ENTRX CORP
Form 10-K
March 25, 2003

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

FORM 10-K

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

OR

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

For the year ended December 31, 2002

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 ID No.)

800 Nicollet Mall, Suite 2690	
Minneapolis, Minnesota	**55402**
(Address of Principal Executive Office)	(Zip Code)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

The aggregate market value of the Common Stock held by non-affiliates of the registrant on March 4, 2003 was approximately $2,756,845, based upon the average of the bid and asked prices of the Common Stock, as reported on The Nasdaq Stock Market®.

The number of shares of the Common Stock of the registrant outstanding as of March 7, 2003 was 7,504,215.

Documents incorporated by reference:

Portions of the Company s Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company s 2003 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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All statements, other than statements of historical fact, included in this Form 10-K, including without limitation the statements under Management s Discussion and Analysis of Financial Condition and Results of Operations and Business are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, 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-K. Such potential risks and uncertainties include, without limitation, potential reversion of liability for the companies sold in Mexico; competitive pricing and other pressures from other businesses in the Company s markets; adequacy of insurance, including the adequacy of insurance to cover potential future asbestos-related injury claims; economic conditions generally and in the Company s primary markets; availability of capital; the adequacy of its cash and cash equivalents; the expansion of material sales; cost of labor and other risk factors detailed herein and in other of the Company s filings with the Securities and Exchange Commission. The forward-looking statements are made as of the date of this Form 10-K and the Company assumes no obligation to update the forward-looking statements or to update the reasons actual results could differ from those projected in such forward-looking statements. Therefore, readers are cautioned not to place undue reliance on these forward-looking statements.

PART I

ITEM 1. BUSINESS

Principal Offices.

The Company s principal executive offices are located at 800 Nicollet Mall, Suite 2690, Minneapolis, Minnesota 55402. The Company s telephone number is (612) 333-0614.

General Development of Business

Corporate Structure. The Company, incorporated originally in 1947 as an Arizona corporation, was reincorporated in Delaware on November 24, 1993. In addition to the parent company, the Company conducts its business through three wholly owned subsidiaries: Metalclad Insulation Corporation (MIC), a California corporation, Eco-Metalclad (Eco-MTLC), a Utah corporation and Metalclad Environmental Contractors (MEC), a California corporation. As of December 31, 2001, both Eco-MTLC and MEC became inactive. On May 31, 2002, the Company acquired 3,625,000 shares of common stock, constituting approximately 90% of the outstanding shares, of Surg II, Inc. (Surg II) (Nasdaq: SURG), and on September 25, 2002 acquired an additional 357,142 shares. On October 22, 2002, the Company distributed 3,791,576 shares of Surg II to its shareholders as a dividend. The Company still owns 190,566 shares of Surg II common stock.

In the past, the Company conducted business in Mexico in three wholly owned subsidiaries, which as of December 31, 2001 became inactive: Ecosistemas del Potosi, S.A. de C.V. (ECOPSA), Consultoria Ambiental Total, S.A. de CV. (CATSA) and Confinamiento Tecnico de Residues Industriales, S.A. de C.V. (COTERIN).

Unless otherwise indicated, the term Company refers to Entrx Corporation, formerly Metalclad Corporation, and, where appropriate, its United States and Mexican subsidiaries.

On December 20, 2001, Mr. Wayne Mills filed Form 13D/A with the Securities and Exchange Commission, indicating his intent to seek a change in management and the Board of the Company. Mr. Mills indicated that, absent a cooperative solution, he would seek shareholder consents to replace the entire Board. It was management s decision that the shareholders would benefit by not involving the Company in a proxy contest. Consequently, on February 13, 2002, Grant S. Kesler, Anthony C. Dabbene and Bruce H. Haglund resigned as members of the Board of Directors of the Company. The remaining three members of the Board of Directors elected Messrs. Wayne W. Mills, Kenneth W. Brimmer, Gary W. Copperud and Joseph M. Senser to fill an existing vacancy on the Board of Directors and the vacancies created by the resignations of Messrs. Kesler, Dabbene and Haglund. In addition, Messrs. Kesler and Dabbene resigned as officers of the Company, and Mr. Mills was elected President and Chief Executive Officer and Brian D. Niebur was elected Treasurer and Chief Financial Officer.

