ALTEX INDUSTRIES INC
Form 10KSB
November 17, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2006

[_] TRANSITION REPORT UNDER 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.
(Name of Small Business Issuer in its Charter)

Delaware	84-0989164
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
POB 1057 Breckenridge, CO	80424-1057
(Address of Principal Executive Offices)	(Zip Code)

Issuer's Telephone Number, Including Area Code: (303) 265-9312

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

Securities registered under Section 12(g) of the Exchange Act: Common stock, par value $0.01 per share

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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. [X]

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

Issuer's revenue for its most recent fiscal year: $3,124,000

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity as of November 9, 2006: $1,672,000

Number of shares outstanding of issuer's Common Stock as of November 9, 2006: 14,346,724

Transitional Small Business Disclosure Format: Yes ___ No X

1

"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-KSB 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 in the Rocky Mountain region; 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. DESCRIPTION OF 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 and one part-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.

AOC operates one field currently being abandoned. All other interests are in properties operated by others. A working 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.)

During the year ended September 30, 2006, ("FY06") AOC sold: (1) its non-operated working interests in three producing oil and gas wells for proceeds, net of selling expenses, of $206,000; (2) substantially all of its remaining non-operated working interests in producing oil and gas wells in Wyoming, all of its operated working interests in producing oil and gas wells, and all of its overriding royalty interests in then producing oil and gas wells in Wyoming for $2,362,000 cash, net of selling expenses; and (3) its interest in an application for leases under the Combined Hydrocarbon Leasing Act of 1981 in the Tar Sands Triangle Area of Utah for $25,000 cash. The Company intends to invest the proceeds of the sales either in interests in oil and gas properties or otherwise. There can be no assurance as to if and when any such investment will be made. AOC retains small working and overriding royalty interests in producing oil and gas wells in Utah and Wyoming.

2

ITEM 2. DESCRIPTION OF PROPERTY.

WELLS AND ACREAGE: At November 9, 2006, 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. At November 9, 2006, 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. All of the Company's production is located in Utah and Wyoming. 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. For additional information, see Note 7 of Notes to Consolidated Financial Statements below.

Production

	Net Production		Average Price		Average Production Cost Per Equivalent Barrel ("BOE")
Fiscal Year	Oil (Bbls)	Gas (Mcf)	Oil (Bbls)	Gas (Mcf)	
2006	3,000	19,000	$ 44.67	$ 10.79	$ 19.17
2005	11,000	83,000	49.00	5.22	11.72
2004	11,000	89,000	37.00	4.44	11.04

DRILLING ACTIVITY: The Company did not participate in the drilling of any wells during fiscal 2004 ("FY04"), fiscal 2005 ("FY05"), or FY06.

ITEM 3. LEGAL PROCEEDINGS.

None.

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

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common stock is quoted on the OTC Bulletin Board under the symbol "ALTX". Inter-dealer prices provided by the OTC Bulletin Board, which do not include retail mark-up, mark-down, or commission, and may not represent actual transactions, are listed in the table below.

	FY06		FY05	
Quarter	High Bid	Low Bid	High Bid	Low Bid
1	$ 0.26	$ 0.14	$ 0.15	$ 0.08
2	0.26	0.20	0.23	0.10
3	0.32	0.17	0.25	0.11
4	0.27	0.22	0.43	0.14

At November 9, 2006, there were approximately 4,100 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.

Small Business Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d Maximum N Approximate Do Shares (or Units) Purchased Unde Prog
July 1, 2006 through July 31, 2006	-	-	-	

August 1, 2006 through August 31, 2006	105,172	$ 0.24	-
September 1, 2006 through September 30, 2006	311,088	$ 0.25	-

The Company has no publicly announced plan or program for the purchase of shares. In August 2006 the Company purchased 105,172 shares other than through a publicly announced plan or program in open-market transactions, and in September 2006 the Company purchased 311,088 shares from two of its Directors other than through a publicly announced plan or program in two negotiated transactions (See Item 10).

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

FINANCIAL CONDITION

During FY06 AOC sold: (1) its non-operated working interests in three producing oil and gas wells for proceeds, net of selling expenses, of $206,000; (2) substantially all of its remaining non-operated working interests in producing oil and gas wells in Wyoming, all of its operated working interests in producing oil and gas wells, and all of its overriding royalty interests in then producing oil and gas wells in Wyoming for $2,362,000 cash, net of selling expenses; and (3) its interest in an application for leases under the Combined Hydrocarbon Leasing Act of 1981 in the Tar Sands Triangle Area of Utah for $25,000 cash. The Company intends to invest the proceeds of the sales either in interests in oil and gas properties or otherwise. There can be no assurance as to if and when any such investment will be made. AOC retains small working and overriding royalty interests in producing oil and gas wells in Utah and Wyoming.

