

ALTEX INDUSTRIES INC
Form 10-K
December 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

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

For the fiscal year ended September 30, 2012

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

For the transition period from _____ to _____.

Commission file number 1-9030

ALTEX INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

84-0989164
(I.R.S. Employer Identification No.)

PO Box 1057 Breckenridge CO 80424
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (303) 265-9312

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes
 No

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 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

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submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not 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-K or any amendment to this form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. Large accelerated filer Accelerated Filer Non-accelerated filer Smaller Reporting Company

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

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of March 31, 2012: \$636,000

Number of shares outstanding of registrant's common stock as of December 7, 2012: 13,288,343

“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-K 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; 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.

PART I

Item 1. Business.

Altex Industries, Inc. (or the "Registrant" or the "Company," each of which terms, when used herein, refer to Altex Industries, Inc. and/or its subsidiary) is a holding company with one full-time employee that was incorporated in Delaware in 1985. Through its operating subsidiary, AOC, the Company currently owns interests, including working interests, in productive onshore oil and gas properties, has bought and sold producing oil and gas properties, and, to a lesser extent, has participated in the drilling of exploratory and development wells, and in recompletions of existing wells.

All of AOC’s interests are in properties operated by others. An interest owner in a property not operated by that interest owner must rely on information regarding the property provided by the operator, even though there can be no assurance that such information is complete, accurate, or current. In addition, an owner of a working interest in a property is potentially responsible for 100% of all liabilities associated with that property, regardless of the size of the working interest actually owned.

The operators of producing properties in which AOC has an interest sell produced oil and gas to refiners, pipeline operators, and processing plants. If a refinery, pipeline, or processing plant that purchases such production were taken out of service, the operator could be forced to halt the production that is purchased by such refinery, pipeline, or plant.

Although many entities produce oil and gas, competitive factors play a material role in AOC'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 AOC 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. AOC 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. AOC 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.)

Item 1A. Risk Factors.

Not applicable.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The Company's estimated reserves at September 30, 2012, are 5,200 barrels of proved, developed oil reserves associated with the Company's 4.4% override in the Glo Field in Campbell County, Wyoming. The reserve estimate is prepared by the Company's registered profession petroleum engineer; management supplies the engineer with ownership and revenue data and reviews the reserve estimate for reasonableness. 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. At December 7, 2012, the Company owned working interests in 2 gross (0.22 net) productive oil wells (which produce associated natural gas), no wells producing only natural gas, and 203 gross (13 net) developed acres. At December 7, 2012, 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. The Company did not participate in the drilling of any wells during the year ended September 30, 2010 ("FY10"), the year ended September 30, 2011 ("FY11"), or the year ended September 30, 2012 ("FY12"). At December 7, 2012, the Company was not engaged in any oil and gas operations of material importance. All of the Company's production is located in Utah and Wyoming. For additional information, see Note 7 of Notes to Consolidated Financial Statements below.

Production

| Fiscal Year | Net Production | | Average Price | | Average Production |
|-------------|----------------|-----------|---------------|-----------|------------------------------------|
| | Oil (Bbls) | Gas (Mcf) | Oil (Bbls) | Gas (Mcf) | Cost Per Equivalent Barrel ("BOE") |
| 2012 | 1,000 | 1,000 | \$76.67 | \$3.59 | \$5.62 |
| 2011 | 2,000 | 2,000 | 73.88 | 4.35 | 2.70 |
| 2010 | 2,000 | 2,000 | 63.17 | 4.97 | 1.68 |

Item 3. Legal Proceedings.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is traded on the OTCQB Exchange under the symbol "ALTX". The high and low prices for the Company's common stock for each quarter in the last two fiscal years are listed in the table below.

| Quarter | FY12 | | FY11 | |
|---------|------------|-----------|------------|-----------|
| | High Price | Low Price | High Price | Low Price |
| 1 | \$0.13 | \$0.08 | \$0.16 | \$0.13 |
| 2 | 0.16 | 0.09 | 0.17 | 0.13 |
| 3 | 0.12 | 0.09 | 0.18 | 0.13 |
| 4 | 0.30 | 0.08 | 0.14 | 0.13 |

At December 7, 2012, there were approximately 3,900 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. The Company has no publicly announced plan or program for the purchase of shares. The Company has no compensation plans (including individual compensation arrangements) under which equity securities of the registrant are authorized for issuance.

