

ENTRX CORP  
Form 10KSB  
March 14, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-KSB**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007  
Commission File Number 0-2000

**Entrx Corporation**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**95-2368719**  
(I.R.S. Employer ID No.)

**800 Nicollet Mall, Suite 2690  
Minneapolis, Minnesota**  
(Address of Principal Executive  
Office)

**55402**  
(Zip Code)

**Registrant's telephone number, including area code (612) 333-0614**

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
None	None

**Securities registered pursuant to Section 12(g) of the Act:  
Common Stock – \$.10 Par Value  
(Title of Class)**

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Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Check whether the issuer (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  No

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Check if there is no disclosure of delinquent filers in response to Items 405 of Regulation S-B in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-KSB or any amendment to this Form 10-KSB. o

Indicate by checkmark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No x

The Company's revenues from operations for the fiscal year ended December 31, 2007 totaled \$22,358,764.

The aggregate market value of the common stock held by nonaffiliates of the registrant as of February 26, 2008 was approximately \$1,627,849 based on the average of the closing bid and asked price of the registrant's common stock on such date. The number of shares outstanding of the registrant's common stock, as of February 26, 2008 was 7,656,147.

Transitional Small Business Issuer Format (Check One): Yes o No x

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All statements, other than statements of historical fact, included in this Form 10-KSB, including without limitation the statements under “Management’s Discussion and Analysis or Plan of Operation” and “Description of 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, and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve assumptions, known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of Entrx 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-KSB. Such potential risks and uncertainties include, without limitation; the outcome of existing litigation; competitive pricing and other pressures from other businesses in the Company’s markets; the accuracy of the Company’s estimate of future liability for asbestos-related injury claims; the adequacy of insurance, including the adequacy of insurance to cover current and future asbestos-related injury claims; the valuation of the Company’s investments; collectibility of a loan due from an affiliate of a former officer and principal shareholder; economic conditions generally and in the Company’s primary markets; availability of capital; the adequacy of the Company’s cash and cash equivalents; the cost of labor; the accuracy of the Company’s cost analysis for fixed price contracts; 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-KSB 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. You can identify these forward-looking statements by forward-looking words such as “may,” “will,” “expect,” “anticipate,” “believe,” “intend,” “estimate,” “continue,” and similar words.

**References to “we”, “us”, “our”, “the registrant”, “Entrx” and “the Company” in this annual report on Form 10KSB mean or refer to Entrx Corporation and its consolidated subsidiary, Metalclad Insulation Corporation, unless the context in which those words are used would indicate a different meaning.**

## ITEM 1. DESCRIPTION OF BUSINESS

### General

The Company, incorporated originally in 1947 as an Arizona corporation, was reincorporated in Delaware on November 24, 1993. In June 2002, the Company changed its name from Metalclad Corporation to Entrx Corporation. We conduct our business operations primarily through a wholly owned subsidiary, Metalclad Insulation Corporation, a California corporation.

For over 30 years, the Company and its predecessors have been providing insulation and asbestos abatement services, primarily on the West Coast. We currently provide these services through Metalclad Insulation Corporation to a wide range of industrial, commercial and public agency clients.

Our principal executive offices are located at 800 Nicollet Mall, Suite 2690, Minneapolis, Minnesota 55402, and our telephone number is (612) 333-0614. Metalclad Insulation Corporation’s principal facilities are located at 1818 East Rosslynn, Fullerton, California 92831.

### Insulation Services

**Background.** Our insulation services include the installation of high- and low-temperature insulation on pipe, ducts, furnaces, boilers, and various other types of equipment. We also maintain and repair existing insulation systems, generally under one or multi-year maintenance contracts. Our customers include refineries, utilities, chemical plants, manufacturing facilities, commercial properties, office buildings and various governmental facilities. This may include complete removal of existing insulation during the repair operations. The removed insulation may or may not be asbestos containing. We also fabricate specialty items for the insulation industry, and occasionally sell insulation

material and accessories to our customers. Metalclad Insulation Corporation is a licensed general and specialty contractor and typically provides project management, labor, tools, equipment and materials necessary to complete its installation projects.

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We perform substantially all of the work required to complete most contracts, while generally subcontracting to others the scaffolding, painting and other trades not performed by Metalclad Insulation. In a typical insulation project, we obtain plans and specifications prepared by the owner of a facility or its agent. In projects where the customer is the owner of the facility, we may act as the general contractor. We may also work as a subcontractor for other general contractors. Projects for the installation of insulation in new construction may require one or more years to complete.

If a project involves the removal of asbestos containing materials, we first treat the materials with water and a wetting agent, and take other like precautions, to minimize fiber release. Dry removal is conducted in special cases where wetting is not feasible, provided Environmental Protection Agency ("EPA") approval is obtained. Our workers also remove asbestos laden 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 where the insulation is 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.

***Insulation Contracts.*** We normally enter into service contracts on either a "cost plus" or "fixed-price" basis, either through competitive bids or direct negotiations.

Cost plus contracts, sometimes referred to as "time and materials" contracts, generally provide for reimbursement of our costs incurred on a particular project, including labor and materials, plus the payment of a fee normally equal to a percentage of these costs. These contracts generally provide for monthly payments covering both reimbursements 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 contracts generally require that we perform all work for an agreed upon price, often by a specified date. Such contracts usually provide for increases in the contract price if our construction costs increase due to changes in or delays of the project initiated or caused by the customer or owner. However, absent causes resulting in increases in contract prices, we take certain risks, including the risk that our costs associated with the project exceed the agreed upon price. In such cases, generally accepted accounting principles require that we recognize the full amount of the expected loss at the point where contract costs are expected to exceed contract revenues. Our failure to accurately predict the extent of the effort required and cost of labor on one insulation removal project commenced on April 18, 2005 and subsequent revisions in our estimates of costs to complete, resulted in the recognition of losses of \$566,000 in 2006 and an additional loss of \$127,000 in 2007. Under these fixed-price contracts we normally receive periodic payments based on the work performed to a particular date, less certain retentions. The amounts retained are held by the customer pending either satisfactory completion of our work or, in some cases, satisfactory completion of the entire project.

In accordance with industry practice, most of our contracts are subject to termination or modification by the customer, with provision for the recovery of costs incurred and the payment to us of a proportionate part of our fees in the case of a cost-plus contract, and overhead and profit in the case of a fixed price contract. Such termination or modification occurs in the regular course of our business due to changes in the work to be performed as determined by the customer throughout the term of a project. No single termination or modification has had or is expected to have a material adverse impact on our business.

***Operations and Employee Safety.*** All contract work is performed by trained personnel, and supervised by project managers trained and experienced in both construction and asbestos abatement. Each employee involved in asbestos abatement must complete a general training and safety program conducted by the Company or union affiliation. 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 employees engaged in asbestos abatement activities are required to attend a minimum four-day course approved by the EPA and the Occupational Safety and Health Administration ("OSHA"), and all supervisors of abatement projects

are required to attend an eight-hour first aid/CPR/safety course and an eight-hour EPA/AHERA refresher course annually. At December 31, 2007, two of our full-time salaried employees and 68 hourly employees had 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. We typically conduct a job safety analysis in the job bidding stage.

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We require the use of protective equipment on all projects, and sponsor periodic medical examinations of all of our hourly field employees. During removal procedures, asbestos containing material is generally treated to minimize fiber release, and filtration devices are used to minimize contamination levels. Air monitoring to determine asbestos fiber contamination levels is conducted on all abatement projects involving the removal of friable asbestos. We have a comprehensive policy and procedure manual that covers all activities of an asbestos abatement project, and the specific responsibilities and implementation of 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 review findings, and to include updated information regarding industry practices. To separate our responsibilities and limit our liability, we utilize unaffiliated third party laboratories for asbestos sampling analysis, and licensed independent waste haulers for the transportation and disposal of asbestos waste.

**Materials and Supplies.** We purchase our insulating and asbestos abatement materials and supplies used in our insulation services from a number of national manufacturers, and we are not dependent on any one source.

### **Marketing and Sales**

**Insulation Contracting Services.** We currently obtain most of our insulation contracting business from existing customers, and through referrals by customers, engineers, architects, and construction firms. Additional business is obtained by referrals obtained through labor, industry and trade association affiliations.

Projects are often 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. We are frequently invited to bid on projects, and obtain a significant amount of our contracts through the competitive bidding process.

Our marketing and sales effort emphasizes our experience, reputation for timely performance, and knowledge of the insulation and asbestos abatement industry. We are a member of the Western Insulation Contractors Association and various local business associations.

