ALTEX INDUSTRIES INC
Form 10QSB
May 07, 2004

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, 2004

[_] 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 _____

Number of shares outstanding of issuer's Common Stock as of May 4, 2004: 15,046,017

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, 2004
(UNAUDITED)

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 2,0
Accounts receivable	1
Other	
Total current assets	2,1
PROPERTY AND EQUIPMENT, AT COST	
Proved oil and gas properties (successful efforts method)	1,0
Other	
	1,1
Less accumulated depreciation, depletion, amortization, and valuation allowance	(1,0
Net property and equipment	
OTHER ASSETS	
	$ 2,2

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES	
Accounts payable	$
Accrued production costs	
Other accrued expenses	
Total current liabilities	1
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 15,129,250 shares	1
Additional paid-in capital	14,2
Treasury shares, at cost, 83,233 shares	
Accumulated deficit	(11,8
Notes receivable from stockholders	(3
	2,1
	$ 2,2

See accompanying notes to consolidated, condensed financial statements.

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

	Three Months Ended March 31 2004	2003
Revenue		
Oil and gas sales	$ 135,000	171,000
Interest income	10,000	11,000
Other income (expense)	4,000	(1,000)
	149,000	181,000
Costs and expenses		
Lease operating	96,000	69,000
Production taxes	19,000	22,000
General and administrative	100,000	112,000
Depreciation, depletion, amortization, and valuation allowance	3,000	4,000
	218,000	207,000
Net loss	$ (69,000)	(26,000)
Loss per share	$ (0.005)	(0.002)
Weighted average shares outstanding	15,046,017	15,143,250

See accompanying notes to consolidated, condensed financial statements.

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

	SIX MONTHS ENDED MARCH 31 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (59,000)	$ (102,000)

Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation, depletion, amortization, and valuation allowance	5,000	8,000
Decrease in accounts receivable	17,000	16,000
Decrease in other current assets	8,000	1,000
Decrease in other assets	-	7,000
Decrease in accounts payable	(2,000)	(2,000)
Increase in accrued production costs	23,000	2,000
Decrease in other accrued expenses	(4,000)	(6,000)
Net cash used in operating activities	(12,000)	(76,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Other additions to property and equipment	(5,000)	-
Net cash used in investing activities	(5,000)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	(6,000)	-
Net cash used in financing activities	(6,000)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,000)	(76,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,097,000	2,118,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$2,074,000	$2,042,000

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 March 31, 2004, and the cash flows and results of operations for the six months then ended. Such adjustments consisted only of normal recurring items. The results of operations for the periods 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 2003 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 prices of oil and natural gas; the risks associated with exploration and production in the Rocky Mountain region; the Company's ability to find, acquire, and develop new properties and its ability to produce and market its oil and gas reserves; 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 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

Cash balances decreased in the six months ended March 31, 2004, from $2,097,000 to $2,074,000 because the Company used $12,000 cash in operating activities, $5,000 on other additions to property and equipment, and $6,000 on the acquisition of treasury shares. Accounts receivable decreased from $125,000 to $108,000 because of decreased sales.

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 reclamation, restoration, and dismantlement (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.

The Company is currently experiencing modest negative cash flow from operations in spite of the extraordinarily high levels of oil and gas prices, which levels are unlikely to persist into the long term. Should prices decline materially, and should interest rates on cash balances remain at current levels, then, unless the Company materially increases production by acquiring producing properties or by engaging in successful drilling activities or recompletions, the Company is likely

to experience more significant 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, and declining production levels, 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 May 4, 2004, the Company had no material commitments for capital expenditures.

RESULTS OF OPERATIONS

Sales decreased 21% from $171,000 in the quarter ended March 31, 2003 (Q2FY03"), to $135,000 in the quarter ended March 31, 2004 (Q2FY04"), and increased 24% from $273,000 in the six months ended March 31, 2003, to $339,000 in the six months ended March 31, 2004. Lease operating expense increased 39% from $69,000 in Q2FY03 to $96,000 in Q2FY04 and 23% from $139,000 in the six months ended March 31, 2003, to $171,000 in the six months ended March 31, 2004, because of increased repairs and maintenance expense. Production taxes increased 29% from $34,000 in the six months ended March 31, 2003, to $44,000 in the six months ended March 31, 2004, because of increased sales. General and administrative expense decreased 11% from $112,000 in Q2FY03 to $100,000 in Q2FY04 because of decreased salary expense.

LIQUIDITY

Operating Activities. Net cash used in operating activities decreased from $76,000 in the six months ended March 31, 2003, to $12,000 in the six months ended March 31, 2004.

Investing Activities. During the six months ended March 31, 2004, the Company invested $5,000 in new information technology equipment.

Financing Activities. During the six months ended March 31, 2004, the Company acquired 83,233 shares of its Common Stock for $6,000.

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 loss. 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 managements control objectives.

Within 90 days prior to the date of this 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.

PART II
OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits
    31. Rule 13a-14(a)/15d-14(a) Certifications
    32. Section 1350 Certifications
(b) Reports on Form 8-K. No reports on Form 8-K were filed during the quarter.

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: May 4, 2004 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