Cash balances increased $2,859,000 during FY06: (1) $42,000 cash was provided by operating activities, (2) $2,593,000 cash was realized from the sale of assets, (3) $135,000 cash was used to purchase 530,393 shares of treasury stock, and (4) $359,000 cash was received from the Company's president and two non-executive directors to retire notes receivable from them. (See Items 10 and 12). Accounts receivable declined from $149,000 at September 30, 2005, to $5,000 at September 30, 2006, because the sales by AOC during FY06 of producing oil and gas properties caused a significant reduction in oil and gas sales during the quarters ended after December 31, 2005. At September 30, 2005, accrued production costs were $51,000 and consisted of accrued lease operating expense ("LOE") of $19,000 and accrued production taxes of $32,000. At September 30, 2006, accrued production costs were $17,000 and consisted almost entirely of accrued production taxes relating to oil and gas sales that occurred during the first quarter of FY06. Accrued LOE declined from $19,000 to almost nil because the sales by AOC during FY06 of producing oil and gas properties resulted in significantly lower LOE. Accrued production taxes declined from $32,000 to $17,000 because the sales by AOC during FY06 of producing oil and gas properties resulted in significantly lower oil and gas sales and therefore significantly lower taxes on oil and gas sales. At September 30, 2006, the Company recognized a deferred tax asset in the amount of $51,000. Included in other accrued expenses of $287,000 at September 30, 2006, is an accrued bonus payable to the Company's president, pursuant to his employment agreement (See Item 10), of $251,000.

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 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 decline from the current level of interest rates, the Company knows of no trends, events, or uncertainties that have or are reasonably likely to have a material impact on the Company's short-term or long-term liquidity. Except for cash generated by the operation of the Company's producing oil and gas properties, asset sales, and interest income, the Company has no internal or external sources of liquidity other than its working capital. At November 9, 2006, the Company had no material commitments for capital expenditures.

The Company is completing the restoration of the area that had contained its East Tisdale Field in Johnson County, Wyoming. The Company has removed all equipment from the field and has recontoured and reseeded virtually all disturbed areas in the field. Barring unforeseen events, the Company does not believe that the expense associated with any remaining restoration activities will be material, although this cannot be assured. After its bonds with the state and the Bureau of Land Management are released, the Company does not believe it will have any further liability in connection with the field, although this cannot be assured. The Company regularly assesses its exposure to both environmental liability and 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 FY05 net cash provided by operating activities was $183,000, and in FY06 net cash provided by operating activities was $42,000.

INVESTING ACTIVITIES. In FY05 the Company expended $5,000 on additions to other property and equipment, and in FY06 the Company received $2,593,000 in proceeds from the sale of assets.

FINANCING ACTIVITIES. In FY05 the Company expended $11,000 to acquire 110,200 shares of treasury stock. In FY06 the Company expended $135,000 to acquire 530,393 shares of treasury stock and received $359,000 in payments on notes receivable from stockholders (See Items 10 and 12).

RESULTS OF OPERATIONS

Oil and gas sales decreased from $972,000 in FY05 to $339,000 in FY06 because of the sales by AOC during FY06 of producing oil and gas properties. $318,000 of the $339,000 in FY06 oil and gas sales is attributable to the first quarter of FY06. The Company does not anticipate that oil and gas sales from the interests retained by AOC in currently producing oil and gas properties will be significant. Interest income increased from $55,000 in FY05 to $197,000 in FY06 because both cash balances and interest rates increased during FY06. Other income, which consists of various miscellaneous items, increased from $2,000 in FY05 to $33,000 in FY06. The bulk of the increase consisted of the unanticipated receipt of proceeds from oil and gas sales net to the Company's interest that were attributable to prior fiscal years and that had not previously been recognized by the Company. The sales by AOC during FY06 of oil and gas properties resulted in a gain on sale of assets of $2,555,000.

