

ENTRX CORP
Form 10-Q
August 12, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-2000

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

Delaware

95-2368719

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

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

55402
(Zip Code)

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

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting Company | <input checked="" type="checkbox"/> |

As of August 7, 2009, the registrant had 7,416,211 shares outstanding of its Common Stock, \$.10 par value.

ENTRX CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

| | Page |
|--|-----------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements. | |
| Consolidated Balance Sheets at June 30, 2009 (unaudited) and December 31, 2008 (audited) | 1 |
| Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2009 and 2008 (unaudited) | 2 |
| Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008 (unaudited) | 3 |
| Notes to Consolidated Financial Statements (unaudited) | 4 |
| Item 2. Management's Discussion of Financial Condition and Results of Operations | 11 |
| Item 4T. Controls and Procedures | 17 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings | 17 |
| Item 2. Unregistered Sale of Securities | 20 |
| Item 4. Submission of Matters to a Vote of Security Holders | 21 |
| Item 6. Exhibits | 21 |
| SIGNATURES | 21 |

References to “we”, “us”, “our”, “the registrant” and “the Company” in this quarterly report on Form 10-Q shall 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.

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

ENTRX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | June 30, 2009 (unaudited) | December 31, 2008 (audited) |
|---|---------------------------------|-----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,610,504 | \$ 2,078,666 |
| Available-for-sale securities | 227,080 | 296,266 |
| Accounts receivable, less allowance for doubtful accounts of \$80,000 as of June 30, 2009 and December 31, 2008 | 3,133,743 | 5,697,084 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 969,745 | 1,067,384 |
| Inventories | 134,272 | 115,670 |
| Prepaid expenses and other current assets | 97,833 | 292,957 |
| Insurance claims receivable | 6,800,000 | 7,250,000 |
| Other receivables | 142,118 | 138,229 |
| Total current assets | 15,115,295 | 16,936,256 |
| Property, plant and equipment, net | 301,961 | 369,981 |
| Insurance claims receivable | 34,825,000 | 38,000,000 |
| Other assets | 46,620 | 46,620 |
| | \$ 50,288,876 | \$ 55,352,857 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 134,456 | \$ 153,290 |
| Accounts payable | 388,351 | 999,737 |
| Accrued expenses | 1,330,263 | 1,942,453 |
| Reserve for asbestos liability claims | 6,800,000 | 7,250,000 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 182,394 | 100,615 |
| Total current liabilities | 8,835,464 | 10,446,095 |
| Long-term debt, less current portion | 76,291 | 140,602 |
| Reserve for asbestos liability claims | 34,825,000 | 38,000,000 |
| Total liabilities | 43,736,755 | 48,586,697 |
| 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; 7,416,211 and 7,656,147 issued and outstanding at June 30, 2009 and December 31, 2008, respectively | 787,101 | 811,095 |
| Additional paid-in capital | 69,764,897 | 69,831,881 |

| | | |
|--|---------------|---------------|
| Accumulated deficit | (64,024,974) | (63,876,816) |
| Accumulated other comprehensive income | 25,097 | - |
| Total shareholders' equity | 6,552,121 | 6,766,160 |
| | \$ 50,288,876 | \$ 55,352,857 |

See Notes to Consolidated Financial Statements

ENTRX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|--------------|---------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| Contract revenues | \$ 5,111,587 | \$ 5,203,348 | \$ 10,489,836 | \$ 13,760,098 |
| Contract costs and expenses | 4,317,251 | 4,192,696 | 8,847,511 | 11,323,660 |
| Gross margin | 794,336 | 1,010,652 | 1,642,325 | 2,436,438 |
| Operating expenses: | | | | |
| Selling, general and administrative | 837,768 | 863,533 | 1,701,543 | 1,812,035 |
| Change in allowance on shareholder note receivable | - | 8,750 | - | 16,250 |
| Gain on disposal of property, plant and equipment | - | (2,700) | - | (14,550) |
| Total operating expenses | 837,768 | 869,583 | 1,701,543 | 1,813,735 |
| Operating income (loss) | (43,432) | 141,069 | (59,218) | 622,703 |
| Interest income | 5,000 | 10,585 | 9,533 | 21,112 |
| Interest expense | (1,980) | (1,281) | (4,190) | (3,650) |
| Impairment charge on available-for-sale securities | (94,283) | (12,056) | (94,283) | (185,209) |
| Net income (loss) | (134,695) | 138,317 | (148,158) | 454,956 |
| Other comprehensive income (loss) | | | | |
| Unrealized gains (losses) on available-for-sale securities | (45,088) | (79,257) | (69,185) | (41,618) |
| Reclassification adjustment for unrealized losses on available-for-sale securities recognized in net income | 94,283 | 12,056 | 94,283 | 185,209 |
| Comprehensive income (loss) | \$ (85,500) | \$ 71,116 | \$ (123,060) | \$ 598,547 |
| Weighted average number of common shares — basic and diluted | 7,640,884 | 7,656,147 | 7,648,473 | 7,650,213 |
| Net income (loss) per share of common stock — basic and diluted | \$ (0.02) | \$ 0.02 | \$ (0.02) | \$ 0.06 |

See Notes to Consolidated Financial Statements

ENTRX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six Months Ended June 30, | |
|--|---------------------------|--------------|
| | 2009 | 2008 |
| | (unaudited) | |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (148,158) | \$ 454,956 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 108,222 | 100,524 |
| Gain on disposal of property, plant and equipment | - | (14,550) |
| Impairment charge on investments | 94,283 | 185,209 |
| Common stock issued for services | 17,500 | 14,000 |
| Allowance on shareholder note receivable | - | 16,250 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 2,563,341 | 2,081,358 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 97,639 | (272,655) |
| Inventories | (18,602) | (196,022) |
| Prepaid expenses and other current assets | 195,124 | 194,067 |
| Other receivables | (3,889) | (148,943) |
| Other assets | - | 123,402 |
| Accounts payable and accrued expenses | (1,223,576) | (808,878) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 81,779 | 55,300 |
| Net cash provided by operating activities | 1,763,663 | 1,784,018 |
| Cash flows from investing activities: | | |
| Capital expenditures | (40,202) | (1,466) |
| Net cash used in investing activities | (40,202) | (1,466) |
| Cash flows from financing activities: | | |
| Payments on long-term debt | (83,145) | (71,614) |
| Repurchases of common stock | (108,478) | - |
| Net cash used in financing activities | (191,623) | (71,614) |
| Increase in cash and cash equivalents | 1,531,838 | 1,710,938 |
| Cash and cash equivalents at beginning of period | 2,078,666 | 1,444,883 |
| Cash and cash equivalents at end of period | \$ 3,610,504 | \$ 3,155,821 |
| Non-cash investing and financing activities: | | |
| Acquisition of property, plant and equipment in exchange for notes payable | \$ - | \$ 132,072 |

See Notes to Consolidated Financial Statements

ENTRX CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 For the Three and Six Months Ended June 30, 2009 and 2008
 (Unaudited)

1. The accompanying unaudited consolidated financial statements of Entrx Corporation and its subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America. In the opinion of management all adjustments, consisting of normal recurring items, necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

2. The income per share amounts for the three and six months ended June 30, 2009 and 2008, were computed by dividing the net income by the weighted average shares outstanding during the applicable period. Dilutive common equivalent shares have not been included in the computation of diluted income per share because their inclusion would be antidilutive.

