ELECTRO SENSORS INC
Form 10QSB
November 14, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 September 30, 2005

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

Commission File Number 0-9587

ELECTRO-SENSORS, INC.

(Exact name of small business issuer as specified in its charter)

Minnesota	**41-0943459**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6111 Blue Circle Drive
Minnetonka, Minnesota 55343-9108
(Address of principal executive offices)

(952) 930-0100
(Issuer s telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 of 15(d) of the Securities 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 x No o

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

The number of shares outstanding of the registrant s Common Stock, $0.10 par value, on November 14, 2005 was 3,248,516.

Transitional Small Business Disclosure Format (check one):
Yes o No x

ELECTRO-SENSORS, INC.
Form 10-QSB
For the Period Ended September 30, 2005

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PART I.   FINANCIAL INFORMATION

Item 1. Financial Statements

ELECTRO-SENSORS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	September 30, 2005 (unaudited)
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 6,856,000
Investments	6,662,000
Trade receivables, less allowance for doubtful accounts of $9,000	510,000
Inventories	865,000
Other current assets	68,000
Total current assets	14,961,000
Property and equipment, net	1,362,000
TOTAL ASSETS	$ 16,323,000
LIABILITIES AND STOCKHOLDERS EQUITY	
LIABILITIES	
Accounts payable	$ 109,000
Accrued expenses	253,000
Deferred revenue	50,000
Income taxes payable	110,000
Deferred income tax	2,374,000
TOTAL LIABILITIES	$ 2,896,000
STOCKHOLDERS EQUITY	
Common stock par value $0.10 per share; authorized 10,000,000 shares; issued 3,241,016	324,000
Additional paid-in capital	1,158,000
Retained earnings	7,937,000
Accumulated other comprehensive income	4,008,000
TOTAL STOCKHOLDERS EQUITY	13,427,000

	September 30, 2005 (unaudited)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 16,323,000

See accompanying notes to consolidated financial statements

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ELECTRO-SENSORS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Net sales	$ 1,206,000	$ 1,243,000	$ 3,557,000	$ 3,664,000
Cost of goods sold	470,000	453,000	1,368,000	1,368,000
Gross profit	736,000	790,000	2,189,000	2,296,000
Operating expenses:				
Selling and marketing	318,000	341,000	938,000	968,000
General and administrative	246,000	254,000	833,000	775,000
Research and development	205,000	206,000	624,000	566,000
Total operating expenses	769,000	801,000	2,395,000	2,309,000
Operating loss	(33,000)	(11,000)	(206,000)	(13,000)
Non-operating income (expense):				
Gain (loss) on sale of investment securities	543,000	(1,000)	807,000	425,000
Interest income	52,000	19,000	125,000	43,000
Other income	3,000	2,000	11,000	9,000
Equity in losses of equity method investee	(129,000)	(40,000)	(140,000)	(165,000)
Total non-operating income (loss)	469,000	(20,000)	803,000	312,000
Income (loss) before income taxes	436,000	(31,000)	597,000	299,000
Federal and state income tax provision	175,000	4,000	237,000	187,000

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net income (loss)	$ 261,000	$ (35,000)	$ 360,000	$ 112,000
Net income per share data:				
Basic				
Net income (loss) per share	$ 0.08	$ (0.01)	$ 0.11	$ 0.03
Weighted average shares	3,234,472	3,218,009	3,227,136	3,202,089
Diluted				
Net income (loss) per share	$ 0.08	$ (0.01)	$ 0.11	$ 0.03
Weighted average shares	3,330,726	3,326,575	3,327,822	3,312,835
Dividends paid per share	$ 0.04	$ 0.04	$ 0.12	$ 0.12

See accompanying notes to consolidated financial statements

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ELECTRO-SENSORS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2005	2004
Cash flows from operating activities		
Net income	$ 360,000	$ 112,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	75,000	68,000
Realized gain on sale of investments	(807,000)	(426,000)
Equity in loss of equity method investee	140,000	165,000
(Increase)/decrease in:		
Trade receivables	49,000	(60,000)
Inventory	(55,000)	(46,000)
Other current assets	0	(2,000)
Prepaid income taxes	127,000	(53,000)
Increase/(decrease) in:		
Accounts payable	(53,000)	54,000
Accrued expenses	5,000	45,000
Deferred revenue	(18,000)	7,000
Prepaid income taxes	110,000	(96,000)
Net cash used in operating activities	(67,000)	(232,000)

