

SENTEX SENSING TECHNOLOGY INC

Form 10QSB

July 14, 2005

Table of Contents

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

FORM 10-QSB

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

Commission File No. 0-13328
For the quarterly period ending May 31, 2005

SENTEX SENSING TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

New Jersey

22-2333899

(State or other jurisdiction of
incorporation or organization)

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

1801 East Ninth Street
Cleveland, Ohio

44114

(Address of principal executive offices)

(Zip Code)

(216) 687-0289

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12 (b) of the Exchange Act:
None

Securities registered pursuant to Section 12 (g) of the Exchange Act:
Common Shares, no par value

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 and 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 ☐

Number of shares of Common Shares (No Par Value) of SENTEX SENSING TECHNOLOGY, Inc., issued and outstanding as of the latest practicable date is 101,764,911

Table of Contents

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
NOVEMBER 30, 2004 AND MAY 31, 2005

	November 30, 2004 (Audited)	May 31, 2005 (Unaudited)
ASSETS		
CURRENT ASSETS		
Cash	\$ 12,872	\$ 10,152
Accounts receivable trade, net of allowance for doubtful accounts of \$55,000	98,206	172,459
Inventory	103,550	133,085
TOTAL CURRENT ASSETS	214,628	315,696
FIXED ASSETS		
Computer equipment	4,009	5,187
Leasehold improvements		25,000
Less accumulated depreciation	(4,009)	(4,009)
		26,178
OTHER ASSETS		
Goodwill	36,042	36,042
Deposits	990	990
	37,032	37,032
TOTAL ASSETS	\$ 251,660	\$ 378,906
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Notes payable:		
Related party	\$ 6,203,340	\$ 6,301,227
Trade and other accounts payable (\$913,174 and \$967,507 to related parties)	1,171,122	1,586,097
Accrued liabilities	160,476	18,933
Consulting contracts payable	21,249	21,249
Convertible subordinated notes payable	12,423	12,423
TOTAL CURRENT LIABILITIES	7,568,610	7,939,929

STOCKHOLDERS EQUITY

Common stock, no par value

Authorized - 200,000,000 shares

Issued - 109,460,911 shares

Outstanding - 101,764,911 shares

Accumulated deficit

Treasury shares at cost, 7,696,000 shares

2,867,579 2,867,579

(9,915,061) (10,159,134)

(269,468) (269,468)

TOTAL STOCKHOLDERS EQUITY

(7,316,950) (7,561,023)

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY

\$ 251,660 \$ 378,906

See Notes to Consolidated Financial Statements

Table of Contents

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE SIX MONTHS
ENDED MAY 31, 2004 AND MAY 31, 2005 (UNAUDITED)

	Three Months Ended		Six Months Ended	
	May 31,	May 31,	May 31,	May 31,
	2004	2005	2004	2005
REVENUES				
Sales	\$ 783,249	\$ 867,952	\$ 1,374,344	\$ 1,620,098
Interest and other income	23,366	154,571	35,633	159,799
Total Revenues	806,615	1,022,523	1,409,977	1,779,897
COST OF GOODS SOLD	545,670	673,601	1,146,704	1,026,886
GROSS PROFIT	260,945	348,922	263,273	753,011
OPERATING EXPENSES				
Administration	414,672	419,370	784,179	827,887
Total expenses	414,672	419,370	784,179	827,887
PROFIT(LOSS) FROM OPERATIONS	(153,727)	(70,448)	(520,906)	(74,876)
OTHER EXPENSE				
Interest Expense	54,832	90,363	109,275	169,197
PROFIT(LOSS) BEFORE PROVISION FOR INCOME TAX EXPENSE	(208,559)	(160,811)	(630,181)	(244,073)
PROVISION FOR INCOME TAX EXPENSE				
NET PROFIT(LOSS)	(208,559)	(160,811)	(630,181)	(244,073)
NET PROFIT(LOSS) PER SHARE (BASIC AND DILUTED)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)
WEIGHTED NUMBER OF SHARES OUTSTANDING	101,764,911	101,764,911	101,764,911	101,764,911

See Notes to Consolidated Financial Statements

Table of Contents

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE SIX MONTHS
ENDED MAY 31, 2004 AND MAY 31, 2005 (UNAUDITED)