All stock options and warrants were anti-dilutive for the three and six months ended June 30, 2009. Common share equivalents are anti-dilutive in periods where the Company generates a net loss. For the three and six months ended June 30, 2008 all stock options and warrants were anti-dilutive because their respective exercise prices were greater than the average market price of the common stock.

3. On May 4, 2009, the Company's shareholders approved two proposals to amend Entrx's Restated and Amended Certificate of Incorporation. The first amendment effected a reverse 1-for-500 share stock split of Entrx's common stock. The second amendment effected a subsequent forward 500-for-1 share stock split of Entrx's common stock. The proposals had the effect of reducing the number of the Company's shareholders from an estimated 2,350 to between 800 and 900, and the number of shareholders of record from approximately 520 to approximately 53, by cashing out fractional shares after the reverse stock split. The shareholdings of a person owning 500 shares or more of Entrx in any one account was unaffected, while the shares held by persons owning less than 500 shares of Entrx in any one account were bought out at the price of \$0.35 per share. The amendments were effective with regards to shareholders of record at the close of business on May 15, 2009. There were 309,936 shares of common stock cashed-out related to the reverse and forward splits and therefore the amount of cash paid to the cashed-out shareholders was approximately \$108,000.

4. Investments held by the Company are classified as available-for-sale securities. Available-for-sale securities are reported at fair value with all unrealized gains or losses included in other comprehensive income (loss). The fair value of the securities was determined by quoted market prices of the underlying security (Level 1 instruments under the three level fair-value hierarchy established under FASB ASC 820-10-35-40). For purposes of determining gross realized gains (losses), the cost of available-for-sale securities is based on specific identification.

| | Aggregate fair value | Gross unrealized gains | Gross unrealized losses | Cost |
|---|----------------------------|------------------------------|-------------------------------|------------|
| Available for sale securities – June 30, 2009 | \$ 227,080 | \$ 25,097 | \$ - | \$ 201,983 |
| Available for sale securities – December 31, 2008 | \$ 296,266 | \$ - | \$ - | \$ 296,266 |

As of June 30, 2009, the fair value, unrealized gain or loss and cost of each available-for-sale investment held by the Company is as follows:

4

| Description of Security | Fair Value | Unrealized Gain | Unrealized Loss | Cost |
|--------------------------------|------------|-----------------|-----------------|------------|
| Catalytic Solutions, Inc. | \$ 7,000 | \$ - | \$ - | \$ 7,000 |
| VioQuest Pharmaceuticals, Inc. | 2,116 | 1,449 | - | 667 |
| Clearwire Corporation | 217,964 | 23,648 | - | 194,316 |
| Total | \$ 227,080 | \$ 25,097 | \$ - | \$ 201,983 |

On an ongoing basis, the Company evaluates its investments in available-for-sale securities to determine if a decline in fair value is other-than-temporary such that the change should be reflected in the Company's financial statements. When a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Considering the severity and duration of the declines in fair value and the financial condition and near-term prospects of our investments, we recognized an other than temporary impairment charge of \$94,283 on our investment in Catalytic Solutions, Inc. for the three and six months ended June 30, 2009. We also recognized an other than temporary impairment charge in the amount of \$173,153 on our investment in Clearwire Corporation for the six months ended June 30, 2008 and an other than temporary impairment charge in the amount of \$12,056 on our investment in VioQuest Pharmaceuticals, Inc. for the three and six months ended June 30, 2008.

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2009.

| Description of Securities | Less than 12 Months | | 12 Months or Greater | | Total | |
|------------------------------|---------------------|-------------------|----------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Marketable equity securities | \$ 227,080 | \$ - | \$ - | \$ - | \$ 227,080 | \$ - |
| Total | \$ 227,080 | \$ - | \$ - | \$ - | \$ 227,080 | \$ - |

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

6. Blake Capital Partners, LLC ("Blake") was in default of the payment of principal and interest on the shareholder note receivable. For the three and six months ended June 30, 2008, we increased our reserve against the note receivable from Blake by \$8,750 and \$16,250, respectively to approximate the value of the collateral securing the note. In December 2008, the Company received a notice from the United States Bankruptcy Court that Blake had filed for Chapter 7 bankruptcy. The Company is exploring its opportunities to obtain proceeds from the sale of the 25,000 shares (250,000 shares before a one for ten share reverse stock split on April 30, 2008) of VioQuest Pharmaceuticals, Inc. common stock pledged as collateral on the note, but any proceeds are expected to be de minimis. As such, the Company completely wrote-off the note from Blake as of December 31, 2008.

7. Accrued expenses consist of the following:

| | June 30, 2009 | December 31, 2008 |
|----------------------------------|---------------|-------------------|
| Wages, bonuses and payroll taxes | \$ 451,164 | \$ 1,014,893 |
| Union dues | 221,395 | 316,290 |
| Accounting and legal fees | 30,000 | 30,000 |
| Insurance | 73,857 | 35,015 |

Edgar Filing: ENTRX CORP - Form 10-Q

| | | |
|------------------------------|--------------|--------------|
| Insurance settlement reserve | 375,000 | 375,000 |
| Taxes | 24,617 | - |
| Other | 154,230 | 171,255 |
| | \$ 1,330,263 | \$ 1,942,453 |

5

8. As more fully described in our Annual Report on Form 10-K for the year ended December 31, 2008, the Company has granted stock options over the years to employees and directors under various stockholder approved stock option plans. At June 30, 2009, options to purchase 1,822,500 shares of the Company's common stock were outstanding. No stock options were granted during the first six months of 2009 or 2008. Stock options expiring during the first six months of 2009 and 2008 were 283,400 and 82,730, respectively. Stock warrants expiring in the first six months of 2008 were 50,000.