**Curtom-Metalclad Joint Venture.** In 1989, Metalclad Insulation Corporation entered into a joint venture with a minority service firm, known as Curtom Building & Development Corporation ("Curtom Building"). Metalclad Insulation Corporation owns a 49% interest in the joint venture. The joint venture, known as "Curtom-Metalclad," submitted bids for insulation and asbestos abatement services. When contracts were obtained by the joint venture, we performed the work specified in the contract as a subcontractor to the joint venture. The joint venture agreement, as amended, provides that Curtom-Metalclad will receive 2.5% of revenues obtained by Metalclad Insulation Corporation as a subcontractor, of which 80% will be distributed to Curtom Building and 20% will be retained by Curtom-Metalclad. We retain the remaining revenues. Sales for the year ended December 31, 2007 for Curtom-Metalclad projects were approximately \$1,738,000 or 7.8% of our revenue, compared to \$3,383,000 or 17.3% of revenue in 2006. While the revenues and gross profit from the subcontracts we performed for Curtom-Metalclad were significant to us in the past, we do not anticipate any significant revenues through Custom-Metalclad after 2008. Curtom-Metalclad has no material assets, liabilities or earnings. We believe the termination of the Curtom-Metalclad joint venture and the loss of revenues that joint venture generated, would not have a material adverse affect on us. In accordance with FIN 46R "Consolidation of Variable Interest Entities", we have consolidated Curtom-Metalclad since we have determined we are the primary beneficiary.

**Customers.** Our customers are generally either 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 agencies, schools, hospitals, commercial and light

manufacturing companies, and general or mechanical construction contractors. During 2007, Jacobs Field Services North America, Inc. and ARB, Inc accounted for 17.4% and 17.9% of our revenues, respectively. We cannot project whether a significant portion of our revenues will be derived from these customers in 2008. It is often the case in our business that a customer that represented over 10% of our revenues in one year would not represent over 10% of our revenues in the following year. (See Note 13 to the Consolidated Financial Statements.)

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**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 similar to the Company. Many of the national and regional competitors providing integrated services are well established and have substantially greater marketing, financial, and technological resources than we do. The regional and local specialty contracting companies, which compete with us, either provide one service or they provide integrated services by subcontracting part of their services to other companies. We believe that the primary competitive factors for our services are price, technical performance and reliability. We obtain a significant number of our insulation service contracts through the competitive bidding process. We believe that our bids are generally competitively priced. Our policy is to bid all projects with the expectation of a reasonable gross profit.

**Backlog.** Our backlog for insulation services at December 31, 2007 and December 31, 2006 was approximately \$12,629,000 and \$11,305,000, 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. Approximately 74% of our backlog is under cost-plus contracts. Our backlog as of any date is not necessarily indicative of future revenues. We estimate that our entire backlog as of December 31, 2007 will be completed during the next eighteen months.

#### **Insurance and Bonding.**

**General Liability.** Our 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.

**Performance Bonds.** While our current insulation and asbestos abatement services customers generally do not require performance bonds, an increasing number of customers have requested such bonds. While the changes in the bonding industry have made it more difficult to obtain performance bonds, we believe that our current bonding arrangements are adequate for our anticipated future needs.

**Asbestos Insurance Coverage.** Prior to 1975, we were engaged in the sale and installation of asbestos-related insulation materials, which has resulted in numerous claims of personal injury allegedly related to asbestos exposure. Many of these claims are now being brought by the children and close relatives of persons who have died, allegedly as a result of the direct or indirect exposure to asbestos. To date all of our asbestos-related injury claims have been paid and defended by our insurance carriers.

Based on the general trend of reducing asbestos-related injury claims made against the Company over the past seven years, we project that 738 asbestos-related injury claims will be made against the Company in the future, in addition to the 222 claims existing as of December 31, 2007, totaling 960 claims. Multiplying the average indemnity paid per resolved claim over the past seven years of \$19,700, by 960, we project the probable future indemnity to be paid on those claims to be equal to approximately \$19 million. In addition, multiplying an estimated cost (which cost is included within the limits of our insurance coverage) of defense per resolved claim of approximately \$13,500 by 960, we project the probable future defense costs to equal approximately \$13 million. See Item 3 - "Legal Proceedings - Asbestos-related Claims."

There are numerous insurance carriers which have issued a number of policies to us over a period extending from approximately 1967 through approximately 1985 that still provide coverage for asbestos-related injury claims. After approximately 1985 the policies were issued with provisions which purport to exclude coverage for asbestos related claims. The terms of our insurance policies are complex, and coverage for many types of claims is limited as to the nature of the claim and the amount of coverage available. It is clear, however, under California law, where the substantial majority of the asbestos-related injury claims are litigated, that all of those policies cover any asbestos-related injury occurring during the 1967 through 1985 period when these policies were in force.



We have engaged legal counsel to review all of our known insurance policies, and to provide us with the amount of coverage which such counsel believes to be probable under those policies for current and future asbestos-related injury claims against us. Such legal counsel has provided us with its opinion of the minimum probable coverage available to satisfy asbestos-related injury claims, which significantly exceeds our estimated \$36,000,000 liability for such claims at December 31, 2007.

On February 23, 2005 ACE Property & Casualty Company ("ACE"), Central National Insurance Company of Omaha ("Central National") and Industrial Underwriters Insurance Company ("Industrial"), which are all related entities, filed a declaratory relief lawsuit ("the ACE Lawsuit") against Metalclad Insulation Corporation ("Metalclad") and a number of Metalclad's other liability insurers, in the Superior Court of the State of California, County of Los Angeles. ACE, Central National and Industrial issued umbrella and excess policies to Metalclad, which has sought and obtained from the plaintiffs both defense and indemnity under these policies for the asbestos lawsuits brought against Metalclad during the last four to five years. The ACE Lawsuit seeks declarations regarding a variety of coverage issues, but is centrally focused on issues involving whether historical and currently pending asbestos lawsuits brought against Metalclad are subject to either an "aggregate" limits of liability or separate "per occurrence" limits of liability. Whether any particular asbestos lawsuit is properly classified as being subject to an aggregate limit of liability depends upon whether or not the suit falls within the "products" or "completed operations" hazards found in most of the liability policies issued to Metalclad. Resolution of these classification issues will determine if, as ACE and Central National allege, their policies are nearing exhaustion of their aggregate limits and whether or not other Metalclad insurers who previously asserted they no longer owed any coverage obligations to Metalclad because of the claimed exhaustion of their aggregate limits, in fact, owe Metalclad additional coverage obligations. The ACE Lawsuit also seeks to determine the effect of the settlement agreement between the Company and Allstate Insurance Company entered into in June 2004 on the insurance obligations of various other insurers of Metalclad, and the effect of the "asbestos exclusion" in the Allstate policy. The ACE Lawsuit does not seek any monetary recovery from Metalclad. Nonetheless, we anticipate that we will incur attorneys fees and other associated litigation costs in defending the lawsuit and any counter claims made against us by any other insurers, and in prosecuting any claims we may seek to have adjudicated regarding our insurance coverage. In addition, the ACE Lawsuit may result in our incurring costs in connection with obligations we may have to indemnify Allstate under the settlement agreement discussed under "Insurance Policy Settlement" below. Allstate, in a cross-complaint filed against Metalclad Insulation Corporation in October, 2005, asked the court to determine the Company's obligation to assume and pay for the defense of Allstate in the ACE Lawsuit under the Company's indemnification obligations in the settlement agreement. The Company does not believe that it has any legal obligation to assume or pay for such defense.

In 2003 and 2004 the Judiciary Committee of the United States Senate considered legislation to create a privately funded, publicly administered fund to provide the necessary resources for an asbestos injury claims resolution program, and is commonly referred to as the "FAIR" Act. In 2005, a draft of the "FAIR" Act was approved by the Judiciary Committee, but the bill was rejected by the full Senate in February 2006, when a cloture motion on the bill was withdrawn. An amended version of the 2006 "FAIR" Act (S 3274) was introduced in the Senate in May 2006, but has not been scheduled for a vote. A similar bill was introduced in the House (HR 1360) in March 2005, but was referred to a subcommittee in May 2005. The latest draft of the "FAIR" Act calls for the fund to be funded partially by asbestos defendant companies, of which the Company is one, and partially by insurance companies. The bill could be voted on by the Senate or the House at any time in the future. The impact, if any, the "FAIR" Act will have on us if passed cannot be determined at this time although the latest draft of the legislation did not appear favorable to us.