	Six Months Ended	
	May 31, 2004	May 31, 2005
OPERATING ACTIVITIES:		
Net loss	\$ (630,181)	\$ (244,073)
Adjustment to reconcile net loss to net cash used by operating activities:		(26,178)
Depreciation and amortization	270	
Noncash interest expense	75,979	169,198
Accounts receivable	136,369	(74,253)
Inventories	298,587	(29,535)
Accounts payable	(226,007)	414,975
Accrued liabilities	181,149	(310,741)
 Total Adjustments	 466,347	 143,466
 Net cash used by operating activities	 (163,834)	 (100,607)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on notes and accounts payable related party	225,668	97,887
Payments on note payable related party	(101,100)	
 Net cash provided by financing activities	 124,568	 97,887
 NET INCREASE (DECREASE) IN CASH	 (39,266)	 (2,720)
 CASH BEGINNING OF PERIOD	 45,330	 12,872
 CASH END OF PERIOD	 \$ 6,064	 \$ 10,152
 Supplemental disclosure of cash flow information:		
Cash paid during the quarter for:		
Interest	\$ 33,296	\$

See Notes to Consolidated Financial Statements

Table of Contents

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) In the opinion of management, the unaudited financial statements contain all adjustments (consisting of only normal recurring accruals and repayments) necessary to present fairly the financial position at May 31, 2005 and the results of operations and cash flows for the six months ended May 31, 2004 and May 31, 2005.

These interim statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended November 30, 2004 (Commission File No. 2-13328).

(2) The results of operations for the six months ended May 31, 2004 and May 31, 2005 are not necessarily indicative of the results to be expected for the full year.

(3) PROFIT(LOSS) PER SHARE

Profit(loss) per share is calculated using the weighted average number of common shares outstanding. Potentially dilutive securities are insignificant.

(4) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Sentex Sensing Technology, Inc. and its wholly-owned subsidiaries (the Company). All material inter-company accounts and transactions have been eliminated in consolidation.

(5) LEGAL PROCEEDINGS

State of Ohio, Department of Administrative Services v. IQ Solutions, LLC, et al.; Case No. 03-CVH05-6054; Franklin County Common Pleas Court, Ohio.

During October 2004, the Company was dismissed without prejudice from the above-caption and previously disclosed matter.

Table of Contents

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

On July 2, 2001, the Company purchased Regency Technologies, LLC from Regency Steel, LLC and other members.

Regency Technologies specializes in the buying, selling, and trading of information technology equipment (primarily computer equipment). The primary focus of our business revolves around acquiring unneeded, older computer equipment and reselling that equipment to certain consumers on a global basis.

FINANCIAL CONDITION

Working Capital and Liquidity

During the last several fiscal years, the Company has incurred losses from operations. In addition, the Company's certified public accountants, Hausser + Taylor LLC, have included in their auditors' report, which covers the Company's financial statements for the years ended November 30, 2003 and November 30, 2004, a statement that the Company's recurring losses from operations raised substantial doubt about the Company's ability to continue as a going concern. For fiscal years 2003 and 2004, the Company sustained losses of approximately \$531,000 and \$781,000, respectively. These losses have had a substantial adverse effect on the working capital of the Company.

In June of 2004, the Company restructured its \$2,500,000 in bank financing. This financing has subsequently been taken over by CPS, which now holds much of the working capital debt that has been used in the business during 2004. As of May 31, 2005, there was an outstanding balance of \$6,301,000 on the loans from CPS. We believe these loans have been secured under terms no less favorable than we could have obtained pursuant to an arms-length transaction.

In addition to the CPS loans, from time to time, Mr. Julius L. Hess, the Company's Vice President, Secretary and a Director, has provided the Company with cash investments to help fund certain specified transactions. From December 1, 2004 through May 31, 2005, Mr. Hess has invested a total of \$464,470 to fund such transactions. In agreement for providing such funds, which amounts may not otherwise have been available to the Company, Mr. Hess typically receives remuneration in the amount of up to fifty percent of the gross profit from such transactions. Upon settlement of the transactions during the period from December 1, 2004 through May 31, 2005, Mr. Hess will have received total proceeds of \$567,586. We believe these investments have been secured under terms no less favorable than we could have obtained pursuant to an arms-length transaction. As of May 31, 2005, there was an outstanding balance of \$302,201 on these loans.

In addition to the above-noted investments, Mr. Hess has, from time to time, provided loans to the Company to cover certain working capital expenses such as payroll. Mr. Hess does not receive any remuneration for these loans, other than the return of principal. These loans are typically paid back within a short period of time. From December 1, 2004 through May 31, 2005, Mr. Hess provided \$97,000 in loans of this kind to the Company. As of May 31, 2005 there was no outstanding balance on these loans.

Table of Contents

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

Net Tax Operating Loss Carryforwards

As of May 31, 2005 the Company has approximately \$16,072,000 in net tax operating loss carryforwards which will expire at various dates through the year 2024 that are mainly attributable to losses incurred by Monitek. Federal tax law imposes restrictions on the use of net operating loss carryforwards in the event of a change in ownership, such as a merger. Due to the merger with Monitek, approximately \$6,265,000 of the \$16,072,000 net operating losses may be subject to these limitations and potentially may not be able to provide any economic benefit to the Company.

