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ALTEX INDUSTRIES INC
Form 10KSB
December 29, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___ to ___
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Commission file number 1-9030

ALTEX INDUSTRIES, INC.

(Name of small business issuer in its charter)

Delaware 84-0989164
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

POB 1057 Breckenridge, CO 80424-1057
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (303) 265-9312

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

Securities registered under Section 12(g) of the Exchange Act: Common stock, par value \$0.01 per share

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

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 No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this form 10-KSB.

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

Issuer's revenue for its most recent fiscal year: \$1,029,000

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity as of December 23, 2005: \$1,539,750

Number of shares outstanding of issuer's Common Stock as of December 23,

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role in the Company's production operations only to the extent that such factors affect demand for and prices of oil and gas and demand for, supply of, and prices of oilfield services. The sale of oil and gas is regulated by Federal, state, and local agencies, and the Company is also subject to Federal, state, and local laws and regulations relating to the environment. These laws and regulations generally provide for control of pollutants released into the environment and require responsible parties to undertake remediation. The Company regularly assesses its exposure to environmental liability and to reclamation, restoration, and dismantlement expense ("RR&D"), which activities are covered by Federal, state, and local regulation. 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. (See Management's Discussion and Analysis below.)

During the quarter ending December 31, 2005 ("Q1FY06"), the Company sold its non-operated working interests in three producing oil and gas wells for net proceeds of \$206,000. Also during Q1FY06 the Company agreed to sell substantially all of its remaining non-operated working interests in producing oil and gas wells for approximately \$1.85 million in cash, net of selling expenses; all of its operated working interests in producing oil and gas wells for approximately \$335,000 in cash, net of selling expenses; and all of its overriding royalty interests in producing oil and gas wells in Wyoming for approximately \$180,000 in cash, net of selling expenses. These three transactions are subject to recision and pricing adjustments under certain conditions, and closing of the transactions cannot be assured. The Company retains very small working and overriding royalty interests in the Bluebell-Altamont Field in Utah, an overriding royalty interest in undrilled locations in the Standard

2

Draw and Echo Springs Fields in Wyoming, and an interest in an application for leases in the Tar Sands Triangle Area of Utah under the Combined Hydrocarbon Leasing Act of 1981. The Company intends to reinvest 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 reinvestment would be made.

ITEM 2. DESCRIPTION OF PROPERTY.

WELLS AND ACREAGE: At December 23, 2005, the Company did not own a working interest in any undeveloped acreage, and, to the best knowledge of the Company, none of the wells in which the Company owns an interest is a multiple completion. However, certain wells in which the Company owns an interest do produce from multiple zones. At December 23, 2005, the Company owned working interests in 41 gross (13.22 net) productive oil wells (certain of which produce associated natural gas), no wells producing only natural gas, and 20,000 gross (6,000 net) developed acres. Substantially all of the Company's production is located in Utah and Wyoming. One well accounts for approximately 21% of the Company's oil and gas sales and for approximately 40% of the Company's estimated proved oil reserves. The Company has not reported to, or filed with, any other Federal authority or agency any estimates of total, proved net oil or gas reserves since the beginning of the last fiscal year. For additional information, see Note 7 of Notes to Consolidated Financial Statements below.

Production

Net Production	Average Price		
-----		Average Production	

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Fiscal Year	Oil (Bbls)	Gas (Mcf)	Oil (Bbls)	Gas (Mcf)	Cost Per Equivalent Barrel ("BOE")
2005	11,000	83,000	\$ 49.00	\$ 5.22	\$ 11.72
2004	11,000	89,000	37.00	4.44	11.04
2003	13,000	84,000	26.54	4.57	10.74

DRILLING ACTIVITY: The Company did not participate in the drilling of any wells during fiscal 2003 ("FY03"), fiscal 2004 ("FY04"), or fiscal 2005 ("FY05").

ITEM 3. LEGAL PROCEEDINGS.