**Insurance Policy Settlement.** In June 2004, Metalclad Insulation Corporation, our wholly owned subsidiary, and Entrx Corporation, entered into a Settlement Agreement and Full Policy Release (the "Agreement") releasing Allstate Insurance Company from its policy obligations for a broad range of claims arising from injury or damage which may have occurred during the period March 15, 1980 to March 15, 1981, under an umbrella liability policy (the "Policy"). The Policy provided limits of \$5,000,000 in the aggregate and per occurrence. Allstate claimed that liability under the Policy had not attached, and that regardless of that fact, an exclusion in the Policy barred coverage for virtually all

claims of bodily injury from exposure to asbestos, which is of primary concern to Metalclad Insulation Corporation. Metalclad Insulation Corporation took the position that such asbestos coverage existed. The parties to the Agreement reached a compromise, whereby Metalclad Insulation Corporation received \$2,500,000 in cash, and Metalclad Insulation Corporation and Entrx Corporation agreed to indemnify and hold harmless Allstate from all claims which could be alleged against the insurer respecting the policy, limited to \$2,500,000 in amount. Based on past experience related to asbestos insurance coverage, we believe that the Agreement we entered into in June 2004, will result in a probable loss contingency for future insurance claims based on the indemnification provision in the Agreement. Although we are unable to estimate the exact amount of the loss, we believe at this time the reasonable estimate of the loss will not be less than \$375,000 or more than \$2,500,000 (the \$2,500,000 represents the maximum loss we would have based on the indemnification provision in the Agreement). Based on the information available to us, no amount in this range appears at this time to be a better estimate than any other amount. The \$375,000 estimated loss contingency noted in the above range represents 15% of the \$2,500,000 we received and is based upon our attorney's informal and general inquiries to an insurance company of the cost for us to purchase an insurance policy to cover the indemnification provision we entered into. We recorded a reserve of \$375,000 at the time we entered into the Agreement and nothing has come to our attention that would require us to record a different estimate at December 31, 2007.

## **Employees.**

As of December 31, 2007, we had two part-time salaried employees in our executive offices and 15 full-time salaried employees in our insulation business in California, for a total of 17 employees. These included three executive officers, project managers/estimators, purchasing, accounting, and office staff.

As of December 31, 2007, our subsidiary, Metalclad Insulation Corporation, employed approximately 220 hourly employees for insulation and asbestos/lead abatement contracting services, nearly all of whom are members of Local No. 5 - International Association of Heat and Frost Insulators and Asbestos Workers ("AFL-CIO") or Laborers Local Union 300, which makes hourly employees available to us. Metalclad Insulation Corporation is a party to agreements with local chapters of various trade unions. The number of hourly employees employed by us fluctuates depending upon the number and size of projects that we have under construction at any particular time. It has been our experience that hourly employees are generally available for our projects, and we have continuously employed a number of hourly employees on various projects over an extended period of time. We consider our relations with our hourly employees and the unions representing them to be good, and have not experienced any recent work stoppages due to strikes by such employees. Additionally, the trade union agreements we are a party to include no strike, no work stoppage provisions. In August, 2004 a new "Basic Agreement" was signed with Local No. 5 of the International Association of Heat and Frost Insulators and Asbestos Workers that expires in September 2008. We anticipate that a new agreement will be reached prior to the expiration of the current agreement. The "Basic Agreement" included a "Maintenance Agreement" as an addendum. Approximately 95% of our hourly employees are covered by the Local No. 5 agreement. A new agreement with the Laborers Local 300 was signed in January 2007 and expires in December 2009. Approximately 5% of our hourly employees are covered by the Labors Local 300 agreement.

## **Government Regulation**

***Insulation Services and Material Sales Regulation.*** As a general and insulation specialty contractor, we are subject to regulation requiring us to obtain licenses from several state and municipal agencies. Other than licensing, our 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.

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 asbestos containing material ("ACM") and asbestos insulation, establish procedures for handling ACM during demolition and renovations, and prohibit airborne fiber emissions during removal, transportation and disposal of ACM.

We believe that we are substantially in compliance with all regulations relating to our asbestos abatement operations, and currently have all material government permits, licenses, qualifications and approvals required for our operations.

## **ITEM 2. DESCRIPTION OF PROPERTY**

Our executive offices are located in Minneapolis, Minnesota, which consists of approximately 2,400 square feet leased at a current rate of \$2,000 per month, on a month-to-month basis.

Our wholly owned subsidiary, Metalclad Insulation Corporation, is housed in a facility in Fullerton, California. This facility consists of approximately 27,100 square feet of office and warehouse space. The Company has leased this facility through December 31, 2011 at a monthly rate of \$13,500 per month with yearly rent increases of approximately 3% per year. The lease contains an option for the Company to renew for an additional five years as defined in the agreement.

An inactive subsidiary of the Company, Ecosistemas del Potosi SA de CV, owns an approximately 92-hectare parcel (approximately 227 acres) of land in Santa Maria del Rio near San Luis Potosi, Mexico. We are presently attempting to dispose of this property. Such sale or disposition will not have a material effect on the Company as the land has a value of less than \$15,000.

We believe that the properties currently owned and leased by us are adequate for our operations for the foreseeable future.

## **ITEM 3. LEGAL PROCEEDINGS**

### **Asbestos-related Claims**

Prior to 1975, we were engaged in the sale and installation of asbestos-related insulation materials, which has resulted in numerous claims of personal injury allegedly related to asbestos exposure. Many of these claims are now being brought by the children and close relatives of persons who have died, allegedly as a result of the direct or indirect exposure to asbestos. To date all of our asbestos-related injury claims have been paid and defended by our insurance carriers.

The number of asbestos-related cases which have been initiated naming us (primarily our subsidiary, Metalclad Insulation Corporation) as a defendant decreased from 351 in 2003, to 265 in 2004 and to 199 in 2005, but increased in 2006 to 232. The number decreased to 163 in 2007. At December 31, 2003, 2004, 2005, 2006 and 2007, there were, respectively, approximately 853, 710, 507, 404 and 222 cases pending. These claims are currently defended and covered by insurance.

Set forth below is a table for the years ended December 31, 2003, 2004, 2005, 2006 and 2007, which sets forth for each such period the approximate number of asbestos-related cases filed, the number of such cases resolved by dismissal or by trial, the number of such cases resolved by settlement, the total number of resolved cases, the number of filed cases pending at the end of such period, the total indemnity paid on all resolved cases, the average indemnity paid on all settled cases and the average indemnity paid on all resolved cases:

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	2003	2004	2005	2006	2007
New cases filed	351	265	199	232	163
Defense judgments and dismissals	311	311	294	253	292
Settled cases	175	97	108	82	53
Total resolved cases <sup>(1)</sup>	486	408	402 <sup>(3)</sup>	335	345 <sup>(3)</sup>
Pending cases <sup>(1)</sup>	853	710	507 <sup>(2,3)</sup>	404	222 <sup>(3)</sup>
Total indemnity payments	\$ 10,618,700	\$ 6,366,750	\$ 8,513,750	\$ 4,858,750	\$ 7,974,500
Average indemnity paid on settled cases	\$ 60,678	\$ 65,637	\$ 78,831	\$ 59,253	\$ 150,462
Average indemnity paid on all resolved cases	\$ 21,849	\$ 15,605	\$ 21,178	\$ 14,504	\$ 23,114

<sup>(1)</sup>Total resolved cases includes, and the number of pending cases excludes, cases which have been settled but which have not been closed for lack of final documentation or payment.

<sup>(2)</sup>The average indemnity paid on resolved cases does not include, and the number of pending cases includes, a jury award rendered on March 22, 2005 and a judgment on that award rendered on April 4, 2005, finding Metalclad Insulation Corporation liable for \$1,117,000 in damages, which is covered by insurance. The judgment is being appealed by our insurer.

<sup>(3)</sup>Of the decrease from 710 cases pending at December 31, 2004 to 507 cases pending at December 31, 2005, were 80 cases which had been previously counted in error and are included in "Defense judgments and dismissals" and "Total resolved cases", so that the actual decrease over the year ended December 31, 2005 was 123 cases. Included in the decrease from 404 cases pending at December 31, 2006 to 222 cases pending at December 31, 2007, were 53 cases which had been previously counted in error and are included in "Defense judgments and dismissals" and "Total resolved cases", so that the actual decrease for the year ended December 31, 2007 was 129 cases.

The number of asbestos-related claims made against the Company since 2003, as well as the number of cases pending at the end of each of those years, has reflected a general downward trend from 2003 through 2007. We believe that it is probable that this general trend will continue, although such continuance cannot be assured. The average indemnity paid on all resolved claims has fluctuated over the past five-year period ended December 31, 2007 from a high of \$23,114 in 2007, to a low of \$14,504 in 2006, with an average indemnity payment of \$19,250 over the same five-year period. We believe that the sympathies of juries, the aggressiveness of the plaintiffs' bar and the declining base of potential defendants as the result of business failures, have tended to increase payments on resolved cases. This tendency, we believe, has been mitigated by the declining pool of claimants resulting from death, and the likelihood that the most meritorious claims have been ferreted out by plaintiffs' attorneys and that the newer cases being brought are not as meritorious nor do they have as high a potential for damages as do cases which were brought earlier. We have no reason to believe, therefore, that the average future indemnity payments will increase materially in the future.

In addition, direct defense costs per resolved claim increased from \$8,514 in 2003 to \$16,700 in 2007. We believe that these defense costs increased as a result of a change in legal counsel in 2004, and the more aggressive defense posture taken by new legal counsel since that change. We do not believe that the defense costs will increase materially in the future, and are projecting those costs to be approximately \$13,500 per claim.