	Nine Months Ended September 30,	
Cash flows from investing activities:		
Proceeds from sale of investments	825,000	772,000
Purchase of equity securities	0	(326,000)
Payment for purchase of investments	0	(160,000)
Purchase of property and equipment	(35,000)	(21,000)
Net cash provided by investing activities	790,000	265,000
Cash flows from financing activities:		
Proceeds from issuance of stock	56,000	109,000
Dividends paid	(387,000)	(385,000)
Net cash used in financing activities	(331,000)	(276,000)
Net increase/(decrease) in cash & cash equivalents	392,000	(243,000)
Cash & cash equivalents, beginning	6,464,000	6,862,000
Cash & cash equivalents, ending	6,856,000	6,619,000
Supplemental schedule of non-cash investing and financing activities		
Net change in unrealized loss on investments	$ (654,000)	$ (8,461,000)

See accompanying notes to consolidated financial statements

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ELECTRO-SENSORS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Nature of Business

The accompanying consolidated financial statements include the accounts of Electro-Sensors, Inc. and its wholly owned subsidiaries, ESI Investment Company and Senstar Corporation. Senstar Corporation does not have any business transactions. Intercompany accounts, transactions and earnings have been eliminated in consolidation. The consolidated entity is referred to as the Company.

The Company operates two distinct businesses. The first is the Controls Division, which manufactures and markets a complete line of speed monitoring and motor control systems for industrial machinery. The Controls Division utilizes leading-edge technology to continuously improve its products and make them easier to use. The Controls Division s goal is to manufacture the industry-preferred product for every market served. These products are sold through an internal sales staff, manufacturer s representatives, and distributors to a wide variety of manufacturers, OEM s and processors to monitor process machinery operations. The Controls Division markets its products to a number of different industries located throughout the United States and abroad.

The Company s second primary business is AutoData® Systems (ADS). ADS designs and markets a desktop software based system that reads hand printed characters, checkmarks and bar code information from scanned or faxed forms. ADS products are designed to provide capabilities to automate data collection and are sold by internal sales staff to end users, resellers and developers in the United States, Canada, Europe and Asia.

ESI Investment Company (INV) owns marketable securities which have experienced significant appreciation in value since the IPO of August Technology in 2000. August Technology Corporation designs, manufactures, and sells automated defect inspection systems used in the manufacture of microelectronic devices. The Company has recognized income from the sale of its holdings in August Technology Corporation. See Note 6 for additional information regarding its investments. The Company s investments in marketable securities are subject to normal market risks, and are extremely concentrated in one security.

Note 2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. It is the opinion of management that the unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring accruals, necessary to fairly state the financial position and results of operations for the three and nine month periods ended September 30, 2005 and September 30, 2004. The results of interim periods may not be indicative of results to be expected for the year.

This report should be read together with the Company s annual report on Form 10-KSB for the year ended December 31, 2004, including the audited financial statements and footnotes therein.

Note 3. Revenue Recognition

Revenue recognition of production monitoring equipment:

All production monitoring equipment is shipped without an evaluation or acceptance period. Revenues from the sale of the products and any related warranty costs are recognized at the time of shipment. The Company s distributors are not granted any price protection. Sales to all customers, including distributors, are final and no right of return after shipment exists.

Software revenue recognition:

The Company recognizes revenue upon shipment of its character recognition software. The product is sold to the end user and risk of loss is transferred, and the Company has no continuing obligations, once its products are delivered to the shipper. The Company recognizes revenue upon shipment, net of return reserves based on historical experience. To recognize revenue, it must also be probable that the Company will collect the accounts receivable from its customers. In some situations, the Company receives advance payments from its customers. Revenue associated with these advance payments is deferred until the product is shipped.

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Note 4. Stock-Based Compensation

In accordance with Accounting Principles Board (APB) Opinion No. 25 and related interpretations, the Company uses the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of quoted market price of the Company s common stock at the grant date over the amount the employee must pay for the stock. The Company s general policy is to grant stock options at fair value at the date of grant.

