

SENTEX SENSING TECHNOLOGY INC

Form 10KSB/A

April 18, 2006

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-KSB/A  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
Commission File No. 2-13328  
For the fiscal year ending November 30, 2005  
SENTEX SENSING TECHNOLOGY, INC.  
(Exact name of registrant as specified in its charter)**

New Jersey

22-2333899

(State or other jurisdiction of  
incorporation or organization)

(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 if the registrant is not required to file reports pursuant to Section 13 or Section 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B 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-KSB or any amendment to this Form 10-KSB. [ ]

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

The Company's revenues for the period ended November 30, 2005 were \$159,175.

The aggregate market value of Sentex Sensing Technology, Inc. Common Shares, no par value, held by non-affiliates, computed by reference to the average of the closing bid and asked prices as reported on March 8, 2006: \$1,037,649.

Number of shares of Common Shares (No Par Value) of SENTEX SENSING TECHNOLOGY, INC., issued and outstanding as of March 8, 2006 is 103,764,911.

---

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (Check One)

Yes  No

DOCUMENTS INCORPORATED BY REFERENCE

**TABLE OF CONTENTS**

Part IV Item 13 Exhibits, Financial Statement Schedules, and Reports on Form 8-K See Page 16

ITEM 1 BUSINESS

ITEM 3 LEGAL PROCEEDINGS

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

**PART II**

ITEM 5 MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

ITEM 6 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

ITEM 7 FINANCIAL STATEMENTS

ITEM 8 CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL

ITEM 8A. CONTROLS AND PROCEDURES

ITEM 8B. OTHER INFORMATION

**PART III**

ITEM 9 DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS:

COMPLIANCE WITH SECTION 16 (A) OF THE EXCHANGE ACT

ITEM 10 EXECUTIVE COMPENSATION

ITEM 11 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT  
AND RELATED STOCKHOLDERS MATTERS

ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ITEM 13 EXHIBIT LISTS AND REPORTS ON FORM 8-K

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

**SIGNATURE**

EX-31.1 Certification

EX-31.2 Certification

EX-32.1 Certification

EX-32.2 Certification

---

**Table of Contents**

Part IV Item 13 Exhibits, Financial Statement Schedules, and Reports on Form 8-K See Page 16.  
ITEMS OMITTED

None

**Table of Contents**

**ITEM 1 BUSINESS**

Sentex Sensing Technology, Inc. ( Sentex of the Company ) is a corporation duly organized in 1980 in the state of New Jersey. On July 2, 2001, the Company purchased Regency Technologies, LLC ( Regency Technologies ) from Regency Steel, LLC and other selling members.

As previously reported, on November 20, 2005, 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 obtained the right to invest up to \$800,000 in New LLC on an as-needed basis. The members of JJJ-RT primarily control when any such investments are made. For every \$10,000 of capital JJJ-RT invests into New LLC, JJJ-RT is entitled to 1% of the equity interest until it owns 50% of the interests of New LLC. These investments by JJJ-RT 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.

As a result of these arrangements and with the understanding that it is the intention of JJJ-RT to obtain a majority position prior to the end of the next fiscal year, the Company, together in consultation with its outside auditors, has concluded that JJJ-RT should be the consolidating entity. Accordingly, the Company has not reflected the assets, liabilities, revenue or expenses of the New LLC in its financial statements. As such, the Company has not provided a discussion of New LLC operations or liquidity and capital resources.

**ITEM 3 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.

**ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**PART II**

**ITEM 5 MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS**

The Company s Common Shares trade on the Over-the-Counter Bulletin Board. The range of high and low closing bid prices by fiscal quarter was

2005	HIGH	LOW
1 <sup>st</sup> Quarter	.05	.02
2 <sup>nd</sup> Quarter	.03	.02
3 <sup>rd</sup> Quarter	.05	.02
4 <sup>th</sup> Quarter	.09	.01

**Table of Contents**

	HIGH	LOW
2004		
1 <sup>st</sup> Quarter	N/A	N/A
2 <sup>nd</sup> Quarter	N/A	N/A
3 <sup>rd</sup> Quarter	N/A	N/A
4 <sup>th</sup> Quarter	.05	.01

Due to a late 2003 annual report filing, the Company was listed on the Pink Sheets through the third quarter of fiscal year 2004.

The bid quotations represent inter-dealer quotations and do not include retail markup, markdown or commissions, and may not represent actual transactions. On March 8, 2006 there were 119,460,911 Common Shares issued, 103,764,911 Common Shares outstanding and approximately 1,212 holders of record of the outstanding Common Shares. The Company has not paid a dividend since becoming a public company in November of 1980. The Company does not plan to pay cash dividends in the foreseeable future.

**Table of Contents**

ITEM 6 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 in 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.

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.

In June of 2004, the Company restructured its \$2,500,000 in bank financing. This financing has subsequently been taken over by CPS, which now holds much of the working capital debt that has been used in the business during 2005. As of November 30, 2005, there was an outstanding balance of \$7,091,000 on the loans from CPS and Robert S. Kendall, its chairman. We believe these loans have been secured under terms no less favorable than we could have obtained pursuant to an arms-length transaction.