Based on the general trend of reducing asbestos-related injury claims made against the Company over the prior six calendar years, we projected in our Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2006 that there would be 924 asbestos-related injury claims made against the Company after December 31, 2006. The 924, in addition to the 404 claims existing as of December 31, 2006, totaled 1,328 current and future claims. Multiplying the average indemnity per resolved claim over the past six years of \$19,131, times 1,328, we projected the probable future indemnity to be paid on those claims after December 31, 2006 to be equal to approximately \$25 million. In addition, multiplying an estimated cost of defense per resolved claim of approximately

\$13,500 times 1,328, we projected the probable future defense costs to equal approximately \$18 million. Accordingly, our total estimated future asbestos-related liability at December 31, 2006 was \$43 million.

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As of December 31, 2006, we projected that approximately 186 new asbestos-related claims would be commenced, and approximately 237 cases would be resolved, in 2007, resulting in an estimated 353 cases pending at December 31, 2007. Although the actual number of claims made in 2007 was 163 and the number of cases pending as of December 31, 2007 was 222, slightly less than we anticipated, we do not believe the differences are significant enough to re-evaluate our estimate. In addition, our future defense costs could be greater than projected, and such increase could partially offset any lower projection of liability which would result from such re-evaluation. Since we projected that an aggregate of 738 new cases would be commenced after December 31, 2007, and that 148 of these cases would be commenced in 2008, we estimated that an aggregate of 590 new cases would be commenced after December 31, 2008. Accordingly, we have projected the cases pending and projected to be commenced in the future at December 31, 2008, would be 897 cases. Multiplying 897 claims times the approximate average indemnity paid and defense costs incurred per resolved claim from 2002 through 2006 of \$32,600, we estimated our liability for current and future asbestos-related claims at December 31, 2008 to be approximately \$29,000,000. This amounts to a \$7,000,000 reduction from the \$36,000,000 liability we estimated as of December 31, 2007, or a \$1,750,000 reduction per quarter in 2008.

We have determined that it is probable that we have sufficient insurance to provide coverage for both current and future projected asbestos-related injury claims. This determination assumes that the current trend of reducing asbestos-related injury claims will continue and that the average indemnity and direct legal costs of each resolved claim will not materially increase. The determination also assumes that the insurance companies live up to what we believe is their obligation to continue to cover our exposure with regards to these claims. Several affiliated insurance companies have brought a declaratory relief action against our subsidiary, Metalclad, as well as a number of other insurers, to resolve certain coverage issues.

We intend to re-evaluate our estimate of future liability for asbestos claims at the end of each fiscal year, or whenever actual results are materially different from our estimates, integrating our actual experience in that fiscal year with that of prior fiscal years since 2002. We estimate that the effects of economic inflation on either the average indemnity payment or the projected direct legal expenses will be approximately equal to a discount rate applied to our future liability based upon the time value of money. It is probable that we have adequate insurance to cover current and future asbestos-related claims, although such coverage cannot be assured.

Although defense costs are included in our insurance coverage, we expended \$174,000, \$304,000, \$188,000, \$215,000 and \$296,000 in 2003, 2004, 2005, 2006 and 2007, respectively, to administer the asbestos claims and defend the ACE Lawsuit discussed below. These amounts were primarily fees paid to attorneys to monitor the activities of the insurers, and their selected defense counsel, and to look after our rights under the various insurance policies.

On February 23, 2005 ACE Property & Casualty Company ("ACE"), Central National Insurance Company of Omaha ("Central National") and Industrial Underwriters Insurance Company ("Industrial"), which are all related entities, filed a declaratory relief lawsuit ("the ACE Lawsuit") against Metalclad Insulation Corporation ("Metalclad") and a number of Metalclad's other liability insurers, in the Superior Court of the State of California, County of Los Angeles. ACE, Central National and Industrial issued umbrella and excess policies to Metalclad, which has sought and obtained from the plaintiffs both defense and indemnity under these policies for the asbestos lawsuits brought against Metalclad during the last four to five years. The ACE Lawsuit seeks declarations regarding a variety of coverage issues, but is centrally focused on issues involving whether historical and currently pending asbestos lawsuits brought against Metalclad are subject to either an "aggregate" limits of liability or separate "per occurrence" limits of liability. Whether any particular asbestos lawsuit is properly classified as being subject to an aggregate limit of liability depends upon whether or not the suit falls within the "products" or "completed operations" hazards found in most of the liability policies issued to Metalclad. Resolution of these classification issues will determine if, as ACE and Central National allege, their policies are nearing exhaustion of their aggregate limits and whether or not other

Metalclad insurers who previously asserted they no longer owed any coverage obligations to Metalclad because of the claimed exhaustion of their aggregate limits, in fact, owe Metalclad additional coverage obligations. The ACE Lawsuit also seeks to determine the effect of the settlement agreement between the Company and Allstate Insurance Company on the insurance obligations of various other insurers of Metalclad, and the effect of the “asbestos exclusion” in the Allstate policy. The ACE Lawsuit does not seek any monetary recovery from Metalclad. Nonetheless, we anticipate that we will incur attorneys fees and other associated litigation costs in defending the lawsuit and any counter claims made against us by any other insurers, and in prosecuting any claims we may seek to have adjudicated regarding our insurance coverage. In addition, the ACE Lawsuit may result in our incurring costs in connection with obligations we may have to indemnify Allstate under a settlement agreement (See “Item 1 - Description of Business - Insurance and Bonding - Insurance Policy Settlement”). Allstate, in a cross-complaint filed against Metalclad Insulation Corporation in October, 2005, asked the court to determine the Company’s obligation to assume and pay for the defense of Allstate in the ACE Lawsuit under the Company’s indemnification obligations in the settlement agreement. The Company does not believe that it has any legal obligation to assume or pay for such defense.

In 2003 and 2004 the Judiciary Committee of the United States Senate considered legislation to create a privately funded, publicly administered fund to provide the necessary resources for an asbestos injury claims resolution program, and is commonly referred to as the "FAIR" Act. In 2005, a draft of the "FAIR" Act was approved by the Judiciary Committee, but the bill was rejected by the full Senate in February 2006, when a cloture motion on the bill was withdrawn. An amended version of the 2006 "FAIR" Act (S 3274) was introduced in the Senate in May 2006, but has not been scheduled for a vote. A similar bill was introduced in the House (HR 1360) in March 2005, but was referred to a subcommittee in May 2005. The latest draft of the "FAIR" Act calls for the fund to be funded partially by asbestos defendant companies, of which the Company is one, and partially by insurance companies. The bill could be voted on by the Senate or the House at any time in the future. The impact, if any, the "FAIR" Act will have on us if passed cannot be determined at this time although the latest draft of the legislation did not appear favorable to us.

**Claim Against Former Employee, Etc.**

In October 1999, we completed the sale of our operating businesses and development project located in Aguascalientes, Mexico. That sale specifically excluded those Mexican assets involved in the Company's NAFTA claim which was settled in 2001. Under the terms of the sale we received an initial cash payment of \$125,000 and recorded a receivable for \$779,000, which has been fully reserved. 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 this sale seeking damages in the form of a monetary award. An arbitration hearing was held in September, 2002 in Mexico City, as requested by one of the defendants. This arbitration hearing was solely to determine the validity of the assignment of the purchase and sale agreement by the buyer to a company formed by the former employee defendant. The Superior Court action against the U.S. parent was stayed pending the Mexican arbitration. On April 8, 2003, the arbitrator ruled that the assignment was inexistent, due to the absence of our consent. In June 2003, the Court of Appeal for the State of California ruled that the U.S. parent was also entitled to compel a Mexican arbitration of the claims raised in our complaint. We are now prepared to pursue our claim in an arbitration proceeding for the aforementioned damages. No assurances can be given on the outcome.

In a related action, a default was entered against us in December, 2002, in favor of the same former employee referred to in the foregoing paragraph by the Mexican Federal Labor Arbitration Board, for an unspecified amount. The former employee was seeking in excess of \$9,000,000 in damages as a result of his termination as an employee. The default was obtained without the proper notice being given to us, and was set aside in the quarter ended June 30, 2003. The Mexican Federal Labor Arbitration Board rendered a recommendation on December 13, 2004, to the effect that the former employee was entitled to an award of \$350,000 from Entrx in connection with the termination of his employment. The award is in the form of a recommendation which has been affirmed by the Mexican Federal Court, but is only exercisable against assets of the Company located in Mexico. The Company has no material assets in Mexico. The award does not represent a collectible judgment against the Company in the United States. Since the Company has no material assets in Mexico, the likelihood of any liability based upon this award is remote, and we therefore believe that there is no potential liability to the Company at December 31, 2007 or 2006. The Company intends to continue to pursue its claims against the same employee for breach of contract, fraud, collusion and other causes of action in connection with the 1999 sale of one of the Company's operating businesses in Mexico.