9. Sales to significant customers were as follows:

| | Three Months Ended June 30, 2009 | | Three Months Ended June 30, 2008 | |
|---|-------------------------------------|-----------------------|-------------------------------------|-----------------------|
| | Revenue | % of Total Revenue | Revenue | % of Total Revenue |
| Jacobs Field Services North America, Inc. | \$ 71,000 | 1.4% | \$ 1,173,000 | 22.6 |
| Matrix Service, Inc. | 0 | 0.0 | 544,000 | 10.5 |
| ConocoPhillips Company | 0 | 0.0 | 740,000 | 14.2 |
| High Desert Power Project LLC | 565,000 | 11.1 | 0 | 0.0 |
| BP West Coast Products LLC | 817,000 | 16.0 | 488,000 | 9.4 |

| | Six Months Ended June 30, 2009 | | Six Months Ended June 30, 2008 | |
|---|-----------------------------------|-----------------------|-----------------------------------|-----------------------|
| | Revenue | % of Total Revenue | Revenue | % of Total Revenue |
| Jacobs Field Services North America, Inc. | \$ 620,000 | 5.9% | \$ 2,364,000 | 17.2% |
| ARB, Inc. | 2,000 | 0.0 | 1,921,000 | 14.0 |
| NRG Energy | 1,549,000 | 14.8 | 373,000 | 2.7 |
| BP West Coast Products LLC | 1,720,000 | 16.4 | 2,673,000 | 19.4 |

Significant accounts receivable were as follows:

| | June 30, 2009 | | December 31, 2008 | |
|---|------------------------|--------------------------------------|------------------------|--------------------------------------|
| | Accounts Receivable | % of Total Accounts Receivable | Accounts Receivable | % of Total Accounts Receivable |
| Black & Veatch | \$ 0 | 0.0% | \$ 1,054,000 | 18.5% |
| Jacobs Field Services North America, Inc. | 61,000 | 1.9 | 840,000 | 14.7 |
| Critchfield Mechanical Inc. of So. California | 357,000 | 11.4 | 131,000 | 2.3 |
| High Desert Power Project LLC | 372,000 | 11.9 | 288,000 | 5.1 |

Since many of the projects we undertake are relatively large, it is normal that various customers will represent a significant portion of our sales and/or accounts receivable in a given period. It is also the nature of the Company's business that a significant customer in one year may not be a significant customer in a succeeding year.

10. 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 adoption of SFAS No. 141(R) had no impact on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, Non-controlling 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 adoption of SFAS 160 had no impact on the Company’s financial position or results of operations since its consolidated subsidiaries are wholly owned and non-controlling interests in consolidated variable interest entities are not material.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133. SFAS No. 161 amends and expands upon the disclosure requirements for derivative financial instruments and for hedging activities required under FASB Statement No. 133 to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative financial instruments, how derivative financial instruments are accounted for under Statement 133 and its related interpretations, and how derivative financial instruments affect an entity’s financial position, financial performance, and results of operations. SFAS No. 161 is effective for financial statement and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 had no material effect on the Company’s financial statements and disclosures.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the SEC of the Public Company Accounting Oversight Board’s amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles, or January 15, 2009. The Company does not expect that the adoption of SFAS No. 162 will have a material impact its consolidated financial statements.

On April 9, 2009, the FASB issued FASB Staff Position (“FSP”) FAS 107-1 and APB 28-1, which amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments (SFAS 107) to require entities to disclose, among other things, the methods and significant assumptions used to estimate the fair value of financial instruments in both interim and annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting (Opinion 28), to require those disclosures in summarized financial information at interim reporting periods. The FSP is effective for interim and annual periods ending after June 15, 2009. The Company adopted FSP FAS 107-1 and APB 28-1 on April 1, 2009. The additional required interim fair value disclosures are included in Note 4.

Also on April 9, 2009, the FASB issued FSP FAS 115-2, Recognition and Presentation of Other-Than-Temporary Impairments. FSP FAS 115-2 amends the other-than-temporary impairment (OTTI) guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of OTTI on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to OTTI of equity securities. The FSP requires that an entity disclose information for interim and annual periods that enables users of its financial statements to understand the types of available-for-sale and held-to maturity debt and equity securities held, including information about investments in an unrealized loss position for which an OTTI has or has not been recognized. The FSP is effective for interim and annual reporting periods ending after June 15, 2009. Entrx adopted FSP FAS 115-2 as of April 1, 2009. The additional required disclosures are included in Note 4.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events (“FAS 165”) [ASC 855-10-05], which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. FAS 165 also requires entities to disclose the date through which subsequent events were evaluated as well as the rationale for

why that date was selected. FAS 165 is effective for interim and annual periods ending after June 15, 2009, and accordingly, we adopted this Standard during the second quarter of 2009. FAS 165 requires that public entities evaluate subsequent events through the date that the financial statements are issued. We have evaluated subsequent events through the time of these financial statements being available for issuance with the SEC on August 10, 2009.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) ("FAS 167") [ASC 810-10], which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. FAS 167 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. FAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. FAS 167 also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. FAS 167 is effective for fiscal years beginning after November 15, 2009. We have not completed our assessment of the impact FAS 167 will have on our financial condition, results of operations or cash flows.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a Replacement of FASB Statement No. 162 ("FAS 168"). This Standard establishes the FASB Accounting Standards Codification™ (the "Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009, and as of the effective date, all existing accounting standard documents will be superseded. The Codification is effective for us in the third quarter of 2009, and accordingly, our Quarterly Report on Form 10-Q for the quarter ending September 30, 2009 and all subsequent public filings will reference the Codification as the primary source of authoritative literature.

11. The number of asbestos-related cases which have been initiated naming us (primarily our subsidiary, Metalclad Insulation Corporation) as a defendant have fluctuated from 265 in 2004, to 199 in 2005, to 232 in 2006, to 163 in 2007 and to 187 in 2008, but overall have exhibited a downward trend. There were 112 new claims made in the first six months of 2009, compared to 86 in the first six months of 2008. At December 31, 2004, 2005, 2006 and 2007, there were, respectively, approximately 710, 507, 404 and 222 cases pending. As of December 31, 2008, there were 271 cases pending and as of June 30, 2009, there were 289 cases pending. These claims are currently defended and covered by insurance.