Business. For over 30 years, the Company has been providing insulation and asbestos abatement services, primarily on the West Coast. Through MIC, the Company provides these services to a wide range of industrial, commercial and public agency clients. Insulation services include the installation of high- and low-temperature insulation on pipe, ducts, furnaces, boilers, and other types of industrial equipment and commercial applications. Asbestos abatement services include removal and disposal of asbestos-containing products in similar applications. The Company fabricates specialty items for the

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insulation industry, and sells insulation material and accessories incident to its services business to its customers as well as to other contractors. A diverse list of clientele includes refineries, utilities, chemical/petrochemical plants, manufacturing facilities, commercial properties, office buildings and various governmental facilities.

Narrative Description of Business

Insulation Contracting Services

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

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

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

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

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

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

Fixed-price. These contracts generally require the Company to perform all work for an agreed upon price, often by a specified date. Such contracts usually provide for increases in the contract price if the Company s construction costs increase due to changes in or delays of the project initiated or caused by the customer or owner or by escalating project labor rates. However, absent causes resulting in increases in contract prices, the Company takes certain risks associated with its fixed prices. Under these types of contracts the Company receives periodic payments based on the work performed to date, less certain retentions. The amounts retained are held by the customer pending either satisfactory completion of the Company s work or in some cases, satisfactory completion of the entire project.

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

Operations and Employee Safety. All contract work is performed by trained Company personnel and supervised by project managers trained and experienced in construction and asbestos abatement. Each employee involved in asbestos

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abatement must complete a general training and safety program conducted by the Company. Training topics include approved work procedures, instruction on protective equipment and personal safety, dangers of asbestos, methods for controlling friable asbestos and asbestos transportation and handling procedures. In addition, all full-time employees engaged in asbestos abatement activities are required to attend a minimum four-day course approved by the EPA and the Occupational Safety and Health Administration (OSHA), and all supervisors of abatement projects are required to attend an eight-hour first aid/CPR/safety course and an eight-hour EPA/AHERA refresher course annually. One of the Company s full-time salaried employees and 22 hourly employees have been trained and certified as competent individuals under EPA regulations relating to the training of asbestos abatement workers. All employees are issued detailed training materials and the Company typically conducts a job safety analysis in the job bidding stage.

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

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

Material Sales

The emphasis in this area is primarily to provide insulation material direct to other insulation contractors and to warehouse and supply material for projects where other Company services are provided. The warehoused material is based on economics of bulk purchases of the most commonly used products.

Marketing and Sales

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

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

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

Curtom-Metalclad Joint Venture. In 1989, the Company entered into a joint venture with a minority service firm, which qualifies for preferential contract bidding because of minority status. The Company owns a 49% interest in the joint venture. The joint venture, known as Curtom-Metalclad, submits bids for insulation and asbestos abatement services. When contracts are obtained by the joint venture, the Company performs the work specified in the contract as a subcontractor to the joint venture. The Company also receives an interest in 49% of the profits or losses of the joint venture. Sales for the year ended December 31, 2002 to Curtom-Metalclad were approximately $6,384,000 or 42.5% of revenue. While the revenues and gross profit of Curtom-Metalclad are significant to the Company, the assets, liabilities and earnings of that joint venture are insignificant, and not material to the Company. The termination of the Curtom-Metalclad joint venture could have a material adverse affect on the Company due to loss of revenues.

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Customers. The Company s insulation customers generally fall into two categories, industrial or commercial. The industrial customers are predominately public utilities (power, natural gas and water/water treatment), major oil companies for oil refineries and petrochemical plants, chemical and food processors, other heavy manufacturers, and engineering/construction companies. The commercial customers are primarily government installations, schools, hospitals, institutions, an array of manufacturing/commercial facilities, and the general or mechanical construction contractors. During 2002, the Company earned a significant portion of its revenues from Southern California Edison Company (37.2%) (through Curtom-Metalclad), Kiewit Industrial Corporation (13.1%) and Equilon Enterprises LLC (10.5%). The Company anticipates that a significant portion of its revenues in 2003 will continue to be from work performed for these customers. (See Note 18 to the Financial Statements.)

Competition. Competition in the insulation contracting services business is intense and is expected to remain intense in the foreseeable future. Competition includes a few national and regional companies that provide integrated services and many regional and local companies that provide insulation and asbestos abatement specialty contracting services. Most of the national and regional competitors providing integrated services are well established and have substantially greater marketing, financial, and technological resources than the Company. The regional and local specialty contracting companies, which compete with the Company, either provide one service or they provide integrated services by subcontracting part of their services to other companies. The Company believes that the primary competitive factors for its services are price, technical performance, and reliability. The Company obtains a significant number of its insulation service contracts through the competitive bidding process. The Company believes that its bids are competitively priced and anticipates that in the future its bids will continue to be competitively priced compared with bids submitted by others.

