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SENTEX SENSING TECHNOLOGY INC
Form 10QSB
July 14, 2006

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

FORM 10-QSB
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-13328
For the quarterly period ending May 31, 2006

SENTEX SENSING TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

22-2333899
(I.R.S. Employer
Identification No.)

1801 East Ninth Street
Cleveland, Ohio
(Address of principal executive offices)

44114
(Zip Code)

(216) 687-0289
(Registrant's telephone number including area code)

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

Securities registered pursuant to Section 12 (g) of the Exchange Act:
Common Shares, no par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and 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 No

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

Number of shares of Common Shares (No Par Value) of SENTEX SENSING TECHNOLOGY, Inc., issued and outstanding as of May 31, 2006 is 103,764,911

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
NOVEMBER 30, 2005 AND MAY 31, 2006

| NOVEMBER 30, 2005 (AUDITED) | MAY 31, 2006 (UNAUDITED) |
|-----------------------------------|--------------------------------|
|-----------------------------------|--------------------------------|

ASSETS

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| | | |
|---|--------------|--------------|
| CURRENT ASSETS | | |
| Cash | \$ 68 | \$ -- |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 68 | -- |
| OTHER ASSETS | | |
| Investment in JJJ-RT, LLC | -- | -- |
| | ----- | ----- |
| TOTAL ASSETS | \$ 68 | \$ -- |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Notes payable: | | |
| Related party | \$ 7,090,712 | \$ 7,417,949 |
| Trade and other accounts payable (\$441,671 and \$441,671 to related parties) | 555,147 | 508,045 |
| Accrued liabilities | 14,123 | 14,123 |
| Consulting contracts payable | 21,249 | 21,249 |
| Convertible subordinated notes payable | 12,423 | 12,423 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 7,693,654 | 7,973,789 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, no par value | | |
| Authorized - 200,000,000 shares | | |
| Issued - 109,460,911 shares | | |
| Outstanding - 101,764,911 shares in 2005, and 103,764,911 shares in 2006 | 2,867,579 | 2,867,579 |
| Accumulated deficit | (10,291,697) | (10,571,900) |
| Treasury shares at cost, 7,696,000 shares | (269,468) | (269,468) |
| | ----- | ----- |
| TOTAL STOCKHOLDERS' EQUITY | (7,693,586) | (7,973,789) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 68 | \$ -- |
| | ===== | ===== |

See Notes to Consolidated Financial Statements

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE SIX MONTHS
ENDED MAY 31, 2005 AND MAY 31, 2006 (UNAUDITED)

| | THREE MONTHS ENDED | | SIX MO |
|----------|--------------------|---------|---------|
| | MAY 31, | MAY 31, | MAY 31, |
| | 2005 | 2006 | 2005 |
| | ----- | ----- | ----- |
| REVENUES | | | |

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| | | | |
|--|-------------|-------------|-------------|
| Interest and other income | 154,317 | -- | 158,481 |
| | ----- | ----- | ----- |
| Total Revenues | 154,317 | -- | 158,481 |
| COST OF GOODS SOLD | -- | -- | -- |
| | ----- | ----- | ----- |
| GROSS PROFIT | 154,317 | -- | 158,481 |
| OPERATING EXPENSES | | | |
| Administration | 63,592 | 26,796 | 125,422 |
| | ----- | ----- | ----- |
| Total expenses | 63,592 | 26,796 | 125,422 |
| | ----- | ----- | ----- |
| PROFIT (LOSS) FROM OPERATIONS | 90,725 | (26,796) | 33,059 |
| OTHER EXPENSE | | | |
| Interest Expense | 90,364 | 121,124 | 169,198 |
| | ----- | ----- | ----- |
| PROFIT (LOSS) FROM CONTINUING OPERATIONS | 361 | (147,920) | (136,139) |
| LOSS FROM DISCONTINUED OPERATIONS | (161,172) | -- | (107,934) |
| | ----- | ----- | ----- |
| NET LOSS | (160,811) | (147,920) | (244,073) |
| NET LOSS PER SHARE (BASIC AND DILUTED) | \$ (0.00) | \$ (0.00) | \$ (0.00) |
| WEIGHTED NUMBER OF SHARES OUTSTANDING | 101,764,911 | 103,764,911 | 101,764,911 |