We have closely monitored the historical trend of asbestos-related injury claims made against the Company. That trend, on a year to year basis, has been somewhat erratic over the past three years, but has been generally downward since 2001, when 725 cases were commenced. Since 2005, the number of cases brought has leveled off somewhat, and in 2008 the number of cases brought exceeded the number of cases brought in 2007 by 24 (approximately a 15% increase). For the first six months of this year, there have been 112 cases brought, as compared to 187 cases brought all last year. This represents what we believe to be a short-term increase of cases being brought, possibly as the result of what we perceive to be an increase in the advertising campaigns being waged by attorneys seeking plaintiffs in asbestos-related injury cases. If that is the case, in the future we should see a resumption in the downward trend in the number of cases brought, although such resumption may not occur, and the trend may become more difficult to ascertain.

From 2001 through 2008, the annual average indemnity paid on over 3,000 resolved cases has fluctuated significantly, between a low of \$14,504 in 2006 and a high of \$54,946 in 2008, with an overall average over that period of approximately \$20,900. During this period, there has been no discernible upward or downward trend in indemnity payments. The indemnity paid on the 94 cases resolved during the six months ended June 30, 2009, however, averaged \$24,734. The quarter ended June 30, 2009, reflected an average indemnity per resolved case of \$10,417, down significantly from the \$50,000 average of the first quarter of this year. 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 have increased from a low of \$8,514 in 2003 to a high of \$44,359 in 2008. The weighted average defense cost per resolved claim from 2005 through 2008 was \$18,233. 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. Due to this aggressive defensive posture, the new claims against the Company have tended to have a greater potential liability and therefore require more resources to defend. We are currently projecting those costs to be approximately \$18,500 per claim.

Early in 2008 we estimated that our liability for current and future asbestos-related claims at December 31, 2008 would be approximately \$29,000,000. This amounted 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. As of December 31, 2008, we re-evaluated our estimates to take into account our experience in 2008, which was unfavorable compared to previous years. Primarily as a result of an increase in the number of new cases commenced during 2008 which exceeded our previous estimates, we now estimate that there will be 877 asbestos-related injury claims made against the Company after December 31, 2008. The 877, in addition to the 271 claims existing as of December 31, 2008, totaled 1,148 current and future claims. Multiplying the average indemnity per resolved claim since 2001 of \$20,900, times 1,148, we projected the probable future indemnity to be paid on those claims after December 31, 2008 to be approximately \$24,000,000. In addition, multiplying an estimated cost of defense per resolved claim of approximately \$18,500 times 1,148, we projected the probable future defense costs to be approximately \$21,250,000. Accordingly, our total estimated future asbestos-related liability at December 31, 2008 was \$45,250,000.

We intend to re-evaluate our estimate of future liability for asbestos claims and defense costs 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 2001. 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.

Although defense costs are included in our insurance coverage, we expended \$29,000 and \$66,000 in the three and six months ended June 30, 2009, respectively, and \$39,000 and \$104,000 in the three and six months ended June 30, 2008, 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 determined that the minimum probable insurance coverage available to satisfy asbestos-related injury claims significantly exceeds our estimated future liability for such claims of \$41,625,000 and \$45,250,000 as of June 30, 2009 and December 31, 2008, respectively. Accordingly, we have included \$41,625,000 and \$45,250,000 of such insurance coverage receivable as an asset on our June 30, 2009 and December 31, 2008 balance sheets, respectively. Our determination assumes that the general 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 remain solvent and 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, as discussed below. Regardless of our best estimates of liability for current and future asbestos-related claims, the liability for these claims could be higher or lower than estimated by amounts which are not predictable. We, of course, cannot give any assurance that our liability for such claims will not ultimately exceed our available insurance coverage. We believe, however, that our current insurance is adequate to satisfy additional liability that is reasonably possible in the event actual losses exceed our estimates. We will update our estimates of liability and insurance coverage in future filings with the Securities and Exchange Commission, as events occur which would cause us to believe that those estimates need revision, based upon the subsequent claim experience, using the

methodology we have employed.

9

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. The ACE Lawsuit is principally about coverage responsibility among the several insurers, as well as total coverage. Regardless of the outcome of this litigation, Entrx does not believe that the ACE Lawsuit will result in materially diminishing Entrx's insurance coverage for asbestos-related claims. 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. 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, but has accrued \$375,000 to cover potential indemnification obligations. Based upon information known to date, the Company is unable to predict to what extent its indemnification obligations are reasonably possible to vary from the amounts accrued.

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 the insurer 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. The ACE Lawsuit may result in our incurring costs in connection with obligations we may have to indemnify Allstate under the Settlement Agreement. 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 is taking the position that it has no legal obligation to assume or pay for such defense. If Allstate is required to provide indemnity for Entrx's asbestos-related lawsuits, it is likely that Entrx would have to indemnify Allstate for asbestos-related claims that it defends up to \$2,500,000 in the aggregate. If Allstate is not required to provide indemnity, Entrx would have no liability to Allstate. Entrx has accrued \$375,000 as a potential loss in connection with the Allstate matter and nothing has come to our attention that would require us to record a different estimate at June 30, 2009.

12. Supplemental disclosures of cash flow information:

Cash paid for interest was \$4,000 and \$4,000 for the six months ended June 30, 2009 and 2008, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

All statements, other than statements of historical fact, included in this Form 10-Q, including without limitation the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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-Q. Such potential risks and uncertainties include, without limitation; estimates of future revenues; 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; the imposition of laws or regulations relating to asbestos related injury claims; 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-Q and the Company assumes no obligation to update the forward-looking statements or to update the reasons actual results could differ from those projected in such forward-looking statements. Therefore, readers are cautioned not to place undue reliance on these forward-looking statements. You can identify these forward-looking statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "intend," "estimate," "continue," and similar words.

General. The Company provides insulation installation and removal services, including asbestos abatement services, primarily on the West Coast. We also enter into contracts to repair and maintain existing insulation systems. These maintenance contracts are generally awarded on a year to year basis, but are often renewed from year to year. We also provide and erect scaffolding both with respect to our installation, removal and maintenance services, and for others. Through our wholly-owned subsidiary Metalclad Insulation Corporation, we provide these services to a wide range of industrial, commercial and public agency clients. Insulation installation services include the installation of high- and low-temperature insulation on pipe, ducts, furnaces, boilers, and other types of industrial equipment and commercial applications. Insulation removal services involve the removal of old insulation prior to the installation of new insulation or system demolition, including the removal and disposal of asbestos-containing products. We fabricate specialty items for the insulation industry, and sell insulation material and accessories incidental to our services business to our customers as well as to other contractors. A diverse list of clientele includes refineries, utilities, chemical/petrochemical plants, manufacturing facilities, commercial properties, office buildings and various governmental facilities.