Backlog. The Company s backlog for insulation services at December 31, 2002 and December 31, 2001 was $5,848,000 and $10,450,000, respectively. The backlog has been reduced due to continuing work on existing contracts including a major asbestos abatement project at the San Onofre Nuclear Plant and a utility pole abatement project for Southern California Edison Company. Backlog is calculated in terms of estimated revenues on fixed-price and cost-plus projects in progress or for which contracts have been executed. The Company believes that backlog as of any date is not necessarily indicative of future revenues. The Company estimates that its entire backlog as of December 31, 2002 will be completed during the next eighteen months. The majority of the Company s present business is on cost-plus contracts for which backlog is estimated. The Company fulfills product and supply orders promptly, and there is no backlog in the material sales business.

Insurance and Bonding.

The Company s combined general liability and contractor pollution insurance policy provides base coverage of $1,000,000 per occurrence and excess liability coverage of $10,000,000.

Prior to 1975, the Company was engaged in the sale and installation of asbestos related insulation materials, and has been the subject of 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.

The number of asbestos related claims which have been initiated naming the Company as a defendant have increased from 254 in 1999, to 527 in 2000 and 685 in 2001, but slightly decreased to 583 in 2002. The sympathies of juries, the aggressiveness of the plaintiff s bar, and the declining defendant base as a result of business failures, has also led to a trend of larger payments and settlements per claim. As of December 31, 2002, there were approximately 660 of such claims pending, down from 700 at the end of 2001.

The Company in the past has believed that it has adequate insurance to cover these claims; however, the terms of such insurance policies are complex and the coverage for many types of claims is limited. If the current trend of the increasing claim occurrence and amounts is not significantly reversed, it will likely have a material adverse effect on the financial condition and business of the Company in the future. Because of its insurance coverage, the Company does not anticipate any adverse effect on the Company s financial condition to develop for at least the next three to five years. Beyond that, however, the effect of those claims is uncertain.

While the Company s current insulation and asbestos abatement services customers generally do not require performance bonds, an increasing number of customers have requested such bonds. Due to changes in the bonding industry, the Company had difficulty obtaining performance bonds for two large projects in 2002. The Company satisfied the bonding requirements on one of these projects by obtaining a standby letter of credit payable to the customer and collateralized by cash. The other project s bonding requirement was satisfied by supplying the customer with a deposit of cash to guarantee the Company s

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performance on the project. While the changes in the bonding industry have made it more difficult to obtain performance bonds, the Company believes that its current bonding arrangements are adequate for the Company s anticipated future needs.

Employees.

As of December 31, 2002, the Company had two part-time salaried employees in its executive offices and 14 full-time salaried employees in its insulation business, for a total of 16 employees. These included three executive officers, project managers/estimators, purchasing, accounting, and office staff.

As of December 31, 2002, the Company employed approximately 115 hourly employees for insulation contracting services, nearly all of whom are members of the International Association of Heat and Frost Insulators and Asbestos Workers (AFL-CIO). The Company is a party to agreements with various local chapters of various trade unions. The number of hourly employees employed by the Company fluctuates depending upon the number and size of projects that the Company has under construction at any particular time. It has been the Company s experience that hourly employees are generally available for its projects, and the Company has continuously employed a number of them on various projects over an extended period of time. The Company considers its relations with its hourly employees and the unions representing them to be good, and has experienced no recent work stoppages due to strikes by such employees. Additionally, the trade union agreements the Company is a party to include no strike, no work stoppage provisions. Certain of these agreements expire in December of 2003 and August 2004.

Government Regulation

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

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

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

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

ITEM 2. PROPERTIES

The Company s executive offices are located in Minneapolis, Minnesota, which consists of approximately 2,400 square feet leased at a current rate of $6,900 per month, on a month-to-month basis.

The Company s wholly owned subsidiary, Metalcald Insulation Corporation, is housed in a facility in Anaheim, California. This facility consists of 26,000 square feet of office and warehouse space. In May, 2002 the Company purchased this facility for $2,047,000.

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ECOPSA owns an approximately 92-hectare parcel (approximately 227 acres) of land in Santa Maria del Rio near San Luis Potosi, Mexico. The Company is presently attempting to dispose of this property. Such sale or disposition will not have a material effect on the Company.

