ALTEX INDUSTRIES INC
Form 10QSB
August 01, 2006

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

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE EXCHANGE ACT

For the transition period from _____ to _____.

Commission file number 1-9030

ALTEX INDUSTRIES, INC.
(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware	84-0989164
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

PO Box 1057 Breckenridge CO 80424-1057
(Address of Principal Executive Offices)

(303) 265-9312
(Issuer's Telephone Number, Including Area Code)

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

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

Number of shares outstanding of issuer's Common Stock as of July 31, 2006: 14,762,984

Transitional Small Business Disclosure Format. Yes [ ] No [X]

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALTEX INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
JUNE 30, 2006
(UNAUDITED)

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 4,895,
Accounts receivable	5,
Other	14,
Total current assets	4,914,
PROPERTY AND EQUIPMENT, AT COST	
Proved oil and gas properties (successful efforts method)	95,
Other	63,
	158,
Less accumulated depreciation, depletion, amortization, and valuation allowance	(153,
Net property and equipment	5,
OTHER ASSETS	10,
	$ 4,929,

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$ 7,
Accrued production costs	20,
Other accrued expenses	283,
Total current liabilities	310,
STOCKHOLDERS' EQUITY	
Preferred stock, $.01 par value. Authorized 5,000,000 shares, none issued	
Common stock, $.01 par value. Authorized 50,000,000 shares, issued 14,877,117 shares	149,
Additional paid-in capital	14,191,
Accumulated deficit	(9,330,
Treasury shares, at cost, 114,133 shares	(32,
Notes receivable from stockholders	(359,
	4,619,
	$ 4,929,

See accompanying notes to consolidated, condensed financial statements.

ALTEX INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30 2006	Three Months Ended June 30 2005	
Revenue			
Oil and gas sales	$ 3,000	238,000	
Interest income	59,000	14,000	
Other income	22,000	-	
Gain on sale of assets	-	-	2
	84,000	252,000	3
Costs and expenses			
Lease operating	1,000	61,000	
Production taxes	-	30,000	
General and administrative	97,000	118,000	
Depreciation, depletion, amortization, and valuation allowance	1,000	3,000	
	99,000	212,000	
Net earnings (loss)	$ (15,000)	40,000	2
Earnings (loss) per share	$ (0.001)	0.003	
Weighted average shares outstanding	14,814,407	14,877,117	14

See accompanying notes to consolidated, condensed financial statements.

ALTEX INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW
(UNAUDITED)

	NINE MONTHS ENDED JUNE 30 2006	NINE MONTHS ENDED JUNE 30 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 2,287,000	78,000
Adjustments to reconcile net earnings to net cash provided by operating activities		
Gain on sale of assets	(2,530,000)	-
Depreciation, depletion, amortization, and valuation allowance	5,000	7,000
(Increase) decrease in accounts receivable	144,000	(7,000)
Decrease in other current assets	5,000	7,000
Decrease in other assets	3,000	-

Increase (decrease) in accounts payable	(9,000)	4,000
Increase (decrease) in accrued production costs	(31,000)	3,000
Increase (decrease) in other accrued expenses	204,000	(6,000)
Net cash provided by operating activities	78,000	86,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of assets, net of selling expenses	2,568,000	-
Other additions to property and equipment	-	(5,000)
Net cash provided by (used in) investing activities	2,568,000	(5,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	(32,000)	(11,000)
Net cash used in financing activities	(32,000)	(11,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,614,000	70,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,281,000	2,114,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,895,000	2,184,000

See accompanying notes to consolidated, condensed financial statements.

ALTEX INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED, CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - FINANCIAL STATEMENTS. In the opinion of management, the accompanying unaudited, consolidated, condensed financial statements contain all adjustments necessary to present fairly the financial position of the Company as of June 30, 2006, and the cash flows and results of operations for the three and nine months then ended. Such adjustments consisted only of normal recurring items. The results of operations for the three and nine months ended June 30 are not necessarily indicative of the results for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements contained in the Company's 2005 Annual Report on Form 10-KSB, and it is suggested that these consolidated, condensed financial statements be read in conjunction therewith.

