

ELECTRO SENSORS INC
Form 10-Q
May 12, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

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

For the quarterly period ended March 31, 2016

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 000-09587

ELECTRO-SENSORS, INC.

(Exact name of registrant as specified in its charter)

Minnesota

41-0943459

(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

6111 Blue Circle Drive
Minnetonka, Minnesota 55343-9108

(Address of principal executive offices)

(952) 930-0100

(Registrant's telephone number, including area code)

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

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 large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The number of shares outstanding of the registrant's common stock, \$0.10 par value, on May 10, 2016 was 3,395,521.

ELECTRO-SENSORS, INC.

Form 10-Q

For the Quarter Ended March 31, 2016

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ELECTRO-SENSORS, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands except share and per share amounts)

| | March 31, 2016 | December 31, 2015 |
|--|---------------------------|----------------------------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 505 | \$ 569 |
| Treasury bills | 7,487 | 7,872 |
| Trade receivables, less allowance for doubtful accounts of \$8 | 807 | 689 |
| Inventories | 1,495 | 1,564 |
| Other current assets | 167 | 170 |
| Income tax receivable | 32 | 0 |
| Deferred income tax asset, current | 1 | 14 |
| Total current assets | 10,494 | 10,878 |
| Deferred income tax asset | 198 | 170 |
| Intangible assets, net | 1,212 | 1,270 |
| Property and equipment, net | 1,082 | 1,103 |
| Total assets | \$ 12,986 | \$ 13,421 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Current maturities of note payable | \$ 0 | \$ 390 |
| Accounts payable | 155 | 136 |

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| | | |
|--|-----------|-----------|
| Accrued expenses | 396 | 396 |
| Accrued income tax | 0 | 4 |
| Total current liabilities | 551 | 926 |
| Long-term liabilities | | |
| Contingent earn-out | 455 | 455 |
| Total long-term liabilities | 455 | 455 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Common stock par value \$0.10 per share; authorized 10,000,000 shares; 3,395,521 shares issued and outstanding | 339 | 339 |
| Additional paid-in capital | 1,908 | 1,879 |
| Retained earnings | 9,766 | 9,855 |
| Accumulated other comprehensive loss (unrealized loss on available-for-sale securities, net of income tax benefit) | (33) | (33) |
| Total stockholders' equity | 11,980 | 12,040 |
| Total liabilities and stockholders' equity | \$ 12,986 | \$ 13,421 |

See accompanying notes to unaudited consolidated financial statements

Table of Contents**ELECTRO-SENSORS, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(in thousands except share and per share amounts)

(unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------|---------|
| | 2016 | 2015 |
| Net sales | \$1,716 | \$1,885 |
| Cost of goods sold | 782 | 823 |
| Gross profit | 934 | 1,062 |
| Operating expenses | | |
| Selling and marketing | 427 | 407 |
| General and administrative | 482 | 406 |
| Research and development | 173 | 216 |
| Total operating expenses | 1,082 | 1,029 |
| Operating income (loss) | (148) | 33 |
| Non-operating income (expense) | | |
| Interest expense | (1) | (4) |
| Gain on sale of available-for-sale securities | 0 | 815 |
| Interest income | 11 | 1 |
| Other income | 3 | 3 |
| Total non-operating income, net | 13 | 815 |
| Income (loss) before income taxes | (135) | 848 |
| Provision for (benefit from) income taxes | (46) | 295 |
| Net income (loss) | \$(89) | \$553 |
| Other comprehensive loss | | |
| Change in unrealized value of available-for-sale securities, net of income tax | \$0 | \$69 |
| Reclassification of gains included in net income, net of income tax | 0 | (505) |
| Other comprehensive loss | 0 | (436) |

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| | | |
|---------------------------------|------------|-----------|
| Net comprehensive income (loss) | \$ (89) | \$ 117 |
| Net income per share data: | | |
| Basic | | |
| Net income (loss) per share | \$ (0.03) | \$ 0.16 |
| Weighted average shares | 3,395,521 | 3,395,521 |
| Diluted | | |
| Net income (loss) per share | \$ (0.03) | \$ 0.15 |
| Weighted average shares | 3,395,521 | 3,653,021 |