Management believes properties currently owned and leased by the Company are adequate for its operations for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

Asbestos Related Claims

Prior to 1975, the Company was engaged in the sale and installation of asbestos related insulation materials, and has been the subject of 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.

The number of asbestos related claims which have been initiated naming the Company as a defendant have increased from 254 in 1999, to 527 in 2000 and 685 in 2001, but slightly decreased to 583 in 2002. The sympathies of juries, the aggressiveness of the plaintiff s bar, and the declining defendant base as a result of business failures, has also led to a trend of larger payments and settlements per claim. As of December 31, 2002, there were approximately 660 of such claims pending, down from 700 at the end of 2001.

The Company in the past has believed that it has adequate insurance to cover these claims; however, the terms of such insurance policies are complex and the coverage for many types of claims is limited. If the current trend of the increasing claim occurrence and amounts is not significantly reversed, it will likely have a material adverse effect on the financial condition and business of the Company in the future. Because of its insurance coverage, the Company does not anticipate any adverse effect on the Company s financial condition to develop for at least the next three to five years. Beyond that, however, the effect of those claims is uncertain.

Claim Against Former Employee, Etc.

On November 13, 2000, the Company filed a complaint in the Superior Court of California against a former employee, the U.S. parent of the buyer and its representative for breach of contract, fraud, collusion and other causes of action in connection with the Company s sale of its Mexican businesses. This case is one where the Company has suffered damages and continues to accrue damages and a monetary award is sought as the remedy. An arbitration hearing was held in September, 2002 in Mexico City, as requested by one of the defendants. This arbitration hearing was solely to determine the validity of the assignment of the purchase and sale agreement by the buyer to a company formed by a former employee. The arbitrator has yet to give its ruling. Consequently, until this arbitration is completed, all legal proceedings in Orange County have been stayed. Upon completion of the arbitration, the Company believes it will be able to move forward in the U.S. with its complaint. No assurances can be given on the outcome.

Claim by Former Attorney

On February 5, 2003, a Notice of Involuntary Lien was filed against the Company with the County Recorder for Orange County California in the amount of $104,046. This lien relates to a judgment against the Company for attorney fees in the Company s NAFTA settlement. The Company has been indemnified by a third party against any judgment and costs related to this case and has contacted the third party seeking indemnification.

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

None

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY AND RELATED STOCK HOLDER MATTERS

Market for Common Stock

The Company s Common Stock is traded on The Nasdaq SmallCap Market under the symbol ENTX. The following table sets forth, for the fiscal periods indicated, the high and low sales prices for the Common Stock as reported by Nasdaq:

	Sales Price	
	High	Low
Fiscal Year Ended December 31, 2001		
Quarter Ended March 31, 2001	$ 2.031	$ 0.938
Quarter Ended June 30, 2001	2.07	1.02
Quarter Ended September 30, 2001	1.98	1.35
Quarter Ended December 31, 2001	2.36	1.47
Fiscal Year Ended December 31, 2002		
Quarter Ended March 31, 2002	$ 3.65	$ 1.80
Quarter Ended June 30, 2002	2.40	1.59
Quarter Ended September 30, 2002	1.92	0.80
Quarter Ended December 31, 2002	2.00	0.70

As of March 3, 2003, the closing price for the common shares on The Nasdaq SmallCap Market was $.50.

On December 11, 2002, the Company received a notice from The Nasdaq Stock Market, Inc. advising the Company that because the minimum bid price of the Company s Common Stock was not at least $1.00 for thirty (30) consecutive trading days, the Company does not meet the requirements for continued listing on The Nasdaq SmallCap Market. The Company has 180 calendar days from the notice, or until June 9, 2003, to regain compliance or be delisted. If such delisting occurs, it is likely that the Company s common stock will be traded on the over-the-counter Bulletin Board, or the newly established BBX, which may result in significantly less interest in and liquidity for such stock. Once delisted from the NASDAQ SmallCap Market, the standards for obtaining relisting become more stringent, currently including a requirement that the Company s common stock have a market price of $4.00 or more per share.

Shareholders of Record

As of March 3, 2003, the approximate number of record holders of the Company s Common Stock was 1,500.

Dividends

The Company has not paid any cash dividends on its Common Stock since its incorporation and anticipates that, for the foreseeable future, earnings, if any, will continue to be retained for use in its business. On October 22, 2002, the Company distributed 3,791,576 shares of Surg II, Inc. common stock as a dividend to its shareholders of record as of the close of business on October 11, 2002. The dividend was equal to one share of Surg II, Inc. common stock for each two shares of the Company s common stock owned. Since that date, Surg II, Inc. has changed its name to Chiral Quest, Inc., and its shares are being traded on the over-the-counter Bulletin Board under the symbol CQST .