Had compensation cost been recognized based on the fair values of options at the grant dates consistent with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock Based Compensation, the Company s net income and basic and diluted net income per common share would have been changed to the following pro forma amounts:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss):				
As reported	$ 261,000	$ (35,000)	$ 360,000	$ 112,000
Pro forma	$ 247,000	$ (68,000)	$ 318,000	$ 67,000

	Three Months Ended September 30,		Nine Months Ended September 30,	
Basic net income (loss) per common share:				
As reported	0.08	(0.01)	0.11	0.03
Pro forma	0.08	(0.02)	0.10	0.02
Diluted net income (loss) per common share:				
As reported	0.08	(0.01)	0.11	0.03
Pro forma	0.07	(0.02)	0.10	0.02
Stock based compensation:				
As reported	0	0	0	0
Pro forma	$ 14,000	$ 33,000	$ 42,000	$ 45,000

The company did not grant any options during the nine months ended September 30, 2005. Please read the information in Recent Accounting Standards elsewhere in this report for additional information on our stock option accounting.

Note 5. Net Income Per Share

The Company s basic net income per share amounts have been computed by dividing net income by the weighted average number of outstanding common shares. The Company s diluted net income per share is computed by dividing net income by the weighted average number of outstanding common shares and common share equivalents relating to stock options and warrants, when dilutive. For the three months ended September 30, 2005, 96,254 shares of common stock equivalents were included in the computation of diluted net income per share. For the nine months ended September 30, 2005, 100,686 shares of common stock equivalents were included in the computation of diluted net income per share. For the three months ended September 30, 2004, 108,566 shares of common stock equivalents were included in the computation of diluted net income per share. For the nine months ended September 30, 2004, 110,746 shares of common stock equivalents were included in the computation of diluted net income per share.

Note 6. Investments

INV s investments consist of equity securities, primarily common stocks, government debt securities and money market funds. The estimated fair value of publicly traded equity securities (other than those accounted for based upon the equity method of accounting) is based on quoted market prices, and therefore subject to the inherent risk of market fluctuations. Shares of common stock for which there is no readily determinable value (i.e., no quoted market price) are accounted for on a historical cost method (unless accounted for based upon the equity method of accounting). Management determines the appropriate classification of securities at the date individual investments are acquired, and evaluates the appropriateness of such classification at each balance sheet date. Since the Company generally does not buy investments in anticipation of short-term fluctuations in market prices, investments in equity securities are classified as available-for-sale (unless accounted for on the equity method of accounting). Available-for-sale securities with readily determinable values are stated at fair value, and unrealized holding gains and losses, net of the related deferred tax effect, are reported as separate component of stockholders equity.

Realized gains and losses on securities, including losses from declines in value of specific securities determined by management to be other-than-temporary (unless accounted for on the equity method of accounting), are included in income in the period realized. The Company s significant investment in equity securities is 600,115 shares of August Technology Corporation whose shares are traded on the Nasdaq Stock Exchange with a September 30, 2005 market value of approximately $6,403,000 with an approximate cost of $60,000.

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Investment Reported on Equity Method:

At September 30, 2005, the Company owned 551,759 shares of PPT, which is approximately 18.4% of PPT s outstanding common stock. The fair value of its holdings based on the quoted market price at September 30, 2005 was approximately $684,000 with an approximate cost of $2,434,000.

Since the Company owns approximately 18.4% of PPT s outstanding stock, and the Company s Secretary, Peter R Peterson owns approximately 22.2% of PPT s outstanding stock, it has been determined that the Company has significant influence over the operations of PPT, and as a result its ownership interest should be reported using the equity method of accounting for investments.

Under the equity method of accounting, the Company s proportionate share of PPT net income/(loss) is included in the Company s net income/(loss) with a corresponding increase or decrease in the carrying value of its investment. Losses in excess of invested amounts are not recognized in the financial statements, but rather are suspended and applied against future equity in earnings for the investee until exhausted. At September 30, 2005, the Company had approximately $1,024,000 in suspended losses from its investment in PPT that will be used to offset future recognition of equity method earnings from the investment.

In April 2004, INV purchased 20% of a la mode, LLC s outstanding membership interests for $160,000. As of July 2005, a la mode, LLC ceased operations. The company wrote off its investment in a la mode, LLC during the third quarter of 2005.

