ALTEX INDUSTRIES INC
Form 10QSB
April 16, 2007

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 March 31, 2007

[ ] 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 April 11, 2007: 14,346,724

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

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALTEX INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
MARCH 31, 2007
(UNAUDITED)

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 4,951,
Accounts receivable	4,
Deferred income tax asset	52,
Other	19,
Total current assets	5,026,
PROPERTY AND EQUIPMENT, AT COST	
Proved oil and gas properties (successful efforts method)	95,
Other	69,
	164,
Less accumulated depreciation, depletion, amortization, and valuation allowance	(157,
Net property and equipment	7,
OTHER ASSETS	10,
	$ 5,043,

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$ 10,
Accrued production costs	9,
Other accrued expenses	282,
Total current liabilities	301,
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 14,346,724 shares	144,
Additional paid-in capital	14,061,
Accumulated deficit	(9,463,
	4,742,
	$ 5,043,

See accompanying notes to consolidated, condensed financial statements.

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

	Three Months Ended March 31		S
	2007	2006	2
Revenue			
Oil and gas sales	$ 3,000	12,000	
Interest income	62,000	50,000	1
Other income (expense)	(2,000)	7,000	
Gain on sale of assets	-	2,324,000	
	63,000	2,393,000	1
Costs and expenses			
Lease operating	1,000	-	
Production taxes	-	1,000	
General and administrative	113,000	341,000	2
Depreciation, depletion, amortization, and valuation allowance	1,000	2,000	
	115,000	344,000	2
Net earnings (loss)	$ (52,000)	2,049,000	(1
Earnings (loss) per share	$ (0.004)	0.138	
Weighted average shares outstanding	14,346,724	14,877,117	14,3

See accompanying notes to consolidated, condensed financial statements.

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

	SIX MONTHS ENDED MARCH 31	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss)	$ (106,000)	$ 2,302,
Adjustments to reconcile net earnings to net cash provided by operating activities		
Gain on sale of assets	-	(2,530,
Increase in deferred income tax asset	(1,000)	
Depreciation, depletion, amortization, and valuation allowance	2,000	4,
Decrease in accounts receivable	1,000	135,
(Increase) decrease in other current assets	(4,000)	5,

Increase (decrease) in accounts payable	(11,000)	2,
Decrease in income taxes payable	(51,000)	
Decrease in accrued production costs	(8,000)	(25,
Increase (decrease) in other accrued expenses	(5,000)	209,
Net cash provided by (used in) operating activities	(183,000)	102,
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of assets, net of selling expenses	-	2,568,
Other additions to property and equipment	(6,000)	
Net cash provided by (used in) investing activities	(6,000)	2,568,
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash used in financing activities	-	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(189,000)	2,670,
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,140,000	2,281,
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$4,951,000	$ 4,951,

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 March 31, 2007, and the cash flows and results of operations for the three and six months then ended. Such adjustments consisted only of normal recurring items. The results of operations for the three and six months ended March 31 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 2006 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; movements in interest rates; the market price of oil and natural gas; the risks associated with exploration and production in the Rocky Mountain region; the

Company's ability, or the ability of its operating 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 the Company's competitors; the Company's ability 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. During the remainder of fiscal 2006 ("FY06"), AOC sold substantially all of its remaining non-operated working interests in producing oil and gas wells in Wyoming, all of its operated working interests in producing oil and gas wells, all of its overriding royalty interests in then producing oil and gas wells in Wyoming, and its interest in an application for leases under the Combined Hydrocarbon Leasing Act of 1981 in the Tar Sands Triangle Area of Utah for $2,387,000 cash, net of selling expenses. 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 small working and overriding royalty interests in producing oil and gas wells in Utah and Wyoming.

