

METALCLAD CORP  
Form PRE 14A  
April 30, 2002

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**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )**

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)).

Definitive proxy statement.

Definitive additional materials.

Soliciting material pursuant to §240.14a-12.

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Metalclad Corporation  
(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**METALCLAD CORPORATION**

800 Nicollet Mall, Suite 2690  
Minneapolis, Minnesota 55402

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

to be held on  
June 14, 2002

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Notice is hereby furnished to the shareholders of Metalclad Corporation (a Delaware corporation) of record as of the close of business on April 26, 2002, of the Annual Meeting of shareholders thereof, to be held at 10:00 a.m. on June 14, 2002, at the Hyatt Regency Hotel, 1300 Nicollet Mall, Minneapolis, Minnesota, for the following purposes:

1. To elect the members of the Board of Directors of Metalclad Corporation;
2. To vote on a proposal to increase the number of shares of Metalclad Corporation's common stock available under its 2000 Omnibus Stock Option and Incentive Plan from 1,000,000 to 2,000,000;
3. To vote on a proposal to change the state of incorporation of Metalclad Corporation from Delaware to Minnesota, which will involve the merger of Metalclad Corporation into a wholly owned subsidiary organized under the laws of the state of Minnesota named Entrix Corporation;
4. If proposal number 3 (reincorporation by merger into a Minnesota corporation) does not receive an affirmative vote of holders of at least two-thirds of the outstanding common stock of Metalclad Corporation, excluding those owned by Wayne W. Mills, the President of Metalclad Corporation, then to vote on a proposal to amend Metalclad Corporation's Certificate of Incorporation to change its name to Entrix Corporation, and to increase its authorized preferred stock from 1,500,000 to 5,000,000 shares; and
5. To transact such other business as may properly come before the meeting, or any adjournment thereof.

Only shareholders of record as of the close of business on April 26, 2002, or their legal representatives, are entitled to notice and to vote at the Annual Meeting or any adjournment thereof. Each shareholder is entitled to one vote per share on all matters to be voted on at the Annual Meeting.

A Proxy, Proxy Statement and the 2001 Annual Report on Form 10K are enclosed herewith. You are requested to complete and sign the Proxy, which is being solicited by the Board of Directors and management of Metalclad Corporation, and to return it in the envelope provided.

By Order of the Board of Directors

*Chairman of the Board*

May \_\_, 2002

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**METALCLAD CORPORATION**  
800 Nicollet Mall, Suite 2690  
Minneapolis, Minnesota 55402

**PROXY STATEMENT**  
**2002 ANNUAL MEETING OF SHAREHOLDERS**

This Proxy Statement is furnished to the shareholders of Metalclad Corporation (hereinafter referred to as "Metalclad"), in connection with the solicitation by the Board of Directors of Metalclad of proxies to be voted at the annual meeting of Metalclad shareholders (the "Meeting"), to be held at 10:00 a.m. on June 14, 2002 at the Hyatt Regency Hotel, 1300 Nicollet Mall, Minneapolis, Minnesota. This Proxy Statement and the accompanying Proxy were first mailed on approximately May \_\_, 2002 to the shareholders of record of Metalclad as of the close of business on April 26, 2002.

**VOTING INFORMATION**

***Who is entitled to vote?***

The holders of common stock of Metalclad who are shareholders of record on April 26, 2002, may vote at the Meeting. As of April 26, 2002, there were 7,674,015 shares of Metalclad's common stock outstanding.

***What are you voting on?***

At the Meeting, the following matters will be voted on:

The election of five members of the Board of Directors of Metalclad.

An increase in the number of shares of common stock available in Metalclad's 2000 Stock Option Plan from 1,000,000 shares to 2,000,000 shares.

A change in Metalclad's state of incorporation from Delaware to Minnesota, which includes among other things a change in the name of Metalclad to Entrx Corporation.

If the shareholders fail to approve the change in Metalclad's state of incorporation, amendments to the Certificate of Incorporation of Metalclad to change its name to Entrx Corporation, and in general to increase the number of authorized shares of preferred stock from 1,500,000 to 5,000,000.

Other matters incident to the conduct of the Meeting.



***How does the Board recommend you vote on the proposals?***

The Board recommends you vote your shares **FOR** the election of each of Metalclad's nominees for director, **FOR** an increase in the number of shares available for purchase under Metalclad's 2000 Omnibus Stock Option and Incentive Plan, **FOR** changing the state of incorporation from Delaware to Minnesota, and **FOR** the proposed amendments to Metalclad's Articles of Incorporation. An abstention from voting on any proposal, except for the election of directors, is the same as a vote against the proposal.

***Who will be soliciting your vote?***

The Board of Directors is soliciting your vote by mail through this Proxy Statement. However, your vote may also be solicited in person or by telephone by directors, officers or employees of Metalclad. In addition, Metalclad has engaged \_\_\_\_\_ to solicit your vote by telephone at a cost of \$\_\_\_\_\_, plus \$\_\_\_\_\_ for each of the shareholders contacted. Brokers/dealers, nominees, fiduciaries and other custodians will be requested to forward soliciting materials to beneficial owners of the Company's common stock, and will be reimbursed for their expenses in connection with that activity. The cost of all of this solicitation, is being paid for by Metalclad.

***How can you vote?***

If you hold your shares as a shareholder of record, you can vote in person at the Meeting or you can vote by mail. You are a shareholder of record if you hold your shares directly in your own name. If you hold your shares indirectly in the name of a bank, broker or other nominee, you are a street name shareholder. If you are a street name shareholder, you will receive instructions from your bank, broker or other nominee describing how to vote your shares.

***How do you vote by Mail?***

You can vote by mail by following the instructions on the accompanying proxy card, signing the card, and mailing it to the address noted on the card or by using the accompanying envelope provided for that purpose. The proxies named on the proxy card will vote your shares in accordance with your instructions. If you sign and submit your proxy card without giving instructions, the proxies named on the proxy card will vote your shares as recommended by the Board of Directors.