In addition to the CPS loans, from time to time, Mr. Julius L. Hess, the Company's Vice President, Secretary and a Director, has provided the Company with cash investments to help fund certain specified transactions. From December 1, 2004 through November 20, 2005, Mr. Hess has invested a total of \$715,925 to fund such transactions. In agreement for providing such funds, which amounts may not otherwise have been available to the Company, Mr. Hess typically receives remuneration in the amount of up to fifty percent of the gross profit from such transactions. Upon settlement of the transactions during the period from December 1, 2004 through November 20, 2005, Mr. Hess will have received total proceeds of \$822,433. We believe these investments have been secured under

**Table of Contents**

terms no less favorable than we could have obtained pursuant to an arms-length transaction. As of November 20, 2005, there was an outstanding balance of \$227,279 on these loans.

In addition to the above-noted investments, Mr. Hess has, from time to time, provided loans to the Company to cover certain working capital expenses such as payroll. Mr. Hess does not receive any remuneration for these loans, other than the return of principal. These loans are typically paid back within a short period of time. From December 1, 2004 through November 20, 2005 Mr. Hess provided \$217,000 in loans of this kind to the Company. As of November 20, 2005, there was no outstanding balance on these loans.

**Net Tax Operating Loss Carryforwards**

As of November 20, 2005 the Company has approximately \$16,376,000 in net tax operating loss carryforwards which will expire at various dates through the year 2025 that are mainly attributable to losses incurred by Monitek. 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 \$16,376,000 net operating losses may be subject to these limitations and potentially may not be able to provide any economic benefit to the Company.

**RESULTS FROM OPERATIONS**

**Fiscal 2005 as Compared to Fiscal 2004**

Revenues decreased from approximately \$3,915,000 in fiscal 2004 to \$2,996,000 in fiscal 2005, a decrease of 23.5%. Gross margins on sales increased from 23.8% in 2004 to 43.4% in 2005 due primarily to a better than average sales mix in the first and fourth quarters of the year. Volume still was not sufficient to allow the Company to be profitable. Operating expenses (SG & A) increased from \$1,544,000 in fiscal 2004 to \$1,620,000 for the period ended November 20, 2005. Operating expenses as a per cent of sales increased from 40.1% in fiscal 2004 to 54.1% in 2005. The increase in operating expenses is due primarily to the growth in employee costs.

Interest expense at increased significantly from \$220,000 in 2004 to \$370,000 in 2005 and was due to the eight increases in the prime rate experienced during the year.

**CURRENT OUTLOOK**

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.



**Table of Contents**

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.

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.

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.

**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.

**Table of Contents**

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 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.

**ITEM 7 FINANCIAL STATEMENTS**

See Index to Financial Statements appearing on page F-2

**ITEM 8 CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Table of Contents**

**ITEM 8A. CONTROLS AND PROCEDURES**

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-14 within 90 days of the filing of this annual report, have concluded that the Company's disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company carried out its evaluation.

**ITEM 8B. OTHER INFORMATION**

None.

**Table of Contents**

## PART III

## ITEM 9 DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16 (A) OF THE EXCHANGE ACT

The Directors and Executive Officers of the Company are as follows:

Name	Age	Position
Robert S. Kendall	67	Chairman, President and Treasurer
James S. O Leary	68	Director
William R. Sprow	67	Controller

ROBERT S. KENDALL has been the Chairman, President and Treasurer of the Company since March 1, 1996. He shall maintain his position as a duly elected director of the Company until such time as his successor is duly qualified and elected. He is also President and Chairman of CPS Capital, Limited, an investment company based in Cleveland. Until April 1996, he was also Chairman of the Board and founder of LDI Corporation, an asset leasing and technology services company which he, along with two others, founded in 1972. LDI was one of the largest independent lessors of technology and computer equipment in the United States. Mr. Kendall is also a general partner in NCP, Ltd., a real estate partnership actively engaged in investing, acquiring, financing and managing commercial, industrial and other properties. From 1969 to 1972, Mr. Kendall was branch manager at Victor Computer, a manufacturer and distributor of computer systems. From 1963 to 1969, he was a salesman, financial specialist and sales manager at Burroughs Corporation (now Unisys Corp.). Mr. Kendall graduated from Case Western Reserve University with a bachelor's degree in psychology in 1960, and attended graduate school at John Carroll University.

JAMES S. O LEARY had been employed by Monitek since August 1982 and served as its Executive Vice President, Secretary and Treasurer since April 1987. The Company has retained his services and, from December 1996 through November 1998, he served as Vice President of Finance and Chief Financial Officer. In December 1998, Mr. O Leary was elected as a Director and was appointed Chief Operating Officer of the Company. In September 1999, Mr. O Leary resigned from his position as Chief Operating Officer but he remained a Director. He shall maintain his position as a duly elected director of the Company until such time as his successor is duly qualified and elected.