See accompanying notes to unaudited consolidated financial statements

Table of Contents**ELECTRO-SENSORS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

| | Three Months Ended March 31, | |
|--|------------------------------------|---------|
| | 2016 | 2015 |
| Cash flows from (used in) operating activities | | |
| Net income (loss) | \$(89) | \$553 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 79 | 88 |
| Realized gain on sale of available-for-sale securities | 0 | (815) |
| Deferred income taxes | (15) | 40 |
| Stock-based compensation expense | 29 | 16 |
| Other | (11) | (3) |
| Change in: | | |
| Trade receivables | (118) | (186) |
| Inventories | 69 | (122) |
| Other current assets | 3 | (16) |
| Accounts payable | 19 | 101 |
| Accrued expenses | 0 | 5 |
| Accrued income taxes | (36) | 140 |
| Net cash used in operating activities | (70) | (199) |
| Cash flows from (used in) investing activities | | |
| Proceeds from sale of available-for-sale securities | 0 | 825 |
| Purchases of treasury bills | (1,447) | (2,499) |
| Proceeds from the maturity of treasury bills | 1,843 | 2,700 |
| Purchase of property and equipment | 0 | (5) |
| Net cash from investing activities | 396 | 1,021 |
| Cash flows used in financing activities | | |
| Payments on long-term debt | (390) | (381) |

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| | | |
|--|--------|---------|
| Net cash used in financing activities | (390) | (381) |
| Net increase (decrease) in cash and cash equivalents | (64) | 441 |
| Cash and cash equivalents, beginning | 569 | 1,190 |
| Cash and cash equivalents, ending | \$505 | \$1,631 |
| Supplemental cash flow information | | |
| Cash paid for income taxes | \$5 | \$116 |
| Cash paid for interest | \$10 | \$19 |

See accompanying notes to unaudited consolidated financial statements

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ELECTRO-SENSORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED MARCH 31, 2016

(in thousands except share and per share amounts)

(unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions and regulations of the Securities and Exchange Commission 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 for complete financial statements.

This report should be read together with the Company's Annual Report on Form 10-K for the year ended December 31, 2015, including the audited consolidated financial statements and footnotes therein.

Management believes that the unaudited financial statements include all adjustments, consisting of normal recurring accruals, necessary to fairly state the financial position and results of operations as of March 31, 2016 and for the three-month period then ended in accordance with accounting principles generally accepted in the United States of America. The results of interim periods may not be indicative of results to be expected for the year.

Nature of Business

Electro-Sensors, Inc. manufactures and markets a complete line of monitoring and control systems for a variety of industrial machinery. The Company uses leading-edge technology to continuously improve its products and make them easier to use, with the ultimate goal of manufacturing the industry-preferred product for every market served. The Company sells these products through an internal sales staff, manufacturers' representatives, and distributors to a wide variety of industries that use the products in a variety of applications to monitor process machinery operations. The Company markets its products to customers located throughout the United States, Canada, Latin America,

Europe, and Asia.

Fair Value Measurements

The carrying value of cash equivalents, treasury bills, trade receivables, accounts payable, and other financial working capital items approximate fair value at March 31, 2016 and December 31, 2015, due to the short maturity nature of these instruments.

Stock-Based Compensation

The Company records compensation expense for stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes-Merton (“BSM”) option pricing model. The Company uses historical data, among other factors, to estimate the expected price volatility, the expected option life, and the expected forfeiture rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates, including the underlying assumptions, consist of economic lives of long-lived assets, realizability of trade receivables, valuation of deferred tax assets/liabilities, inventory, investments, contingent earn-out, and stock compensation expense. It is at least reasonably possible that these estimates may change in the near term.

Table of Contents**ELECTRO-SENSORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE PERIOD ENDED MARCH 31, 2016**

(in thousands except share and per share amounts)

(unaudited)

Note 2. Investments

The cost and estimated fair value of the Company's investments are as follows:

| | Cost | Gross unrealized gain | Gross unrealized loss | Fair value |
|---|----------------|--------------------------------------|--------------------------------------|-----------------------|
| March 31, 2016 | | | | |
| Money Market | \$240 | \$ 0 | \$ 0 | \$240 |
| Commercial Paper | 199 | 0 | 0 | 199 |
| Treasury Bills | 7,481 | 6 | 0 | 7,487 |
| Equity Securities | 54 | 0 | (54) | 0 |
| | 7,974 | 6 | (54) | 7,926 |
| Less Cash Equivalents | 439 | 0 | 0 | 439 |
| Total Investments, March 31, 2016 | \$7,535 | \$ 6 | \$ (54) | \$7,487 |
| December 31, 2015 | | | | |
| Money Market | \$246 | \$ 0 | \$ 0 | \$246 |
| Commercial Paper | 247 | 0 | 0 | 247 |
| Treasury Bills | 7,876 | 0 | (4) | 7,872 |
| Equity Securities | 54 | 0 | (54) | 0 |
| | 8,423 | 0 | (58) | 8,365 |
| Less Cash Equivalents | 493 | 0 | 0 | 493 |
| Total Investments, December 31, 2015 | \$7,930 | \$ 0 | \$ (58) | \$7,872 |

During the three-month period ended March 31, 2015 the Company sold 73,583 shares of Rudolph Technologies, Inc. (ticker symbol RTEC) stock and reported gains of \$815 in non-operating income.