See Notes to Consolidated Financial Statements

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE SIX MONTHS
ENDED MAY 31, 2005 AND MAY 31, 2006 (UNAUDITED)

| | SIX MONTHS ENDED | |
|--|------------------|-----------------|
| | MAY 31, 2005 | MAY 31, 2006 |
| | ----- | ----- |
| OPERATING ACTIVITIES: | | |
| Net loss | \$ (244,073) | \$ (280,203) |
| Adjustment to reconcile net loss to net cash used by operating activities: | | |
| Depreciation and amortization | (26,178) | -- |
| Noncash interest expense | -- | -- |
| Accounts receivable | 169,198 | 231,876 |
| Inventories | (74,253) | -- |
| Accounts payable | (29,535) | -- |
| Accrued liabilities | 414,975 | (47,101) |
| | (310,741) | -- |

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| | | |
|--|-----------|----------|
| | ----- | ----- |
| Total Adjustments | 143,466 | 184,775 |
| | ----- | ----- |
| Net cash used by operating activities | (100,607) | (95,428) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds on notes and accounts payable - related party | 97,887 | 95,360 |
| Payments on note payable - related party | -- | -- |
| | ----- | ----- |
| Net cash provided by financing activities | 97,887 | 95,360 |
| | ----- | ----- |
| NET INCREASE (DECREASE) IN CASH | (2,720) | (68) |
| CASH - BEGINNING OF PERIOD | 12,872 | 68 |
| | ----- | ----- |
| CASH - END OF PERIOD | \$ 10,152 | \$ -- |
| | ===== | ===== |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the quarter for: | | |
| Interest | \$ -- | \$ -- |
| | ===== | ===== |

See Notes to Consolidated Financial Statements

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) In the opinion of management, the unaudited financial statements contain all adjustments (consisting of only normal recurring accruals and repayments) necessary to present fairly the financial position at May 31, 2006 and the results of operations and cash flows for the six months ended May 31, 2005 and May 31, 2006.

These interim statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended November 30, 2005 (Commission File No. 2-13328).

(2) The results of operations for the six months ended May 31, 2005 and May 31, 2006 are not necessarily indicative of the results to be expected for the full year.

(3) PROFIT (LOSS) PER SHARE

Profit (loss) per share is calculated using the weighted average number of common shares outstanding. Potentially dilutive securities are insignificant.

(4) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Sentex Sensing

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Technology, Inc. and its wholly-owned subsidiaries (the "Company"). All material inter-company accounts and transactions have been eliminated in consolidation.

(5) LEGAL PROCEEDINGS

State of Ohio, Department of Administrative Services v. IQ Solutions, LLC, et al.; Case No. 03-CVH05-6054; Franklin County Common Pleas Court, Ohio.

During October 2004, the Company was dismissed without prejudice from the above-caption and previously disclosed matter.

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On November 20, 2005, Sentex Sensing Technology, Inc. (the "Company") entered into a Contribution and Investment Agreement (the "Investment Agreement") with JJJ-RT, LLC ("JJJ-RT"), Regency Technologies, Inc. ("Regency"), a wholly owned subsidiary of the Company, and Regency Acquisition, LLC ("New LLC"), a wholly owned subsidiary of Regency. Under the Investment Agreement, Regency contributed all of its operating assets to New LLC and New LLC assumed all of the obligations of Regency except for amounts due Robert Kendall, Chief Executive of the Company, of about \$200,000 and certain inter-company accounts payable between Regency and the Company in the amount of \$47,000, and JJJ-RT has the right to invest up to \$800,000 in New LLC on an as-needed basis. The members of JJJ-RT will primarily control when any such investments are made. For every \$10,000 of capital JJJ-RT invests into New LLC, JJJ-RT would be entitled to 1% of the equity interest until it owned 50% of the interests of New LLC. These investments by JJJ-RT would dilute the Company's interests in New LLC. The majority members of JJJ-RT are James Levine, the Executive Vice President of Regency, and Julius Hess, a former director and executive officer of the Company and a current officer of Regency. Mr. Levine and Mr. Hess are the sons-in-law of Mr. Kendall.

JJJ-RT would not be entitled to purchase any further equity interests beyond a 50% interest until the later of (a) the date the Company had another operating business or (b) January 31, 2006 (the "Event Date"), as set forth in the Investment Agreement. If the executive management determines that more than \$500,000 in funds are required to be invested in New LLC prior to the Event Date, then such funds may be invested in New LLC as a loan, which principal amount of the loan may be converted into equity interests of New LLC after the Event Date at a rate of 1% of equity interest for each \$10,000 of principal that is converted. Upon conversion of any such loans, all accrued interest on that portion of the converted principal will be forgiven. JJJ-RT would not have the right to purchase more than 80% of the equity interests in New LLC, whether by a direct investment in cash or upon conversion of any loans under the terms of the Investment Agreement, without further agreement from the Company.