WILLIAM R. SPROW has served as the Chief Financial Officer of the Company since December 2001. He is responsible for all financial operations from day to day accounting, financial reporting, SEC report preparation and submission, and a variety of administrative responsibilities for all CPS companies, Sentex and Regency. He additionally handles IT administration issues for our own internal system. Mr. Sprow also serves as Controller of CPS Holding Company, Ltd., a related company that is responsible for energy purchasing and subsequent energy management for a variety of clients ranging from large Fortune 1000 clients to large public institutions. With over 38 years of related accounting and financial experience, Mr. Sprow served as Vice President, Finance of Borden Consumer Products, Canada from 1980 to 1985; as Controller and Operations Manager for Sherwin-Williams Canada from 1986 to 1993; in key management positions with a number of Northeast Ohio companies from 1995 to 1999. There were two meetings of the Company's Board of Directors during the fiscal year ended November 30, 2005.

**Table of Contents**

The Company's Board of Directors does not currently have a nominating committee, audit committee or a compensation committee.

Currently Mr. Sprow serves as the Board's Financial Expert as that term is defined in the Instruction to paragraph (e)(1) of Item 401 of Regulation S-B. Mr. Sprow is not independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

**Code of Ethics**

The Company has not adopted a code of ethics or similar policy that applies to our principal executive officer, principal financial officer, principal accounting officer or Controller. We feel such a code of ethics is not necessary at this time because of the limited size of the Company.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers and beneficial owners of more than ten percent of our common shares to file reports with the Securities and Exchange Commission regarding their ownership and changes in their ownership of our common shares. To our knowledge, during 2005, our executive officers, directors and greater than ten percent shareholders complied with all Section 16(a) filing requirements on time.

**ITEM 10 EXECUTIVE COMPENSATION**

The following information is set forth with respect to the Company's Chief Executive Officer. No other executive officer whose total compensation exceeded \$100,000 for the fiscal year ended November 30, 2005.

	ANNUAL COMPENSATION			OTHER ANNUAL COMPENSATION
	YEAR	SALARIES	BONUS	
Robert S. Kendall	2005	-0-	-0-	-0-
(Chief Executive Officer)	2004	-0-	-0-	-0-
	2003	-0-	-0-	-0-

**Long-Term Compensation:**

No long-term compensation was paid during the fiscal years ended November 30, 2005, 2004, or 2003 to any executive officer of the Company by way of restricted stock awards, options or stock appreciation rights, or other long-term incentive plans.

**Stock Options:**

The Company adopted the Sentex Sensing Technology, Inc. Stock Option Plan at a special meeting of its shareholders held on November 14, 1996. Under the Plan, the Company may grant different types of options covering up to 7,000,000 Common Shares to its existing and future directors, officers and employees. As of November 30, 2005, there were no Company stock options held by the directors or executive officers of the Company.

**Table of Contents**

## Compensation Pursuant to Plans:

The Company has no plans pursuant to which cash or non-cash equivalents were paid during the fiscal years ended November 30, 2005, 2004, or 2003.

ITEM 11 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

**Equity Compensation Plan Information**

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	0	0	7,000,000
Equity compensation plans not approved by security holders	NA	NA	NA
Total	0	0	7,000,000

The following sets forth certain information regarding the beneficial ownership of the Common Shares as of February 7, 2006 by: (a) the Company's Directors; (b) each other person who is known by the Company to own beneficially more than 5% of the outstanding Common Shares; and (c) the Company's executive officers and Directors as a group. Except as otherwise described in the notes below, the following beneficial owners have sole voting power and sole investment power with respect to all Common Shares set forth opposite their names.

NAME AND ADDRESS OF BENEFICIAL OWNER (1)	AMOUNT AND NATURE OF BENEFICIAL OWNER	PERCENTAGE
Robert S. Kendall (2)	48,029,814	47.2%
James S. O'Leary		
Julius L. Hess		
Ronald M. Lipson 3 Laurel Hill Lane Pepper Pike, Ohio 44124	687,500	*
CPS Capital, Limited (3) 1801 East Ninth Street Cleveland, Ohio 44114	48,029,814	47.2%
All Directors and Officers	48,717,314	47.9%



**Table of Contents**

(as a group persons)

- 1) The name and address of each individual is listed in the table, except where otherwise indicated, is c/o Sentex Sensing Technology, Inc., 1801 East Ninth Street, Cleveland, Ohio 44114.
- 2) All common shares distributed to Mr. Kendall are held of record by CPS Capital, Ltd. or are beneficially owned by CPS Capital, Ltd. Mr. Kendall and his wife own 100% of the outstanding membership interests in CPS Capital, Ltd.
- 3) CPS is the record holder of 48,029,814 Common Shares and has sole voting and dispositive power with respect to such shares.  
Represents less than 1% of the outstanding Common Shares.

**Change in Control**

No arrangements currently exist which may result in a change in control of the Company.