LOE declined from $293,000 during FY05 to $115,000 during FY06 because of the sales by AOC during FY06 of interests in producing oil and gas properties. $113,000 of the $115,000 in LOE during FY06 is attributable to the first quarter of FY06. LOE during the first quarter of FY06 was significantly higher than normal because of increased repair and maintenance expense: When operators believe that oil and gas prices will remain significantly higher than previously, operators tends to increase repair and maintenance expenditures with the objective of obtaining increased oil and gas production. Production taxes declined from $118,000 during FY05 to $40,000 during FY06 because of significantly lower oil and gas sales. $38,000 of the $40,000 in production taxes is attributable to the first quarter of FY06. General and administrative expense ("G&A") increased from $453,000 in FY05 to $702,000 in FY06. Included in G&A in FY06 is accrued bonus payable to the Company's president pursuant to his employment agreement of $251,000 (See Item 10). Included in G&A in FY05 is accrued bonus payable to the Company's president pursuant to his employment agreement of $17,000. Excluding accrued bonus expense, G&A increased from $436,000 in FY05 to $451,000 in FY06. Net earnings increased from $156,000 in FY05 to $2,260,000 in FY06 because of gain on sale of assets.

5

The Company's revenue currently consists almost entirely of interest earned on cash balances. At the current level of cash balances and at current interest rates, the Company's revenue is unlikely to exceed its expenses. Unless and until the Company invests a substantial portion of its cash balances into interests in producing oil and gas wells or into 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, 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 7. FINANCIAL STATEMENTS.

The consolidated financial statements follow the signature page.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 8A. 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 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

Mr. Steven H. Cardin, 55, 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, 55 , 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, 50, a CPA, formerly 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 formerly Chairman and CEO of Seca Graphics, Inc., which provided design and mapping services and software to the cable television and telecommunications industries, has been a private investor for the last five years, and a Director since 1989.

6

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 used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

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 10. EXECUTIVE COMPENSATION.

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.

As part of its Director compensation plan, on June 26, 1998, the Company sold 155,544 shares of the Company's Common Stock, an amount equal to 1% of the then-outstanding Common Stock, to each of its outside directors, Messrs. Jeffrey S. Chernow and Stephen F. Fante, for $0.17 per share, fair market value on June 26, 1998. Consideration for the shares consisted of the proceeds of non-recourse loans from the Company, each in the amount of $26,000. The loans were secured by the shares, bore interest at the Applicable Federal Rate, and were initially due on September 30, 2002. On September 25, 2001, the Company extended the terms of the loans until October 1, 2006. Pursuant to the terms of the loans, the Company reimbursed the Directors for interest expense related to the notes and indemnified them against additional tax due as a result of such reimbursement and indemnification. On September 15, 2006, the Company purchased the 155,544 shares of the Company's Common Stock from Mr. Chernow for $0.25 per share, the closing price on September 15, 2006, for total cash proceeds of $39,000, and purchased the 155,544 shares of the Company's Common Stock from Mr. Fante for $0.25 per share, the closing price on September 15, 2006, for total cash proceeds of $39,000. Messrs. Chernow and Fante each used $26,000 cash from the transactions to retire the outstanding loans.

Mr. Cardin had an Employment Agreement with the Company that was effective October 1, 2001, that had an initial term of five years, and that provided that Mr. Cardin was to receive a base salary of $191,000 per annum, escalating at no less than 5% per annum, and an annual bonus of no less than 10% of the Company's earnings before tax. Effective October 1, 2006, the Company renewed its Employment Agreement with Mr. Cardin (See Item 12).

The following table sets forth the dollar value of compensation earned by the Company's CEO, its only executive officer, during the last three fiscal years.

Summary Compensation Table

		Annual Compensation		
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation*
Steven H. Cardin, CEO	2006	$233,000	251,000	9,000
Steven H. Cardin, CEO	2005	$222,000	17,000	9,000
Steven H. Cardin, CEO	2004	$211,000	4,000	9,000

*Pursuant to his Employment Agreement, Mr. Cardin paid $9,000 in interest in FY04, FY05, and FY06, and the Company reimbursed him for those payments.

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

The following table sets forth information concerning each person who, as of November 9, 2006, 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

7

Stock of the Company beneficially owned, as of November 9, 2006, 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) POB 1057 Breckenridge CO 80424-1057	7,233,866	50.42%

All Directors and Executive Officers as a Group (1 Person)	7,233,866	50.42%

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Effective October 1, 2006, the Company renewed its Employment Agreement with Mr. Cardin, the prior Employment Agreement having expired effective September 30, 2006. The new Agreement has an initial term of five years and provides that Mr. Cardin is to receive an annual base salary of $244,000 escalating at no less than 5% per annum, and an annual bonus of no less than 10% 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.