The Investment Agreement was subject to the receipt of a fairness opinion (the "Fairness Opinion") as to the fairness to the shareholders of the Company of the transactions described therein from a financial point of view. The Fairness Opinion was received by the Company on November 25, 2005. The Fairness Opinion was prepared by Kline & London CPAs, Inc. ("Kline & London"). Kline & London had not previously provided services or received fees from the Company or Regency. Kline & London's fees for this engagement were not contingent upon a favorable opinion, and they have no verbal, written or implied agreement to provide future services or receive future fees from the Company or Regency.

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The Company, together with the other parties to the Investment Agreement, determined that JJJ-RT should receive 1% equity in New LLC for each 10,000 invested. Such amount of compensation was not recommended by Kline & London. However, after reviewing and relying upon material relating to the financial and operating conditions of the Company and Regency, including (a) the Investment Agreement, (b) the Operating Agreement of New LLC, (c) the annual filings with the Securities and Exchange Commission ("SEC") for the three years ended November 30, 2002, 2003 and 2004, (d) the quarterly reports filed with the SEC for the first three quarters of 2005, (e) internal financial analyses and forecasts for the Company and Regency prepared by certain members of the senior management of the Company and Regency, and (f) certain publicly available information with respect to the Company and Regency and other companies engaged in similar operations, and after conducting discussions with executive management of the Company, Regency and JJJ-RT concerning historical financial performance and future business prospects and forecasts and reviewing summary reports prepared by a financial advisor engaged to raise capital for the Company, Kline & London provided its opinion that the terms of the Investment Agreement are fair, from a financial point of view, to the Company's shareholders.

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

No limitations were imposed by the Company on the scope of the investigation by Kline & London. The Fairness Opinion will be made available for inspection and copying at the principal executive office of the Company during regular business hours by any interested equity security holder.

The Company will not receive any of the invested cash from JJJ-RT as a payment for its existing equity interest in Regency, and will be diluted with each sale of equity interests to JJJ-RT. The Company believes, however, that this transaction provides it the best opportunity to realize a potential return on its existing investment in light of its existing options.

FINANCIAL CONDITION

Working Capital and Liquidity

During the last several fiscal years, the Company has incurred losses from operations. In addition, the Company's certified public accountants, Hausser + Taylor LLC, have included in their auditors' report, which covers the Company's financial statements for the years ended November 30, 2004 and November 30, 2005, a statement that the Company's recurring losses from operations raised substantial doubt about the Company's ability to continue as a going concern. For fiscal year 2004 and the period ended November 20, 2005, the Company sustained losses of approximately \$781,000 and \$377,000, respectively. These losses have had a substantial adverse effect on the working capital of the Company.

Net Tax Operating Loss Carryforwards

As of May 31, 2006 the Company has approximately \$16,656,000 in net tax operating loss carryforwards which will expire at various dates through the year 2025. Federal tax law imposes restrictions on the use of net operating loss carryforwards in the event of a change in ownership, such as a merger. Due to the merger with Monitek, approximately \$6,265,000 of the \$16,656,000 net operating losses may be subject to these limitations and potentially may not be

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able to provide any economic benefit to the Company.

RESULTS OF OPERATIONS

On November 20, 2005, JJJ-RT, LLC assumed the operations of the former Regency Technologies, Ltd.

The Company currently has no active operation. Expenses shown on the Consolidated Statement of Operations include corporate administrative overhead only.

Investment in Regency Technologies, Ltd.:

Due to a change in control, the Company now accounts for its investment in JJJ-RT, LLC on the equity method. However, losses and distributions have exceeded the Company's investment in JJJ-RT, LLC. Accordingly, the Company has reflected such investments at zero. The Company's share of future losses in this investment will be suspended for book purposes. Furthermore the Company's share in future income will not be recognized until the aggregate of such income equals the aggregate of their suspended losses.

The net loss on disposal of subsidiary (Regency Technologies, Ltd.) is the result of recognizing the net investment deficit in Regency as of November 20, 2005 as income to bring the value of the investment to zero and decreasing that gain by the forgiveness of inter-company debt as stated in the Contribution and Investment Agreement.