**Table of Contents**

**ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

**CPS Management Agreement:**

After CPS acquired effective control of the Company, CPS entered into a Management Agreement with the Company, which was effective on March 1, 1996. (the Original Management Agreement ). In connection with the execution of the Merger Agreement, dated June 24, 1996 (the Merger Agreement ), CPS and the Company entered into an Amended and Restated Management Agreement (the Amended and Restated Management Agreement ). Pursuant to the Original Management Agreement, CPS agreed to cause its personnel to perform the functions that would normally be performed by officers of the Company. Presently, such personnel consist mainly of Mr. Kendall, the Chairman of CPS and William R. Sprow the Controller of CPS. In order to permit Mr. Kendall and Mr. Sprow to function as officers and for them to be properly insured as officers of the Company, Mr. Kendall has been elected as the President and Treasurer of the Company and Mr. Sprow has been elected Chief Financial Officer of the Company.

Under the terms of the Original Management Agreement, CPS received an annual fee of \$193,800, which was payable monthly. Under the terms of the Amended and Restated Management Agreement, the annual fee was increased to \$393,800 to account for the increase in tasks and responsibilities relating to the operation of Monitek. Due to the present financial condition of the Company, CPS has not received payment under the Amended and Restated Management Services Agreement since May 1997, but the Company agreed to accrue such expense. On May 15, 1998, CPS and the Company entered into the Second Amended and Restated Management Services Agreement, pursuant to which CPS agreed to accept 5,025,745 Common Shares in lieu of accrue management fees equaling \$196,900, representing fees for the second half of fiscal 1997. All the shares acquired by CPS were acquired for investment purposes.

In December 1997, CPS and the Company agreed to a reduced management fee of \$250,000 for fiscal 1998. In December 1998, the parties agreed to reduce the fee to \$300,000 for fiscal 1999 and subsequent years. CPS and the Company have agreed that the balance due as of November 30, 2000, which totals \$442,000.

**Working Capital Assistance:**

During fiscal 1997 through fiscal 2001, CPS and Mr. Kendall provided the Company assistance in connection with funding its working capital needs in the form of loans and security for bank loans. From May 1997 through November 2002, CPS provided the Company a series of temporary capital loans at a prime interest rate plus 100 basis points. The outstanding balance of such loans total \$7,090,713, including accrued interest, as of November 30, 2005. From time to time, Mr. Kendall has also provided security to banks by permitting the banks to obtain a security interest in Mr. Kendall's personal assets and/or providing guarantees so the Company could obtain financing from the Bank. Except for the interest to be received on the loans provided by CPS, neither Mr. Kendall nor CPS has received nor will receive any remuneration in connection with providing such working capital assistance to the Company unless the notes are converted into Common Shares at some future date. The Company believes the interest payable to CPS is and was on terms no less favorable than could be obtained pursuant to an arms-length transaction.

**Table of Contents**

In addition to the CPS loans, from time to time, Mr. Julius L. Hess, the Company's Vice President, Secretary and a Director, has provided the Company with cash investments to help fund certain specified transactions. From December 1, 2004 through November 20, 2005, Mr. Hess has invested a total of \$715,925 to fund such transactions. In agreement for providing such funds, which amounts may not otherwise have been available to the Company, Mr. Hess typically receives remuneration in the amount of up to fifty percent of the gross profit from such transactions. Upon settlement of the transactions during the period from December 1, 2004 through November 20, 2005, Mr. Hess will have received total proceeds of \$822,433. We believe these investments have been secured under terms no less favorable than we could have obtained pursuant to an arms-length transaction. As of November 20, 2005, there was an outstanding balance of \$227,279 on these loans.

In addition to the above-noted investments, Mr. Hess has, from time to time, provided loans to the Company to cover certain working capital expenses such as payroll. Mr. Hess does not receive any remuneration for these loans, other than the return of principal. These loans are typically paid back within a short period of time. From December 1, 2004 through November 20, 2005 Mr. Hess provided \$217,000 in loans of this kind to the Company. As of November 20, 2005, there was no outstanding balance on these loans.

**Table of Contents**

ITEM 13 EXHIBIT           LISTS AND REPORTS ON FORM 8-K  
(A) EXHIBITS

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
3.1	Certificate of Incorporation, as amended (3)
3.2	First Amended and Restated Bylaws of the Company (6)
3.3	Certificate of Incorporation of Sentex Acquisition Corp. (4)
3.5	Certificate of Merger (Sentex Systems, Inc. into Sentex) (4)
3.6	Certificate of Incorporation of Sentex Systems, Inc. (5)
4.1	Specimen Certificate of Common Shares (3)
10.2	Consulting Agreement with Ms. Joanne Bianco, dated March 1, 1996 (2)
10.3	Sentex 1996 Long-Term Incentive Stock Option Plan (1)
21.1	List of Subsidiaries (6)
31.1	302 Certification of Chief Executive Officer
31.2	302 Certification of Chief Financial Officer
32.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 200
1)	Incorporated by reference to Annex A of the Joint Proxy Statement/Prospectus which is a part of Amendment No. 1 to the Registration Statement on Form S-4, filed on October 4, 1996, File No. 333-12993 (the Registration Statement ).
2)	Incorporated by reference to exhibits of the Registration Statement bearing the same exhibit numbers.
3)	Incorporated by reference to exhibits bearing same exhibit numbers, filed with the Company s Registration Statement on Form S-1, File No. 2-86860.
4)	Incorporated by reference to exhibits bearing the same exhibit numbers, file with the Company s Form 10-KSB for the fiscal year ended November 30, 1992.