On May 31, 2006, we entered into a Settlement Agreement with Ventana Global Environmental Organizational Partnership, L.P. and North America Environmental Fund, L.P. (collectively referred to as “Ventana”) whereby Ventana agreed to pay Entrx Corporation \$1,250,000 in exchange for the dismissal with prejudice by Entrx Corporation of the law suit (the “Ventana Action”) filed by Entrx Corporation against Ventana and others in Orange County, California Superior Court in November 2000. Entrx Corporation and Ventana also entered into a mutual release of all claims each may have had against the other. In addition, Entrx Corporation released Carlos Alberto de Rivas Oest and Geologic de Mexico S.A. de C.V., which were parties related to Ventana, and against whom Entrx Corporation had claims pending in Mexico. The Settlement Agreement does not limit claims that Entrx had or currently has against Javier Guerra Cisneros and Promotora Industrial Galeana, S.A. de C.V., which Entrx Corporation continues to pursue in Mexico. Javier Guerra Cisneros and Promotora Industrial Galeana, S.A. de C.V. were involved with the transactions which were the subject of the Ventana Action. Entrx Corporation received approximately \$925,000 net after payment of legal fees and expenses associated with the Ventana Action and the Settlement Agreement.

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

None

### PART II

#### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

##### Market for Common Stock

Since February 16, 2005 our common stock has traded on the pink sheets under the symbol ENTRX.PK. The following table sets forth, for the fiscal periods indicated, the high and low bid prices for the Common Stock as reported by Nasdaq or as quoted over-the-counter and recorded in the pink sheets. The bid prices represent prices between broker-dealers and do not include retail mark-ups and mark-downs or any commissions to the dealer. These bid prices may not reflect actual transactions.

	Bid Price	
	High	Low
<b><u>Fiscal Year Ended December 31, 2006</u></b>		
Quarter Ended March 31, 2006	\$ 0.24	\$ 0.13
Quarter Ended June 30, 2006	0.25	0.15
Quarter Ended September 30, 2006	0.35	0.18
Quarter Ended December 31, 2006	0.23	0.11
<b><u>Fiscal Year Ended December 31, 2007</u></b>		
Quarter Ended March 31, 2007	\$ 0.47	\$ 0.16
Quarter Ended June 30, 2007	0.34	0.17
Quarter Ended September 30, 2007	0.38	0.16
Quarter Ended December 31, 2007	0.46	0.28

As of February 26, 2008, the closing bid price for the common shares in the pink sheets was \$0.27.

##### Shareholders of Record

As of February 26, 2008, the approximate number of record holders of our Common Stock was 1,500.

##### Dividends

We have not paid any cash dividends on our Common Stock since our incorporation, and anticipate that, for the foreseeable future, earnings, if any, will continue to be retained for use in our business.

Unregistered Sales of Securities

The following table sets forth certain information regarding the sale of common stock by the Company during the calendar year 2007 in transactions which were not registered under the Securities Act of 1933 (the "Act").

Date of Sale	Number of Shares Sold	Person(s) to Whom Sold	Consideration Paid	Exemption from Registration Relied Upon Under the Act <sup>(1)</sup>
3/9/2007	115,000 Shares	Members of the Board of Directors of Entrx Corporation (4 members) and Metalclad Insulation Corporation (1 member)	Services as directors, valued at \$0.16 per share	Section 4(2) of the Securities Act of 1933, as a transaction not involving a public offering.

(1) Each member of the Board of Directors of Entrx Corporation, the chief executive officer of Entrx and the Director of Metalclad Insulation Corporation are deemed to be "accredited investors" by reason of their offices.

**ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**Summary.

Our revenues increased from \$19,517,000 in 2006 to \$22,359,000 in 2007. Gross margin percentage increased from 14.8% in 2006 to 17.9% in 2007. Revenues increased primarily due to the Company obtaining new insulation services contracts, and hiring additional project managers which allows the Company to bid on more projects. The gross margin percentage increased for 2007 as compared with 2006 due to the Company recording an anticipated loss of \$566,000 on a single project in 2006 which negatively impacted the gross margin in 2006. We anticipate that our revenues will continue to increase in 2008 due to the increase in our backlog at December 31, 2007 as compared to December 31, 2006, and anticipate that gross margin percentages in 2008 will approximate those in 2007.

We had net income of \$622,000 in 2007. We had net income of \$2,052,000 in 2006 primarily due to the operating income at Metalclad Insulation Corporation, a \$1,725,000 gain recorded on the sale of a building, land and building improvements and \$1,025,000 of income related to the settlement of lawsuits. An additional allowance of \$1,084,000 on a shareholder note receivable partially offset the net income.

In an effort to increase shareholder value and to diversify from our insulation services business, we have made equity investments in several companies that are not in the insulation services business and which we believed had the ability to provide acceptable return on our investments. We have investments in the common stock of Catalytic Solutions, Inc., and the common stock of Clearwire Corporation, which we value at \$450,000 and \$540,000, respectively. Both of these companies are in the early stages of their business development. Our investments represent less than 5% ownership in each company and represent approximately 2.2% and 2.3% of the Company's total assets at December 31, 2007 and 2006, respectively. Catalytic Solutions, Inc. manufactures and delivers proprietary technology that improves the performance and reduces the cost of catalytic converters. Catalytic's common stock is traded on the AIM market in London under the symbol "CTS". Clearwire Corporation is a provider of non-line-of-sight plug-and-play broadband wireless access systems. Clearwire's common stock is traded on the NASDAQ market under the symbol "CLWR". We also own 190,566 shares of the common stock of VioQuest Pharmaceuticals, Inc., the common stock of which is publicly traded on the NASD Bulletin Board under the symbol "VQPH". Of the 190,566 shares, 75,000 shares are subject to options exercisable by one current and two former members of our Board of Directors at \$1.25 per share. Any or all of these investments could be impaired in the future. See "Liquidity and Capital Resources."



Our subsidiary, Metalclad Insulation Corporation, continues to be engaged in lawsuits involving asbestos-related injury or potential injury claims. The 163 claims made in 2007 were down from the 232 claims made in 2006. The average indemnity payment on all resolved claims during each of the past five years has fluctuated from a high of \$23,114 in 2007, to a low of \$14,504 in 2006. These claims are currently defended and covered by insurance. We have projected that our future liability for currently outstanding and estimated future asbestos-related claims was approximately \$43,000,000 at December 31, 2006 and approximately \$36,000,000 at December 31, 2007. We have determined that it is probable that we have sufficient insurance to provide coverage for both current and future projected asbestos-related injury claims. This determination assumes that the recent trend of reducing asbestos-related injury claims will continue, and that the average indemnity and direct legal costs of each resolved claim will not materially increase. The determination also assumes that the insurance companies live up to what we believe is their obligation to continue to cover our exposure with regards to these claims. Several affiliated insurance companies have brought a declaratory relief action against our subsidiary, Metalclad, as well as a number of other insurers, to resolve certain coverage issues. (See Item 3, "Legal Proceedings - Asbestos-related Claims") In addition, we paid approximately \$296,000 and \$215,000 in 2007 and 2006, respectively, in legal fees to assess and monitor the asbestos-related claims, assess, to monitor our insurance coverage and insurance company activities involving the defense and payment of these claims, and to defend the ACE Lawsuit. We anticipate that this cost will continue.

### **Results of Operations**

**General.** Our revenues have been generated primarily from insulation services and sales of insulation products and related materials in the United States.

#### ***Year Ended December 31, 2007 Compared to Year Ended December 31, 2006.***

**Revenue.** Total revenues were \$22,358,000 in 2007 as compared to \$19,517,000 for 2006, an increase of 14.6%. The increase from 2007 to 2006 was primarily a result of the Company obtaining new insulation services contracts, and hiring additional project managers which allowed the Company to bid on more projects in 2007 and which ultimately increased the number of jobs in which we were the winning bidder.

**Cost of Revenue and Gross Margin.** Total cost of revenue for the year ended December 31, 2007 was \$18,353,000 as compared to \$16,638,000 for the year ended December 31, 2006, an increase of 10.3%. The gross margin as a percentage of revenue was approximately 17.9% for the year ended December 31, 2007 compared to 14.8% for the year ended December 31, 2006. The increase in the gross margin percentage during the year ended December 31, 2007 as compared with the year ended December 31, 2006 is primarily the result of the Company recording a charge of \$566,000 related to an anticipated loss on a project during the year ended December 31, 2006. The increase in the cost of revenues for the year ended December 31, 2007 as compared to the year ended December 31, 2006 was primarily due to higher revenues as discussed above.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$3,291,000 for the year ended December 31, 2007 as compared to \$2,401,000 for the year ended December 31, 2006, an increase of 37.1% due primarily to a increases in compensation expenses, performance bonuses, legal expenses and bad debt expense.

**Other Operating Expense.** For the year ended December 31, 2006, we increased our reserve against the note receivable from Blake Capital Partners, LLC ("Blake") by \$1,083,885 as a result of the non-payment of interest, bringing the net of the note receivable less the reserve down to \$210,000, the approximate value of the collateral securing the note. During 2007, the Company canceled 500,000 shares of the Company's common stock that were pledged as collateral on the note and applied the value of the stock, \$115,000 against the outstanding note receivable balance. The Company is exploring its opportunities to obtain proceeds from the sale of 250,000 shares of VioQuest Pharmaceuticals, Inc. common stock (OTC Bulletin Board: VQPH), also pledged as collateral on the note. As such,



the Company has continued to adjust the carrying value of the note receivable to the approximate value of the collateral securing the note at December 31, 2007, which has increased the reserve by \$70,000 for the year ended December 31, 2007. (See "Liquidity and Capital Resources" under this Item 6 below).