Note 7. Comprehensive Income

Comprehensive income includes the Company s net income plus other comprehensive income items that are excluded from net income. The Company s other income consists of unrealized gains (losses), net of income taxes and reclassification adjustments for gains and losses included in net income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Net Income (Loss)	$ 261,000	$ (35,000)	$ 360,000	$ 112,000
Other Comprehensive Gain (Loss):				
Change in unrealized gain on investments, net of tax	(353,000)	(2,389,000)	87,000	(5,456,000)
Less:				
Reclassification adjustment for gains included in net income	(330,000)	0	(492,000)	(298,000)
Total comprehensive income (loss)	$ (422,000)	$ (2,424,000)	$ (45,000)	$ (5,642,000)

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Note 8. Segment Information

The Company has three reportable operating segments based on the nature of its product lines: production monitoring, character recognition, and investments. The production monitoring division (or Controls Division) manufactures and markets a complete line of speed monitoring and motor control systems for industrial machinery. The character recognition division (or ADS) designs and markets a desktop software-based system that reads hand-printed characters, checkmarks, and bar code information from scanned or faxed forms. Sales of this system include software and can include hardware. The investments division (or INV) holds investments in freely tradable and restricted securities.

In evaluating segment performance, management focuses on sales and income before taxes. The Company has no inter-segment sales.

The following is financial information relating to the continuing operating segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**

	Three Months Ended September 30,		Nine Months Ended September 30,	
External sales				
Production monitoring	$ 1,076,000	$ 1,031,000	$ 3,158,000	$ 3,090,000
Character recognition	130,000	212,000	399,000	574,000
Investments	0	0	0	0
Total	$ 1,206,000	$ 1,243,000	$ 3,557,000	$ 3,664,000
Net income before taxes				
Production monitoring	$ 117,000	$ 97,000	$ 268,000	$ 373,000
Character recognition	(16,000)	9,000	(76,000)	(34,000)
Investments	335,000	(137,000)	405,000	(40,000)
Total	$ 436,000	$ (31,000)	$ 597,000	$ 299,000

Certain expenses related to the conduct of our investment activities are included in general and administrative expenses in the accompanying consolidated statements of operations, but have been allocated to net income from our INV segment in the above table.

Recent Accounting Standards:

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment , that focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement replaces SFAS No. 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Beginning January 1, 2006, we will be required to expense the fair value of employee stock options and similar awards. As a public company, we are allowed to select from two alternative transition methods, each having different reporting implications. The impact of SFAS No. 123R has not been determined at this time.

Item 2. Management s Discussion and Analysis or Plan of Operation

RESULTS OF OPERATIONS

We set forth below a discussion of certain aspects of our results of operations for the three and nine month periods ended September 30, 2005 compared to the same periods in 2004. Percentage changes for each item discussed below are shown in the aggregate for the Company on a consolidated basis, as well as separately (i.e., on a non-consolidated basis) for the Controls Division and ADS.

Net Sales

Net sales for the three month period ended September 30, 2005 were $1,206,000, a decrease of $37,000 or 3.0% from $1,243,000 for the same period in 2004. The decrease from the three months ended September 30, 2005 compared the same period in 2004 includes an increase in net sales from the Controls Division of $45,000 or 4.4%. ADS had a decrease in net sales of $82,000 or 38.7% for the three months ended September 30, 2005 compared to the same period in 2004.

For the nine month period ended September 30, 2005, net sales were $3,557,000, a decrease of $107,000 or 2.9% from $3,664,000 for the same period in 2004. For the nine months ended September 30, 2005, the Controls Division contributed an increase in net sales of $68,000 or 2.2%. The Controls Division has experienced an increase in sales for 2005 due in part to the recovery in the US economy and increased capital spending by our installed customer base. The bulk of our sales volume continues to be derived from the Speed Monitoring product lines to the grain and feed markets, as well as other key industrial markets. For the nine months ended September 30, 2005, ADS contributed a decrease in net sales of $175,000 or 30.5%. All products contributed to this decrease.