"SAFE HARBOR" STATEMENT UNDER THE

UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Statements that are not historical facts contained in this Form 10-QSB are forward-looking statements that involve risks and uncertainties that could cause actual results to differ from projected results. Factors that could cause actual results to differ materially include, among others: general economic conditions; the market price of oil and natural gas; the risks associated with exploration and production; the ability of the Company or its wholly-owned subsidiary, Altex Oil Corporation ("AOC"), to find, acquire, market, develop, and produce new properties; operating hazards attendant to the oil and natural gas business; uncertainties in the estimation of proved reserves and in the projection of future rates of production and timing of development expenditures; the strength and financial resources of competitors; the Company's and AOC's ability to find and retain skilled personnel; climatic conditions; availability and cost of material and equipment; delays in anticipated start-up dates; environmental risks; the results of financing efforts; and other uncertainties detailed elsewhere herein and in the Company's filings with the Securities and Exchange Commission.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

FINANCIAL CONDITION

During the three months ended December 31, 2005 ("Q1FY06") AOC sold its non-operated working interests in three producing oil and gas wells for proceeds, net of selling expenses, of $206,000. Effective January 1, 2006, AOC sold (1) all of its remaining non-operated working interests in producing oil and gas wells in Wyoming, (2) all of its operated working interests in producing oil and gas wells, and (3) all of its overriding royalty interests in then producing oil and gas wells in Wyoming. During the quarter ending March 31, 2006 ("Q2FY06"), AOC received $2,362,000 cash, net of selling expenses, for the interests it sold effective January 1, 2006. The Company intends to invest the proceeds of the sales either in interests in oil and gas properties or otherwise. There can be no assurance as to if and when any such investment will be made. AOC retains very small working and overriding royalty interests in producing oil and gas wells in the Bluebell-Altamont Field in Utah, an overriding royalty interest in the Standard Draw and Echo Springs Fields in Wyoming, and an interest in an application for leases under the Combined Hydrocarbon Leasing Act of 1981 in the Tar Sands Triangle Area of Utah.

The Company is likely to experience negative cash flow from operations unless and until the Company invests in interests in producing oil and gas wells or in another venture that produces cash flow from operations. With the exception of capital expenditures related to production acquisitions or drilling or recompletion activities, none of which are currently planned, the cash flows that could result from such acquisitions or activities, and the possible investment by the Company in one or more other ventures, the Company knows of no trends, events, or uncertainties that have or are reasonably likely to have a material impact on the Company's short-term or long-term liquidity. Except for cash generated by the operation of AOC's producing oil and gas properties, asset sales, and interest income, the Company has no internal or external sources of liquidity other than its working capital. At July 31, 2006, the Company had no material commitments for capital expenditures.

AOC is completing the restoration of the area that had contained its East Tisdale Field in Johnson County, Wyoming. AOC has removed all equipment from the field and has recontoured and reseeded virtually all disturbed areas in the field. Barring unforeseen events, the Company does not believe that the expense associated with any remaining restoration activities will be material, although this cannot be assured. After AOC's bonds with the state and the Bureau of Land Management are released, the Company does not believe it will have any further liability in connection with the field, although this cannot be assured. The Company regularly assesses its exposure to both environmental liability and reclamation, restoration, and dismantlement expense ("RR&D"). The Company does not believe that it currently has any material exposure to environmental liability or to RR&D, net of salvage value, although this cannot be assured.

RESULTS OF OPERATIONS

The sales of AOC's interests in producing oil and gas properties caused oil and gas sales to decline from $238,000 in the quarter ended June 30, 2005 ("Q3FY05") to $3,000 in the quarter ended June 30, 2006 ("Q3FY06") and from $682,000 in the nine months ended June 30, 2005, to $333,000 in the nine months ended June 30, 2006. The increase in cash balances resulting from the sales of AOC's interests in producing oil and gas properties, together with higher interest rates, caused interest income to increase from $14,000 in Q3FY05 to $59,000 in Q3FY06 and from $39,000 in the nine months ended June 30, 2005, to $134,000 in the nine months ended June 30, 2006. The Company recorded no gain on sale of assets in Q3FY06 and a gain on sale of assets of $2,530,000 in the nine months ended June 30, 2006.