***How can you revoke your proxy card?***

If you are a shareholder of record, you can revoke your proxy card by:

Submitting a new proxy card;

Giving written notice before the meeting to Metalclad's Secretary stating that you are revoking your proxy card; or

Attending the Meeting and voting your shares in person.

Merely attending the meeting without voting will not revoke your proxy.

If you are a street name shareholder, you may revoke your proxy only as instructed by the bank, broker or other nominee holding your shares.

***How do you sign the proxy card?***

Sign your name exactly as it appears on the proxy card. If you are signing in a representative capacity (for example, as a guardian, trustee, executor, administrator, attorney or the officer or agent of a company), include your name and title or capacity. If the shares are held in custody (for example, under the Uniform Transfer to Minors Act), the custodian should sign, not the minor or other beneficiary. If the shares are held in joint ownership, both owners must sign.

***What does it mean if you receive more than one proxy or voting instruction card?***

It means your shares are registered differently or are in more than one account. Please provide voting instructions for all proxy and voting instruction cards you receive to ensure all your shares are voted.

***What constitutes a quorum?***

A quorum of shareholders is necessary to hold a valid meeting of shareholders. A majority of the outstanding shares, present in person or represented by proxy, constitutes a quorum for the Meeting. Abstentions and broker non-votes (as described below) are counted as present for establishing a quorum.

***How can you cast your vote for directors?***

You may cast your vote for any nominee as a member of the Board of Directors two ways. You may cast one vote for each share you own for each nominee, or you may cumulate your votes. In order to cumulate your votes, you would multiply the number of directors to be elected (five in this case) by the number of shares you own. This is the total (or cumulative) number of votes you can exercise. You may then cast this cumulative number of votes for one nominee, or distribute those votes among two or more nominees in any proportion you desire. In an uncontested election there is normally no need to cumulate votes.

***How many votes are needed for approval of each proposal?***

Persons nominated to be a member of the Board of Directors are elected by a plurality. That is, since there are five directorships established by the Board of Directors, those five nominees who receive the greatest number of votes will be elected as members of the Board of Directors, regardless of whether they receive the affirmative vote of the shareholders owning a majority of the shares of common stock present in person or by proxy. In an uncontested election, the plurality requirement is not a factor.

The increase of the number of shares of Metalclad's common stock available for issuance under the 2000 Omnibus Stock Option and Incentive Plan requires the affirmative vote of Metalclad's shareholders owning a majority of the shares present at the Meeting. This includes shareholders present in person and shareholders who have submitted proxy cards.

The change in Metalclad's state of incorporation requires the affirmative vote of Metalclad's shareholders owning two-thirds of outstanding shares of common stock, exclusive of those held by Metalclad's president, Wayne W. Mills.

The amendments to Metalclad's Articles of Incorporation require the affirmative vote of Metalclad's shareholders owning a majority of the outstanding shares of common stock.

***What is a broker non-vote?***

A broker non-vote occurs when a broker submits a proxy card that does not indicate a vote for some of the proposals because the broker did not receive instructions from the beneficial owner on how to vote on those proposals and does not have discretionary authority to vote in the absence of instructions.

***How can you attend the Meeting?***

If you are a shareholder of record on April 26, 2002, you can attend the meeting by presenting acceptable identification at the Meeting. If you are a street name shareholder you may attend the meeting by presenting acceptable identification along with evidence of your beneficial ownership of Metalclad common stock.

**Proposal No. 1  
ELECTION OF DIRECTORS**

**General**

Five persons, four of whom are currently members of Metalclad's Board of Directors, are being nominated for election at the Meeting. Unless otherwise directed, it is the intention of those appointees named in the accompanying Proxy to vote for the election of Kenneth W. Brimmer, Joseph M. Caldwell, Gary W. Copperud, Wayne W. Mills and Joseph M. Senser, as the members of Metalclad's Board of Directors. Each nominee is being nominated for a term of approximately one year, until the next annual meeting of Metalclad's shareholders. Messrs. Brimmer, Copperud, Mills and Senser were appointed as members of Metalclad's Board of Directors on February 13, 2002, to fill vacancies then existing on the Board of Directors. Mr. Caldwell has not previously served as a member of the Board of Directors. J. Thomas Talbot, Raymond J. Pacini and Daniel D. Lane, who are currently members of the Board of Directors, are not standing for reelection.

**MANAGEMENT RECOMMENDS A VOTE IN FAVOR OF EACH OF THE PROPOSED NOMINEES LISTED BELOW, AND THE PROXIES WILL BE VOTED IN FAVOR OF SUCH PROPOSED NOMINEES OR AS OTHERWISE DIRECTED.**

**Information Concerning Nominees**

The name, initial year of service as a director, age and respective position of each nominee as a director of Metalclad as of the date of this Proxy Statement, are as follows:

Name	Director Since	Age	Position
Kenneth W. Brimmer(1)(2)	2002	46	Chairman of the Board and Director
Wayne W. Mills	2002	47	President, Chief Executive Officer and a Director
Gary W. Copperud(1)(2)	2002	44	Director
Joseph M. Senser(1)(2)	2002	45	Director
Joseph M. Caldwell	N/A	34	Nominee As Director

(1) Member of the Compensation Committee since February 13, 2002.

(2) Member of the Nominating Committee since February 13, 2002.

The business experience, principal occupations and directorships in publicly-held companies for the persons nominated to be directors of Metalclad are set forth below.