Results of Operations: Three and Six Months Ended June 30, 2009 and 2008

Revenue

Revenue for the three months ended June 30, 2009 was \$5,112,000, a decrease of 1.8% as compared to \$5,203,000 for the three months ended June 30, 2008. Revenue for the six months ended June 30, 2009 was \$10,490,000, a decrease of 23.8% as compared to \$13,760,000 for the six months ended June 30, 2008. Revenues decreased during the three and six months ended June 30, 2009 as compared with the three and six months ended June 30, 2008 primarily as result of the Company performing non-recurring capital project work for major industrial clients in the three and six months ended June 30, 2008. The decrease in oil prices during the fourth quarter of 2008 and the first quarter of 2009 caused some of these same customers who are in the oil refining business to tighten their budgets for both maintenance and capital project work in the three and six months ended June 30, 2009.

Approximately 60% and 51% of the revenues for the three and six months ended June 30, 2009, respectively, were from insulation maintenance contracts, which often continue from year to year. This compares with 65% and 68% of our revenues being derived from insulation maintenance contracts in the three and six months ended June 30, 2008, respectively. Approximately 27% and 34% of revenues in the three and six months ended June 30, 2009, respectively, were derived from insulation installation and removal projects, which are not normally continuing, but can go on for a year or more. This compares with 35% and 32% of our revenues being derived from insulation installation and removal projects in the three and six months ended June 30, 2008, respectively. These percentages are approximate because some installation and removal projects involve maintenance arrangements, and vice versa. Approximately 9% and 11% of the revenues for the three and six months ended June 30, 2009 were from scaffolding contracts, which often continue from year to year. The Company bids on hundreds of projects during any given year. These projects range in value from a few hundred dollars to multi-million dollar projects, and the projects can last from a few hours up to over a year in duration. The Company cannot predict what projects will be coming up for bid in any particular period, or whether it will be the winning bidder. Accordingly, the Company is unable to determine if the revenue trends, or the allocation between maintenance contracts and installation and removal contracts, will continue.

Cost of Revenue and Gross Margin

Cost of revenue was \$4,317,000 for the three months ended June 30, 2009, as compared to \$4,193,000 for the three months ended June 30, 2008. Cost of revenue was \$8,848,000 for the six months ended June 30, 2009, as compared to \$11,324,000 for the six months ended June 30, 2008. The gross margin percentage was approximately 15.5% for the three months ended June 30, 2009 as compared to 19.4% for the three months ended June 30, 2008. The gross margin percentage was approximately 15.7% for the six months ended June 30, 2009 as compared to 17.7% for the six months ended June 30, 2008. The decrease in the gross margin percentage during the three and six months ended June 30, 2009, as compared with the three and six months ended June 30, 2008, is primarily the result of the decrease in revenues, and the fact that our fixed costs do not decrease in proportion to the decrease in those revenues. While the gross margin percentage varies from job to job, insulation maintenance contracts generally have a lower gross margin percentage than insulation installation, insulation removal and scaffolding contracts.

Selling, General and Administrative

Selling, general and administrative expenses for the three months ended June 30, 2009 were \$838,000 as compared to \$864,000 for the comparable period ended June 30, 2008, a decrease of 3.0%. Selling, general and administrative expenses for the six months ended June 30, 2009 were \$1,702,000 as compared to \$1,812,000 for the comparable period ended June 30, 2008, a decrease of 6.1%. The decreases for the three and six months ended June 30, 2009 as compared to the three and six months ended June 30, 2008 was primarily due to decreases in the accrual for bonuses, legal fees and tax expense. The overall decrease in selling, general and administrative costs was partially offset by an increase in bad debt expense and shareholder reporting expense.

Change in Allowance on Shareholder Note Receivable

Blake Capital Partners, LLC ("Blake") was in default of the payment of principal and interest on the shareholder note receivable. For the three and six months ended June 30, 2008, we increased our reserve against the note receivable from Blake by \$8,750 and \$16,250, respectively to approximate the value of the collateral securing the note. In December 2008, the Company received a notice from the United States Bankruptcy Court that Blake had filed for Chapter 7 bankruptcy. The Company is exploring its opportunities to obtain proceeds from the sale of the 25,000 shares (250,000 shares before a one for ten share reverse stock split on April 30, 2008) of VioQuest Pharmaceuticals, Inc. common stock pledged as collateral on the note, but any proceeds are expected to be de minimis. As such, the Company completely wrote-off the note from Blake as of December 31, 2008.

Gain on Disposal of Property, Plant and Equipment

Gain on the disposal of property plant and equipment was \$0 and \$3,000 for the three months ended June 30, 2009 and 2008, respectively. Gain on the disposal of property plant and equipment was \$0 and \$15,000 for the six months ended June 30, 2009 and 2008, respectively.

Interest Income and Expense

Interest income for the three months ended June 30, 2009 was \$5,000 as compared to interest income of \$11,000 for the three months ended June 30, 2008. Interest income for the six months ended June 30, 2009 was \$10,000 as compared to interest income of \$21,000 for the six months ended June 30, 2008. Interest expense for the three months ended June 30, 2009 was \$2,000 as compared to interest expense of \$1,000 for the three months ended June 30, 2008. Interest expense for the six months ended June 30, 2009 was \$4,000 as compared to interest expense of \$4,000 for the six months ended June 30, 2008.

Impairment Charge on Available-for-Sale Securities

The Company recognized an impairment charge of \$94,000 on its investment in Catalytic Solutions, Inc. in the three and six months ended June 30, 2009. The Company recognized an impairment charge of \$173,000 on its investment in Clearwire Corporation in the six months ended June 30, 2008. The Company also recognized an impairment charge of \$12,000 on its investment in VioQuest Pharmaceuticals, Inc. in the three and six months ended June 30, 2008.

Net Income (Loss)

We had a net loss of \$135,000 for the three months ended June 30, 2009 as compared to net income of \$138,000 for the three months ended June 30, 2008. We had a net loss of \$148,000 for the six months ended June 30, 2009 as compared to net income of \$455,000 for the six months ended June 30, 2008.