Table of Contents**ELECTRO-SENSORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE PERIOD ENDED MARCH 31, 2016****(in thousands except share and per share amounts)****(unaudited)****Note 3. Fair Value Measurements**

The following table provides information on those assets and liabilities measured at fair value on a recurring basis.

March 31, 2016

| | Carrying amount in consolidated balance sheet | Fair Value | Fair Value Measurement Using | | |
|---------------------------|--|-----------------------|---|--------------------|--------------------|
| | | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | |
| Cash and cash equivalents | | | | | |
| Money market funds | \$ 240 | \$240 | \$240 | \$ 0 | \$0 |
| Commercial paper | 199 | 199 | 199 | 0 | 0 |
| Treasury bills | 7,487 | 7,487 | 7,487 | 0 | 0 |
| Equity Securities | 0 | 0 | 0 | 0 | 0 |
| Liabilities: | | | | | |
| Contingent earn-out | 455 | 455 | 0 | 0 | 455 |

December 31, 2015

**Carrying
amount**

| | in consolidated balance sheet | Fair Value | Fair Value Measurement Using | | |
|---------------------------|--|-----------------------|---|--------------------|--------------------|
| | | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | |
| Cash and cash equivalents | | | | | |
| Money market funds | \$ 246 | \$246 | \$246 | \$ 0 | \$0 |
| Commercial paper | 247 | 247 | 247 | 0 | 0 |
| Treasury bills | 7,872 | 7,872 | 7,872 | 0 | 0 |
| Equity Securities | 0 | 0 | 0 | 0 | 0 |
| Liabilities: | | | | | |
| Contingent earn-out | 455 | 455 | 0 | 0 | 455 |

The fair value of the money market funds, commercial paper and treasury bills is based on quoted market prices in an active market. The available-for-sale security is a limited-marketable company. There is an insignificant market for the limited-marketable company and the Company has determined the value based on financial and other factors, which are considered level 3 inputs in the fair value hierarchy. Management estimated the probability of meeting the revenue targets over the measurement period to determine the fair value of the contingent earn-out, which is considered a level 3 input in the fair value hierarchy.

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(unaudited)

Note 4. Note Payable

The note payable consists of the following:

| | |
|--|----------------------------------|
| | December 31, 2015 |
| Note payable to seller | \$ 400 |
| Payable in annual installments of principal of \$400. The note was paid off in February 2016. This note is non-interest bearing and unsecured. | |
| Less: Discount of note payable listed above | (10) |
| Net note payable | 390 |
| Less: Current maturities | 390 |
| Note Payable – Long Term | \$ 0 |

Note 5. Stock-Based Compensation

During the first quarter of 2016, the Company granted its Chief Executive Officer options to purchase 50,000 shares of common stock. The options were priced at fair market value and vested 20% on the grant date, with an additional 20% vesting on the first four anniversaries of the grant date. The options expire ten years from the date of grant.

The assumptions made in estimating the fair value of the options on the grant date based upon the BSM option-pricing model for the quarter ended March 31, 2016 are as follows:

| | |
|-------------------------|---------|
| Dividend Yield | 0.00% |
| Expected Volatility | 36.17% |
| Risk Free Interest Rate | 1.31% |
| Expected Life | 6 Years |

As of March 31, 2016, there was approximately \$143 of unrecognized compensation expense. The Company expects to recognize this expense over the next four years.

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(unaudited)

Note 6. Segment Information

As of January 1, 2016, the Company has one reportable operating segment: Production Monitoring. During the first quarter of 2015, the Company had two reportable operating segments: Production Monitoring and Investments. The Production Monitoring Division manufactures and markets a complete line of production monitoring equipment. ESI Investment Company held investments in marketable and non-marketable securities.

The accounting policies of the segments are the same as those described in Note 1 of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. In evaluating segment performance, management focuses on sales and income before income taxes. The Company had no inter-segment sales.