Kenneth W. Brimmer was the chief executive officer and chief financial officer of Active IQ Technologies, Inc., from March, 2000 until December, 2001, and continues to act as its chairman of the board of directors. Active IQ Technologies, Inc., which is headquartered in Minnetonka, Minnesota, is engaged in providing accounting and financial management software and services, as well as other software and e-business solutions, to small and medium sized companies, and is listed on the NASDAQ System under the symbol AIQT. Until April, 2000, Mr. Brimmer was an executive officer of Rainforest Cafe, Inc., which had offices in Hopkins, Minnesota, serving as its treasurer from 1995, and its president from April, 1997. Rainforest Cafe, Inc. was the owner and operator of the Rainforest Cafe restaurants located throughout the United States and in several foreign countries. From 1990 until 1997, Mr. Brimmer was also engaged in an executive position with Grand Casino, Inc., in Minneapolis, Minnesota, which primarily owned or managed gaming casinos in Minnesota, Mississippi and Louisiana. Mr. Brimmer is a certified public accountant. Mr. Brimmer currently serves on the board of directors of Rainforest Cafe, Inc., a wholly-owned subsidiary of Landry's Restaurants, Inc., New Horizons Kid Quest, Inc., Hypertension Diagnostics, Inc. and Sterion Incorporated. Mr. Brimmer is currently the chairman of the board of directors of both Sterion Incorporated and Hypertension Diagnostics, Inc.

Wayne W. Mills has been the president and chief executive officer of Metalclad since February 13, 2002. Mr. Mills is the owner and manager of Blake Capital Partners, LLC, which he formed in September, 1999, primarily to provide consulting services in the areas of capital formation, and mergers and acquisitions. From May, 1991 until September, 1999, Mr. Mills was a registered representative with RJ Steichen & Co., a broker/dealer in Minneapolis, Minnesota.

Joseph M. Senser is the owner of Joe Senser's Sports Grill, Inc. which owns and operates three restaurants in the Minneapolis, Minnesota metropolitan area. Mr. Senser opened his first restaurant in 1987. From 1995 until August, 2000, Mr. Senser also acted as director of community relations for Grand Casino Mille Lacs and Grand Casino Hinckley, which are native American owned and operated gaming casinos in north-central Minnesota.

Since August, 2000, Mr. Senser has acted as a manager of two related non-profit organizations; the Milton Hershey School and the Hershey Trust. The Milton Hershey School, with funding from the Hershey Trust, provides K through 12 education and living facilities, in Hershey, Pennsylvania, for financially disadvantaged children.

Gary W. Copperud has been the president and general manager of CMM Properties, LLC, in Fort Collins, Colorado, since 1983. CMM Properties, LLC is primarily engaged in making investments in real estate and equity securities, and the management of those investments.

Joseph M. Caldwell has been Chief Executive Officer and a member of the board of directors of Marix Technologies, Inc. since May, 2000. Marix is a privately held company based in Minneapolis, Minnesota that develops and markets software designs to facilitate and control offsite access to software applications and access to information. From March, 1995 to May, 2000, Mr. Caldwell was the chief executive officer of US Internet Corporation, a Minneapolis-based privately held Internet service provider, with service in over 1,300 cities nationwide and over 110 cities internationally. In June, 1998, he co-founded Net Lifestyles, Inc., and has served as Co-Chairman from June, 1998 to the present. Net Lifestyles is a privately held direct sales company marketing websites, e-commerce solutions, and Internet access to individuals and small businesses.

#### **Information Concerning Directors Not Standing for Re-election**

J. Thomas Talbot, is the owner of The Talbot Company, an investment and asset management company and has been the chief executive officer of HAL, Inc., the parent company of Hawaiian 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 has been a director and served on the Audit Committee of Metalclad since March, 1999, and served on the Compensation Committee from March, 1999 until February, 2002.

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. Mr. Pacini has been a director and served on the Audit Committee of Metalclad since March, 1999, and served on the Compensation Committee from March, 1999 until February, 2002.

Daniel D. Lane, has been the chief executive officer and principal owner of Lane/Kuhn Pacific, Inc. since 1983. Lane/Kuhn Pacific, Inc., with offices in Newport Beach, California, is involved in the construction of condominiums and single family homes, and the development of master-planned communities. Mr. Lane has been in the development of single family home projects since 1960. Mr. Lane has been a director and served on the Audit Committee of Metalclad since October, 2001.

### **Meetings of Board of Directors**

During the year ended December 31, 2001 the Board of Directors held five meetings, and acted by unanimous written consent on three occasions. Each member of the Board of Directors was present for more than 75% of the meetings. None of the current nominees proposed for election to the Board of Directors served as a director in the year ended December 31, 2001.

### **Committees of Board of Directors**

**Audit Committee.** The Audit Committee has the responsibility of (i) reviewing audited annual financial statements, and reports and financial statements submitted to any governmental body or disclosed to the public; (ii) consulting with Metalclad's independent auditors on various audit and financial personnel issues, including questions of independence, disagreement between the auditors and Metalclad's financial personnel, review of internal financial controls; (iii) recommend to the Board of Directors the engagement of independent accountants to audit the financial statements of Metalclad, and review the performance of such accountants; (iv) review and consider the appropriateness of accounting principals or practices applied to Metalclad's financial statements; and (v) review Metalclad's financial personnel and organization. The Audit Committee held two meetings during the year ended December 31, 2001.

**Compensation Committee.** The Compensation Committee, which consists solely of non-employee directors, has the obligation to adopt policies applicable to the establishment and the compensation of Metalclad's executive officers, and has authority to consider and recommend to the Board of Directors the salaries, bonuses, share options, and other forms of compensation of those executive officers. The Compensation Committee held two meetings during the year ended December 31, 2001.

**Nominating Committee.** Metalclad's Nominating Committee was established by the Board of Directors in February, 2002. The Nominating Committee has the authority to consider the qualifications of and recommend each candidate and incumbent for election as a director of Metalclad and to nominate candidates to fill Board of Directors vacancies. In the future, the Nominating Committee will consider shareholder nominations of candidates for election as directors of Metalclad upon receipt of a written request provided to Metalclad's Nominating Committee no later than December 31 of the calendar year preceding the next annual meeting of shareholders together with the written consent of such person to serve as a director.

