follows:

	December 31,	
	2000	1999
Assets:		
Allowances established against realization of certain assets	$ 48,000	$ 43,000
Net operating loss carryforwards	8,754,000	8,887,000
Capital loss carryforwards	3,433,000	2,680,000
Accrued liabilities and other	66,000	94,000
	12,301,000	11,704,000
Valuation allowance	(12,301,000)	(11,704,000)
	$ -	$ -

The difference between the actual income tax benefit and the tax benefit computed by applying the statutory Federal income tax rate to the net loss before income taxes is attributable to the inability to recognize currently the future benefit of net operating loss carryforwards.

At December 31, 2000, the Company has available for U.S. federal and California state income tax purposes net operating loss carryforwards of approximately $22,000,000 and $6,500,000, respectively. These carryforward amounts expire in the years 2006 through 2020 and 2001 through 2010, respectively. The ultimate utilization of the net operating loss carryforwards may be limited in the future due to changes in the ownership of the Company. This limitation, if applicable, has not been determined by the Company. The Company also has Mexican net operating loss carryforwards of approximately $2,000,000 which may be available to offset future taxable income. The Mexican losses are subject to a ten-year tax carryforward period and expire in the years 2004 through 2010. Capital loss carryforwards of approximately $8,500,000 are available to offset any future capital gains recognized by the Company for both U.S. federal and California purposes.

The realization of the Company's deferred tax assets is dependent upon the Company's ability to generate taxable income in the future. The Company has recorded a 100% valuation allowance against all of the deferred tax assets due to the uncertainty regarding their realizability.

NOTE J - SHAREHOLDERS' EQUITY

Reverse Stock Split

On June 2, 1999, the shareholders of the Company approved a reverse stock split of the Company's common stock in a ratio of one share for up to ten shares of its outstanding common stock. Pursuant to this approval, the Board of Directors of the Company approved a reverse split of the common shares in a ratio of one share for every ten shares. This reverse split was effective on July 2, 1999. All reference to shares and per share amounts in the accompanying footnotes have been restated to reflect this action.

Stock Options

On August 18, 1992, the Company adopted an omnibus stock option plan (the "1992 Plan") which authorized the issuance of 160,000 options to acquire the Company's common stock. At December 31, 2000, there were options outstanding under the 1992 Plan for 39,500 shares, and 37,500 available for grant. These options will expire 10 years from the date of grant.

On March 24, 1993, the Company adopted an omnibus stock option plan (the "1993 Plan") which authorized the issuance of 100,000 options to acquire the Company's common stock. The terms of the 1993 Plan are the same as the 1992 Plan. At December 31, 2000, there were options outstanding under the 1993 Plan for 33,100 shares, and 34,400 options available for grant. These options expire 10 years from the date of the grant.

On May 15, 1997, the Company adopted an omnibus stock option plan (the "1997 Plan") which authorized the issuance of 600,000 options to acquire the Company's common stock. At December 31, 2000 there were 390,000 options outstanding under this plan and 210,000 options available for grant.

On November 20, 2000, the Company adopted an omnibus stock option plan (the "2000 Plan") which authorized the issuance of 1,000,000 options to acquire the Company's stock. The terms of the 2000 Plan are the same as the 1997 Plan.

During the year ended December 31, 2000, the Board of Directors and its Compensation Committee approved the grant to various officers, directors and employees of the Company of options to purchase an aggregate of 540,000 shares of common stock. The options were granted at exercise prices equal to or exceeding the fair market value of the Company's common stock on the measurement date, expire 10 years from the date of grant and have various vesting schedules.

The following is a summary of options granted:

	Year ended December 31,		
	2000	1999	199
	Weighted Average	Weighted Average	Weighted Average

	Exercise Shares	Price	Exercise Shares	Price	Exercise Shares
Options outstanding at beginning of the year	954,800	$12.49	607,650	$19.30	392,300
Granted	540,000	3.00	390,000	2.99	246,300
Exercised	-	-	-	-	(17,850)
Canceled	(42,000)	13.84	(42,850)	22.69	(13,100)
Options outstanding at end of the year	1,452,800	$ 8.92	954,800	$12.49	607,650
Options Exercisable	874,312	$12.49	886,430	$12.76	572,100

The following significant assumptions were utilized to calculate the fair value information presented utilizing the Black-Scholes Multiple Option Approach:

	Year Ended December 31,		
	2000	1999	1998
Risk free interest rate	5.95%	6.00%	6.00%
Expected life	5.0 years	1.82 years	1.5 years
Expected volatility	1.32	1.247	1.07
Expected dividends	-	-	-
Weighted average fair value of options granted	$1.49	$1.6691	$0.608

	OPTIONS OUTSTANDING			OPTIONS
Range of exercise prices	Number outstanding as of 12/31/00	Weighted average remaining contractual life in years	Weighted average exercise price	Number exercisable as of 12/31/0
$2.50 - $3.00	920,000	9.36	$ 2.98	370,002
$4.09 - $12.50	38,800	7.21	$ 7.70	27,350
$15.00 - $16.25	242,300	6.83	$15.26	235,260
$22.50 - $45.00	251,700	4.14	$24.71	241,700
$2.50 - $45.00	1,452,800	7.98	$ 8.92	874,312

As the Company has adopted the disclosure requirements of SFAS 123, the following table shows pro forma net loss and loss per share as if the fair value based accounting method had been used to account for stock-based compensation cost.

Year Ended December 31,		
2000	1999	1998

Net loss as reported	$(1,765,000)	$(4,199,000)	$(4,778,000)
Pro forma compensation expense	(806,000)	(651,000)	(1,497,000)
Pro forma net loss	$(2,571,000)	$(4,850,000)	$(6,275,000)
Pro forma loss per share	$(0.47)	$(1.24)	$(2.07)

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts.

Stock Purchase Warrants

In connection with various debt offerings, stock placements and services provided, the Company has issued various stock purchase warrants. All such warrants were issued at prices which approximated or exceeded fair market value of the Company's common stock at the date of grant and are exercisable at dates varying from one to five years.

Summarized information for stock purchase warrants is as follows:

	Number of Warrants	Price Per Share
Warrants outstanding at December 31, 1998	868,929	$12.50 $22.50
Issued	596,433	3.50
Exercised	(1,151,336)	2.50 3.50
Expired	(15,885)	3.50 22.50
Ratchet Adjustment	1,840,372	2.50 3.50
Warrants outstanding at December 31, 1999	2,138,513	$2.50 $12.50
Issued	-	-
Exercised	(877,954)	1.69- 3.50
Expired	(311,464)	3.50
Ratchet adjustment	318,400	2.50
Warrants outstanding at December 31, 2000	1,267,495	$2.50-$12.50

On February 28, 2001 an additional 734,606 warrants are scheduled to expire.

Common Stock

During the year ended December 31, 1998, the Company issued 50,525 shares, with 32,000 being the result of warrant exercises, 17,850 being from the exercise of options and 675 being for services. The Company realized net proceeds of $484,000 from these transactions.

During the year ended December 31, 1999, the Company issued 1,802,586 shares, with 1,151,336 being the result of warrant exercises, 38,500 to certain employees in exchange for payroll obligations and 612,336 being the result of debt conversions.

During the year ended December 31, 2000, the Company issued 1,721,616 shares, with 877,954 being the result of warrant exercises and 843,662 being the result of debt conversion.

NOTE K - EMPLOYEE BENEFIT PLANS

Effective January 1, 1990, the Company established a contributory profit sharing and thrift plan for all salaried employees. Discretionary matching contributions are made by the Company based upon participant contributions, within limits provided for in the plan. No contributions were made in the years ended December 31, 2000, 1999 and 1998.

Additionally, the Company participates in several multi-employer plans, which provide defined benefits to union employees of its participating companies. The Company makes contributions determined in accordance with the provisions of negotiated labor contracts. The contributions were $372,606, $334,670 and $222,443 for the years ended December 31, 2000, 1999 and 1998, respectively.

NOTE L - SIGNIFICANT CUSTOMERS

Sales for the year ended December 31, 2000 to Curtom-Metalclad were approximately $8,470,000, primarily representing work performed at Southern California Edison ("SCE") plants under the strategic alliance program. The Company had trade accounts receivable of $2,294,000 from Curtom-Metalclad/SCE as of December 31, 2000. Additionally, the Company had sales of $1,049,000 and $2,323,000 to Equilon and ARCO, respectively, during 2000. Accounts receivable from these two customers were $84,000 and $312,000, respectively, as of December 31, 2000. Concentration of the Company's receivables in a few customers increase the credit risk exposure of the Company to upsets in the customers' businesses. Given the Company's client base, the energy market problems in California could adversely affect the Company's ability to collect the receivable from one of its major clients, should they experience financial problems.