The following is financial information relating to the continuing operating segments:

| | Three Months Ended March 31, 2016 2015 | |
|--|--|---------|
| External sales | | |
| Production monitoring | \$1,716 | \$1,885 |
| Total | \$1,716 | \$1,885 |
| Income (loss) before income taxes | | |
| Production monitoring | \$(135) | \$32 |
| Investments | 0 | 816 |
| Total | \$(135) | \$848 |

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

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding our expectations, beliefs, intentions or strategies regarding the future. Forward-looking statements include, but are not limited to, statements relating to our marketing efforts or our efforts to accelerate growth; our business development activities; our efforts to maintain or reduce production costs; our expected use of cash on hand; our cash requirements; and the sufficiency of our cash flows. We consider any statement that is not based solely upon historical facts, including our strategies for the future and the outcome of events that have not yet occurred, as a forward-looking statement.

All forward-looking statements in this document are based on information available to us as of the date of this Form 10-Q, and we assume no obligation to update any of these forward-looking statements, other than as required by law. Our actual results could differ materially from those in these forward-looking statements. The forward-looking statements we make in this Quarterly Report are subject to certain risks and uncertainties that could cause future results to differ materially from our recent results or those projected in the forward-looking statements, including the accuracy of management’s assumptions with respect to industry trends, fluctuations in industry conditions, the accuracy of management’s assumptions regarding expenses and our cash needs and those listed under the heading “Cautionary Statements” under “Item 1—Business,” in our Annual Report on Form 10-K for the year ended December 31, 2015.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make decisions based upon estimates, assumptions, and factors it considers relevant to the circumstances. These decisions include the selection of applicable accounting principles and the use of judgment in their application, and affect reported amounts and disclosures. Changes in economic conditions or other business circumstances may affect the outcomes of management’s estimates and assumptions. An in-depth description of our accounting estimates can be found in the interim financial statements included in this report and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. No new estimates exist other than those discussed in our Annual Report.

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The following table contains selected financial information, for the periods indicated, from our consolidated statements of comprehensive income (loss) expressed as a percentage of net sales.

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2016 | 2015 |
| Net sales | 100.0% | 100.0% |
| Cost of goods sold | 45.6 | 43.7 |
| Gross profit | 54.4 | 56.3 |
| Operating expenses | | |
| Selling and marketing | 24.9 | 21.6 |
| General and administrative | 28.1 | 21.5 |
| Research and development | 10.0 | 11.5 |
| Total operating expenses | 63.0 | 54.6 |
| Operating income (loss) | (8.6) | 1.7 |
| Non-operating income (expense) | | |
| Interest expense | (0.1) | (0.2) |
| Gain on sale of available-for-sale securities | 0.0 | 43.2 |
| Interest income | 0.6 | 0.1 |
| Other income | 0.2 | 0.2 |
| Total non-operating income, net | 0.7 | 43.3 |
| Income (loss) before income taxes | (7.9) | 45.0 |
| Provision for (benefit from) income taxes | (2.7) | 15.6 |
| Net income (loss) | (5.2)% | 29.4 % |

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The following paragraphs discuss the Company's performance for the three months ended March 31, 2016 and 2015.

RESULTS OF OPERATIONS (in thousands)

Net Sales

Net sales for the 2016 first quarter decreased \$169, or 9.0%, when compared to the same period in 2015. This decrease in sales was primarily due to lower sales in the southwestern US and international regions, which declined 34% and 46% respectively. The decreases were primarily the result of customers delaying capital purchases during the quarter due to challenging macroeconomic conditions in the markets we serve. This weakness was partially offset by 25% growth in the north central and northwestern US regions, largely driven by sales of our sensor and switch products. The company experienced growth within the grain and bulk material handling markets when compared to the same period of 2015.

Gross Profit

Gross profit for the 2016 first quarter decreased \$128, or 12.1%, from \$1,062 to \$934. Gross margin, as a percentage of net sales, for the three months ended March 31, 2016 was 54.4%, versus 56.3% for the same period in 2015. The slight decrease in gross margin percentage was due to a change in product mix and lower capacity utilization.

Operating Expenses

Total operating expenses increased \$53, or 5.2%, for the 2016 fiscal quarter compared to the same period of 2015. As a percentage of net sales, operating expenses increased to 63.0% in the 2016 three-month period compared to 54.6% in the same period for 2015. Part of the percentage increase reflects the fact that fiscal 2016 first quarter sales decreased from fiscal 2015 first quarter sales.

Selling and marketing costs increased \$20, or 4.9%, for fiscal 2016 first quarter when compared to the same period in 2015, and increased as a percentage of net sales to 24.9% from 21.6%. The dollar increase was due to increased travel and system demonstrations to potential customers.