### **Director Compensation**

J. Thomas Talbot, Raymond J. Pacini and Daniel D. Lane as non-employee members of the Board of Directors during 2001 and through the date of the Meeting, are each entitled to receive \$2,500 per calendar quarter, \$1,000 for attendance at each Board of Directors meeting and \$500 for attendance at each meeting of a Committee of the Board of Directors. For 2001, Messrs. Talbot, Pacini and Lane received \$14,000, \$14,000 and \$5,000, respectively, as members of the Board of Directors. In 2001 Metalclad granted stock options to purchase 25,000 shares of Metalclad's Common Stock to each of J. Thomas

Talbot, Raymond J. Pacini and Daniel D. Lane. In addition, options to purchase 20,000 shares of Metalclad common stock were granted to Messrs. Talbot and Pacini in June, 2001, as members of the compensation committee of the Board of Directors under the terms of Metalclad's 2000 Omnibus Stock Option and Incentive Plan. Options for 45,000 shares were similarly granted to Bruce Haglund who was a member of the Board of Directors and compensation committee through February 13, 2002. The options discussed in this paragraph are exercisable at \$2.00 per share, are fully vested and expire in 2011. (See CERTAIN TRANSACTIONS Vesting of Directors Options )

Gary W. Copperud, Kenneth W. Brimmer and Joseph M. Senser, who were elected as members of the Board of Directors on February 13, 2002, were each granted options to purchase 50,000 shares of Metalclad's Common Stock at a price of \$2.50 per share on March 4, 2002; 16,700 shares of which are immediately exercisable, an additional 16,700 shares of which will be exercisable after March 4, 2003, and all shares which will be exercisable after March 4, 2004. These options will vest only while each optionee remains as a member of the Board of Directors, and expire on March 5, 2009. In addition, the Board of Directors established a plan whereby each member of Metalclad's Board of Directors would receive a stock option for 10,000 shares of Metalclad's common stock in January of each year, at the then fair market value of the shares. The options granted to Messrs. Copperud, Brimmer and Senser will only be effective if Proposal No. 2 below, increasing the number of shares available for option grants under Metalclad's 2000 Omnibus Stock Option and Incentive Plan, is adopted by the shareholders. There is no current plan to pay any cash compensation to the members of the Board of Directors elected at the Meeting.

**Proposal No. 2**  
**INCREASE OF SHARES UNDER STOCK OPTION PLAN**

**Proposal**

The Board of Directors has proposed to amend Article VI of Metalclad's 2000 Omnibus Stock Option and Incentive Plan (the Plan ) to change the number of shares of common stock authorized for issuance under the Plan from 1,000,000 to 2,000,000 shares of common stock. The proposed amendment to the second sentence of Article VI of Metalclad's Plan reads as follows:

The aggregate number of shares which may be issued as Awards or upon the exercise of Award under the Plan shall not exceed 2,000,000 Shares.

**Reason for Proposal.**

As of the date of this Proxy Statement, there were outstanding options granted under the Plan to purchase an aggregate of 990,000 of Metalclad's shares of common stock. These options have been granted under the Plan to the executive officers, employees and directors of Metalclad and certain of its subsidiaries. Metalclad's management believes that granting options for the purchase of common stock of Metalclad will assist it in attracting and retaining persons of desired ability as key employees and directors of Metalclad and its subsidiaries, and to motivate such persons to exert their best efforts on behalf of Metalclad and its subsidiaries. Adoption of the proposed amendment to the Plan would authorize a

sufficient number of shares of Metalclad's common stock for options to be granted to such individuals in the future.

In addition, the Board of Directors of Metalclad granted seven year options for 50,000 shares each to Kenneth Brimmer, Gary Copperud and Joseph Sener, at \$2.50 per share, one-third of which will vest immediately, and the remainder which will vest over two years. The Board of Directors also granted options to Wayne Mills and Brian Niebur for 150,000 and 50,000 shares, respectively, at \$2.50 per share, vesting ratably over three years. Mr. Mills' option is for five years, and Mr. Niebur's option is for seven years. These options are subject to the approval by Metalclad's shareholders of the proposed increase in shares available for options under the Plan.

**MANAGEMENT RECOMMENDS ADOPTION OF THE PROPOSED AMENDMENT TO THE PLAN, AND THE PROXIES WILL BE VOTED IN FAVOR OF SUCH PROPOSAL OR AS OTHERWISE DIRECTED.**

### Summary Plan Description

The Board of Directors of Metalclad adopted the Plan in September of 2000 for key employees and directors of Metalclad and its subsidiaries, a group currently consisting of approximately 10 persons. The Plan was approved by the shareholders of Metalclad in November of 2000. The Plan allows for the granting of Awards involving Metalclad's common stock in the form of options to purchase stock, stock appreciation rights, stock payments and other similar rights. Options may be granted under the Plan as either incentive stock options that qualify for favorable tax treatment upon exercise afforded by Section 422 of the Internal Revenue Code of 1986, as amended, or non-statutory options that do not qualify for such favorable tax treatment. The Plan may be administered by the Board of Directors or by a committee comprised of two or more members of the Board of Directors. The Plan is currently administered by the Board of Directors. The term "Committee" when used in this discussion of the Plan means the Board of Directors where, as is currently the case, no committee has been established.

Awards may be granted under the Plan under such terms and granted under the Plan conditions as the Committee may determine from time to time, provided that options must be exercised within a period of not more than ten years after the date the option is granted (except that options granted to an owner of 10% or more of Metalclad's outstanding shares of common stock must be exercised within five years from the date the option is granted). Options will generally be granted after recommendation by management. In general, Metalclad will not receive any cash or other consideration for the granting or extension of options, but options are generally issued in recognition of services rendered or to be rendered to Metalclad or its subsidiaries.