Liquidity and Capital Resources

As of June 30, 2009, we had \$3,611,000 in cash and cash equivalents and \$227,000 in available-for-sale securities. The Company had working capital of \$6,280,000 as of June 30, 2009. We own 19,057 shares (190,566 shares before a one for ten share reverse stock split on April 30, 2008) of the common stock of VioQuest Pharmaceuticals, Inc., the common stock of which is publicly traded on the OTC Bulletin Board under the symbol "VOQP". Of the 19,057 shares, 7,500 shares are subject to options exercisable by one current and two former members of our Board of Directors at \$12.50 per share. We also own 39,415 shares of Clearwire Corporation's common stock (NASDAQ: CLWR) and 384,084 shares of Catalytic Solutions, Inc. common stock (AIM: CTSU).

In an effort to increase shareholder value and to diversify from our insulation services business, we have made equity investments in Catalytic Solutions, Inc. and Clearwire Corporation, that are not in the insulation services business and which we believed had the ability to provide acceptable return on our investment. The Company determined that there had been an impairment with respect to Entrx's investment in the common stock of Catalytic Solutions based upon the severity of declines in the market price of the common stock below our carrying value and our belief that there had been impairment indicators as discussed in FASB ASC 320-10-35-27, including factors that raise significant concerns about Catalytic Solution's ability to continue as a going concern. The shares in Catalytic Solutions are traded on the London Stock Exchange's Alternative International Market for smaller company's (the "AIM"). We therefore recognized a \$349,000 impairment on this investment during the year ended December 31, 2008, representing the difference between our carrying value and the quoted market price on December 31, 2008, none of which was recognized during the three and six months ended June 30, 2008, based on the quoted market price as of June 30, 2008. We also recognized an impairment charge of \$94,000 on this investment during the six months ended June 30, 2009 based on the quoted market price as of June 30, 2009. Catalytic Solutions, Inc. manufactures and delivers proprietary technology that improves the performance and reduces the cost of catalytic converters. The Company also determined that there had been an impairment with respect to Entrx's investment in the common stock of Clearwire Corporation based upon the severity of declines in the market price of the common stock below our carrying value. We therefore recognized an impairment charge of \$563,000 on this investment during the year ended December 31, 2008, representing the difference between our carrying value and the quoted market price on December 31, 2008, \$0 and \$173,000 of which was recognized during the three and six months ended June 30, 2008, respectively, based on the quoted market price as of June 30, 2008.

Cash provided by operations was \$1,764,000 for the six months ended June 30, 2009 compared with cash provided by operations of \$1,784,000 for the six months ended June 30, 2008. For the six months ended June 30, 2009 the positive cash flow from operations was primarily the result of a decrease in accounts receivable of \$2,563,000, a decrease in prepaid expenses and other current assets of \$195,000, a decrease in costs and estimated earnings in excess

of billings on uncompleted contracts of \$97,000 and an increase in billings in excess of costs and estimated earnings on uncompleted contracts of \$82,000. This positive cash flow was partially offset by a decrease in accounts payable and accrued expenses of \$1,224,000. For the six months ended June 30, 2008 the positive cash flow from operations was primarily the result of our \$455,000 of net income and a decrease in accounts receivable of \$2,081,000. This positive cash flow was partially offset by a decrease in accounts payable and accrued expenses of \$809,000 and an increase in costs and estimated earnings in excess of billings on uncompleted contracts of \$273,000.

Net investing activities used \$40,000 and \$1,000 of cash in the six months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2009 and 2008, we used cash of \$40,000 and \$1,000, respectively, for capital expenditures, primarily at our subsidiary, Metalclad Insulation Corporation.

Cash used in financing activities totaled \$192,000 for the six months ended June 30, 2009 compared with cash used in financing activities of \$72,000 for the comparable period in 2008. In the six months ended June 30, 2009, the Company used \$108,000 to repurchase common stock related to the reverse/forward stock split approved by the shareholders. Payments on long-term borrowings used \$83,000 and \$72,000 of cash in the six months ended June 30, 2009 and 2008, respectively.

As of June 30, 2009, our subsidiary, Metalclad Insulation Corporation, employed approximately 105 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 Allied 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, many of the trade union agreements we are a party to include no strike, no work stoppage provisions. The Company's subsidiary, Metalclad Insulation Corporation, is one of a group of employers with a collective bargaining agreement with Local No. 5 - International Association of Heat and Frost Insulators and Allied Workers ("Local No. 5"). Our "Basic Agreement" with Local No. 5 of the International Association of Heat and Frost Insulators and Allied Workers expired in September 2008. The "Basic Agreement" included a "Maintenance Agreement" as an addendum. Metalclad Insulation Corporation and the other employers have agreed with the negotiating representatives of Local No. 5 for an extension of the expired contract until June 28, 2010. Approximately 95% of our hourly employees are covered by the Local No. 5 agreement. An 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.

The number of asbestos-related cases which have been initiated naming us (primarily our subsidiary, Metalclad Insulation Corporation) as a defendant have fluctuated from 265 in 2004, to 199 in 2005, to 232 in 2006, to 163 in 2007 and to 187 in 2008, but overall have exhibited a downward trend. There were 112 new claims made in the first six months of 2009, compared to 86 in the first six months of 2008. At December 31, 2004, 2005, 2006 and 2007, there were, respectively, approximately 710, 507, 404 and 222 cases pending. As of December 31, 2008, there were 271 cases pending and as of June 30, 2009, there were 289 cases pending. These claims are currently defended and covered by insurance.

We have closely monitored the historical trend of asbestos-related injury claims made against the Company. That trend, on a year to year basis, has been somewhat erratic over the past three years, but has been generally downward since 2001, when 725 cases were commenced. Since 2005, the number of cases brought has leveled off somewhat, and in 2008 the number of cases brought exceeded the number of cases brought in 2007 by 24 (approximately a 15% increase). For the first six months of this year, there have been 112 cases brought, as compared to 187 cases brought all last year. This represents what we believe to be a short-term increase of cases being brought, possibly as the result of what we perceive to be an increase in the advertising campaigns being waged by attorneys seeking plaintiffs in asbestos-related injury cases. If that is the case, in the future we should see a resumption in the downward trend in the number of cases brought, although such resumption may not occur, and the trend may become more difficult to ascertain.