The sales of AOC's interests in producing oil and gas properties caused lease operating expense to decline from $61,000 in Q3FY05 to $1,000 in Q3FY06 and from $221,000 in the nine months ended June 30, 2005, to $114,000 in the nine months ended June 30, 2006. Accrued production costs at June 30, 2006, consist of accrued production tax liabilities related to oil and gas sales recognized during the quarter ended December 31, 2005. The sales of AOC's interests in producing oil and gas properties caused production taxes to decline from $30,000 in Q3FY05 to nil in Q3FY06 and from $83,000 in the nine months ended June 30, 2005, to $39,000 in the nine months ended June 30, 2006. Pursuant to his employment agreement, the Company's president is to receive a bonus equal to no less than 10% of earnings before tax. The Company recorded accrued bonus expense of $28,000 during Q1FY06 and $228,000 during Q2FY06, and reduced accrued bonus expense by $8,000 during Q3FY06. Excluding accrued bonus expense, general and administrative expense ("G&A") decreased 11% from $118,000 in Q3FY05 to $105,000 in Q3FY06 and increased from $332,000 in the nine months ended June 30, 2005, to $333,000 in the nine months ended June 30, 2006.

Net earnings decreased from $40,000 in Q3FY05 to a net loss of $15,000 in Q3FY06. Excluding reduced accrued bonus expense, net loss was $23,000 in Q3FY06. Net earnings increased from $78,000 in the nine months ended June 30, 2005, to $2,287,000 in the nine months ended June 30, 2006, because of gains on sales of $2,530,000 in the nine months ended June 30, 2006. Excluding gains on sales of assets and accrued bonus expense, there were net earnings of $5,000 during the nine months ended June 30, 2006.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities. Net cash provided by operating activities decreased from $86,000 in the nine months ended June 30, 2005, to $78,000 in the nine months ended June 30, 2006.

Investing Activities. In the nine months ended June 30, 2005, the Company invested $5,000 in information technology equipment. In the nine months ended June 30, 2006, proceeds from the sales of assets, net of selling expenses, were $2,568,000.

Financing Activities. The Company acquired 110,200 shares of its Common Stock for $11,000 in the nine months ended June 30, 2005. The Company acquired 114,133 shares of its Common Stock for $32,000 in the nine months ended June 30, 2006.

Unless and until the Company invests a substantial portion of its cash balances in interests in producing oil and gas wells or into one or more other ventures that produce revenue and net income, the Company is likely to experience net losses. With the exception of unanticipated variations in production levels, unanticipated RR&D, unanticipated environmental expense, and possible changes in oil and gas price levels and interest rates, the Company is not aware of any other trends, events, or uncertainties that have had or that are reasonably expected to have a material impact on net sales or revenues or income from continuing operations.

ITEM 3. CONTROLS AND PROCEDURES.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is 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. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures which, by their nature, can provide only reasonable assurance regarding management's control objectives.

As of the end of the period covered by the report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon the foregoing, the Company's Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiary) required to be included in the Company's Exchange Act reports. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES

Purchases of Equity Securities by the Small Business Issuer and Affiliated Purchasers

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (o Approximate Dollar Val Shares (or Units) that Be Purchased Under the or Programs
April 1, 2006 through April 30, 2006	-	-	-	-
May 1, 2006 through May 31, 2006	114,133	$ 0.28	-	-
June 1, 2006 through June 30, 2006	-	-	-	-

The Company has no publicly announced plan or program for the purchase of shares. In May 2006 the Company purchased 114,133 shares other than through a publicly announced plan or program in open-market transactions.

ITEM 6. EXHIBITS

31. Rule 13a-14(a)/15d-14(a) Certifications
32. Section 1350 Certifications

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALTEX INDUSTRIES, INC.

Date: July 31, 2006

By:/s/ STEVEN H. CARDIN

Steven H. Cardin
Chief Executive Officer and
Principal Financial Officer

EXHIBIT INDEX

31. Rule 13a-14(a)/15d-14(a) Certifications
32. Section 1350 Certifications