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Cost of Goods Sold

The Company s cost of goods sold increased $17,000 or 3.8% for the three months ended September 30, 2005 compared to the same period in 2004. For the nine months ended September 30, 2005, the cost of goods sold remained the same when compared to the same period in 2004.

Gross Profit

Gross margins for the three month period ended September 30, 2005 were 61.6% versus 63.6% compared to the same period in 2004. For the nine months ended September 30, 2005 gross margins were 61.5% versus 62.7% compared to the same period in 2004. The decreases in margins are due primarily to the decrease in sales and cost of living increase in wages and salaries for production employees. The Company continues its efforts to effectively manage and reduce production costs in both divisions.

Operating Expenses

Total operating expenses decreased $32,000 or 4.0% for the three months ended September 30, 2005 compared to the same period in 2004. Of this decrease, the Controls Division contributed an increase in operating expenses of $23,000 or 4.0%, which was partially offset by a decrease in operating expense for ADS. ADS contributed a decrease of $33,000 or 15.7%.

For the nine months ended September 30, 2005 operating expenses increased $86,000 or 3.7% compared to the same period for 2004. Of this increase, the Controls Division contributed an increase of $224,000 or 13.9%, which was partially offset by a decrease in operating expenses for ADS. ADS decrease in operating expenses was $67,000 or 10.7%.

Selling and marketing costs decreased $23,000 or 6.7% for the three months ended September 30, 2005 compared to the same period in 2004. Of this decrease, the Controls Division contributed a decrease of $5,000 or 1.9%. ADS contributed a decrease of $18,000 or 25.0%. For the nine months ended September 30, 2005, selling and marketing costs decreased $30,000 or 3.1% compared to the same period in 2004. Of this decrease, the Controls Division contributed an increase of $43,000 or 6.0%, offset partially by a decrease in ADS of $73,000 or 29.3%. The increase in selling and marketing costs for the Controls Division is primarily due to increased commission expense for manufacturers representatives. The decrease in selling and marketing costs for ADS is primarily due to fewer personnel.

General and administrative costs decreased $8,000 or 3.1% for the three months ended September 30, 2005 compared to the same period in 2004. For the nine months ended September 30, 2005, general and administrative costs increased $58,000 or 7.5%. Of this decrease for the three months ended September 30, 2005, the Controls Division contributed an increase of $15,000 or 7.1%, offset partially by a decrease in ADS of $1,000 or 4.5%. Of the increase for the nine months ended September 30, 2005, the Controls Division contributed an increase of $121,000 or 19.2%. ADS had an increase for the nine months ended September 30, 2005 of $8,000 or 11.0%. The primary reason for the G&A increasing costs are due to additional and heightened costs of being a publicly held company. We expect these costs to significantly increase over the next 2 years as we prepare for our Sarbanes-Oxley Act internal controls compliance costs.

Research and development costs decreased $1,000 or 0.5% for the three months ended September 30, 2005 compared to the same period in 2004. For the nine months ended September 30, 2005, research and development costs increased $58,000 or 10.2% compared to the same period in 2004. Of the decrease for the three months ended September 30, 2005, the Controls Division contributed an increase of $14,000 or 15.7%, offset partially by a decrease in ADS of $15,000 or 12.8%. For the nine months ended September 30, 2005, the Controls Division contributed an increase of $60,000 or 22.8%, offset by a decrease in ADS of $2,000 or 0.7%. The increase in the Controls Division was due to additional lab testing and prototype development including product testing and certification at nationally recognized test labs. The decrease in ADS is due to fewer personnel.

Non-Operating Income (Loss)

Non-operating income increased by $489,000 for the three month period ended September 30, 2005 compared to the same period for 2004. For the nine months ended September 30, 2005, compared to the same period in 2004, non-operating income increased $491,000.

Gain on the sale of investment securities increased $544,000 for the three month period ended September 30, 2005 compared to the same period in 2004. For the nine month period ended September 30, 2005, gain on sale of investment securities increased $382,000 compared to the same period in 2004. These increases are a direct result of increased August Technology stock sales.

Interest income increased $33,000 when comparing the three months ended September 30, 2005 to the same period in 2004. For the nine months ended September 30, 2005, the increase was $82,000 compared to the same period in 2004. This increase was due to the higher interest rates received on treasury bills.