Issuer Purchases of Equity Securities

| Period | (a) | (b) | (c) | (d) |
|--|---|--|---|---|
| | Total number of shares (or units) purchased | Average price paid per share (or unit) | Total number of shares (or units) purchased as part of publicly announced plans or programs | Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs |
| July 1, 2012 through July 31, 2012 | -- | -- | -- | -- |
| August 1, 2012, through August 31, 2012 | -- | -- | -- | -- |
| September 1, 2012 through September 30, 2012 | 331,263 | \$0.132 | -- | -- |
| Total | 331,263 | \$0.132 | -- | -- |

The Company has no publicly announced plan or program for the purchase of shares.

Item 6. Selected Financial Data.

Not applicable.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial Condition

In FY12 the Company used \$188,000 cash in operating activities and also used \$44,000 cash to acquire 331,263 shares of its Common Stock. Also in FY12, the Company received back a deposit of \$500,000 cash it had made in connection with a proposed investment in FY11, when it was unable to negotiate acceptable definitive agreements. Consequently, cash balances increased \$268,000 from \$2,584,000 at September 30, 2011, to \$2,852,000 at September 30, 2012. Excluding receipt of the deposit, cash balances declined \$232,000. At September 30, 2011, other accrued expenses of \$106,000 included \$70,000 in salary payable to the Company's president, pursuant to his employment agreement, that the president had elected to defer. During FY12 the Company paid its president the deferred \$70,000 and also reversed an accrued liability of \$26,000 for which the Company was no longer liable. At September 30, 2012, other accrued expenses of \$195,000 includes \$176,000 in salary payable to the Company's president, pursuant to his employment agreement, that the president has elected to defer, as well as \$8,000 in related accrued payroll tax.

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 sufficient 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 material change in the current level of interest rates or of oil and gas prices, the Company knows of no trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way. 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 7, 2012, the Company had no material commitments for capital expenditures.

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.

Liquidity

Operating Activities. In FY11 and FY12 net cash used in operating activities was \$243,000 and \$188,000, respectively.

Investing Activities. In FY11 the Company made a deposit of \$500,000 in connection with a proposed investment, which deposit was returned in FY12 when the Company was unable to negotiate acceptable definitive agreements.

Financing Activities. In FY11 the Company expended \$44,000 to acquire 331,263 shares of its common stock.

Results of Operations

Oil and gas sales decreased from \$125,000 in FY11 to \$103,000 in FY12 because of lower quantities sold. Interest income decreased from \$31,000 in FY11 to \$20,000 in FY12 because of lower realized interest rates. General and administrative expense decreased from \$461,000 in FY11 to \$386,000 in FY12 principally because the Company reduced the president's salary from \$297,000 in FY11 to \$200,000 in FY12.

At the current levels of net oil and gas production, cash balances, interest rates, and oil and gas prices, 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 and oil and gas prices, 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 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements follow the signature page.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. 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.

Item 9b. Other Information

None.

PART III

Item 10. Directors, Executive Officers, Promoters and Corporate Governance.

Mr. Steven H. Cardin, 62, 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, 61, 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, 56, a CPA, was 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 was Chairman and CEO of Seca Graphics, Inc., which provided design and mapping services and software to the cable television and telecommunications industries. Mr. Fante has been a private investor for the last five years and currently owns and operates CB Paws, which retails high-end accessories for dogs and cats. Mr. Fante has been a Director since 1989.

The Board of Directors has a separately-designated standing Audit Committee which is comprised of Messrs. Fante and 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 defined by NASDAQ.

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 11. Executive Compensation.

The following table sets forth the compensation earned by the Company's only executive officer during the last two fiscal years.

Summary Compensation Table

| Name and Principal Position | Year | Salary (\$) | Total (\$) |
|-----------------------------|------|-------------|------------|
| Steven H. Cardin, CEO | 2012 | 200,000 | 200,000 |
| Steven H. Cardin, CEO | 2011 | 296,989 | 296,989 |

Effective October 1, 2011, the Company renewed its Employment Agreement with Mr. Cardin. The Agreement has an initial term of five years and provides that Mr. Cardin is to receive an annual base salary of \$200,000, escalating at no less than 3% per annum, and an annual bonus of no less than 20% of the Company's earnings before tax, payable, at Mr. Cardin's election, in either cash or common stock of the Company at then fair market value.

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.

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 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.