**Interest Income and Expense.** Interest expense for the year ended December 31, 2007 was \$10,000 as compared with interest expense of \$107,000 for the year ended December 31, 2006. The decrease in 2007 as compared to 2006 was primarily due to the pay-off of debt after the sale of the Company's California building during the year ended December 31, 2006. The note with Pandora Select Partners L.P. was also repaid in June 2006. Interest income decreased from \$105,000 in the year ended December 31, 2006 to \$60,000 in the year ended December 31, 2007, primarily due to the Company not recording any interest income on the note receivable from Blake Capital Partners, LLC in the second half of 2006 or the year ended December 31, 2007.

**Gain on Sale of Building, Land, and Building Improvements.** Gain on sale of building, land and building improvements was \$1,725,000 for the year ended December 31, 2006. This gain was related to the sale of the Company's facilities in Anaheim, California that housed the Company's insulation operations.

**Other Income and Expense.** Other income for the year ended December 31, 2006 was \$1,025,000. \$100,000 of other income related to the settlement agreement with Meyers-Reynolds whereby Meyers-Reynolds agreed to pay Entrx Corporation \$100,000 in exchange for the dismissal with prejudice by Entrx Corporation of the law suit filed by Entrx Corporation against Meyers-Reynolds. Also included in the \$1,025,000 of other income for the year ended December 31, 2006 was \$925,000 related to the settlement agreement with Ventana Global Environmental Organizational Partnership, L.P. and North America Environmental Fund, L.P. (collectively referred to as "Ventana") whereby Ventana agreed to pay Entrx Corporation \$1,250,000 in exchange for the dismissal with prejudice by Entrx Corporation of the law suit (the "Ventana Action") filed by Entrx Corporation against Ventana and others in Orange County, California Superior Court in November 2000. Entrx Corporation received \$925,000 net after payment of legal fees and expenses associated with the settlement.

In an effort to increase shareholder value and to diversify from our insulation services business, we have made equity investments in several companies that are not in the insulation services business and which we believed had the ability to provide acceptable return on our investments. For the year ended December 31, 2007 we recognized an impairment charge of \$80,000 related to our investment in VioQuest Pharmaceuticals, Inc. For the year ended December 31, 2006 we recognized an impairment charge of \$91,000 related to our investment in VioQuest Pharmaceuticals, Inc. The impairment charges were due to the decline in the fair value below the cost basis that was judged to be other than temporary.

**Net Income.** We realized net income of \$622,000 (or net income of \$0.08 per share) for the year ended December 31, 2007, as compared to net income of \$2,052,000 (or net income of \$0.26 per share) for the comparable period ended December 31, 2006. The net income for the year ended December 31, 2006 was primarily due to the gain on the sale of our facilities in Anaheim, California, our settlement with Ventana Global Environmental Organizational Partnership, L.P. and North America Environmental Fund, L.P. and the improved operating results at Metalclad Insulation Corporation.

### **Liquidity and Capital Resources**

As of December 31, 2007, we had \$1,445,000 in cash and cash equivalents and \$559,000 in available-for-sale securities. The Company had working capital of \$5,402,000 as of December 31, 2007.

In an effort to increase shareholder value and to diversify from our insulation services business, we made an equity investment in Catalytic Solutions, Inc., that is not in the insulation services business and which we believed had the ability to provide acceptable return on our investment. We currently have an investment in Catalytic Solutions, Inc. which we value at \$450,000. This company is in the early stages of its business development. Our investment represents less than 5% ownership and represents approximately 1.0% of the Company's total assets at December 31, 2007. Catalytic Solutions, Inc. manufactures and delivers proprietary technology that improves the performance and reduces the cost of catalytic converters. Catalytic Solutions, Inc. is traded on the AIM market in London, England.

Cash used in continuing operations was \$24,000 for 2007, compared with cash provided by continuing operations of \$446,000 in 2006. For the year ended December 31, 2007 the negative cash flow from operations was primarily the result of an increase in accounts receivable and an increase in costs and estimated earnings in excess of billings on uncompleted contracts, partially offset by our net income and an increase in accounts payable and accrued expenses. The increase in accounts receivable is primarily due to an increase in revenues. For the year ended December 31, 2006 the positive cash flow from operations was primarily the result of our net income, a decrease in inventories, a decrease in other receivables and a gain on the settlement of the Ventana action. These sources of cash were partially offset by an increase in accounts receivable.

Net investing activities used \$25,000 of cash in the year ended December 31, 2007, and provided \$3,566,000 of cash in 2006. Additions to property and equipment used \$64,000 and \$171,000 in 2007 and 2006, respectively, primarily for our subsidiary, Metalclad Insulation Corporation. During the year ended December 31, 2007, cash of \$39,000 was provided by proceeds from sales of assets. During the year ended December 31, 2006, cash of \$3,738,000 was provided by proceeds from sales of assets, primarily related to the sale of the Company's facilities in Anaheim, California.

Cash used in financing activities totaled \$114,000 in 2007 compared with cash used in financing activities of \$2,819,000 in 2006. During the year ended December 31, 2006, \$2,831,000 of cash was used to repay the note payable to bank, the mortgage payable on the building we sold and the Company's note to Pandora Select Partners L.P. Long-term borrowings provided \$114,000 of cash in 2006 and payments on long-term borrowings used \$114,000 and \$102,000 of cash in 2007 and 2006, respectively.

In 2001, \$1,250,000 was loaned to an affiliate of Wayne W. Mills, Blake Capital Partners, LLC ("Blake") under a note ("Note") secured by 500,000 shares of the Company's common stock and any dividends received on those shares. At the time the loan was made, Mr. Mills was a principal shareholder of the Company, and was subsequently elected as the Company's President and Chief Executive Officer. In November 2003, the Board of Directors of the Company negotiated an amendment to the security agreement (the "Amended and Restated Security Agreement") which it believed to be beneficial to the Company. The Note as amended (the "New Note") is in the principal amount of \$1,496,370, and provided for an October 31, 2007 due date, with interest at 2% over the prime rate established by Wells Fargo Bank, NA in Minneapolis, Minnesota, adjusted on March 1 and September 1 of each year, instead of the 12% rate established in the Note. Interest only was payable commencing March 1, 2004, and at the end of each six-month period thereafter. The New Note is with full recourse to Blake Capital Partners, which had minimal assets, other than 350,000 shares of the Company's common stock and 175,000 shares of VioQuest Pharmaceuticals, Inc., all of which, along with 150,000 shares of the Company's common stock and 75,000 shares of VioQuest Pharmaceuticals, Inc. owned by Mr. Mills, had been held by the Company as collateral for the New Note. The Amended and Restated Security Agreement, unlike the original Security Agreement, did not require us, or permit Blake Capital Partners or Mr. Mills, to cancel the shares of the Company's common stock held as collateral as full payment of the loan, or require us to apply the value of those cancelled shares at \$2.50 per share against the principal balance of the amounts due. In addition, Mr. Mills has personally guaranteed the repayment of the New Note.

For the year ended December 31, 2006, we increased our reserve against the note receivable from Blake Capital Partners, LLC ("Blake") by \$1,083,885 as a result of the non-payment of interest, bringing the net of the note receivable less the reserve down to \$210,000, the approximate value of the collateral securing the Note. In April 2007, the Company canceled 500,000 shares of the Company's common stock that were pledged as collateral on the New Note and applied the \$115,000 value of the stock against the outstanding New Note balance. The New Note was not repaid on the October 31, 2007 due date. As of December 31, 2007 the Company adjusted the net book value of the New Note to \$25,000, the approximate value of the collateral securing the New Note. The Company is exploring its opportunities to obtain proceeds from the sale of the VioQuest Pharmaceuticals, Inc. common stock, also pledged as collateral on the note.

Prior to 1975, we were engaged in the sale and installation of asbestos-related insulation materials, which has resulted in numerous claims of personal injury allegedly related to asbestos exposure. Many of these claims are now being brought by the children and close relatives of persons who have died, allegedly as a result of the direct or indirect exposure to asbestos. To date, all of the asbestos-related injury claims have been defended and paid by our insurance carriers.

The number of asbestos-related cases which have been initiated naming us (primarily our subsidiary, Metalclad Insulation Corporation) as a defendant decreased to 351 in 2003, to 265 in 2004 and to 199 in 2005, but increased in 2006 to 232. The number decreased to 163 in 2007. At December 31, 2003, 2004, 2005, 2006 and 2007, there were,

respectively, approximately 853, 710, 507, 404 and 222 cases pending. These claims are currently defended and covered by insurance.