An optionee granted an incentive stock option or stock appreciation right must remain an employee of Metalclad or its subsidiary in order to retain any incentive stock option rights not exercisable. If the optionee's employment is terminated (other than by disability or discharge for cause) such optionee or his estate, in the case of death, may, within three months of such termination, or if an optionee's employment is terminated due to disability, such optionee may, within 12 months of such termination, exercise any unexercised portion of his or her option to the extent exercisable at the time of termination. If an optionee is discharged for cause, his or her option terminates as of the date of discharge.

The exercise price of the shares of common stock covered by any incentive stock option granted under the Plan cannot be less than the fair market value of the shares on the date the option is granted, as determined by the Committee, except that in the case of owners of 10% or more of Metalclad's outstanding shares of common stock, the exercise price may not be less than 110% of the fair market value of the shares on the date the option is granted. The exercise price of the shares of common stock covered by a non-statutory stock option



granted under the Plan cannot be less than 85% of the fair market value of the shares on the date the option is granted, as determined by the Committee. Options may be exercised through the payment of cash, or with Metalclad's consent, by the transfer of Metalclad's shares of common stock already owned by the optionee, at the fair market value on the date of exercise, or any combination of cash and shares of common stock. Except for non-statutory options, the aggregate fair market value of shares of common stock with respect to which an incentive stock option is exercisable for the first time during any calendar year by any one person may not exceed \$100,000. Options need not be exercised in the order granted.

Under the Plan, each member of the Board of Directors who is a member of the Compensation Committee on June 1 of each year, during the term of the Plan, is entitled to a formula award in the form of a non-statutory stock option for 20,000 shares of common stock at the fair market value as of that date. These options vest ratably over a three year period. The term of the options is at the discretion of the Board of Directors, within their limits described above. All formula award options vest upon a change of control of Metalclad.

Stock appreciation rights are rights, granted to an employee under the Plan, to receive cash or Metalclad common stock based upon and equal to the market price increase of Metalclad's common stock over a fixed period. No stock appreciation right has been granted under the Plan.

Stock purchase agreements are rights granted to an employee to purchase Metalclad's common stock at a discount of not more than 75% of the fair market value of Metalclad's common stock, executable within 60 days of the date the right was granted. No rights under a stock purchase agreement have been granted.

The Board of Directors may at any time suspend or terminate the Plan or modify the Plan to make certain administrative changes, such as changes imposed by changing tax laws. The Board of Directors may not materially (i) increase the benefits accruing to participants under the Plan, (ii) increase the maximum number of shares of common stock as to which options may be granted under the Plan, or (iii) modify the requirements as to eligibility for participation in the Plan without further approval by the shareholders of Metalclad.

#### **Federal Income Tax Consequences**

The following is a general summary of Metalclad's understanding of the federal income tax consequences of Awards granted under the Plan.

A person receiving an option under the Plan (an Optionee) will not realize taxable compensation income upon the grant of an incentive stock option. In addition, assuming certain holding period requirements are met, an optionee will not realize regular taxable income upon the exercise of an incentive stock option if the option is exercised while the optionee is an employee of Metalclad or any of its subsidiaries or within three months after terminating employment (or within one year after terminating employment by reason of permanent and total disability). The amount by which the fair market value of the shares of common stock exceeds the exercise price of the options at the time of exercise is an item

of tax preference for purposes of the alternative minimum tax, which, for some optionees, could trigger liability for the alternative minimum tax. To qualify for favorable tax treatment, shares of common stock acquired upon exercise of any incentive stock option must be held for at least two years from the date of grant of the option and one year from the date of exercise. Gain upon the sale of shares of common stock acquired pursuant to exercise of an incentive stock option, but not meeting the holding period requirements described above (referred to hereafter as a disqualifying disposition ), will be taxed at ordinary income rates up to the amount of gain which was deferred upon exercise of the incentive stock option. Gain in excess of such amount will qualify as long-term capital gain. Exercise of an incentive stock option does not entitle Metalclad to an income tax deduction. However, any ordinary compensation income which an optionee realizes when shares of common stock are sold in a disqualifying disposition will result in Metalclad being allowed a corresponding income tax deduction at that time.

An optionee will not realize taxable compensation income upon the grant of a non-statutory stock option. In general, an optionee who exercises a non-statutory stock option will realize taxable compensation income at that time equal to the difference between the fair market value of the shares of common stock on the date of exercise and the exercise price of the option. Any ordinary compensation income realized by an optionee upon exercise of a non-statutory stock option will result in Metalclad being allowed a corresponding income tax deduction at that time. When an optionee disposes of shares of common stock acquired by the exercise of a non-statutory stock option, any amount realized which is in excess of the fair market value of the shares of common stock on the date of exercise will be treated as short-term or long-term capital gain, depending on the holding period of such shares.

An employee will recognize ordinary compensation income for tax purposes when the employee receives cash or stock as a result of a stock appreciation right. An employee will recognize ordinary compensation income upon the receipt of a right under a stock purchase agreement to the extent that the purchase price is less than 85% of the fair market value of Metalclad's common stock on the date the right is granted; otherwise the right is treated substantially the same as a non-statutory stock option. Whenever the employee recognizes ordinary compensation income, Metalclad will be allowed a corresponding income tax deduction of the same amount.

**Proposal No. 3**  
**CHANGE STATE OF INCORPORATION TO MINNESOTA**

**Proposal**

The Board of Directors has proposed, subject to the approval of the shareholders and subject to the right of the Board of Directors to determine not to proceed in certain circumstances, that Metalclad change its state of incorporation from the state of Delaware to the state of Minnesota (the Reincorporation ) pursuant to the Agreement and Plan of Merger and Reincorporation (the Merger Agreement ) between Metalclad and Entrx Corporation, a Minnesota corporation ( Entrx ). Approval of the Reincorporation will require the affirmative vote of shareholders owning two-thirds of the total shares outstanding excluding the shares beneficially owned by Wayne W. Mills, Metalclad's President, and his

spouse, or approximately 3,969,344 shares. The following discussion summarizes certain aspects of the Reincorporation and the Merger Agreement. This summary is not intended to be complete and is subject to, and qualified in its entirety by reference to the COMPARISON OF MINNESOTA AND DELAWARE CORPORATE LAW attached as Exhibit A, the Merger Agreement, a copy of which is attached as Exhibit B, the Articles of Incorporation of Entrx (the Entrx Articles ), a copy of which is attached as Exhibit C, and the Bylaws of Entrx (the Entrx Bylaws ), a copy of which is attached as Exhibit D.