Director Compensation

| Name | Fees Earned or Paid in Cash (\$) | Total (\$) |
|--------------------|----------------------------------|------------|
| Jeffrey S. Chernow | 12,000 | 12,000 |
| Stephen F. Fante | 12,000 | 12,000 |

Each Director who is not also an officer of the Company receives \$1,000 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.

Item 12. 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 7, 2012, 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 7, 2012, 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) PO Box 1057 Breckenridge CO 80424 | 7,233,866 | 54.44% |
| All Directors and Executive Officers as a Group (1 Person) | 7,233,866 | 54.44% |

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Messrs. Fante and Chernow are both independent under the NASDAQ independence standards.

Item 14. Principal Accountant Fees and Services

Audit Fees. Billed for FY12: \$9,000. Billed for FY11: \$9,646.72.

Audit-Related Fees. None.

Tax Fees. None.

All Other Fees. None.

The Company does not engage an accountant to render audit or non-audit services unless the engagement is explicitly pre-approved by the Company's Audit Committee. During FY12 and FY11 no Audit-Related Fees, Tax Fees, or Other Fees were billed by the Company's principal accountant.

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PART IV

| | |
|----------|---|
| Item 15. | Exhibits, Financial Statement Schedules |
| 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 |
| 14 | Code of Ethics - Incorporated herein by reference to Form 10-K for fiscal year ended September 30, 2003 |
| 21 | List of subsidiaries - Incorporated herein by reference to Form 10-K for fiscal year ended September 30, 1997 |
| 31. | Rule 13a-14(a)/15d-14(a) Certifications |
| 32. | Section 1350 Certifications |
| 101.xml* | XBRL Instance Document |
| 101.xsd* | XBRL Taxonomy Extension Schema Document |
| 101.cal* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.def* | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.lab* | XBRL Taxonomy Extension Label Linkbase Document |
| 101.pre* | XBRL Taxonomy Extension Presentation Linkbase Document |

* Furnished. Not Filed. Not incorporated by reference. Not subject to liability.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

A L T E X
INDUSTRIES,
INC.

/s/ STEVEN H.
CARDIN

By: Steven H.
Cardin, CEO

D a t e :
December 7,
2012

Pursuant to the requirements of the Securities Exchange Act of 1934, 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 /
S T E V E N
H .
C A R D I N

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

D a t e :
December
7, 2012

/ s /
S T E P H E N
F. F A N T E

By: Stephen
F. Fante,
Director

D a t e :
December
7, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Altex Industries, Inc.

We have audited the accompanying consolidated balance sheets of Altex Industries, Inc. and subsidiary as of September 30, 2012 and September 30, 2011, 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, 2012 and September 30, 2011. 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in 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, 2012 and September 30, 2011, and the consolidated results of its operations, changes in stockholders' equity and cash flows for each of the years in the two-year period ended September 30, 2012 and September 30, 2011, in conformity with U.S. generally accepted accounting principles.

Denver, Colorado
December 7, 2012
/s/ Comiskey & Company
PROFESSIONAL CORPORATION

ALTEX INDUSTRIES, INC. AND SUBSIDIARY
Consolidated Balance Sheet

| | September 30 | |
|--|--------------|--------------|
| | 2012 | 2011 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$2,852,000 | 2,584,000 |
| Accounts receivable | 13,000 | 14,000 |
| Other (Note 3) | 15,000 | 504,000 |
| Total current assets | 2,880,000 | 3,102,000 |
| Property and equipment, at cost | | |
| Proved oil and gas properties (successful efforts method) (Notes 6 and 7) | 347,000 | 350,000 |
| Other | 17,000 | 17,000 |
| Total property and equipment, at cost | 364,000 | 367,000 |
| Less accumulated depreciation, depletion, and amortization | (155,000) | (122,000) |
| Net property and equipment | 209,000 | 245,000 |
| Other assets | 3,000 | 4,000 |
| Total assets | 3,092,000 | 3,351,000 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Accounts payable | 12,000 | 26,000 |
| Other accrued expenses | 195,000 | 106,000 |
| Total current liabilities | 207,000 | 132,000 |
| Commitments and Contingencies (Notes 3, 5 and 6) | - | - |
| 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 and outstanding, 13,288,343 and 13,619,606, respectively | 133,000 | 136,000 |
| Additional paid-in capital | 13,887,000 | 13,928,000 |
| Accumulated deficit | (11,135,000) | (10,845,000) |
| Total stockholders' equity | 2,885,000 | 3,219,000 |
| Total stockholders' equity and liabilities | \$3,092,000 | 3,351,000 |

See accompanying notes to consolidated financial statements.