**Table of Contents**

- 5) Incorporated by reference to exhibits bearing the same exhibit numbers, filed with the Company's Form 10-KSB for the fiscal year ended November 30, 1984.
- 6) Incorporated by reference to exhibits bearing the same exhibit numbers, filed with the Company's Form 10-KSB for the fiscal year ended November 30, 1996.

**(B) REPORTS ON FORM 8-K**

None.

**ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Aggregate audit fees billed for professional services rendered by Hausser + Taylor LLC (the Firm) for auditing registrant's annual financial statements included in the registrant's 10-KSB and review of its internal financial statements included in the registrant's 10-QSB's were \$31,100 in 2005 and \$43,500 in 2004.

The Firm did not charge the Company any audit-related, tax or other fees for these years.

The Firm has a continuing relationship with RSM McGladrey (RSM) from which it leased auditing staff who are full time, permanent employees of TBS and through which its shareholders provide non-audit services. As a result of this arrangement, the Firm has no full time employees and, therefore, none of the audit services performed were provided by permanent full time employees of the Firm. The Firm manages and supervises the audit and audit staff, and is exclusively responsible for the opinion rendered with its examination.

**SIGNATURE**

Pursuant to the requirements of Sections 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.

Date: April 18, 2006

SENTEX SENSING TECHNOLOGY, INC.

By: /s/ Robert S. Kendall

Robert S. Kendall, Chief Executive Officer

17

---

**Table of Contents**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following person on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ Robert S. Kendall

Robert S. Kendall                      Chairman, President and Treasurer                      April 18, 2006

/s/ James S. O. Leary

James S. O. Leary                      Director                      April 18, 2006

/s/ William R. Sprow

William R. Sprow                      Chief Financial Officer                      April 18, 2006

/s/ William R. Sprow

William R. Sprow                      Controller                      April 18, 2006

**Table of Contents**

**SENTEX SENSING TECHNOLOGY, INC.  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL REPORT  
F-1**

---

**Table of Contents**

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES  
CONTENTS

	Page
AUDITORS REPORT ON THE FINANCIAL STATEMENTS	F-3
FINANCIAL STATEMENTS	
Consolidated balance sheet	F-4
Consolidated statements of operations	F-5
Consolidated statements of stockholders equity (deficit)	F-6
Consolidated statements of cash flows	F-7
Notes to consolidated financial statements	F-8 - F-18
	F-2

---

**Table of Contents**

**Independent Auditors Report**

To the Board of Directors and Stockholders  
Sentex Sensing Technology, Inc.  
Cleveland, Ohio

We have audited the accompanying consolidated balance sheet of Sentex Sensing Technology, Inc. and subsidiaries as of November 30, 2005, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the two years in the period ended November 30, 2005. 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. 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 Sentex Sensing Technology, Inc. and subsidiaries as of November 30, 2005, and the consolidated results of their operations and their cash flows for each of the two years in the period ended November 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2A to the financial statements, the Company has in the past and continues to sustain substantial net and operating losses. In addition, the Company has used substantial amounts of working capital in its operations which has reduced the Company's liquidity to a very low level. At November 30, 2005, current liabilities exceed current assets by \$7,693,586. This and other matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Hausser + Taylor LLC  
Cleveland, Ohio  
April 18, 2006

F-3

---



**Table of Contents**

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
November 30, 2005

ASSETS			
CURRENT ASSETS			
Cash	\$	68	
Total current assets			\$ 68
OTHER ASSETS			
Investment in JJJ-RT, LLC			
			\$ 68
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)			
CURRENT LIABILITIES			
Notes payable:			
Related party	\$	7,090,712	
Trade and other accounts payable (\$441,671 to related parties)		555,147	
Accrued liabilities		14,123	
Consulting contracts payable		21,249	
Convertible subordinated notes payable		12,423	
Total current liabilities			\$ 7,693,654
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS EQUITY (DEFICIT)			
Common stock, no par value			
Authorized - 200,000,000 shares Issued - 111,460,911 shares Outstanding - 103,764,911 shares	\$	2,867,579	
Retained earnings (deficit)		(10,291,697)	
Treasury shares at cost, 7,696,000 shares		(269,468)	
Total stockholders equity (deficit)			(7,693,586)
			\$ 68

The accompanying notes are an integral part of these financial statements

F-4

**Table of Contents**

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 Years Ended November 30, 2005 and 2004