Unregistered Sales of Securities

The following table sets forth certain information regarding the sale of common stock by the Company during the calendar year 2002 in transactions which were not registered under the Securities Act of 1933 (the Act).

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Date of Sale	Number of Shares Sold	Person(s) to Whom Sold	Consideration Paid	Exemption from Registration Relied Upon Under the Act
2/14/02	226,000	Two executive officers and directors of the Company[1]	Severance compensation	Section 4 (2)
10/7/02	25,000	James Marshall[2]	$37,500 in cash	Section 4 (2)

[1] Grant S. Kesler and Anthony C. Dabbene were officers and directors of the Company, and accredited investors as defined under the Act, who received 140,000 and 86,000 shares, respectively, for investment, valued at $2.57 per share.

[2] James Marshall, an accredited investor, acquired his shares for investment upon the exercise of a previously issued common stock warrant at $1.25 per share.

Equity Compensation

The following table sets forth certain information regarding equity compensation plan information as of December 31, 2002.

Equity Compensation Plan Information

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,932,800	$ 2.62	737,200
Equity compensation plans not approved by security holders	1,274,533	$ 5.84	none
Total	3,207,333	$ 3.90	737,200

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ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended December 31,				
	2002 [4]	2001	2000	1999	1998
	(in thousands, except share and per share amounts)				
Statement of Operations Data [1]					
Revenues from continuing operations	$ 15,021	$ 18,008	$ 17,769	$ 13,422	$ 10,009
Loss from continuing operations	(5,286)	(1,503)	(1,702)	(1,971)	(1,775)
Income (loss) from discontinued operations		7,079	(63)	(2,228)	(3,003)
Net income (loss)	(5,286)	5,576	(1,765)	(4,199)	(4,778)
Earnings per share: [2]					
Loss per share of common stock, continuing operations basic	$ (.69)	$ (.21)	$ (.31)	$ (.50)	$ (.58)
Loss per share of common stock, continuing operations diluted	$ (.69)	$ (.21)	$ (.31)	$ (.50)	$ (.58)
Income (loss) per share of common stock, discontinued operations basic	$	$ .98	$ (.01)	$ (.57)	$ (.99)
Income (loss) per share of common stock, discontinued operations diluted	$	$ .97	$ (.01)	$ (.57)	$ (.99)
Income (loss) per share of common stock basic	$ (.69)	$ .77	$ (.32)	$ (1.07)	$ (1.57)
Income (loss) per share of common stock diluted	$ (.69)	$ .77	$ (.32)	$ (1.07)	$ (1.57)
Weighted average shares outstanding basic [2]	7,608,823	7,200,490	5,470,002	3,918,912	3,036,277
Weighted average shares outstanding diluted [2]	7,608,823	7,261,568	5,470,002	3,918,912	3,036,277
Balance Sheet Data					
Total assets	$ 11,063	$ 17,792	$ 11,422 [3]	$ 9,472 [3]	$ 11,833 [3]
Convertible notes			1,029	2,071	1,640
Convertible debentures			310	360	1,202
Long-term debt	308	241	186	149	71
Mortgage payable	1,494				
Shareholders equity	6,509	13,692	6,891 [3]	5,155 [3]	4,481 [3]
Common shares outstanding [2]	7,504,215	7,448,015	6,581,114	4,859,498	3,056,912

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

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

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

(4) Includes the operations of the Company s majority-owned subsidiary Surg II, Inc. for the period May 30, 2002 through October 22, 2002.

No dividends were paid or declared during the years ended December 31, 2001, 2000, 1999, or 1998. On October 22, 2002 the Company distributed 3,791,576 shares of Surg II, Inc. common stock as dividend to its shareholders of record as of the close of business on October 11, 2002. The dividend was equal to one share of Surg II, Inc. common stock for each two shares of Entrx Corporation common stock owned.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Presentation of Consolidated Financial Statements

The consolidated financial statements of the Company reflect the Company s ongoing business in the insulation contracting segment and the discontinuance of its waste management segment in Mexico. Certain amounts have been reclassified from previously reported categories.