ALTEX INDUSTRIES, INC. AND SUBSIDIARY
Consolidated Statement of Operations
Years ended September 30

| | 2012 | 2011 |
|---|--------------|------------|
| Revenue | | |
| Oil and gas sales | \$ 103,000 | 125,000 |
| Interest income | 20,000 | 31,000 |
| Other | 26,000 | 5,000 |
| | 149,000 | 161,000 |
| Costs and expenses | | |
| Lease operating | 7,000 | 4,000 |
| Production taxes | 10,000 | 12,000 |
| General and administrative | 386,000 | 461,000 |
| Depreciation, depletion, and amortization | 36,000 | 25,000 |
| | 439,000 | 502,000 |
| Net loss | \$(290,000) | (341,000) |
| Loss per share | \$(0.021) | \$(0.025) |
| Weighted average shares outstanding | 13,615,986 | 13,619,606 |

See accompanying notes to consolidated financial statements.

ALTEX INDUSTRIES, INC. AND SUBSIDIARY

Consolidated Statement of Stockholders' Equity
Years ended September 30

| | Common Stock Shares | Amount | Additional paid-in capital | Accumulated deficit | Treasury stock | Total stockholders' equity |
|--|------------------------|------------|----------------------------------|------------------------|-------------------|----------------------------------|
| Balance at September 30, 2010 | 13,619,606 | \$ 136,000 | 13,928,000 | (10,504,000) | | \$ 3,560,000 |
| Net loss | | | | (341,000) | | (341,000) |
| Balance at September 30, 2011 | 13,619,606 | 136,000 | 13,928,000 | (10,845,000) | | 3,219,000 |
| Net loss | | | | (290,000) | | (290,000) |
| Acquisition of treasury stock, 331,263 shares at \$0.132 per share | | | | | (44,000) | (44,000) |
| Retirement of treasury stock | (331,263) | (3,000) | (41,000) | | 44,000 | - |
| Balance at September 30, 2012 | 13,288,343 | \$ 133,000 | 13,887,000 | (11,135,000) | - | \$ 2,885,000 |

See accompanying notes to consolidated financial statements.

ALTEX INDUSTRIES, INC. AND SUBSIDIARY
Consolidated Statement of Cash Flows
Years ended September 30

| | 2012 | 2011 |
|--|--------------|------------|
| Cash flows used in operating activities | | |
| Net loss | \$(290,000) | (341,000) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation, depletion, and amortization | 36,000 | 25,000 |
| Decrease (increase) in accounts receivable | 1,000 | (2,000) |
| Increase in other current assets | (11,000) | - |
| Decrease in other assets | 1,000 | 1,000 |
| (Decrease) increase in accounts payable | (14,000) | 3,000 |
| Increase in other accrued expenses | 89,000 | 71,000 |
| | (188,000) | (243,000) |
| Cash flows used in investing activities | | |
| Deposit on potential investment subsequently terminated (Note 3) | - | (500,000) |
| Refund of deposit on potential investment subsequently terminated (Note 3) | 500,000 | |
| | 500,000 | (500,000) |
| Cash flows from financing activities | | |
| Acquisition of treasury stock | (44,000) | - |
| | (44,000) | - |
| Net increase (decrease) in cash and cash equivalents | 268,000 | (743,000) |
| Cash and cash equivalents at beginning of year | 2,584,000 | 3,327,000 |
| Cash and cash equivalents at end of year | \$2,852,000 | 2,584,000 |

See accompanying notes to consolidated financial statements.

ALTEX INDUSTRIES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2011 and 2010

Note 1 - Nature of Operations and Summary of Significant Accounting Policies.

Nature of Operations: Altex Industries, Inc., through its wholly-owned subsidiary, jointly referred to as “the Company,” owns interests, including working interests, in productive oil and gas properties located in Utah and Wyoming. The Company’s revenues are generated from interest income from cash deposits and from sales of oil and gas production. The Company’s operations are significantly affected by changes in interest rates and oil and gas prices.