From 2001 through 2008, the annual average indemnity paid on over 3,000 resolved cases has fluctuated significantly, between a low of \$14,504 in 2006 and a high of \$54,946 in 2008, with an overall average over that period of approximately \$20,900. During this period, there has been no discernible upward or downward trend in indemnity payments. The indemnity paid on the 94 cases resolved during the six months ended June 30, 2009, however,

averaged \$24,734. The quarter ended June 30, 2009, reflected an average indemnity per resolved case of \$10,417, down significantly from the \$50,000 average of the first quarter of this year. 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 have increased from a low of \$8,514 in 2003 to a high of \$44,359 in 2008. The weighted average defense cost per resolved claim from 2005 through 2008 was \$18,233. 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. Due to this aggressive defensive posture, the new claims against the Company have tended to have a greater potential liability and therefore require more resources to defend. We are currently projecting those costs to be approximately \$18,500 per claim.

Early in 2008 we estimated that our liability for current and future asbestos-related claims at December 31, 2008 would be approximately \$29,000,000. This amounted 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. As of December 31, 2008, we re-evaluated our estimates to take into account our experience in 2008, which was unfavorable compared to previous years. Primarily as a result of an increase in the number of new cases commenced during 2008 which exceeded our previous estimates, we now estimate that there will be 877 asbestos-related injury claims made against the Company after December 31, 2008. The 877, in addition to the 271 claims existing as of December 31, 2008, totaled 1,148 current and future claims. Multiplying the average indemnity per resolved claim since 2001 of \$20,900, times 1,148, we projected the probable future indemnity to be paid on those claims after December 31, 2008 to be approximately \$24,000,000. In addition, multiplying an estimated cost of defense per resolved claim of approximately \$18,500 times 1,148, we projected the probable future defense costs to be approximately \$21,250,000. Accordingly, our total estimated future asbestos-related liability at December 31, 2008 was \$45,250,000.

We intend to re-evaluate our estimate of future liability for asbestos claims and defense costs 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 2001. 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.

Although defense costs are included in our insurance coverage, we expended \$66,000 and \$104,000 in the six months ended June 30, 2009 and 2008, 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 determined that the minimum probable insurance coverage available to satisfy asbestos-related injury claims significantly exceeds our estimated future liability for such claims of \$41,625,000 and \$45,250,000 as of June 30, 2009 and December 31, 2008, respectively. Accordingly, we have included \$41,625,000 and \$45,250,000 of such insurance coverage receivable as an asset on our June 30, 2009 and December 31, 2008 balance sheets, respectively. Our determination assumes that the general 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 remain solvent and 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, as discussed below. Regardless of our best estimates of liability for current and future asbestos-related claims, the liability for these claims could be higher or lower than estimated by amounts which are not predictable. We, of course, cannot give any assurance that our liability for such claims will not ultimately exceed our available insurance coverage. We believe, however, that our current insurance is adequate to satisfy additional liability that is reasonably possible in the event actual losses exceed our estimates. We will update our estimates of liability and insurance coverage in future filings with the Securities and Exchange Commission, as events occur which would cause us to believe that those estimates need revision, based upon the subsequent claim experience, using the methodology we have employed.

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. The ACE Lawsuit is principally about coverage responsibility among the several insurers, as well as total coverage. Regardless of the outcome of this litigation, Entrx does not believe that the ACE Lawsuit will result in materially diminishing Entrx's insurance coverage for asbestos-related claims. 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. 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, but has accrued \$375,000 to cover potential indemnification obligations. Based upon information known to date, the Company is unable to predict to what extent its indemnification obligations are reasonably possible to vary from the amounts accrued.

The Company projects that cash flow generated through the operation of its subsidiary, Metalclad Insulation Corporation, and the Company's net cash assets as of June 30, 2009 will be sufficient to meet the Company's cash requirements for at least the next twelve months.

Significant Accounting Policies

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in our annual report for the year ended December 31, 2008. The accounting policies used in preparing our interim 2009 consolidated condensed financial statements are the same as those described in our annual report.

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) valuation of investments, (c) allowances for uncollectible accounts receivable, (d) judgments and estimates used in determining 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. 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 customer. Future changes in the financial condition of a customer may require an adjustment to the allowance for uncollectible 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.

Recent Accounting Pronouncements

See footnote 10 of the financial statements.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company is made known to the officers who certify the financial statements and to other members of senior management and the Audit Committee of the Board.

We conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation our chief executive officer and chief financial officer have concluded that, as of June 30, 2009, our disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting for the three-months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. 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 fluctuated from 265 in 2004, to 199 in 2005, to 232 in 2006, to 163 in 2007 and to 187 in 2008, but overall have exhibited a downward trend. At December 31, 2004, 2005, 2006 and 2007, there were, respectively, approximately 710, 507, 404 and 222 cases pending. As of December 31, 2008, there were 271 cases pending and as of June 30, 2009 there were 289 cases pending. These claims are currently defended and covered by insurance.

Set forth below is a table for the years ended December 31, 2005, 2006, 2007, 2008 and the six months ended June 30, 2009, 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:

| | 2005 | 2006 | 2007 | 2008 | Six Months Ended June 30, 2009 |
|---|--------------|--------------|--------------|--------------|--------------------------------------|
| New cases filed | 199 | 232 | 163 | 187 | 112 |
| Defense judgments and dismissals | 294(3) | 253 | 292(3) | 109 | 77 |
| Plaintiff judgments and Settled cases | 108 | 82 | 53 | 29 | 17 |
| Total resolved cases (1) | 402(3) | 335 | 345(3) | 138 | 94 |
| Pending cases (1) | 507(2,3) | 404 | 222(3) | 271 | 289 |
| Total indemnity payments | \$ 8,513,750 | \$ 4,858,750 | \$ 7,974,500 | \$ 7,582,550 | \$ 2,325,000 |
| Average indemnity paid on plaintiff judgments and settled cases | \$ 78,831 | \$ 59,253 | \$ 150,462 | \$ 261,467 | \$ 136,765 |
| Average indemnity paid on all resolved cases | \$ 21,178(2) | \$ 14,504 | \$ 23,114 | \$ 54,946 | \$ 24,734 |

- (1) 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.
- (2) 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.
- (3) 80 cases which had been previously counted in error are included in “Defense judgments and dismissals” and “Total resolved cases” during 2005. 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.