	2005	2004
REVENUES		
Sales	\$	\$
Other income	159,175	33,596
Total revenues	159,175	33,596
COST AND EXPENSES		
Cost of sales		
Selling, general and administrative	255,730	240,949
Total costs and expenses	255,730	240,949
LOSS FROM OPERATIONS	(96,555)	(207,353)
OTHER EXPENSE		
Interest	369,819	219,969
Other Expense	3,665	
LOSS FROM CONTINUING OPERATIONS	(470,039)	(427,322)
NET LOSS ON DISPOSAL OF SUBSIDIARY	(14,414)	
INCOME(LOSS) FROM DISCONTINUED OPERATIONS	107,817	(353,512)
NET LOSS	\$ (376,636)	\$ (780,834)
NET LOSS PER SHARE (BASIC AND DILUTED)	\$ (0.00)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	101,967,651	101,764,911

The accompanying notes are an integral part of these financial statements

F-5

---

**Table of Contents**

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)  
 Years Ended November 30, 2005 and 2004

	Common Stock		Retained Earnings (Deficit)	Treasury Stock		Total Stockholders Equity (Deficit)
	Shares	Amount		Shares	Amount	
Balance						
November 30, 2003	109,460,911	\$ 2,867,579	\$ (9,134,227)	7,696,000	\$ (269,468)	\$ (6,536,116)
Comprehensive loss						
Net loss			(780,834)			(780,834)
Balance						
November 30, 2004	109,460,911	2,867,579	(9,915,061)	7,696,000	(269,468)	(7,316,950)
Issued shares	2,000,000					
Comprehensive loss						
Net loss			(376,636)			(376,636)
Balance						
November 30, 2005	111,460,911	\$ 2,867,579	\$ (10,291,697)	7,696,000	\$ (269,468)	\$ (7,693,586)

The accompanying notes are an integral part of these financial statements

F-6

---

**Table of Contents**

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years Ended November 30, 2005 and 2004

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (376,636)	\$ (780,834)
Adjustments to reconcile net loss to net cash used by operating activities:		
Loss on disposal of subsidiary	(14,414)	
Forgiveness of inter-company debt	(232,500)	
Depreciation and amortization	3,134	1,082
Noncash interest expense	369,819	141,098
Changes in assets and liabilities:		
Accounts receivable	5,700	127,275
Inventory	7,219	240,122
Other assets	36,042	4,800
Accounts payable	78,692	(136,166)
Accrued liabilities	(508,585)	(40,060)
Total adjustments	(226,065)	338,151
Net cash used by operating activities	(602,701)	(442,683)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of leasehold improvements	(19,003)	
Cash transfer to Regency Technologies, Ltd.	(34,248)	
Net cash provided by investing activities	(53,251)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on notes and accounts payable related party	697,999	2,910,225
Payments on notes and accounts payable related party	(54,851)	(2,500,000)
Net cash provided by financing activities	643,148	410,225
NET DECREASE IN CASH	(12,804)	(32,458)
CASH BEGINNING OF YEAR	12,872	45,330
CASH END OF YEAR	\$ 68	\$ 12,872

## Supplemental disclosure of cash flow information:

## Cash paid during the year for:

Interest	\$	\$ 33,296
----------	----	-----------

See notes to the consolidated financial statements for certain noncash investing and financing activities.

The accompanying notes are an integral part of these financial statements



**Table of Contents**

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

**Note 1. Organization, Background, Industry Segment and Discontinued Operations**

The consolidated financial statements include the accounts of Sentex Sensing Technology, Inc. and its wholly-owned subsidiaries (the Company). All material intercompany accounts and transactions have been eliminated in consolidation.

On July 2, 2001, the Company acquired Regency Technologies, Ltd. from Regency Steel, LLC. In connection with the acquisition, the Company issued 1,250,000 common shares held in treasury in exchange for 100% of Regency Technologies, Ltd. The Company's only significant operations in the years ended November 30, 2005 and 2004 consisted of Regency Technologies, Ltd.'s operations. The Company specializes in the buying, selling, and trading of information technology equipment (primarily computer equipment). The primary focus of the Company's business revolves around acquiring unneeded, older computer equipment and reselling that equipment to certain consumers on a global basis. The Company's business is confined to one industry segment and two geographical reporting segments. The Company's assets are all located within the United States.

Effective November 20, 2005 the Company transferred substantially all of the net assets of Regency Technologies, Ltd. to two of the Regency management team members and others (See Note 13.). The Company had been unsuccessful in its quest to raise growth capital that was necessary for further growth of Regency Technologies, Ltd. We therefore completed a smaller transaction whereby members of management and others invested their own capital under a purchase agreement with JJJ-RT, LLC which resulted in their acquiring control of Regency.

The Company will ultimately retain a 20% minority interest in JJJ-RT, LLC.

This business has been accounted for as a discontinued operation in the consolidated statements of operations for all periods presented.