Principles of Consolidation: The consolidated financial statements include the accounts of Altex Industries, Inc. and its wholly-owned subsidiary. All intercompany balances and transactions have been eliminated in consolidation.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment: The Company follows the successful efforts method of accounting for oil and gas operations, under which exploration costs, including geological and geophysical costs, annual delay rentals, and exploratory dry hole costs, are charged to expense as incurred. Costs to acquire unproved properties, to drill and to equip exploratory wells that find proved reserves, and to drill and to equip development wells are capitalized. Capitalized costs relating to proved oil and gas properties are depleted on the units-of-product-ion method based on estimated quantities of proved reserves and estimated RR&D (Note 6). Upon the sale or retirement of property and equipment, the cost thereof and the accumulated depreciation, depletion, and valuation allowance are removed from the accounts, and the resulting gain or loss is credited or charged to operations. Actual RR&D expense in excess of estimated RR&D expense is charged to operations.

Impairment of Long-Lived Assets: The Company assesses long-lived assets for impairment when circumstances indicate that the carrying value of such assets may not be recoverable. This review compares the asset’s carrying value with management’s best estimate of the asset’s expected future undiscounted cash flows without interest costs. If the expected future cash flows exceed the carrying value, no impairment is recognized. If the carrying value exceeds the expected future cash flows, an impairment equal to the excess of the carrying value over the estimated fair value of the asset is recognized. No such impairment may be restored in the future. The Company’s proved oil and gas properties are assessed for impairment on an individual field basis.

Cash Equivalents and Fair Values of Financial Instruments: For purposes of the statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amount reported on the balance sheet for cash and cash equivalents approximates its fair value.

Income Taxes: The Company follows the asset and liability method of accounting for deferred income taxes. The asset and liability method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between financial accounting and tax bases of assets and liabilities. The Company reports uncertainty in income taxes according to GAAP. There was no increase in liabilities for unrecognized tax benefits during the current year. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expense. There was neither interest nor penalty at September 30, 2012.

Earnings Per Share: Earnings per share of common stock is based upon the weighted average number of shares of common stock outstanding during the year.

Concentrations of credit risk: The Company maintains significant amounts of cash and sometimes permits cash balances in national banking institutions to exceed FDIC limits.

Revenue recognition: Substantially all of the Company's revenue is from interest income and sales of oil and gas production. Interest income is recognized when earned. Revenue from oil and gas production is recognized based on sales or delivery date.

Recent Accounting Pronouncements:

In February 2007 the FASB issued guidance now included in ASC 825-10 "Financial Instruments," which permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. The Company has not currently elected the fair value option for non-financial instruments and is currently evaluating the impact of this guidance on its consolidated financial statements.

Note 2 - Income Taxes. At September 30, 2012, the Company had a depletion carryforward of \$860,000 and a net operating loss carryforward ("NOL") of \$1,680,000. \$274,000, \$303,000, \$317,000, \$330,000, \$272,000, and \$184,000 of this NOL expire in the years 2027, 2028, 2029, 2030, 2031 and 2032, respectively. The approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax assets at September 30, 2012, computed in accordance with the Income Tax Topic (Topic 740) of the Codification, is as follows:

| | |
|---------------------------------|------------|
| Deferred Tax Assets | |
| Depletion carryforward | \$ 301,000 |
| Net operating loss carryforward | 588,000 |
| Accrued shareholder salary | 62,000 |
| Total Net Deferred Tax Assets | 951,000 |
| Less valuation allowance | (951,000) |
| Net Deferred Tax Asset | \$ - |

A valuation allowance has been provided because of the uncertainty of future realization. Income tax expense is different from amounts computed by applying the statutory Federal income tax rate for the following reasons:

| | 2012 | 2011 |
|---|--------------|-----------|
| Tax benefit at 35% of net earnings | \$ (102,000) | (119,000) |
| State income tax, net of Federal benefit | - | - |
| Change in valuation allowance for net deferred tax assets | 102,000 | 119,000 |
| Income tax expense | \$ - | - |

As of September 30, 2012, the Company has no unrecognized tax benefit as a result of uncertain tax positions. As of September 30, 2012, the Company's tax years that remain subject to examination are 2009 - 2012 (Federal jurisdiction) and 2008 - 2012 (state jurisdictions).

Note 3 - Related Party Transactions. Effective October 1, 2011, the Company entered into a five-year employment agreement with its president which provides for a base salary of \$200,000 annually, plus escalations of not less than 3% 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 20% of the Company's earnings before income tax, payable, at his election, in cash or common stock of the Company at then fair market value. On August 31, 2011, the Company entered into a letter of intent, subject to negotiation of definitive agreements, regarding a potential \$500,000 investment in a company in which the president's brother-in-law owned 19% of the issued and outstanding common stock. In connection with the letter of intent, the Company transferred \$500,000 to the target company. On October 21, 2011, the parties terminated negotiations, and the target company returned the \$500,000 to the Company. At September 30, 2012, other accrued expenses of \$195,000 includes \$176,000 in salary payable to the Company's president, pursuant to his employment agreement, that the president has elected to defer.