Cash balances declined $189,000 from $5,140,000 at September 30, 2006, to $4,951,000 at March 31, 2007, because, during the six months ended March 31, 2007, the company used $183,000 cash in operating activities and expended $6,000 cash on information technology. Current income taxes payable declined from $51,000 at September 30, 2006, to nil at March 31, 2007, because the Company paid $51,000 in income taxes during the six months ended March 31, 2007. Accrued production costs at March 31, 2007, consist principally of accrued production tax liabilities related to oil and gas sales recognized during FY06. Included in other accrued expenses of $287,000 at September 30, 2006, and $282,000 at March 30, 2007, is an accrued bonus payable to the Company's president, pursuant to his employment agreement (See below.).

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 or an investment in another venture that produces cash flow from operations, none of which are currently planned, the cash flows that could result from such acquisitions, activities, or investments, and the possibility of a decline from the current level of interest rates, 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 April 11, 2007, 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 $318,000 in Q1FY06 to $7,000 in Q1FY07 and, therefore, from $330,000 in the six months ended March 31, 2006, to $10,000 in the six months ended March 31, 2007. The increase in cash balances resulting from the sales of AOC's interests, together with higher interest rates, caused interest income to increase from $50,000 in Q2FY06 to $62,000 in Q2FY07 and from $75,000 in the six months ended March 31, 2006, to $125,000 in the six months ended March 31, 2007. In Q1FY06 the Company recognized a gain of $206,000 on the sale of AOC's non-operated working interests in three producing oil and gas wells. In Q2FY06 the Company recognized a gain of $2,324,000 on the sale of AOC's remaining non-operated working interests in producing oil and gas wells in Wyoming, all of its operated working interests in producing oil and gas wells, and all of its overriding royalty interests in then producing oil and gas wells in Wyoming.

The sales of AOC's interests in producing oil and gas properties caused lease operating expense to decline from $113,000 in Q1FY06 to $1,000 in Q1FY07 and, therefore, from $113,000 in the six months ended March 31, 2006, to $2,000 in the six months ended March 31, 2007. The sales of AOC's interests in producing oil and gas properties caused production taxes to decline from $38,000 in Q1FY06 to $1,000 in Q1FY07 and, therefore, from $39,000 in the six months ended March 31, 2006, to $1,000 in the six months ended March 31, 2007. Pursuant to his employment agreement, the Company's president is to receive a bonus equal to no less than 10% of earnings before tax. Accordingly, the Company recorded accrued bonus expense of $28,000 in Q1FY06 and $228,000 in Q2FY06. Excluding accrued bonus expense, general and administrative expense was $113,000 in Q2FY06 and Q2FY07 and increased from $228,000 in the six months ended March 31, 2006, to $234,000 in the six months ended March 31, 2007.

Net earnings decreased from $2,049,000 in Q2FY06 to a net loss of $52,000 in Q2FY07 and from net earnings of $2,302,000 in the six months ended March 31, 2006, to a net loss of $106,000 in the six months ended March 31, 2007. The Company's revenue currently consists almost entirely of interest earned on cash balances. At the current level of cash balances and at current interest rates, the Company's revenue is unlikely to exceed its expenses. Unless and until the Company invests a substantial portion of its cash balances in interests in producing oil and gas wells or in one or more other ventures that produce revenue and net income, the Company is likely to experience net losses. With the exception of unanticipated RR&D, unanticipated environmental expense, and possible changes in 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.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities. Net cash provided by operating activities decreased from $102,000 in the six months ended March 31, 2006, to net cash used in operating activities of $183,000 in the six months ended March 31, 2007, principally because a net loss, exclusive of gain on sale of assets, of $228,000 for the six months ended March 31, 2006, was more than offset by the combination of a decrease in accounts receivable of $135,000 and an increase in other accrued expenses of $209,000, both direct results of asset sales during Q1FY06 and Q2FY06.

Investing Activities. In the six months ended March 31, 2006, the Company received proceeds from the sale of assets, net of selling expenses, of $2,568,000, and, in the six months ended March 31, 2007, the Company expended $6,000 on information technology.

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 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: April 16, 2007

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