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Equity in losses of equity method investee increased $89,000 for the three months ended September 30, 2005 compared to the same period in 2004. For the nine months ended September 30, 2005, the loss decreased $25,000. The increase for the three month period ended September 30, 2005 is due to the write off of the investment in a la mode, LLC.

Income Before Income Taxes

Income before income taxes increased $467,000, to an income before income tax of $436,000 for the three-month period ended September 30, 2005 compared to the same period in 2004. For the nine month period ended September 30, 2005, income before income taxes was $597,000, an increase of $298,000 compared to the same period for 2004.

The Controls Division had income before income tax of $117,000 for the three months ended September 30, 2005 compared to $97,000 for the same period in 2004, an increase of $20,000. For the nine months ended September 30, 2005, the Controls Division had income before taxes of $268,000 compared to $373,000 for the same period in 2004, a decrease of $105,000. This decrease is primarily due to increased operating expenses.

ADS had net loss before income taxes of $16,000 for the three months ended September 30, 2005 compared to the net income before income taxes of $9,000 for same period in 2004. For the nine months ended September 30, 2005, ADS had a loss of $76,000 compared to a loss of $42,000 for the same period in 2004. These losses are a direct result of decreased sales.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $6,856,000 at September 30, 2005 and $6,619,000 at September 30, 2004. Cash used in operating activities of $67,000 for the nine months ended September 30, 2005 was primarily a result of our net operating loss adjusted for non-cash charges.

Cash provided by investing activities was $790,000 for the nine month period ended September 30, 2005 and $265,000 for the same period in 2004. Proceeds from the sale of investments for the nine months ended September 30, 2005 increased to $825,000 from $772,000 compared to the same period in 2004 and cash used for the purchase of investments decreased to $0 from $160,000 compared to the same period in 2004.

Cash used in financing activities was $331,000 and $276,000 for the nine months ended September 30, 2005 and September 30, 2004, respectively. During the nine months ended September 30, 2005 and 2004, the Company paid aggregate dividends of $387,000 and $385,000, respectively.

Our ongoing cash requirements will be primarily for capital expenditures, acquisitions, research and development and working capital. Management believes that cash on hand and any cash provided by operations will be sufficient to meet our cash requirements through at least the next 12 months.

INV s primary investments are 600,115 shares of August Technology Corporation and 551,759 shares of PPT Vision, Inc. both of which are traded on the Nasdaq Stock Exchange. The investment in PPTV is accounted for under the equity method of accounting. These stocks are subject to fluctuations in price and could have a negative effect on the liquidity of the Company.

FORWARD-LOOKING STATEMENTS

This Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company s expectations, beliefs, intentions or strategies regarding the future. Forward-looking statements include, but are not limited to, statements regarding the extent and timing of future revenues and expenses and customer demand, the market value of our investment securities, future financial condition and availability of capital resources, changes in worldwide general economic conditions, cyclical capital spending by customers, the Company s ability to keep pace with technological developments and evolving industry standards, worldwide competition, and the Company s ability to protect its existing intellectual property from challenges from third parties and other factors. Any statement that is not based solely upon historical facts, including strategies for the future and the outcome of events that have not yet occurred, is considered a forward-looking statement.

All forward-looking statements in this document are based on information available to the Company as of the date hereof, and the Company assumes no obligation to update any such forward-looking statements. It is important to note that the Company s actual results could differ materially from those in such forward-looking statements. The forward-looking statements of the Company are subject to risks and uncertainties. Some of the factors that could cause future results to differ materially from the Company s recent results or those projected in the forward-looking statements are detailed in the Company s Annual Report on Form 10-KSB for the year ended December 31, 2004, filed with the Securities and Exchange Commission.

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Item 3. Controls and Procedures.

As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Based on this evaluation, the principal executive officer and principal financial officer concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There was no change in the Company s internal control over financial reporting during the Company s most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

See Exhibit Index following signature page.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Electro-Sensors, Inc.

Date: November 14, 2005

By: /s/ Bradley D. Slye

Bradley D. Slye
Chief Executive Officer and Principal Accounting Officer

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EXHIBIT INDEX

ELECTRO-SENSORS, INC.

FORM 10-QSB FOR QUARTER ENDED September 30, 2005

Exhibit	Description
31.1	Certification of CEO and CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002