None.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common stock is quoted on the OTC Bulletin Board under the symbol "ALTX". Inter-dealer prices provided by the OTC Bulletin Board, which do not include retail mark-up, mark-down, or commission, and may not represent actual transactions, are listed in the table below.

Quarter	FY05		FY04	
	High Bid	Low Bid	High Bid	Low Bid
1	\$ 0.15	\$ 0.08	\$ 0.12	\$ 0.06
2	0.23	0.10	0.14	0.09
3	0.25	0.11	0.16	0.08
4	0.43	0.14	0.10	0.09

3

At December 23, 2005, there were approximately 4,400 holders of record of the Company's Common stock, excluding entities whose stock is held by clearing agencies. The Company has not paid a dividend during the last two fiscal years.

4

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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FINANCIAL CONDITION

During the quarter ending December 31, 2005 ("Q1FY06"), the Company sold its non-operated working interests in three producing oil and gas wells for net proceeds of \$206,000. Also during Q1FY06 the Company agreed to sell substantially all of its remaining non-operated working interests in producing oil and gas wells for approximately \$1.85 million in cash, net of selling expenses; all of its operated working interests in producing oil and gas wells for approximately \$335,000 in cash, net of selling expenses; and all of its overriding royalty interests in producing oil and gas wells in Wyoming for approximately \$180,000 in cash, net of selling expenses. These three transactions are subject to rescission and pricing adjustments under certain conditions, and closing of the transactions cannot be assured. The Company retains very small working and overriding royalty interests in the Bluebell-Altamont Field in Utah, an overriding royalty interest in undrilled locations in the Standard Draw and Echo Springs Fields in Wyoming, and an interest in an application for leases in the Tar Sands Triangle Area of Utah under the Combined Hydrocarbon Leasing Act of 1981. The Company intends to reinvest 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 reinvestment would be made.

If the transactions referred to above close and rescission rights are not exercised, 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. If the transactions do not close, or if rescission rights are exercised, the Company is likely to experience positive cash flow from operations because of the high levels of oil and gas prices. In that case, if prices declined materially and if interest rates on cash balances also declined materially, then, unless the Company materially increased production by acquiring producing properties or by engaging in successful drilling activities or recompletions, the Company would be likely to experience negative cash flows 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, the current level of prices and interest rates, declining production levels, and the transactions referred to above, 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 the Company'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 December 23, 2005, the Company had no material commitments for capital expenditures.

The Company is completing the restoration of the area that had contained its East Tisdale Field in Johnson County, Wyoming. The Company 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 its 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 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.

Cash balances increased \$167,000 during FY05 because \$183,000 cash provided by operating activities was reduced by \$5,000 cash for additions to other property and equipment and \$11,000 cash used to acquire 110,200 shares of treasury stock.

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RESULTS OF OPERATIONS

Oil and gas sales increased 21% from \$802,000 in FY04 to \$972,000 in FY05 because oil sales increased 32% from \$407,000 in FY04 to \$539,000 in FY05, and gas sales increased 10% from \$395,000 in FY04 to \$433,000 in FY05. Oil sales increased because of a 32% increase in average price per barrel from \$37.00 in FY04 to \$49.00 in FY05. Gas sales increased because a 7% decrease in thousands of cubic feet ("MCFs") sold from 89,000 in FY04 to 83,000 in FY05 was offset by an 18% increase in average price per MCF from \$4.44 in FY04 to \$5.22 in FY05. Production taxes increased 15% from \$103,000 in FY04 to \$118,000 in FY05 because of increased sales. General and administrative expense increased 9% from \$417,000 in FY04 to \$453,000 in FY05 because of increased salary and bonus expense. Net earnings increased from \$38,000 in FY04 to \$156,000 in FY05 because of increased sales.

5

LIQUIDITY

OPERATING ACTIVITIES. In FY04 net cash provided by operating activities was \$36,000, and in FY05 net cash provided by operating activities was \$183,000.