RESULTS OF OPERATIONS

Six Months ended May 31, 2004 compared to Six Months Ended May 31, 2005.

Six months 2005 results were significantly improved over the same period of fiscal 2004. Sales increased by \$262,000 or 19.1%. Gross profit went from \$263,000 (or 19.2% on sales) in 2004 to \$601,000 (or 37.1% on sales) in 2005. This favorable performance was largely due to sales being generated from asset recovery products that typically produce larger than normal margins.

Operating expenses of \$828,000 (51.1%) were in line with the increased sales.

Interest expense is higher for 2005 primarily due to the increases in the prime rate.

Losses for the six months amounted to \$244,000.

CURRENT OUTLOOK

The Company is now in specific discussions with a capital source and strategic partner in an effort to recapitalize and restructure the Company so that it may move forward with its new and expanded business model. Although there can be no assurances, the Company believes that it will have its funding requirements fulfilled in the very near future. This is the key to the substantial growth that can be achieved within our platform.

CHANGES IN ACCOUNTING STANDARDS

New Accounting Standards In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123, Share Based Payment . SFAS No. 123R, which amends SFAS No. 123, Accounting For Stock Based Compensation, and SFAS No. 95, Statement of Cash Flows. SFAS 123R requires all companies to measure compensation cost for all share-based payments at fair value, and will be effective for public companies for interim and annual periods beginning after June 15, 2005. This new standard may be adopted in one of two ways the modified prospective transition method of the modified retrospective transition method. The Company currently has no stock-based compensation plans.

Table of Contents

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

In December 2003, the FASB issued Interpretation No. 46 (revised December 2003) (FIN 46), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51. FIN 46R requires certain variable interest entities, or VIEs, to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46R is effective for all VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after March 15, 2004. The Company currently has no contractual relationship or other business relationship with a variable interest entity.

The adoption of the new standards did not, or is not expected to, materially affect the Company's financial position and results of operations

CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOUR OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

Certain statements in the Management's Discussion and Analysis of Financial Condition and Results of Operations and the Financial Statements included in this Annual Report on Form 10-KSB, in the Company's press releases and in oral statements made by or with the approval of an authorized executive officer of the Company constitute

forward-looking statements as that term is defined under the Private Securities Litigation Reform Act of 1995. These may include statements projecting, forecasting or estimating Company performance and industry trends. The achievement of the projections, forecasts or estimates is subject to certain risks and uncertainties. Actual results and events may differ materially from those projected, forecasted or estimated. The applicable risks and uncertainties include general economic and industry conditions that affect all business, as well as matters that are specific to the Company and the markets it serves.

Specific risks to the Company include an inability of the Company to finance its working capital needs. In light of this and other uncertainties, the inclusion of a forward-looking statement herein should not be regarded as a representation by the Company that the Company's plans and objectives will be achieved.

Table of Contents

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (continued)

CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Principal Accounting Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) as of the end of the period covered by this report, have concluded that the Company's disclosure controls and procedures were effective.

There were no changes in the Company's internal controls over financial reporting that occurred during the Company's last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

TABLE OF CONTENTS

SIGNATURE

EXHIBITS AND REPORTS ON FORM 8-K

EX-31.1 Certification of CEO

EX-31.2 Certification of CFO

EX-32.1 Certification of CEO

EX-32.2 Certification of CFO

Table of Contents

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

Date: July 14, 2005

SENTEX SENSING TECHNOLOGY, INC.

By: /s/ Robert S. Kendall

Robert S. Kendall, Chief Executive Officer

/s/ Julius L. Hess

Julius L. Hess, Secretary and Director

/s/ William R. Sprow

William R. Sprow, Chief Financial Officer

/s/ William R. Sprow

William R. Sprow, Controller

Table of Contents

EXHIBITS AND REPORTS ON FORM 8-K

- a) Exhibit 31.1 302 Certification of Chief Executive Officer
- Exhibit 31.2 302 Certification of Chief Financial Officer
- Exhibit 32.1 Certification Pursuant To 18 U. S. C. Section 1350, As Adopted Pursuant To
 Section 906 Of The Sarbanes-Oxley Act of 2002
- Exhibit 32.2 Certification Pursuant To 18 U. S. C. Section 1350, As Adopted Pursuant To
 Section 906 Of The Sarbanes-Oxley Act of 2002
- b) No reports on Form 8-K were filed with the Commission during the small business issuer's second
 quarter.