Financial information relating to the discontinued operations of Regency Technologies, Ltd. follows:

	Years Ended November 30,	
	2005	2004
REVENUES		
Net Sales	\$ 2,996,278	\$ 3,847,228
 COST AND EXPENSES		
Cost of sales	1,705,855	2,931,456
Selling and general	1,376,403	1,303,052
 Total costs and expenses	 3,082,258	 4,234,508
 INCOME(LOSS) FROM OPERATIONS OF DISCONTINUED OPERATIONS	 (85,980)	 (387,280)
Other income	193,797	33,768
 NET INCOME(LOSS)	 \$ 107,817	 \$ (353,512)

**Table of Contents**

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

**Note 2. Summary of Significant Accounting Policies**

- A. **Going Concern** The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has in the past and continues to sustain substantial net and operating losses. In addition, the Company has used substantial amounts of working capital in its operations which has reduced the Company's liquidity to a very low level. At November 30, 2005, current liabilities exceed current assets by \$7,693,586. Additionally, at November 30, 2005, the Company has no operations. These and other matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. The Company's ability to continue in existence is primarily dependent upon its planned ability to arrange adequate financing and to attain profitable operating activities to sustain required cash flows.
- B. **Receivable and Credit Policies** Through November 20, 2005 accounts receivable were uncollateralized customer obligations due with various trade terms from the invoice date and were stated at the amount billed to the customer. Payments of accounts receivable were applied to the specific invoices identified on the customer's remittance advice. The carrying amount of accounts receivable was reported net of the allowance for doubtful accounts reserve, which reflects management's best estimate of the amount that would not be collected. Management individually reviews all accounts receivable balances and any customer account balances with invoices dated over 120 days past due were considered delinquent. These delinquent invoice amounts plus any other invoices deemed not to be collected were reserved for in the allowance for doubtful accounts reserve. Specific accounts were charged directly to the reserve when management obtained evidence of a customer's insolvency or otherwise determined that the account was uncollectible.
- C. **Revenue Recognition** Through November 20, 2005 the Company recorded revenue as customers were billed for consulting services.
- D. **Concentration of Credit and Risk Factors** Financial instruments which potentially subject the Company to concentrations of credit risk include cash and equivalents and accounts and notes receivable. The Company places its cash and cash equivalents with high credit quality financial institutions. The amount on deposit in any one institution that exceeds federally insured limits is subject to credit risk. Also see Notes 2.B., 2.G. and 13.
- E. **Use of 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.

**Table of Contents**

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

**Note 2. Summary of Significant Accounting Policies (Continued)**

- F. **Income Taxes** The Company utilizes Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax basis of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those temporary differences that have future tax consequences using the current enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce the deferred tax asset to the amount that will, more likely than not, be realized. Income tax expense is the current tax payable or refundable for the period plus or minus the net change in the deferred tax assets and liabilities.
- G. **Fair Value of Certain Financial Instruments** The fair values of cash, accounts receivable, accounts payable, and other short-term obligations approximate their carrying values because of the short maturity of these financial instruments.
- H. **Loss Per Share** Loss per share is calculated using the weighted average number of shares outstanding. Potentially dilutive securities are insignificant.
- I. **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.

F-10

---



**Table of Contents**

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

**Note 2. Summary of Significant Accounting Policies (Continued)**

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 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.

- J. Certain amounts in the financial statements for the year ended November 30, 2005 have been reclassified to conform with current year presentation.

**Table of Contents**SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 3. 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. (See note 13.)

Deficit equity in Regency Technologies, Ltd.	\$ 218,086
Inter-company debt forgiveness	(232,500)
Net loss on disposal of subsidiary	\$ (14,414)

The following table sets forth certain summarized financial information of Regency Technologies, Ltd., the Company's only investment, based upon the applicable financial statements, adjusted for accounting principles generally accepted in the United States of America.

<b>BALANCE SHEET DATA</b>	<b>2005</b>
Current assets	\$ 223,085
Leasehold improvements	15,869
Other assets	990
 Total Assets	 239,944
 Current Liabilities	 458,030
Partners' Equity	(218,086)
 Total liabilities and partners' equity	 \$ 239,944
 <b>STATEMENT OF INCOME DATA</b>	
Revenues	\$ 2,996,278

Net income	\$ 107,817
------------	------------

**Note 4. Accrued Liabilities**

Accrued liabilities consist of the following at November 30, 2005:

Other	14,123
	\$ 14,123

F-12

---

**Table of Contents**

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

**Note 5. Notes Payable Bank and Other Borrowing Arrangements**

During the years ended November 30, 2005 and 2004, the Company's principal stockholder (CPS Capital, Ltd.) and the Company's Chairman provided the Company assistance in connection with funding its working capital needs in the form of loans and security for bank loans. As of November 30, 2005, the Company had notes payable of \$7,090,712, including accrued interest of approximately \$1,121,000 (bearing interest at 1% over the prime rate) to its principal stockholder in connection with such unsecured loans.

Interest expense for the years ended November 30, 2005 and 2004 amounted to \$369,819 and \$219,969, respectively. Interest expense includes \$191,456 and \$141,098 for the years ended November 30, 2005 and 2004, respectively, of interest that has been added to the principal balance of the notes described in the preceding paragraph.

**Note 6. Convertible Subordinated Notes Payable**

Convertible subordinated notes payable of \$12,423 are subordinated to all present and future obligations of the Company and have a stated interest rate of 5.05% per annum. The notes can be converted at the holders or Company's option into that number of shares by dividing the face amount of the note by \$.075. The conversion terms contain standard anti-dilutive provisions to adjust the conversion price. The notes matured December 1, 2000.