INVESTING ACTIVITIES. In FY04 the Company expended \$7,000 on additions to other property and equipment, and in FY05 the Company expended \$5,000 on additions to other property and equipment.

FINANCING ACTIVITIES. In FY04 the Company expended \$12,000 to acquire 141,933 shares of treasury stock, and in FY05 the Company expended \$11,000 to acquire 110,200 shares of treasury stock.

The Company's revenue and earnings are functions of the prices of oil, gas, and natural gas liquids and of the level of production expense, all of which are highly variable and largely beyond the Company's control. In addition, because the quantity of oil and gas produced from existing wells declines over time, the Company's sales and net income will decline unless rising prices offset production declines or the Company increases its net production by investing in the drilling of new wells, in successful workovers, or in the acquisition of interests in producing oil or gas properties. At current price and interest rate levels, the Company is likely to record a modest net gain.

If the transactions discussed above close, and if they are not rescinded, unless and until the Company invests a substantial portion of its prospective cash balances into 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, possible changes in oil and gas price levels and interest rates, the transactions discussed above, and the possible consequences of those transactions, 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 7. FINANCIAL STATEMENTS.

The consolidated financial statements follow the signature page.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

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None.

ITEM 8A. 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 which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

6

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

Mr. Steven H. Cardin, 55, an economist, formerly with The Conference Board and the consulting firm, National Economics Research Associates, has been Chairman and CEO of the Company for over five years, and a Director since 1984. Mr. Jeffrey S. Chernow, 54, a lawyer, formerly Director of Enforcement in the Division of Securities, State of Maryland, Office of the Attorney General, has been in private practice in Maryland for over five years, and a Director since 1989. Mr. Stephen F. Fante, 50, a CPA, formerly Chairman and CEO of IMS, which provided computerized accounting systems to the oil and gas industry and was a reseller of microcomputer products to the Fortune 1000, and formerly Chairman and CEO of Seca Graphics, Inc., which provided design and mapping services and software to the cable television and telecommunications industries, has been a private investor for the last five years, and a Director since 1989.

The Board of Directors has a separately-designated standing Audit Committee which is comprised of Mr. Fante and Mr. Chernow. The Board of Directors has determined that the Company has at least one Audit Committee Financial Expert serving on its Audit Committee: Mr. Fante is an Audit Committee Financial Expert, and he is independent, as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

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Messrs. Chernow's, Cardin's, and Fante's terms as Directors continue until their successors are duly elected and qualified. The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

ITEM 10. EXECUTIVE COMPENSATION.

Each Director who is not also an officer of the Company receives \$750 per month for service as a Director. No additional fees are paid for service on Committees of the Board or for attendance at Board or Committee Meetings. In 1998, the Company's two non-executive Directors each purchased 155,544 shares of the Company's Common Stock from the Company at a price of \$0.17 per share in exchange for notes receivable from each of \$26,500. The notes are non-recourse, secured by the respective shares, bear interest at the Applicable Federal Rate, and due on September 30, 2006. The principal amount of the notes can be paid with shares of the Company's Common Stock. The Company will reimburse the Directors for interest expense related to the notes and will indemnify them against additional tax due as a result of such reimbursement and indemnification.

Mr. Cardin has an Employment Agreement with the Company that was effective October 1, 2001, that has an initial term of five years, and that provides that Mr. Cardin is to receive a base salary of \$191,000 per annum, escalating at no less than 5% per annum, and an annual bonus of no less than 10% of the Company's earnings before tax. Pursuant to the agreement, Mr. Cardin purchased from the Company 2,383,615 shares of the Company's Common Stock at a price of \$.09375 per share and 1,376,249 shares at a price of \$0.06 per share in exchange for a note receivable from him of \$306,000. The note is non-recourse, is secured by the shares, bears interest at the Applicable Federal Rate, and is due at the end of the term of the Employment Agreement. The principal amount of the note can be paid with shares of the Company's Common Stock. The Company will reimburse Mr. Cardin for interest expense related to the note and will indemnify him against additional tax due as a result of such reimbursement and indemnification.