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The following table sets forth certain summarized financial information of JJJ-RT, LLC, the Company's only investment, based upon the applicable financial statements, adjusted for accounting principles generally accepted in the United States of America. This information is for the five months ended May 31, 2006 and has not been audited or reviewed.

| BALANCE SHEET DATA | 2006 |
|--|--------------|
| | ---- |
| Current assets | \$ 330,520 |
| Leasehold improvements | 14,774 |
| Other assets | 990 |
| | ----- |
| Total Assets | 346,284 |
| | ===== |
| Current Liabilities | 249,382 |
| Partners' Equity | 96,902 |
| | ----- |
| Total liabilities and partners' equity | \$ 346,284 |
| | ===== |
| STATEMENT OF INCOME DATA | |
| Revenues | \$ 1,759,533 |
| | ===== |

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| | |
|------------|-------------|
| Net income | \$ (97,604) |
| | ===== |

CURRENT OUTLOOK

On May 4, 2006 a press release was issued stating that the Company had signed a Memorandum of Understanding with Security IT Vision, Inc. to bring to the Company the existing biometric technology of Astro Datensystems AG/Security IT Vision.

We are continuing to move forward toward the completion of this transaction, but due to its complexity, it is taking somewhat longer than originally anticipated.

While there can be no assurances that it will close, our goal is to complete the transaction during the month of August.

More will follow on this matter via press releases.

We appreciate your patience and continued interest in the Company.

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

CHANGES IN ACCOUNTING STANDARDS

New Accounting Standards - In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, "Inventory Costs," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This standard requires that such items be recognized as current-period charges. The standard also establishes the concept of "normal capacity" and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. Any unallocated overhead must be recognized as an expense in the period incurred. This standard is effective for inventory costs incurred starting January 1, 2006. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets." This standard amended APB Opinion No. 29, "Accounting for Nonmonetary Transactions," to eliminate the exception from fair value measurement for nonmonetary exchanges of similar productive assets. This standard replaces this exception with a general exception from fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for all nonmonetary asset exchanges completed by the company starting January 1, 2006. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In December 2004, the FASB released a revised version of SFAS No. 123 (FASB 123R), "Accounting for Stock-Based Compensation." This statement supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. This statement amends and clarifies the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments and to

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recognize this cost over the vesting period or time period during which the employee is required to provide service in exchange for the reward. This statement is effective for the Company starting January 1, 2006. The Company does not expect the adoption of this statement to have a material impact on its financial statements.

In June 2005, the FASB released SFAS No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20 and FASB Statement No. 3, to change the requirements for the accounting for and reporting of a change in accounting principle. This statement requires retrospective application to prior periods' financial statements of changes in an accounting principle, unless it is impracticable to determine either the period specific effects or the cumulative effect. If impracticable to determine period specific effects, this statement requires the new accounting principle to be applied to balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and a corresponding entry made to opening balance of retained earnings for that period. If it is impracticable to determine the cumulative effect to prior periods, the statement requires the new accounting principle to be applied from the earliest date practicable. This statement requires that a change in depreciation, amortization and depletion methods for long-lived assets be accounted for as a change in estimate effected by a change in accounting principle. Lastly, this statement carries forward guidance from Opinion 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This standard is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOUR" OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

Certain statements in the Management's Discussion and Analysis of Financial Condition and Results of Operations and the Financial Statements included in this Annual Report on Form 10-KSB, in the Company's press releases and in oral statements made by or with the approval of an authorized executive officer of the Company constitute "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. These may include statements projecting, forecasting or estimating Company performance and industry trends. The achievement of the projections, forecasts or estimates is subject to certain risks and uncertainties. Actual results and events may differ materially from those projected, forecasted or estimated. The applicable risks and uncertainties include general economic and industry conditions that affect all business, as well as matters that are specific to the Company and the markets it serves.

Specific risks to the Company include an inability of the Company to finance its working capital needs. In light of this and other uncertainties, the inclusion of a forward-looking statement herein should not be regarded as a representation by the Company that the Company's plans and objectives will be achieved.

CONTROLS AND PROCEDURES

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The Company's Chief Executive Officer and Principal Accounting Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) as of the end of the period covered by this report, have concluded that the Company's disclosure controls and procedures were effective.

There were no changes in the Company's internal controls over financial reporting that occurred during the Company's last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

Date: July 14, 2006

SENTEX SENSING TECHNOLOGY, INC.

By: /s/ Robert S. Kendall

Robert S. Kendall, Chief Executive Officer

/s/ William R. Sprow

William R. Sprow, Chief Financial Officer

/s/ William R. Sprow

William R. Sprow, Controller

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EXHIBITS AND REPORTS ON FORM 8-K

- a) Exhibit 31.1 302 Certification of Chief Executive Officer
 - Exhibit 31.2 302 Certification of Chief Financial Officer
 - Exhibit 32.1 Certification Pursuant To 18 U. S. C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002
 - Exhibit 32.2 Certification Pursuant To 18 U. S. C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002
- b) No reports on Form 8-K were filed with the Commission during the small business issuer's third quarter.

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