Copies of the current Certificate of Incorporation and the Bylaws of Metalclad (the Metalclad Certificate and the Metalclad Bylaws, respectively) will be sent to shareholders, without charge, upon oral or written request made in accordance with the instructions at the end of this proxy statement.

**MANAGEMENT RECOMMENDS A VOTE IN FAVOR OF THE PROPOSED REINCORPORATION, AND THE PROXIES WILL BE VOTED IN FAVOR OF SUCH REINCORPORATION OR AS OTHERWISE DIRECTED.**

#### **Reasons for Two Thirds Vote Requirement**

Wayne W. Mills, Metalclad's President and a member of the Board of Directors began acquiring Metalclad common stock in the open market as an investment in November, 2000. By August 31, 2001, Mr. Mills acquired 15% of Metalclad's outstanding common stock. Under certain provisions of the Delaware Corporation Law (the Delaware Law ), if a shareholder acquires 15% of the outstanding common stock of a corporation incorporated under the Delaware Law without prior approval of the Board of Directors of that corporation, Metalclad is precluded from entering into certain transactions without the affirmative vote of holders of at least two-thirds of the shares of Metalclad's outstanding common stock, excluding the shares owned by the 15% or greater shareholder. The restriction includes any merger or consolidation of Metalclad and certain of its subsidiaries with any other corporation which might be considered as caused by Mr. Mills under the statute, and the receipt by Mr. Mills of any loan, advance, guarantee, pledge or other financial benefit. Since the term caused by in Section 203 is not clear, and it could be interpreted to mean that any transaction is caused by Mr. Mills, so long as he is the President and a director of Metalclad, the only method of ensuring that the prohibition is not applicable to Metalclad and Mr. Mills is to obtain a two-thirds vote of Metalclad's common stock. (See CERTAIN TRANSACTIONS Change in Control and Loan to Affiliate of Wayne Mills )

#### **Reasons for the Reincorporation**

The management of Metalclad believes that it is in the best interests of the shareholders of Metalclad to reincorporate under the Minnesota Business Corporate Act (the Minnesota Act ) because Metalclad now has its principal offices in Minnesota, the management of Metalclad is more familiar with the laws of Minnesota, incorporation in Minnesota will result in a significant saving to Metalclad, and the provisions of Section 203 of the Delaware Law will no longer be applicable.

A large number of corporations seek to incorporate in Delaware because it is generally believed that the Delaware courts have developed considerable expertise in dealing with corporate issues, and that a substantial body of case law construing the Delaware General Corporation Law and establishing public policy has developed, making the application of those laws more predictable. While the perception is widely recognized, the Board of Directors does not believe that it presents a compelling argument to stay incorporated in Delaware. In addition, it is often perceived that Delaware Law is more favorable to management than the laws in many other states, including Minnesota.

The statutes governing corporations of many other states have been updated or revised, including the Minnesota Act, which was totally revised effective in 1984. The Minnesota Act allows for significant flexibility in the conduct of affairs of a corporation, and in many instances is substantially similar in that respect to the Delaware Law. Because of these similarities, and the recognized experience of the Delaware courts and the breadth of Delaware case law, the courts of other states, including Minnesota, often look to Delaware case law when an issue is not fully developed in that state, making incorporation in Delaware less advantageous.

By reincorporating in Minnesota, the Board of Directors believes Metalclad will effect a significant savings. The state of Delaware derives a significant amount of its revenues by charging each corporation incorporated in that state a substantial franchise tax based upon the corporation's capitalization. For 2000 and 2001, Metalclad paid \$29,600 and \$41,400, respectively, to the state of Delaware. Minnesota has no such franchise fee. Delaware Law requires that Metalclad maintain an agent for service of process in Delaware. Since Metalclad's offices are now in Minnesota, there would be no requirement to maintain an agent in Delaware. The management of Metalclad has engaged legal counsel convenient to its new corporate offices. Because of the familiarity of management and Metalclad's legal counsel with the laws of Minnesota, the Board of Directors believes that Minnesota is a better forum for its incorporation and eliminates a requirement to engage Delaware legal counsel in complicated issues of Delaware law.

The management of Metalclad is developing a strategy to change the focus of, and diversify, Metalclad's business in an attempt to improve shareholder value. In attempting to implant this strategy, transactions may be proposed which could be thwarted by the existence of Article 203 of the Delaware Law. Reorganization under the Minnesota Act would eliminate this possibility. Reorganization in Minnesota will not have any affect on the applicability of Section 203 of the Delaware Law on the transactions described under CERTAIN TRANSACTIONS Loan to Affiliate of Wayne Mills.

#### **Principal Features and Mechanics of the Reincorporation**

The proposal will be effected by the merger (the Merger) of Metalclad into Entrx, which is incorporated under Minnesota Law as a wholly-owned subsidiary of Metalclad for purposes of the Merger. Entrx will be the surviving corporation in the Merger and will continue under the name Entrx Corporation. Metalclad, as a corporate entity, will cease to exist as a result of the Merger.

The Merger will not become effective until the Reincorporation is approved by the Shareholders, and an appropriate certificate of merger is filed with the Secretary of State of the state of Delaware and articles of merger are filed with the Secretary of State of the state of Minnesota. At the effective time of the Merger (the Effective Time), Metalclad will be governed by the Entrx Articles, the Entrx Bylaws and the Minnesota Act.