We have closely monitored the historical trend of asbestos-related injury claims made against the Company. That trend, on a year to year basis, has been somewhat erratic over the past three years, but has been generally downward since 2001, when 725 cases were commenced. Since 2005, the number of cases brought has leveled off somewhat, and in 2008 the number of cases brought exceeded the number of cases brought in 2007 by 24 (approximately a 15% increase). For the first six months of this year, there have been 112 cases brought, as compared to 187 cases brought all last year. This represents what we believe to be a short-term increase of cases being brought, possibly as the result of what we perceive to be an increase in the advertising campaigns being waged by attorneys seeking plaintiffs in asbestos-related injury cases. If that is the case, in the future we should see a resumption in the downward trend in the number of cases brought, although such resumption may not occur, and the trend may become more difficult to ascertain.

From 2001 through 2008, the annual average indemnity paid on over 3,000 resolved cases has fluctuated significantly, between a low of \$14,504 in 2006 and a high of \$54,946 in 2008, with an overall average over that period of approximately \$20,900. During this period, there has been no discernible upward or downward trend in indemnity payments. The indemnity paid on the 94 cases resolved during the six months ended June 30, 2009, however, averaged approximately \$24,734. The quarter ended June 30, 2009, reflected an average indemnity per resolved case of \$10,417, down significantly from the \$50,000 average of the first quarter of this year.. 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 have increased from a low of \$8,514 in 2003 to a high of \$44,359 in 2008. The weighted average defense cost per resolved claim from 2005 through 2008 was \$18,233. 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. Due to this aggressive defensive posture, the new claims against the Company have tended to have a greater potential liability and therefore require more resources to defend. We are currently projecting those costs to be approximately \$18,500 per claim.

Early in 2008 we estimated that our liability for current and future asbestos-related claims at December 31, 2008 would be approximately \$29,000,000. This amounted 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. As of December 31, 2008, we re-evaluated our estimates to take into account our experience in 2008, which was unfavorable compared to previous years. Primarily as a result of an increase in the number of new cases commenced during 2008 which exceeded our previous estimates, we now estimate that there will be 877 asbestos-related injury claims made against the Company after December 31, 2008. The 877, in addition to the 271 claims existing as of December 31, 2008, totaled 1,148 current and future claims. Multiplying the average indemnity per resolved claim since 2001 of \$20,900, times 1,148, we projected the probable future indemnity to be paid on those claims after December 31, 2008 to be approximately \$24,000,000. In addition, multiplying an estimated cost of defense per resolved claim of approximately \$18,500 times 1,148, we projected the probable future defense costs to be approximately \$21,250,000. Accordingly, our total estimated future asbestos-related liability at December 31, 2008 was \$45,250,000.

We intend to re-evaluate our estimate of future liability for asbestos claims and defense costs 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 2001. 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.

Although defense costs are included in our insurance coverage, we expended \$66,000 and \$104,000 in the six months ended June 30, 2009 and 2008, 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 determined that the minimum probable insurance coverage available to satisfy asbestos-related injury claims significantly exceeds our estimated future liability for such claims of \$41,625,000 and \$45,250,000 as of June 30, 2009 and December 31, 2008, respectively. Accordingly, we have included \$41,625,000 and \$45,250,000 of such insurance coverage receivable as an asset on our June 30, 2009 and December 31, 2008 balance sheets, respectively. Our determination assumes that the general 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 remain solvent and 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, as discussed below. Regardless of our best estimates of liability for current and future asbestos-related claims, the liability for these claims could be higher or lower than estimated by amounts which are not predictable. We, of course, cannot give any assurance that our liability for such claims will not ultimately exceed our available insurance coverage. We believe, however, that our current insurance is adequate to satisfy additional liability that is reasonably possible in the event actual losses exceed our estimates. We will update our estimates of liability and insurance coverage in future filings with the Securities and Exchange Commission, as events occur which would cause us to believe that those estimates need revision, based upon the subsequent claim experience, using the methodology we have employed.

Insurance Coverage Litigation

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. The ACE Lawsuit is principally about coverage responsibility among the several insurers, as well as total coverage. Regardless of the outcome of this litigation, Entrx does not believe that the ACE Lawsuit will result in materially diminishing Entrx's insurance coverage for asbestos-related claims. 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. 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, but has accrued \$375,000 to cover potential indemnification obligations. Based upon information known to date, the Company is unable to predict to what extent its indemnification obligations are reasonably possible to vary from the amounts accrued.

Item 2. Unregistered Sale of Securities.

Issuance of Shares

The Board of Directors authorized the issuance of a total of 70,000 shares of common stock, for services, valued at \$0.25 per share, on May 11, 2009, as follows:

| Name | Number of Shares | Relationship |
|--------------------|---------------------|--|
| Peter L. Hauser | 15,000 | President, CEO and Director of the Company |
| David E. Cleveland | 15,000 | Director of the Company |
| E. Thomas Welch | 15,000 | Director of the Company |
| Joseph Caldwell | 15,000 | Director of the Company |
| David R. Trueblood | 10,000 | President and CEO of the Company's wholly owned subsidiary |

The shares are to be issued in reliance upon the exemption from registration provided under Section 4(2) of the Securities Act of 1933 (the "Act"). The issuance of the shares was conditioned upon the execution and delivery of agreements acknowledging, among other things, that the shares were issued pursuant to an exemption from registration and are thus "restricted" as defined under Rule 144 of the Act, and agreeing that the shares must be held without a view toward redistribution.

The shares were issued on August 12, 2009.

Repurchase of Shares

In the second quarter ended June 30, 2009, the Company repurchased 309,936 shares of its common stock from approximately 1,500 shareholders, each owning less than 500 shares, at a price of \$0.35 per share, as the result of a reverse, followed by a forward, stock split effective on May 15, 2009, as reported in the Form 8-K filed by the Company with the United States Securities and Exchange Commission on May 8, 2009.

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

At a Special Meeting of Shareholders held on May 4, 2009, the Company's shareholders approved two proposals to amend Entrx's Restated and Amended Certificate of Incorporation; the first effected a reverse 1-for-500 share stock split of Entrx's common stock, and the second effected a subsequent forward 500-for-1 share stock split of Entrx's common stock, all as reported in the Form 8-K filed with the Securities and Exchange Commission on May 8, 2009.

Item 6. Exhibits

Exhibits

31.1 Rule 13a-14(a) Certification of Chief Executive Officer.

31.2 Rule 13a-14(a) Certification of Chief Financial Officer.

32 Section 1350 Certification.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENTRX CORPORATION

Date: August 12, 2009

By: /s/Peter L. Hauser
Peter L. Hauser
Chief Executive Officer

Date: August 12, 2009

By: /s/Brian D. Niebur
Brian D. Niebur
Chief Financial Officer
(Principal Accounting Officer)