**Note 7. Commitments and Contingencies**

The Company leases office space under a non-cancelable operating lease which expires March 1, 2006. The following is a schedule of future minimum lease payments as of November 30, 2005:

2006	11,910
Rent expense for the year ended November 30, 2005 was \$48,447.	

F-13

---

**Table of Contents**

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

**Note 8. Stock Incentive Plan**

The Company has a long-term incentive plan ( Incentive Plan ) to provide current and future directors, officers and employees incentives to stimulate their active interest in the development and financial success of the Company. The Incentive Plan provides for the granting of incentive stock options, under Section 422 of the Internal Revenue Code of 1986, as amended, or other stock options, stock appreciation rights, restricted, or nonrestricted stock awards to purchase not more than 7,000,000 shares (which shares have been reserved by the Company) of common stock as determined by the Company's Incentive Plan Committee (the Committee ). The option prices per share of common stock, which are the subject of incentive stock options and other stock options under the Incentive Plan, shall not be less than 100% of the fair market value of the Company's shares of common stock on the date such option is granted. The Committee shall determine when each option is to expire but no option shall be exercisable for a period of more than 10 years from the date upon which the option is granted. Generally, options granted under the Incentive Plan vest or terminate upon the employee leaving the Company and are subject to automatic acceleration of any vesting requirements given certain changes in control of the Company. No options were outstanding to purchase the Company's stock during the years ended November 30, 2005 and 2004.

Stock appreciation rights may be awarded by the Committee at the time or subsequent to the time of the granting of options. Stock appreciation rights awarded shall provide that the option holder shall have the right to receive an amount equal to 100% of the excess, if any, of the fair market value of the shares of common stock covered by the option over the option price. Such amount shall be payable, as determined by the Committee, in one or more of the following manners: (a) cash; (b) fully-paid shares of common stock having a fair market value equal to such amount; or (c) a combination of cash and shares of common stock. As of November 30, 2005, the Company has not granted any appreciation rights under the Incentive Plan.

**Note 9. Profit-Sharing Plan**

The Company has a profit-sharing plan and a 401(k) retirement plan for the benefit of eligible employees. Contributions under the plans are determined at the discretion of the Board of Directors and are credited to employees based upon a percentage of eligible salaries. The Company elected to suspend all contributions for the years ended November 30, 2005 and 2004.

F-14

---

**Table of Contents**SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Note 10. Income Taxes**

As referred to in Note 1, the Company utilizes SFAS 109, Accounting for Income Taxes. A reconciliation between the Company's effective income tax rate and the statutory federal income tax rate is as follows for the years ended November 30:

	2004	2003
Expected federal income tax benefit at the statutory rate	(34.0)%	(34.0)%
Increase in taxes resulting from:		
Effect of operating loss for which no tax carrybacks are available	(34.0)	34.0
	%	%

The tax effects of significant temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below for the years ended November 30:

	2005	2004
Deferred tax assets:		
Net operating loss carryforward	\$ 3,437,700	\$ 3,235,400
Other		
Total gross deferred tax assets	3,437,700	3,235,400
Less valuation allowance	3,437,700	3,235,400
Net deferred tax assets	\$	\$

The deferred tax assets do not include deferred tax assets related to purchased net operating loss carryforwards that are subject to usage limitations (see below).

The Company established a valuation allowance against tax benefits that are potentially available to the Company but have not yet been recognized. This valuation allowance relates to the amount of net operating loss carryforwards in excess of existing net taxable temporary differences and to certain deductible temporary differences that may not reverse during periods in which the Company may generate net taxable income. During the years ended November 30, 2005 and 2004, the Company recorded increases of \$202,300 and \$223,300, respectively, in the valuation allowance primarily as a result of the net operating loss generated during the year.

At November 30, 2005, the Company had approximately \$16,376,000 of net operating loss carryforwards available to offset future federal taxable income. The federal non-limited net operating loss carryforwards expire at various dates from 2013 through 2025. Federal tax law imposes restrictions on the utilization of net operating loss carryforwards in the event of a change in ownership. The Company's net operating loss includes approximately \$6,265,000 of loss carryforwards that may be subject to limitations as a result of these provisions.

**Table of Contents**

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

**Note 11. Related Party Transactions**

The Company has a management agreement with an affiliate and significant stockholder, CPS Capital, Ltd., to perform management and executive services. Based on limited operations, the Company and CPS agreed to reduce the management fee until the Company expands its operations. As of November 30, 2005, the balance due for unpaid management fees was \$441,671.

**Note 12. Legal Contingencies**

During October 2004, the Company was dismissed without prejudice from the matter, State of Ohio, Department of Administrative Services v. IQ Solutions, et al.; Case No. 03-CVH05-6054: Franklin County Common Pleas Court, Ohio which was previously disclosed.

**Note 13. Other**

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.

F-16

---

**Table of Contents**

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

**Note 13. Other (Continued)**

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.

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.

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.

F-17

---



**Table of Contents**

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

**Note 13. Other (Continued)**

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.

F-18