Results of Operations

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

In 1997, the Company filed a claim against the United Mexican States under the North American Free Trade Agreement (NAFTA) to recover the value of its investment in a completed, but unopened, treatment, storage and disposal facility in San Luis Potosi. During the fourth quarter of 1998, the Company determined, that due to political opposition in Mexico, its Mexican operations would not be successful and committed to a plan to discontinue its Mexican operations to minimize future losses and halted any further investment in Mexico. The Company settled its claims against the Mexican Government in October 2001 for $16,002,000. This settlement completed the Company s activities in Mexico and essentially closed out all discontinued operations in Mexico.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001.

Revenue. Total revenues were $15,021,000 in 2002 as compared to $18,008,000 for 2001, a decrease of 17%. Contract revenues for the year ended December 31, 2002 were $14,837,000 as compared to $17,865,000 for the year ended December 31, 2001, a decrease of 17%. The decrease is primarily attributable to fires at two of the Company s customer sites that generated incremental revenue in the year ended December 31, 2001 and also due to the general economic slowdown in 2002.

Cost of Revenue and Gross Margin. Total cost of revenue for the year ended December 31, 2002 were $13,158,000 as compared to $15,540,000 for the year ended December 31, 2001, a decrease of 15%. This decrease is primarily due to the decrease in revenue. The gross margin as a percentage of revenue was approximately 12.4% for the year ended December 31, 2002 compared to 13.7% for the year ended December 31, 2001. The decrease in gross margin as a percentage of revenue is primarily attributed to the performance of several major emergency jobs in response to major fires at a refinery and power plant that allowed for higher contract margins in the year ended December 31, 2001.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $3,658,000 for the year ended December 31, 2002 as compared to $3,015,000 for the year ended December 31, 2001, an increase of 21.3% due primarily to an increase in legal and professional fees, insurance expense and board fees offset by a decrease in salaries and bonus expense.

Other Operating Expense. For the year ended December 31, 2002, the Company recorded an allowance of $387,000 related to a loan to a corporate officer. The Company adjusted the carrying value of the note to the value of the collateral as of December 31, 2002. The collateral consists of 500,000 shares of the Company s common stock and 250,000 shares of the $0.01 par value common stock of Chiral Quest, Inc. (OTC Bulletin Board: CQST). The carrying value will continue to fluctuate as the market value of the collateral changes.

Restructuring Charges. On December 20, 2001, Wayne Mills filed Form 13D/A with the Securities and Exchange Commission, indicating his intent to seek a change in management and the Board of the Company. Mr. Mills indicated that, absent a cooperative solution, he would seek shareholder consents to replace the entire Board.

It was management s decision that the shareholders would benefit by not involving the Company in a proxy contest. Consequently, on February 13, 2002, Grant S. Kesler, Anthony C. Dabbene and Bruce H. Haglund resigned as members of the Board of Directors of the Company. The three remaining members of the Board of Directors elected Messrs. Wayne W.

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Mills, Kenneth W. Brimmer, Gary W. Copperud and Joseph M. Senser to fill an existing vacancy on the Board of Directors and the vacancies created by the resignations of Messrs. Kesler, Dabbene and Haglund. In addition, Messrs. Kesler and Dabbene resigned as officers of the Company, and Mr. Mills was elected President and Chief Executive Officer and Brian D. Niebur was elected Treasurer and Chief Financial Officer.

In connection with their resignations, and in lieu of compensation which would otherwise be due under change of control provisions contained in previously executed and adopted employment contracts, which were amended and restated as of January 1, 2002, the Company issued Mr. Kesler 140,000 shares of the Company s common stock valued at $359,800, forgave a loan due from Mr. Kesler in the amount of $543,000 in exchange for future consulting services and paid Mr. Kesler $832,000 in cash. In addition, the Company issued Mr. Dabbene 86,000 shares of the Company s common stock valued at $221,020 and paid Mr. Dabbene $637,000 in cash. In addition, all outstanding unvested stock options held by the prior Board of Directors, including Messrs. Kesler and Dabbene, were immediately vested and became exercisable. Messrs. Kesler and Dabbene each agreed to act as consultants to Entrx under two-year and three-month consulting agreements, respectively. In addition to the payment discussed above, Mr. Dabbene s compensation for consulting was $5,000 per month. A portion of the cash payments due to Mr. Kesler and Mr. Dabbene ($482,000 and $425,000, respectively) was deposited by Entrx as income and payroll tax withholding on the total compensation paid to each of them.

In March 2002, the Company reimbursed Mr. Mills $100,000 for legal fees expended by him in excess of that amount to effect this change in management.