General and administrative costs increased \$76, or 18.7%, for fiscal 2016 first quarter compared to the same period in 2015, and increased as a percentage of net sales to 28.1% from 21.5%. The dollar increase was due to higher wages and benefit expense due to additional personnel, legal and professional fees, and stock compensation expense due to an option granted to the Chief Executive Officer in February 2016. The increase is partially offset by a decrease in depreciation expense.

Research and development costs decreased \$43, or 19.9%, for fiscal 2016 first quarter compared to the same period in 2015, and decreased as a percentage of net sales to 10.0% from 11.5%. The decrease in research and development costs was the result of lower wages and benefits due to reduced staffing levels in 2016 and costs incurred in 2015 related to lab testing fees for the HazardPRO product line.

Non-Operating Income (Expense)

Non-operating income decreased by \$802 for fiscal 2016 first quarter compared to the same period for 2015. This decrease was due to the liquidation of shares in Rudolph Technologies, Inc. in the second quarter of 2016. During the 2015 first quarter, we sold 73,583 shares of Rudolph Technologies, Inc. stock and recognized gain on the sales of \$815.

Income (Loss) Before Income Taxes

Loss before income taxes was \$135 for the 2016 first quarter, a decrease of \$983, or 115.9%, when compared to income before income taxes of \$848 for the quarter ended March 31, 2015.

The decrease was the result of lower 2016 sales and no gain on sale of available-for-sale securities recognized in 2016. During the first quarter of 2015, we recognized \$815 of gain on sale of available-for-sale securities (see “Non-Operating Income (Expense)”).

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LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$505 at March 31, 2016 and \$569 at December 31, 2015. The decrease was mainly from investing activities, as the Company did not have any sales of available-for-sale securities during 2016.

Cash used in operating activities was \$70 and \$199 for the three months ended March 31, 2016 and 2015, respectively. The \$129 decrease in cash used in operating activities was mainly due to the 2016 smaller increase in trade receivables and decrease in inventories, partially offset by a decrease in accrued income taxes. The increase in trade receivables is due to increased sales in the first quarter of 2016 compared to the fourth quarter of 2015. The decrease in inventories is primarily due to our lower purchases of inventory in the 2015 fourth quarter and 2016 first quarter, compared to the respective prior year periods. The decrease in accrued income taxes was due to lower taxable income due to the liquidation of shares in Rudolph Technologies, Inc. in the first quarter of 2015.

Cash generated from investing activities was \$396 and \$1,021 for the three months ended March 31, 2016 and 2015, respectively. During the three months ended March 31, 2016 and 2015, the Company had net proceeds of Treasury Bills with a maturity date of more than three months of \$396 and \$201, respectively. We generated \$825 in proceeds on the sale of available-for-sale securities during the 2015 first quarter.

Cash used in financing activities was \$390 and \$381 for the first quarters of 2016 and 2015, respectively. During the three months ended March 31, 2016 and 2015, we paid \$390 and \$381 on the long-term debt owed to Harvest Engineering, Inc. ("Harvest") for the technology purchased in February 2014. As of March 31, 2016, the note payable to Harvest has been paid in full.

Our ongoing cash requirements will be primarily for capital expenditures, contingent earn-out, research and development, and working capital. Management believes that cash on hand and any cash from operations will be sufficient to meet our cash requirements through at least the next 12 months.

Off-balance Sheet Arrangements

As of March 31, 2016, the Company had no off-balance sheet arrangements or transactions.

Future Business Development Activities

The Company continues to seek growth opportunities, both internally through the Company's existing portfolio of products, technologies and markets, as well as externally through technology partnerships or related-product acquisitions. Although the Company is continuing to explore these external opportunities, it currently has no agreements or understandings with any third parties.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act") were effective as of March 31, 2016 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the first quarter of 2016, which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings – None

Item 1A. Risk Factors – Not Applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – None

Item 3. Defaults Upon Senior Securities – None

Item 4. Mine Safety Disclosures – Not Applicable

Item 5. Other Information – None

Item 6. Exhibits

(a) Exhibits - See Exhibit Index following signature page.

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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.

Electro-Sensors, Inc.

May 12, 2016 /s/ David L. Klenk
David L. Klenk
Chief Executive Officer and Chief Financial Officer

May 12, 2016 /s/ Gloria M. Grundhoefer
Gloria M. Grundhoefer
Controller

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EXHIBIT INDEX

ELECTRO-SENSORS, INC.

FORM 10-Q FOR QUARTER ENDED MARCH 31, 2016

Exhibit Description

31.1 Certification of CEO and CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following financial information from Electro-Sensors, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015, (ii) Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2016 and March 31, 2015, (iii) Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and March 31, 2015, and (iv) Notes to Consolidated Financial Statements.