Note 4 - Major Customers. In 2012 the Company had three customers who individually accounted for 10% or more of the Company's oil and gas sales and who, in aggregate, accounted for 90% of oil and gas sales. In 2012 the three customers individually accounted for 46%, 23% and 21% of oil and gas sales. In 2011 the Company had two customers who individually accounted for 10% or more of the Company's oil and gas sales and who, in aggregate, accounted for 82% of oil and gas sales. In 2011 the two customers individually accounted for 59% and 23% of oil and gas sales.

Note 5 - Leases. The Company rents office space under a cancellable operating lease that expires April 30, 2022. The Company may cancel upon 30 days written notice and the payment of a termination fee of \$3,000. In 2012 the Company incurred rent expense of \$11,000, and in 2011 the Company incurred rent expense of \$8,000.

Note 6 - Reclamation, Restoration, and Dismantlement (RR&D). The Company accounts for its RR&D costs in accordance with ASC Topic 410 "Asset Retirement and Environmental Obligations." ASC 410 addresses obligations associated with the retirement of tangible, long lived assets and the associated asset retirement costs. This statement requires the Company to recognize a liability for the fair value of its plugging and abandonment liability (excluding salvage value) with the associated costs included as part of the Company's oil and gas properties balance. For the years ended September 30, 2012 and 2011, the plugging and abandonment liability was not material to the financial statements.

Note 7 - Supplemental Financial Data - Oil and Gas Producing Activities (Unaudited). The Company's operations are confined to the continental United States, and all of the Company's reserves are proved developed. Oil prices used are the average of the NYMEX settlement price for the spot month on the first day of each month of 2012, corrected to received price using a price differential. Income tax expense is not reflected in the tables below because of the anticipated utilization of net operating loss carryforwards and depletion carryforwards. The estimation of reserves is complex and subjective, and reserve estimates tend to fluctuate in light of new production data.

I. Capitalized Costs Relating to Oil and Gas Producing Activities

| | September 30, 2012 |
|---|-----------------------|
| Proved properties | \$ 347,000 |
| Accumulated depreciation, depletion, amortization and valuation allowance | (138,000) |
| Net capitalized cost | \$ 209,000 |

II. Estimated Quantities of Proved Oil and Gas Reserves

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| | Oil in Barrels | Gas in MCFs |
|---------------------------------|-------------------|----------------|
| Balance at September 30, 2010 | 14,000 | - |
| Revisions of previous estimates | (600) | - |
| Production | (2,000) | - |
| Balance at September 30, 2011 | 11,400 | - |
| Revisions of previous estimates | (5,200) | 1,000 |
| Production | (1,000) | (1,000) |
| Balance at September 30, 2012 | 5,200 | - |

III. Present Value of Estimated Future Net Revenue

| | At September 30 | |
|---|-----------------|-----------|
| | 2012 | 2011 |
| Estimated future revenue | \$ 381,000 | 837,000 |
| Estimated future expenditures | (46,000) | (90,000) |
| Estimated future net revenue | 335,000 | 747,000 |
| 10% annual discount of estimated future net revenue | (122,000) | (345,000) |
| Present value of estimated future net revenue | \$ 213,000 | 402,000 |

IV. Summary of Changes in Present Value of Estimated Future Net Revenue

| | Year ended September 30 | |
|---|-------------------------|------------|
| | 2012 | 2011 |
| Present value of estimated future net revenue, beginning of year | \$ 402,000 | \$ 368,000 |
| Sales, net of production costs | (86,000) | (109,000) |
| Net change in prices and cost of future production | 57,000 | 81,000 |
| Revisions of quantity estimates | (234,000) | (9,000) |
| Accretion of discount | 40,000 | 37,000 |
| Change in production rates and other | 34,000 | 34,000 |
| Present value of estimated future net revenue, end of year | \$ 213,000 | \$ 402,000 |

Note 8 - Subsequent Events. The Company has evaluated subsequent events from the September 30, 2012, balance sheet date through the date these financial statements were filed with the Securities and Exchange Commission. No events occurred subsequent to the balance sheet date that would require recognition or disclosure in the financial statements.