During the year ended December 31, 2002, the Company recognized $3,333,000 of expense related to the change of management, including insurance premiums, legal fees, severance pay and relocation of the Company s headquarters. The cash payments related to these expenses were approximately $2,008,000. The non-cash charges primarily relate to the forgiveness of the loan due from Mr. Kesler, the issuance of common stock to Messrs. Kesler and Dabbene, the expense pursuant to APB No. 25 and the related interpretations related to the accelerated vesting of stock options for the prior directors.

Interest Income and Expense. Interest income for the year ended December 31, 2002 was $293,000 as compared with $80,000 for the year ended December 31, 2001. The increase in 2002 is primarily due to the larger cash balances, that resulted from the receipt of the NAFTA award and to an interest-bearing loan to a corporate officer in December 2001 that remained outstanding at December 31, 2002. Interest expense was $119,000 for the year ended December 31, 2002 compared to interest expense of $132,000 for the year ended December 31, 2001. This reduction in interest expense was primarily due to the conversions of debt to equity and the repayment of convertible zero coupon notes, with an interest rate of 15% in the year ended December 31, 2001, partially offset by bank borrowings outstanding for all of 2002 as compared to only a portion of 2001.

Other Income and Expense. The Company recognized a $57,000 gain on sale of available-for-sale securities in the year ended December 31, 2002. Other expense of $904,000 in 2001 consists principally of the reserve established for the note receivable related to the sale of the Mexican assets not included in the NAFTA claim.

Discontinued Operations. The gain of $7,079,000 in 2001 is a result of the settlement of the NAFTA claim, net of all fees and expenses, including the write-off of all assets associated with the claim. No future costs are anticipated. If any future costs arise, they will be charged to operations as incurred.

Net Income (Loss). The Company experienced a net loss of $5,286,000 (or a loss of $0.69 per share) for the year ended December 31, 2002, as compared to net income of $5,576,000 (or income of $0.77 per share) for the comparable period ended December 31, 2001. The net income for the year ended December 31, 2001, was due to the receipt of the NAFTA claim. The net loss from continuing operations for the year ended December 31, 2002, was primarily related to the restructuring charges. This net loss compares with net loss from continuing operations of $1,503,000 for the comparable period ended December 31, 2001. Excluding receipt of the NAFTA claim in 2001 and the restructuring charges in 2002, the Company would have lost $1,953,000 and $1,503,000 from continuing operations in the year ended December 31, 2002 and 2001, respectively.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000.

Revenue. Total revenues were $18,008,000 in 2001 as compared to $17,769,000 for 2000, an increase of 1%. Contract revenues for the year ended December

31, 2001 were $17,865,000 as compared to $17,674,000 for the year ended December 31, 2000, an increase of 1%. The increase is attributed to the continuing work on long-term maintenance projects as well as an increase in asbestos abatement work.

Cost of Revenue and Gross Margin. Total cost of revenue for the year ended December 31, 2001 were $15,540,000 as compared to $15,753,000 for the year ended December 31, 2000, a decrease of 1%. The gross margin percentage was approximately 13.7% for the year ended December 31, 2001 compared to 11.3% for the year ended December 31, 2000. The increase in gross margin percentage is primarily attributed to the performance of several major emergency jobs in response to major fires at a refinery and power plant early in the year that allowed for higher contract margins.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $3,015,000 for the year ended December 31, 2001 as compared to $3,501,000 for the year ended December 31, 2000, a decrease of 14% due primarily to a reduction in legal costs due to litigation completion related to the NAFTA claim partially offset by an increase in costs as a result of hiring a new full-time director of marketing.

Interest Income and Expense. Interest income for the year ended December 31, 2001 was $80,000 for the year ended December 31, 2001 as compared with $40,000 for the year ended December 31, 2000. The increase is primarily due to the larger cash balances, due to the NAFTA award, in 2001 as compared with 2000. Interest expense was $132,000 for the year ended December 31, 2001 compared to interest expense of $298,000 for the year ended December 31, 2000. This reduction in interest expense was primarily due to the conversions of debt to equity during the year and the repayment of convertible zero coupon notes, with an interest rate of 15%, partially offset by new bank borrowings with an interest rate of 5%, as of December 31, 2001.

Other Expense. Other expense of $904,000 in 2001 consists principally of the reserve established for the note receivable related to the sale of the Mexican assets not included in the NAFTA claim.