Sales for the year ended December 31, 1999 to Curtom-Metalclad were approximately $4,287,000 representing work at SCE plants. Additionally, the Company had sales of $3,093,000 to ARCO and $2,930,000 to Equilon. As of December 31, 1999 the Company had accounts receivables of $609,000 from Curtom-Metalclad, $124,000 from ARCO and $78,000 from Equilon.

Sales for the year ended December 31, 1998 to Curtom-Metalclad were approximately $3,136,000 representing work performed at SCE plants under the strategic alliance program. Additionally, the Company had sales of $3,776,000 to ARCO and $1,357,000 to Equilon (formerly Texaco). As of December 31, 1998, the Company had accounts receivable from Curtom-Metalclad of $150,000, ARCO of $110,000, Edison of $177,000 and Equilon of $118,000. Concentration of the Company's receivables in a few customers increase the credit risk exposure of the Company to upsets in the customers' businesses.

NOTE M - COMMITMENTS AND CONTINGENCIES

Employment Agreements

The Company has employment agreements with its executive officers. These agreements continue until terminated by the executive or the Company and provide for minimum salary levels, as adjusted for cost of living changes. These agreements include incentive bonuses based upon specified management goals, and a covenant against competition with the Company extending for a period of time after termination.

Collective Bargaining Agreements

Approximately 89% of the Company's employees are covered under collective bargaining arrangements. Certain of these agreements expire in October

and December 2001. The Company anticipates a timely renewal of these agreements.

Leases

The Company leases its facilities under non-cancelable operating lease agreements which expire at various dates through 2002. Total rent expense under operating leases was $248,677, $209,042 and $178,245 for the years ended December 31, 2000, 1999 and 1998, respectively. Future minimum non-cancelable lease commitments are as follows:

Year ending December 31,	
2001	$262,265
2002	123,376
2003	-

	$385,641
	=======

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 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 and a decision is not anticipated until May 2001. However, regardless of the decision rendered, the Company anticipates an appeal to the British Columbia Court of Appeals. There is no definitive timetable for completion of this process. Estimates range from several months to over a year. Interest continues to accrue until paid.

If the favorable decision were upheld by the Canadian courts, all damages awarded to the Company would be due and payable by the United Mexican States as an obligation of the government of Mexico. Both NAFTA and other international treaties provide mechanisms for ensuring collection and it is anticipated that all damages could be collected or collateralized;

however, there can be no assurance that the Company will not encounter collection difficulties or delays.

NOTE N - RELATED PARTY TRANSACTIONS

Receivables from related parties are comprised of the following :

	December 31, 2000	December 31, 1999
Loans to executive officers, directors and employees	$145,814	$101,444
Other	50,000	46,841
	$195,814	$148,285

Loans to executive officers, directors and employees are represented by promissory notes, due on demand and bear interest at 6%.

An officer and director of the Company is a partner in a law firm which has received payments for legal fees of approximately $36,000, $37,000 and $0 for the years ended December 31, 2000, 1999 and 1998, respectively. As of December 31, 2000, fees totaling $167,000 remain unpaid.

During fiscal 1995 the Company loaned $740,000 to two officers of the Company. In February 1996, the officers each repaid $150,000 to the Company. In March 1996, the notes were amended to modify the loan principal and to adjust the interest rates, effective March 1, to a variable rate based upon the Company's quarterly investment rate. The repayment of these notes has been extended until completion of the NAFTA proceedings.

In November, 2000, the Board of Directors approved advances against legal costs on behalf of Mr. Kesler, Metalclad CEO, in his pursuit of certain personal legal matters related to his position in the Company. As of December 31, 2000, Mr. Kesler owes the Company $57,000 related to these advances, which may be recoverable from pending litigation.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	B
Year ended December 31, 2000					
Deducted from asset accounts:					
Allowance for doubtful accounts	$20,000	$30,000	-	-	
Allowance for excess and obsolete inventory	$ 5,000	-	-	-	
Year ended December 31, 1999					

Deducted from asset accounts:				
Allowance for doubtful accounts	$20,000	-	-	
	======			
Allowance for excess and obsolete inventory	$ 5,000	-	-	
	======			
Year ended December 31, 1997				
Deducted from asset accounts :				
Allowance for doubtful accounts	$28,907	-	-	$ 8,907
	======			
Allowance for excess and obsolete inventory	$16,009	-	-	11,009
	======			