Pursuant to three previous employment agreements with the Company, Mr. Cardin had purchased 3,759,864 shares of the Company's Common stock from the Company at fair market value in three separate non-cash transactions for three non-recourse notes receivable that were secured by the shares and that were subsequently consolidated into a single $306,000 non-recourse note receivable. The note was secured by the shares, bore interest at the Applicable Federal Rate, and was due on September 30, 2006. Pursuant to the terms of the loan, the Company reimbursed Mr. Cardin for interest expense related to the note and indemnified him against additional tax due as a result of such reimbursement and indemnification. During FY06 Mr. Cardin paid off the note with $306,000 cash.

ITEM 13. EXHIBITS

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
10 Summary of Employment Agreement between the Company and Steven H. Cardin, effective October 1, 2006

14 Code of Ethics - Incorporated herein by reference to Form 10-KSB for fiscal year ended September 30, 2003
21 List of subsidiaries - Incorporated herein by reference to Form 10-KSB for fiscal year ended September 30, 1997
31 Rule 13a-14(a)/15d-14(a) Certifications
32 Section 1350 Certifications

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES. Billed for FY06: $9,000. Billed for FY05: $10,700.

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 FY06 and FY05 no Audit-Related Fees, Tax Fees, or Other Fees were billed by the Company's principal accountant.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALTEX INDUSTRIES, INC.

/s/ STEVEN H. CARDIN

By: Steven H. Cardin, CEO

Date: November 16, 2006

In accordance with the Exchange Act, 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/ STEVEN H. CARDIN

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

Date: November 16, 2006

/s/ STEPHEN F. FANTE

By: Stephen F. Fante, Director

Date: November 16, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS
ALTEX INDUSTRIES, INC.

We have audited the accompanying consolidated balance sheet of Altex Industries, Inc. and subsidiary as of September 30, 2006, 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, 2006. 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 Altex Industries, Inc. and subsidiary as of September 30, 2006, and the consolidated results of its operations and its cash flows for each of the years in the two-year period ended September 30, 2006, in conformity with U.S. generally accepted accounting principles.

Denver, Colorado
November 13, 2006

/s/ Comiskey & Company
PROFESSIONAL CORPORATION

ALTEX INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2006

ASSETS

CURRENT ASSETS

Cash and cash equivalents	$ 5,140,000
Accounts receivable	5,000

Deferred income tax asset	51,000
Other	15,000
Total current assets	5,211,000
PROPERTY AND EQUIPMENT, AT COST	
Proved oil and gas properties (successful efforts method) (Notes 6 and 7)	95,000
Other	63,000
	158,000
Less accumulated depreciation, depletion, amortization, and valuation allowance	(155,000)
Net property and equipment	3,000
OTHER ASSETS	10,000
	$ 5,224,000

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$ 21,000
Accrued production costs	17,000
Current income taxes payable	51,000
Other accrued expenses	287,000
Total current liabilities	376,000
COMMITMENTS AND CONTINGENCIES (Notes 3, 5, and 6)	
STOCKHOLDERS' EQUITY (Note 3)	
Preferred stock, $.01 par value. Authorized 5,000,000 shares, none issued	--
Common stock, $.01 par value. Authorized 50,000,000 shares, 14,346,724 shares issued and outstanding	144,000
Additional paid-in capital	14,061,000
Accumulated deficit	(9,357,000)
	4,848,000
	$ 5,224,000

See accompanying notes to consolidated financial statements.

12

ALTEX INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005

REVENUE		
Oil and gas sales	$ 339,000	$ 972,000
Interest (Note 3)	197,000	55,000
Other income	33,000	2,000
Gain on sale of assets	2,555,000	-
	3,124,000	1,029,000
COSTS AND EXPENSES		
Lease operating	115,000	293,000
Production taxes	40,000	118,000
General and administrative (Note 3)	702,000	453,000
Depreciation, depletion, and amortization	7,000	9,000
	864,000	873,000
NET EARNINGS BEFORE INCOME TAXES	2,260,000	156,000
INCOME TAX (EXPENSE) BENEFIT		
Current	(51,000)	-
Deferred	51,000	-
	-	-
NET INCOME	$ 2,260,000	$ 156,000
EARNINGS PER SHARE OF COMMON STOCK	$ 0.15	$ 0.01
WEIGHTED AVERAGE SHARES OUTSTANDING	14,809,857	14,881,949

See accompanying notes to consolidated financial statements.