Set forth below is a table for the years ended December 31, 2003, 2004, 2005, 2006 and 2007, which sets forth for each such period the approximate number of asbestos-related cases filed, the number of such cases resolved by dismissal or by trial, the number of such cases resolved by settlement, the total number of resolved cases, the number of filed cases pending at the end of such period, the total indemnity paid on all resolved cases, the average indemnity paid on all settled cases and the average indemnity paid on all resolved cases:

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	2003	2004	2005	2006	2007
New cases filed	351	265	199	232	163
Defense judgments and dismissals	311	311	294 <sup>(3)</sup>	253	292 <sup>(3)</sup>
Settled cases	175	97	108	82	53
Total resolved cases <sup>(1)</sup>	486	408	402 <sup>(3)</sup>	335	345 <sup>(3)</sup>
Pending cases <sup>(1)</sup>	853	710	507 <sup>(2,3)</sup>	404	222 <sup>(3)</sup>
Total indemnity payments	\$ 10,618,700	\$ 6,366,750	\$ 8,513,750	\$ 4,858,750	\$ 7,974,500
Average indemnity paid on settled cases	\$ 60,678	\$ 65,637	\$ 78,831	\$ 59,253	\$ 150,462
Average indemnity paid on all resolved cases	\$ 21,849	\$ 15,605	\$ 21,178	\$ 14,504	\$ 23,114

<sup>(1)</sup> Total resolved cases includes, and the number of pending cases excludes, cases which have been settled but which have not been closed for lack of final documentation or payment.

<sup>(2)</sup> The average indemnity paid on resolved cases does not include, and the number of pending cases includes, a jury award rendered on March 22, 2005 and a judgment on that award rendered on April 4, 2005, finding Metalclad Insulation Corporation liable for \$1,117,000 in damages, which is covered by insurance. The judgment is being appealed by our insurer.

<sup>(3)</sup> Of the decrease from 710 cases pending at December 31, 2004 to 507 cases pending at December 31, 2005, were 80 cases which had been previously counted in error and are included in "Defense judgments and dismissals" and "Total resolved cases", so that the actual decrease over the year ended December 31, 2005 was 123 cases. Included in the decrease from 404 cases pending at December 31, 2006 to 222 cases pending at December 31, 2007, were 53 cases which had been previously counted in error and are included in "Defense judgments and dismissals" and "Total resolved cases", so that the actual decrease for the year ended December 31, 2007 was 129 cases.

The number of asbestos-related claims made against the Company since 2003, as well as the number of cases pending at the end of each of those years, has reflected a general downward trend from 2003 through 2007. We believe that it is probable that this general trend will continue, although such continuance cannot be assured. The average indemnity paid on all resolved claims has fluctuated over the past five-year period ended December 31, 2007 from a high of \$23,114 in 2007, to a low of \$14,504 in 2006, with an average indemnity payment of \$19,250 over the same five-year period. We believe that the sympathies of juries, the aggressiveness of the plaintiffs' bar and the declining base of potential defendants as the result of business failures, have tended to increase payments on resolved cases. This tendency, we believe, has been mitigated by the declining pool of claimants resulting from death, and the likelihood that the most meritorious claims have been ferreted out by plaintiffs' attorneys and that the newer cases being brought are not as meritorious nor do they have as high a potential for damages as do cases which were brought earlier. We have no reason to believe, therefore, that the average future indemnity payments will increase materially in the future.

In addition, direct defense costs per resolved claim increased from \$8,514 in 2003 to \$16,700 in 2007. We believe that these defense costs increased as a result of a change in legal counsel in 2004, and the more aggressive defense posture taken by new legal counsel since that change. We do not believe that the defense costs will increase materially in the future, and are projecting those costs to be approximately \$13,500 per claim.

Based on the general trend of reducing asbestos-related injury claims made against the Company over the prior six calendar years, we projected in our Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2006 that there would be 924 asbestos-related injury claims made against the Company after December 31, 2006. The 924, in addition to the 404 claims existing as of December 31, 2006, totaled 1,328 current and future claims. Multiplying the average indemnity per resolved claim over the past six years of \$19,131, times 1,328, we projected the probable future indemnity to be paid on those claims after December 31, 2006 to be equal to approximately \$25 million. In addition, multiplying an estimated cost of defense per resolved claim of approximately \$13,500 times 1,328, we projected the probable future defense costs to equal approximately \$18 million. Accordingly, our total estimated future asbestos-related liability at December 31, 2006 was \$43 million.



As of December 31, 2006, we projected that approximately 186 new asbestos-related claims would be commenced, and approximately 237 cases would be resolved, in 2007, resulting in an estimated 353 cases pending at December 31, 2007. Although the actual number of claims made in 2007 was 163, and the number of cases pending as of December 31, 2007 was 222, slightly less than we anticipated, we do not believe the differences are significant enough to re-evaluate our estimate. In addition, our future defense costs could be greater than projected, and such increase could partially offset any lower projection of liability which would result from such re-evaluation. Since we projected that an aggregate of 738 new cases would be commenced after December 31, 2007, and that 148 of these cases would be commenced in 2008, we estimated that an aggregate of 590 new cases would be commenced after December 31, 2008. Accordingly, we have projected the cases pending and projected to be commenced in the future at December 31, 2008, would be 897 cases. Multiplying 897 claims times the approximate average indemnity paid and defense costs incurred per resolved claim from 2002 through 2006 of \$32,600, we estimated our liability for current and future asbestos-related claims at December 31, 2008 to be approximately \$29,000,000. This amounts to a \$7,000,000 reduction from the \$36,000,000 liability we estimated as of December 31, 2007, or a \$1,750,000 reduction per quarter in 2008.

We have determined that it is probable that we have sufficient insurance to provide coverage for both current and future projected asbestos-related injury claims. This determination assumes that the current trend of reducing asbestos-related injury claims will continue and that the average indemnity and direct legal costs of each resolved claim will not materially increase. The determination also assumes that the insurance companies live up to what we believe is their obligation to continue to cover our exposure with regards to these claims. Several affiliated insurance companies have brought a declaratory relief action against our subsidiary, Metalclad, as well as a number of other insurers, to resolve certain coverage issues.

We intend to re-evaluate our estimate of future liability for asbestos claims at the end of each fiscal year, or whenever actual results are materially different from our estimates, integrating our actual experience in that fiscal year with that of prior fiscal years. We estimate that the effects of economic inflation on either the average indemnity payment or the projected direct legal expenses will be approximately equal to a discount rate applied to our future liability based upon the time value of money. It is probable that we have adequate insurance to cover current and future asbestos-related claims, although such coverage cannot be assured.

Although defense costs are included in our insurance coverage, we expended \$174,000, \$304,000, \$188,000, \$215,000 and \$296,000 in 2003, 2004, 2005, 2006 and 2007, respectively, to administer the asbestos claims and defend the ACE Lawsuit discussed below. These amounts were primarily fees paid to attorneys to monitor the activities of the insurers, and their selected defense counsel, and to look after our rights under the various insurance policies.

There are numerous insurance carriers which have issued a number of policies to us over a period extending from approximately 1967 through approximately 1985 that still provide coverage for asbestos-related injury claims. After approximately 1985 the policies were issued with provisions which purport to exclude coverage for asbestos related claims. The terms of our insurance policies are complex, and coverage for many types of claims is limited as to the nature of the claim and the amount of coverage available. It is clear, however, under California law, where the substantial majority of the asbestos-related injury claims are litigated, that all of those policies cover any asbestos-related injury occurring during the 1967 through 1985 period when these policies were in force.

We have engaged legal counsel to review all of our known insurance policies, and to provide us with the amount of coverage which such counsel believes to be probable under those policies for current and future asbestos-related injury claims against us. Such legal counsel has provided us with its opinion of the minimum probable insurance coverage available to satisfy asbestos-related injury claims, which significantly exceeds our estimated \$36 million future liability for such claims as of December 31, 2007. Accordingly, we have included \$36,000,000 and \$43,000,000 of such insurance coverage receivable as an asset on our 2007 and 2006 balance sheets, respectively.