At the Effective Time, each outstanding share of Metalclad common stock, par value \$.10 per share, of Metalclad will be converted into one share of common stock, \$0.01 par value per share, of Entrx. At the Effective Time, the existing Shareholders of Metalclad will automatically become Shareholders of Entrx, and Entrx will continue to operate the business of Metalclad under the name Entrx Corporation. Metalclad stock certificates will be deemed to represent the same number of Entrx shares of common stock as were represented by such Metalclad stock certificates prior to the Reincorporation.

After the Merger is consummated, American Stock Transfer and Trust Company, 59 Maiden Lane, New York, NY 10038, will act as exchange agent to effect the exchange of Metalclad common stock certificates for Entrx common stock certificates. After the Effective Time, Entrx will mail to all Shareholders a Letter of Transmittal with respect to the exchange of shares. Upon surrender of all the certificates of Metalclad stock registered in the name of a holder of such certificates (or an indemnity satisfactory to Entrx that such certificates are lost, stolen or destroyed), together with a properly completed letter of transmittal, Entrx will mail to such holder a certificate or certificates representing shares of common stock of Entrx. **DO NOT SEND IN YOUR CERTIFICATES UNTIL AFTER YOU RECEIVE TRANSMITTAL DOCUMENTS.** Until such exchange is completed, previously outstanding Metalclad stock will constitute good delivery in connection with sales or transfers through a broker, or otherwise, of shares of Entrx,

The Reincorporation will not result in any change to the daily business operations of Metalclad or the present location of the principal executive offices of Metalclad in Minneapolis, Minnesota. The consolidated financial condition and results of operations of Entrx immediately after the consummation of the Reincorporation will be substantially identical to that of Metalclad immediately prior to the consummation of the Reincorporation.

In addition, at the Effective Time, the Board of Directors of Entrx will consist of those persons immediately prior to the Merger who are directors of Metalclad (all of whom are nominees for reelection at the Meeting), and the individuals serving as executive officers of Metalclad immediately prior to the Merger will serve as executive officers of Entrx immediately following the Merger.

Pursuant to the Merger Agreement, each option or right to purchase a share of Metalclad common stock outstanding prior to Effective Time will become an option or right to purchase a share of Entrx common stock upon the same terms and conditions as existed immediately prior to the Effective Time of the Merger.

#### **Comparison of Shareholders Rights**

The rights of Metalclad's shareholders are currently governed by the Delaware Law, and Metalclad's Certificate and Bylaws. Upon completion of the Reincorporation, the old

Metalclad shareholders will become Entrx shareholders and will be governed by the Minnesota Act, and the Entrx Articles and Entrx Bylaws. Some of the material differences between Minnesota Act and Delaware Law, and the rights of a Metalclad shareholder under the Metalclad Certificate and Metalclad Bylaws, as compared to the rights of an Entrx shareholder under the Entrx Articles and Entrx Bylaws, are summarized in the COMPARISON OF MINNESOTA AND DELAWARE CORPORATE LAW attached as Exhibit A. This discussion is not intended to be a complete statement of the differences affecting the rights of Shareholders and is qualified in its entirety by reference to the corporate documents of each corporation.

A vote in favor of the proposed Reincorporation will also constitute approval of the Entrx Articles and Bylaws. In addition, a vote in favor of the proposed Reincorporation will constitute approval of the assumption by Entrx of the Metalclad benefit plans, including the 2000 Omnibus Stock Option and Incentive Plan, and the contractual obligations of Metalclad, and the substitution of shares of Entrx common stock for shares of Metalclad common stock, as the security to be received upon exercise of options granted in the future under the existing 2000 Omnibus Stock Option and Incentive Plan.

### **Tax Consequences of the Reincorporation**

The Reincorporation is intended to be tax-free under the Internal Revenue Code of 1986, as amended. Accordingly, it is anticipated that no gain or loss will be recognized by the Metalclad shareholders for federal income tax purposes as a result of the consummation of the Reincorporation. Each such shareholder will have a tax basis in the shares of capital stock of Entrx equal to the tax basis of the shares of capital stock as a capital asset, and each shareholder's holding period for the shares of capital stock of Entrx will include the holding period of the shares of capital stock deemed exchanged therefor. No gain or loss will be recognized for federal income tax purposes by Entrx, and Entrx will succeed, without adjustment to the tax attributes of Metalclad. Metalclad has not obtained a ruling from the Internal Revenue Service or an opinion of legal or tax counsel with respect to the consequences of the Reincorporation.

The foregoing is only a summary of anticipated federal income tax consequences. SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISERS REGARDING THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING THE APPLICABILITY OF THE LAWS OF ANY STATE OR OTHER JURISDICTION.

### **Proposal No. 4 AMEND ARTICLES OF INCORPORATION**

#### **Contingent Nature of Proposal**

If the Metalclad shareholders fail to approve Proposal No. 3, relating to reincorporating Metalclad as a Minnesota corporation, by the requisite vote of two-thirds of the outstanding shares, exclusive of those held by Wayne W. Mills, Proposal 3 will be deemed not to have passed and Proposal No. 4, to amend Metalclad's Certificate of Incorporation, will be presented to the shareholders for approval at the Meeting. If Proposal No. 3 is passed by the requisite vote, Proposal No. 4 will not be voted upon.

**Proposal**

The Board of Directors is proposing that the Certificate of Incorporation of Metalclad be amended to change the name of Metalclad to Entrx Corporation, and to increase the authorized capital stock of Metalclad from 81,500,000 shares, consisting of 80,000,000 shares of common stock having a par value of \$0.10 per share, and 1,500,000 shares of preferred stock having a par value of \$10.00, to 85,000,000 shares, consisting of 80,000,000 shares of common stock having a par value of \$0.10 per share, and 5,000,000 shares of preferred stock having a par value of \$1.00 per share.