The Employment Agreement also provides that, in the event the Company terminates Mr. Cardin's employment by reason of his permanent disability, the Company shall (1) pay Mr. Cardin a total sum, payable in 24 equal monthly installments, equal to 50% of the base salary to which he would have been entitled had he performed his duties for the Company for a period of two years after his termination, less the amount of any disability insurance benefits he receives under policies maintained by the Company for his benefit, and (2) continue to provide Mr. Cardin with all fringe benefits provided to him at the time of his permanent disability for a period of two years following such permanent disability.

7

The Employment Agreement also provides that, in the event the Company terminates Mr. Cardin's employment in breach of the agreement, or in the event that Mr. Cardin terminates his employment because his circumstances of employment shall have changed subsequent to a change in control, then the Company shall pay Mr. Cardin a lump sum payment equal to the sum of (1) twice Mr. Cardin's base salary during the 12-month period immediately preceding the termination of his employment, (2) the greater of (a) twice any annual bonus paid to or accrued with respect to Mr. Cardin by the Company during the fiscal year immediately preceding the fiscal year in which his employment shall have been terminated or (b) three times his base salary during the 12-month period immediately preceding the termination of his employment, and (3) any other compensation owed to Mr. Cardin at the time of his termination. The agreement also provides that the Company will indemnify Mr. Cardin against any special tax that may be imposed on him as a result of any such termination payment made by the Company pursuant to

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the agreement.

Under the Employment Agreement, a change in control is deemed to occur (1) if there is a change of one-third of the Board of Directors under certain conditions, (2) if there is a sale of all or substantially all of the Company's assets, (3) upon certain mergers or consolidations, (4) under certain circumstances if another person (or persons) acquires 20% or more of the outstanding voting shares of the Company, or (5) if any person except Mr. Cardin shall own or control half of such outstanding voting shares.

The following table sets forth the dollar value of compensation earned by the Company's CEO, its only executive officer, during the last three fiscal years.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		
		Salary	Bonus	Other Annual Compensation
Steven H. Cardin, CEO	2005	\$222,000	17,000	9,000
Steven H. Cardin, CEO	2004	\$211,000	4,000	9,000
Steven H. Cardin, CEO	2003	\$201,000		10,000

Pursuant to his Employment Agreement (See above), Mr. Cardin paid \$10,000 in interest to the Company in FY03 and \$9,000 in interest in FY04 and FY05. The Company reimbursed him for those payments.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information concerning each person who, as of December 23, 2005, is known to the Company to be the beneficial owner of more than five percent of the Company's Common Stock, and information regarding Common Stock of the Company beneficially owned, as of December 23, 2005, by all Directors and executive officers and by all Directors and executive officers as a group.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percent of Class
Steven H. Cardin (Director and Executive Officer) POB 1057 Breckenridge CO 80424-1057	7,233,866	48.6
Jeffrey S. Chernow (Director) POB 1057 Breckenridge CO 80424-1057	155,544	1.0
Stephen F. Fante (Director) POB 1057 Breckenridge CO 80424-1057	155,544	1.0

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All Directors and Executive Officers as a Group (3 Persons)	7,544,954	50.7
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8

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Effective October 1, 2001, the Company entered into a five-year employment agreement with its president which provides for a base salary of \$191,000 annually, plus escalations of not less than 5% annually. The agreement contains provisions providing for payments to the president in the event of his disability or termination of his employment. The agreement also provides that he will receive an annual bonus equal to no less than 10% of the Company's earnings before income tax. Pursuant to the employment agreement, the Company's president has purchased from the Company 2,383,615 shares of the Company's common stock at a price of \$.09375 per share and 1,376,249 shares at a price of \$0.06 per share in exchange for a \$306,000 note receivable. The Company's two non-executive directors have each purchased 155,544 shares of the Company's common stock from the Company at a price of \$0.17 per share in exchange for notes receivable from each of \$26,500. Each of the three notes is non-recourse, secured by the respective shares, due on September 30, 2006, and bears interest at the Applicable Federal Rate. The principal amount of the notes can be paid with shares of the Company's common stock. The Company will reimburse the president and the directors for interest expense related to the notes, and will indemnify them against additional tax due as a result of such reimbursement and indemnification. The Company recognized \$11,000 of both interest income and general and administrative expense related to the notes in 2004 and 2005.