On February 23, 2005 ACE Property & Casualty Company ("ACE"), Central National Insurance Company of Omaha ("Central National") and Industrial Underwriters Insurance Company ("Industrial"), which are all related entities, filed a declaratory relief lawsuit ("the ACE Lawsuit") against Metalclad Insulation Corporation ("Metalclad") and a number of Metalclad's other liability insurers, in the Superior Court of the State of California, County of Los Angeles. ACE, Central National and Industrial issued umbrella and excess policies to Metalclad, which has sought and obtained from the plaintiffs both defense and indemnity under these policies for the asbestos lawsuits brought against Metalclad during the last four to five years. The ACE Lawsuit seeks declarations regarding a variety of coverage issues, but is centrally focused on issues involving whether historical and currently pending asbestos lawsuits brought against Metalclad are subject to either an "aggregate" limits of liability or separate "per occurrence" limits of liability. Whether any particular asbestos lawsuit is properly classified as being subject to an aggregate limit of liability depends upon whether or not the suit falls within the "products" or "completed operations" hazards found in most of the liability policies issued to Metalclad. Resolution of these classification issues will determine if, as ACE and Central National allege, their policies are nearing exhaustion of their aggregate limits and whether or not other Metalclad insurers who previously asserted they no longer owed any coverage obligations to Metalclad because of the claimed exhaustion of their aggregate limits, in fact, owe Metalclad additional coverage obligations. The ACE Lawsuit also seeks to determine the effect of the settlement agreement between the Company and Allstate Insurance Company on the insurance obligations of various other insurers of Metalclad, and the effect of the "asbestos exclusion" in the Allstate policy. The ACE Lawsuit does not seek any monetary recovery from Metalclad. Nonetheless, we anticipate that we will incur attorneys fees and other associated litigation costs in defending the lawsuit and any counter claims made against us by any other insurers, and in prosecuting any claims we may seek to have adjudicated regarding our insurance coverage. In addition, the ACE Lawsuit may result in our incurring costs in connection with obligations we may have to indemnify Allstate under a settlement agreement (See "Item 1 – Description of Business – Insurance and Bonding – Insurance Policy Settlement"). Allstate, in a cross-complaint filed against Metalclad Insulation Corporation in October, 2005, asked the court to determine the Company's obligation to assume and pay for the defense of Allstate in the ACE Lawsuit under the Company's indemnification obligations in the settlement agreement. The Company does not believe that it has any legal obligation to assume or pay for such defense.

In 2003 and 2004 the Judiciary Committee of the United States Senate considered legislation to create a privately funded, publicly administered fund to provide the necessary resources for an asbestos injury claims resolution program, and is commonly referred to as the "FAIR" Act. In 2005, a draft of the "FAIR" Act was approved by the Judiciary Committee, but the bill was rejected by the full Senate in February 2006, when a cloture motion on the bill was withdrawn. An amended version of the 2006 "FAIR" Act (S 3274) was introduced in the Senate in May 2006, but has not been scheduled for a vote. A similar bill was introduced in the House (HR 1360) in March 2005, but was referred to a subcommittee in May 2005. The latest draft of the "FAIR" Act calls for the fund to be funded partially by asbestos defendant companies, of which the Company is one, and partially by insurance companies. The bill could be voted on by the Senate or the House at any time in the future. The impact, if any, the "FAIR" Act will have on us if passed cannot be determined at this time although the latest draft of the legislation did not appear favorable to us.

The following summarizes our contractual obligations at December 31, 2007. The 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 (See Note 9).

	Total	1 Year or Less	1-3 Years	4-5 Years	Over 5 Years
Long-term debt	\$ 245,470	\$ 113,000	\$ 132,470	\$ -	\$ -
Non-cancelable leases	865,224	162,972	518,832	183,420	-
Estimated interest payments	5,488	3,208	2,280	-	-
Total	\$ 1,116,182	\$ 279,180	\$ 653,582	\$ 183,420	\$ -

During 2007 and 2006, we did not pay or declare any cash dividends and do not intend to pay any cash dividends in the near future.



The Company projects that cash flow generated through the operations of its subsidiary, Metalclad Insulation Corporation, and the Company's cash balance at December 31, 2007, will be sufficient to meet the Company's cash requirements for at least the next twelve months.

### **Impact of Inflation**

We reflect price escalations in our quotations to our insulation customers and in the 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 us 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 us as the contracts are completed; however, the majority of our contracts are completed within 12 months of their commencement and we believe that the impact of inflation on such contracts is insignificant.

### **Significant Accounting Policies**

Our critical accounting policies are those both having the most impact to the reporting of our financial condition and results, and requiring significant judgments and estimates. Our critical accounting policies include those related to (a) revenue recognition, (b) investments in unconsolidated affiliates, (c) allowances for uncollectible notes and accounts receivable, (d) judgments and estimates used in determining the need for an accrual, and the amount, of our asbestos liability, and (e) evaluation and estimates of our probable insurance coverage for asbestos-related claims. Revenue recognition for 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. Revenue recognition on time and material contracts is recognized based upon the amount of work performed. We have made investments in companies which can still be considered to be in the startup or development stages. We monitor these investments for impairment considering factors such as the severity and duration of any decline in fair value, our ability and intent to retain our investment for a period of time sufficient to allow for a recovery of market value and based on the financial condition and near-term prospects of these companies. We make appropriate reductions in carrying values if we determine an impairment charge is required. These investments are inherently risky, as the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize. Notes and accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. The estimated allowance for uncollectible amounts is based primarily on our evaluation of the financial condition of the noteholder or customer. Future changes in the financial condition of a note payee or customer may require an adjustment to the allowance for uncollectible notes and accounts receivable. We have estimated the probable amount of future claims related to our asbestos liability and the probable amount of insurance coverage related to those claims. We offset proceeds received from our insurance carriers resulting from claims of personal injury allegedly related to asbestos exposure against the payment issued to the plaintiff. The cash from the insurance company goes directly to the plaintiff, so we never have access to this cash. We never have control over any of the funds the insurance company issues to the plaintiff. Once a claim is settled, payment of the claim is normally made by the insurance carrier or carriers within 30 to 60 days. Changes in any of the judgments and estimates could have a material impact on our financial condition and results of operations.

### **New Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. We are evaluating the impact, if any, that the adoption of SFAS No. 157 will have on our financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS 159 permits entities to choose to measure certain financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect to elect to apply SFAS 159 to its financial assets and liabilities. Therefore, SFAS 159 is expected to have no impact on the Company's financial position and results of operations.

Effective January 1, 2007, the Company adopted FASB Interpretation (FIN) No. 48 (FIN No. 48), "Accounting for Uncertainty in Income Taxes". The adoption of FIN No. 48 had no material impact on the financial position or results of operations for the year ended December 31, 2007.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS 141(R) requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their respective acquisition-date fair values and changes other practices under SFAS No. 141, Business Combinations, some of which could have a material impact on how an entity accounts for its business combinations. SFAS 141(R) also requires additional disclosure of information surrounding a business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, and is to be applied prospectively to business combinations for which the acquisition date is on or after December 15, 2008. The provisions of SFAS 141(R) will only impact the Company if it is party to a business combination after the pronouncement has been adopted.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements - an amendment of ARB No. 51. SFAS 160 requires entities to report non-controlling minority interests in subsidiaries as equity in consolidated financial statements. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The Company does not believe that SFAS 160 will have any impact on its financial position or results of operations since none of its subsidiaries are owned by minority interests.

**Item 7. FINANCIAL STATEMENTS**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders, Audit Committee and Board of Directors  
Entrx Corporation and subsidiaries  
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of Entrx Corporation and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Entrx Corporation and subsidiaries as of December 31, 2007 and 2006 and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Virchow, Krause & Company, LLP

Minneapolis, Minnesota  
March 10, 2008

**ENTRX CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31, 2007	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,444,883	\$ 1,607,580
Available-for-sale securities	559,436	99,094
Accounts receivable, less allowance for doubtful accounts of \$80,000 and \$15,000 as of December 31, 2007 and December 31, 2006, respectively	5,466,889	4,052,823
Costs and estimated earnings in excess of billings on uncompleted contracts	631,625	364,981
Inventories	107,118	27,763
Prepaid expenses and other current assets	273,156	191,309
Insurance claims receivable	7,000,000	8,000,000
Shareholder note receivable, net of allowance of \$1,356,000 and \$1,286,000 as of December 31, 2007 and 2006, respectively	25,000	210,000
Other receivables	180,015	374,175
<b>Total current assets</b>	<b>15,688,122</b>	<b>14,927,725</b>
Property, plant and equipment, net	366,954	331,041
Investments in unconsolidated affiliates	450,000	1,206,889
Insurance claims receivable	29,000,000	35,000,000
Other assets	193,540	201,560
<b>Total Assets</b>	<b>\$ 45,698,616</b>	<b>\$ 51,667,215</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 113,000	\$ 89,327
Accounts payable	1,251,423	946,417
Accrued expenses	1,859,048	1,486,082
Reserve for asbestos liability claims	7,000,000	8,000,000
Billings in excess of costs and estimated earnings on uncompleted contracts	62,394	106,353
<b>Total current liabilities</b>	<b>10,285,865</b>	<b>10,628,179</b>
Long-term debt, less current portion	132,470	67,762
Reserve for asbestos liability claims	29,000,000	35,000,000
<b>Total liabilities</b>	<b>39,418,335</b>	<b>45,695,941</b>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value \$1; 5,000,000 shares authorized; none issued	-	-
Common stock, par value \$0.10; 80,000,000 shares authorized; 7,616,147 issued and outstanding at December 31, 2007 and 8,455,947 and 8,001,147 issued and outstanding, respectively, at December 31, 2006	807,095	845,595
Additional paid-in capital	69,821,881	70,260,746
Less treasury stock at cost, 454,800 shares at December 31, 2006	-	(380,765)