Discontinued Operations. The gain of $7,079,000 in 2001 is a result of the settlement of the NAFTA claim, net of all fees and expenses, including the write-off of all assets associated with the claim. No future costs are anticipated. If any future costs arise, they will be charged to operations as incurred.

Net Income (Loss). Net income for the year ended December 31, 2001 was $5,576,000 (or $0.77 per share) as compared to a loss of $1,765,000 (or $0.32 per share) for 2000. Receipt of the NAFTA settlement in 2001 resulted in income from discontinued operations of $7,079,000. Without the NAFTA settlement the Company would have had a loss in 2001 of $1,503,000.

Liquidity and Capital Resources

As of December 31, 2002, the Company had $844,000 in cash and cash equivalents, and working capital of $4,602,000. The Company has a line of credit agreement with a bank for $1,000,000. Borrowings under the agreement are limited to the lower of $1,000,000 or the Company s borrowing base, which consists of a specified percentage of certain accounts receivable. As of December 31, 2002, the Company had a balance of $996,000 outstanding on this line of credit.

Cash used in continuing operations was $6,939,000 for 2002 compared with cash provided by continuing operations of $1,187,000 in 2001. For 2000, $2,357,000 of cash was used in continuing operations. Cash flows were used primarily to fund operating losses for continuing operations in each of the years 2002, 2001 and 2000, which were partially offset by non-cash expenses for depreciation and amortization in 2002, 2001 and 2000 and the provision for uncollectable notes receivable related to the 1999 sale of Mexican assets in 2001. In 2002, the Company placed $2,111,000 of cash in a certificate of deposit at a bank to secure a standby letter of credit payable to a customer in lieu of a performance bond. The letter of credit expires on July 1, 2003 and the certificate of deposit also matures on July 1, 2003. The Company has recorded the certificate of deposit as restricted cash. The Company used $1,057,000 of cash in 2002 to decrease its accounts payable and accrued expenses. In 2002, these uses were partially offset by non-cash expenses for stock based compensation, the adjustment of the carrying value of the loan to a corporate officer and the forgiveness of the loan to Mr. Kesler. In 2001, the positive cash flow from continuing operations was primarily the result of a decrease in accounts receivable. The large workload in the fourth quarter of 2000 as compared with 2001, resulted in a larger accounts receivable balance at December 31, 2000 as compared with December 31, 2001. Increases in accounts receivable, primarily related to increased revenues, reduced cash flows from continuing operations in 2000 by $2,321,000, while increases in current liabilities, primarily related to the Company s lack of cash and cash equivalents, increased cash flows from continuing operations in 2000 by $1,491,000. Increases in prepaid expenses and other current assets, primarily related to prepaid insurance also resulted in decreased cash flows from continuing operations in 2001 of $225,000.

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Cash provided by discontinued operations was $13,450,000 for 2001 compared with $403,000 of cash used in discontinued operations in 2000. In 2001, the positive cash flow from discontinued operations was primarily the result of the $16,002,000 received from the Mexican government as settlement of the Company s claim under the North American Free Trade Agreement, offset by expenses related to the settlement. The cash used in discontinued operations in 2000 related primarily to expenses of ceasing business in Mexico and legal costs associated with pursuing the Company s claim under NAFTA.

Net investing activities used $6,723,000, $1,230,000 and $99,000 of cash in 2002, 2001 and 2000, respectively. Of these uses, $2,258,000, $231,000 and $99,000 was used for additions to property and equipment in 2002, 2001 and 2000, respectively, primarily at the Company s subsidiary, Metalclad Insulation Corporation. In 2002, $2,047,000 of the additions to property related to the purchase of the building housing the business at Metalclad Insulation Corporation. Also in 2002, the Company used $3,300,000 to acquire and distribute 3,791,576 shares of Surg II, Inc. common stock to the Company s shareholders as a dividend. Additionally in 2002, the Company used $197,000 for net purchases of available-for-sale securities. In 2001, the Company used $1,000,000 of cash to make an equity investment in Catalytic Solutions, Inc.

On November 4, 2002 the Company signed an agreement (the Loan Agreement) whereby it would lend up to $2.5 million to Zamba Corporation (OTCBB: ZMBA) (Zamba) in the form of a collateralized convertible note. The loan is collateralized with shares of NextNet Wireless, Inc. (NextNet Wireless) stock owned by Zamba. The loan is not repayable in cash, but at the Company s option, would be repaid either by conversion at any time into shares of Zamba s NextNet Wireless stock, or if and when fully funded, by conversion into 25% of Zamba s common stock outstanding prior