ITEM 13. EXHIBITS

- 3(i) Articles of Incorporation - Incorporated herein by reference to Exhibit B to August 20, 1985 Proxy Statement
- 3(ii) Bylaws - Incorporated herein by reference to Exhibit C to August 20, 1985 Proxy Statement
- 10.1 Summary of Employment Agreement between the Company and Steven H. Cardin, effective October 1, 2001 - Incorporated herein by reference to Form 10-KSB for fiscal year ended September 30, 2001
- 10.2 Assignment, Bill of Sale, and Conveyance, delivered October 25, 2005 - Incorporated herein by reference to Form 8-K reporting Entry into a Material Definitive Agreement filed on October 27, 2005
- 14 Code of Ethics - Incorporated herein by reference to Form 10-KSB for fiscal year ended September 30, 2003
- 21 List of subsidiaries - Incorporated herein by reference to Form 10-KSB for fiscal year ended September 30, 1997
- 31 Rule 13a-14(a)/15d-14(a) Certifications
- 32 Section 1350 Certifications

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES. Fees billed for annual audits and for reviews of Forms 10-QSB and Forms 8-K: Billed in FY05: \$10,700. Billed in FY04: \$10,900.

AUDIT-RELATED FEES. None.

TAX FEES. Fees billed for preparation of registrant's federal and state income tax returns: Billed in FY05: None. Billed in FY04: \$2,250. Fees billed for other tax-related services: None.

ALL OTHER FEES. None.

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The registrant does not engage an accountant to render audit or non-audit services unless the engagement is explicitly pre-approved by the registrant's Audit Committee. During FY05 and FY04 no Audit-Related or Other Fees were billed, and all Tax Fees had been pre-approved by the Audit Committee.

9

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALTEX INDUSTRIES, INC.

/s/ STEVEN H. CARDIN

By: Steven H. Cardin, CEO

Date: December 27, 2005

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ STEVEN H. CARDIN

By: Steven H. Cardin, Director,
Principal Executive Officer,
Principal Financial Officer, and
Principal Accounting Officer

Date: December 27, 2005

/s/ STEPHEN F. FANTE

By: Stephen F. Fante, Director

Date: December 27, 2005

10

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS
ALTEX INDUSTRIES, INC.

We have audited the accompanying consolidated balance sheet of Altex Industries, Inc. and subsidiary as of September 30, 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two-year period ended September 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in

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the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Altex Industries, Inc. and subsidiary as of September 30, 2005, and the consolidated results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2005, in conformity with U.S. generally accepted accounting principles.

Denver, Colorado
December 27, 2005

/s/ Comiskey & Company
PROFESSIONAL CORPORATION

11

ALTEX INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2005

ASSETS

CURRENT ASSETS

Cash and cash equivalents
Accounts receivable
Other
Total current assets

\$

PROPERTY AND EQUIPMENT, AT COST

Proved oil and gas properties (successful efforts method) (Notes 6 and 7)
Other
Less accumulated depreciation, depletion, amortization, and valuation allowance
Net property and equipment

OTHER ASSETS

\$

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable
Accrued production costs
Other accrued expenses
Total current liabilities

\$

COMMITMENTS AND CONTINGENCIES (Notes 3, 5, and 6)

STOCKHOLDERS' EQUITY (Note 3)

Preferred stock, \$.01 par value. Authorized 5,000,000 shares, none issued
Common stock, \$.01 par value. Authorized 50,000,000 shares, 14,877,117 shares issued and outstanding

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Additional paid-in capital
Accumulated deficit
Notes receivable from stockholders

\$