**MANAGEMENT RECOMMENDS A VOTE IN FAVOR OF THE PROPOSED AMENDMENTS TO METALCLAD'S CERTIFICATE OF INCORPORATION, AND THE PROXIES WILL BE VOTED IN FAVOR OF SUCH AMENDMENTS OR AS OTHERWISE DIRECTED.**

**Specific Language of Amendment**

If approved by the Shareholders, the existing FIRST and FOURTH Sections of Metalclad's Certificate of Incorporation as they now read, would be amended in their entirety to read as follows:

FIRST: The name of the Corporation (hereinafter called the Corporation) is Entrx Corporation.

FOURTH:

- 4.1 The total number of shares of stock which the Corporation shall have authority to issue is 85,000,000, of which 80,000,000 shares shall be Common Stock having a par value of \$0.10 per share, and 5,000,000 shares shall be Preferred Stock having a par value of \$1.00 per share.
- 4.2 Each share of issued and outstanding Common Stock shall have one vote, and shall be entitled to dividends thereon as and if declared by the Board of Directors.
- 4.3 Preferred Stock may be issued in one or more series as determined by the Board of Directors, and, to the extent not prohibited by law, the Board of Directors may by resolution or resolutions, in respect of the Preferred Stock or any series thereof, designate each such series, and designate the powers, preferences, qualifications, limitations and restrictions of the Preferred Stock and each such designated series.

**Purpose and Effect of the Amendments**

The proposed change of Metalclad's name from Metalclad Corporation to Entrx Corporation is intended to reflect current management's plan to change the focus of and diversify Metalclad's business. Metalclad's subsidiary, Metalclad Insulation Corporation, will continue to use the name in connection with its insulation and asbestos abatement contracting business.

The small increase in Metalclad's authorized shares from 81,500,000 to 85,000,000 shares, including primarily the increase in the number of preferred shares from 1,500,000 to 5,000,000 shares, is being proposed to allow the Board of Directors to use Metalclad's preferred stock to effect future financing and strategic transactions in connection with Metalclad's plan to change the focus of and diversify Metalclad's business. There are currently 7,674,015 shares of Metalclad's common stock, and no shares of preferred stock, outstanding. Metalclad does not currently have any specific plan to issue new shares of common or preferred stock. Since the Board of Directors can issue shares of authorized capital stock without shareholders approval, the increase in capital stock will allow the Board of Directors to dilute the voting interests of current shareholders to a greater degree.

The amendment to the FOURTH Section of the Certificate of Incorporation involves the substitution of the language proposed above for the existing language of the FOURTH Section. Existing provisions of that Section go into significant detail in describing the powers, rights and preferences which may be established for preferred shares; however, both the existing FOURTH Section and the proposed amended FOURTH Section leave it up to the Board of Directors to determine those powers, rights and preferences.

The Board of Directors will continue to have great flexibility in establishing the terms of preferred stock in order to obtain future financing, or to structure acquisitions and allow strategic transactions. The proposed increase in the number of authorized preferred shares of capital stock, and the flexibility in structuring the terms and conditions of preferred stock may be viewed as giving the Board of Directors the ability to make a takeover attempt more difficult, such as using the shares in a counter offer for the shares of a bidder and issuing preferred shares to persons friendly to management with superior voting rights to those held by common stock holders.

The use of the increased preferred stock as an anti-takeover device is not a consideration in management's recommendation to approve the amendment to Metalclad's Certificate of Incorporation, and no such use is currently contemplated.

**EXECUTIVE COMPENSATION**

**Information Concerning Non-Director Executive Officers**

The names, ages, positions and business experience of Metalclad's non-director executive officers, as of the date of this Proxy Statement, are as follows:



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<u>Name</u>	<u>Age</u>	<u>Position</u>
Brian D. Niebur	39	Treasurer and Chief Financial Officer
Robert D. Rizzo	56	President of Metalclad Insulation Corporation

Brian D. Niebur has been employed part time by Metalclad as its Treasurer and Chief Financial Officer since February 13, 2002. Mr. Niebur is a certified public accountant, and since July, 2000, has acted as a vice president and controller for Wyncrest Capital, Inc. in Minneapolis, Minnesota, a privately held venture capital firm. Mr. Niebur's primary duties for Wyncrest Capital, Inc. are to act as chief financial officer for Marix Technologies, Inc., a development stage software company in which Wyncrest Capital, Inc. has made an equity investment. From August, 1997 until July, 2000, Mr. Niebur was the controller for Vital Images, Inc., a developer and marketer of medical visualization and analysis software, in Plymouth, Minnesota. Mr. Niebur was the vice president and controller of IVI Publishing, Inc. in Eden Prairie, Minnesota, from September, 1993 until August, 1997. IVI Publishing, Inc. was an electronic publisher of health and medical information.

Robert D. Rizzo has been the President and Chief Executive Officer, an employee, and a member of the Board of Directors of Metalclad Insulation Corporation, a wholly owned subsidiary of Metalclad, since November, 1999. Prior to November, 1999, Mr. Rizzo was a project manager at PDG Environmental, Inc., in Pittsburg, Pennsylvania, since November, 1997. PDG Environmental, Inc. is engaged in asbestos abatement. From 1995 until November 1997, Mr. Rizzo was a general manager with Smith Technology, Inc., an architectural and engineering firm specializing in hazardous waste abatement in Newport Beach, California.

**Summary Compensation Table**

The following table sets forth certain compensation information for: (1) each person who served as the Chief Executive Officer of Metalclad at any time during the year ended December 31, 2001, regardless of compensation level, and each of the other executive officers, other than the Chief Executive Officer, serving as executive officers at December 31, 2001. The foregoing persons are collectively referred to in this Proxy Statement as the Named Executive Officers. Compensation information is shown for fiscal years 1999, 2000 and 2001.

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Name/Principal Position	Year	Annual Compensation			Long Term Compensation		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		
					Restricted Stock Awards (\$)	Securities Underlying Options/SARs (#)	All Other Compensation (\$)
Grant S. Kessler (1)							
President and Chief	2001	250,000	480,000	25,920		200,000	
Executive Officer	2000	250,000	50,000	25,920			