ALTEX INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TREASUR STOCK
BALANCES AT SEPTEMBER 30, 2004	14,987,317	$150,000	14,201,000	(11,773,000)	
Net earnings				156,000	
Acquisition of treasury stock, 110,200 shares at $0.096 per share					(11,000
Retirement of treasury stock	(110,200)	(1,000)	(10,000)		11,000
BALANCES AT SEPTEMBER 30, 2005	14,877,117	149,000	14,191,000	(11,617,000)	
Net earnings				2,260,000	

Acquisition of treasury stock, 530,393 shares at $0.255 per share					(135,000
Retirement of treasury stock	(530,393)	(5,000)	(130,000)		135,000
Payments received on notes receivable from stockholders					
BALANCES AT SEPTEMBER 30, 2006	14,346,724	$144,000	14,061,000	(9,357,000)	

See accompanying notes to consolidated financial statements.

14

ALTEX INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 2,260,000	$ 156,000
Adjustments to reconcile net earnings to net cash provided by operating activities		
Gain on sale of assets	(2,555,000)	-
Deferred income taxes	(51,000)	-
Depreciation, depletion, and amortization	7,000	9,000
(Increase) decrease in accounts receivable	144,000	(9,000)
(Increase) decrease in other current assets	4,000	(9,000)
Decrease in other assets	3,000	4,000
Increase in accounts payable	5,000	11,000
Increase in current income taxes payable	51,000	-
Increase (decrease) in accrued production costs	(34,000)	5,000
Increase in other accrued expenses	208,000	16,000
Net cash provided by operating activities	42,000	183,000
CASH FLOWS USED IN INVESTING ACTIVITIES		
Proceeds from sale of assets, net of selling expenses	2,593,000	-
Additions to other property and equipment	-	(5,000)
	2,593,000	(5,000)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Acquisition of treasury stock	(135,000)	(11,000)
Payments received on notes receivable from stockholders	359,000	-
	224,000	(11,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,859,000	167,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,281,000	2,114,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 5,140,000	$2,281,000

See accompanying notes to consolidated financial statements.

15

ALTEX INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

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, sales of oil and gas production, and sales of oil and gas properties. The Company's operations are significantly affected by changes in interest rates and in 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-production 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.

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 sales of oil and gas production and from interest income. Revenue from oil and gas production is recognized based on sales or delivery date. Interest income is recognized when earned.

RECENT ACCOUNTING PRONOUNCEMENTS:

In May 2005 the FASB issued SFAS 154, "Accounting Changes and Error Corrections." SFAS 154 replaces APB 20, "Accounting Changes," and SFAS 3, "Reporting Accounting Changes in Interim Financial Statements," and establishes retrospective application as the required method for reporting a change in accounting principle. SFAS 154 provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement is not expected to have a material impact on the financial statements.

In June 2006 the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," (FIN 48) effective for fiscal years beginning after December 15, 2006. This interpretation clarifies the accounting for uncertainty in income taxes in accordance with FASB Statement No. 109 "Accounting for Income Taxes." FIN 48 provides a recognition threshold and measurement guidance for the financial statement recognition of a tax position taken or expected to be taken in a tax return. The Company is currently reviewing FIN 48 and is not certain as to its impact, if any, on the financial statements.

In September 2006 the FASB issued SFAS No. 157, "Fair Value Measurements," (SFAS 157). The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. This issuance is effective for fiscal years beginning after November 15, 2007. The adoption of this statement is not expected to have a material impact on the financial statements.

NOTE 2 - INCOME TAXES. At September 30, 2006, the Company had depletion carryforwards for income tax purposes of $829,000. 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, 2006, computed in accordance with SFAS No. 109, is as follows:

DEFERRED TAX ASSETS	
Depletion carryforward	301,000
Accrued shareholder bonus	88,000
TOTAL NET DEFERRED TAX ASSETS	389,000
Less valuation allowance	(338,000)
NET DEFERRED TAX ASSET	$ 51,000

Based on the uncertainty of future realization in excess of its current tax liability, a valuation allowance has been provided.

Income tax expense is different from amounts computed by applying the statutory Federal income tax rate for the following reasons:

	2006	2005
Tax expense at 35% of net earnings		
State income tax, net of federal benefit	2,000	-
Change in valuation allowance for net deferred tax assets	(805,000)	(11,000)
Change in net deferred tax assets, net of utilization	12,000	(44,000)
Income tax expense	$ -	$ -

NOTE 3 - RELATED PARTY TRANSACTIONS. Effective October 1, 2001, the Company entered into a five-year employment agreement with its president which provides for a base salary of $191,000 annually, plus escalations of not less than 5% 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 10% 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. Effective October 1, 2006, the Company entered into a new five-year employment agreement with its president on essentially the same terms, except that the base salary is $244,000 per annum

Pursuant to previous employment agreements with the Company, the Company's president purchased from the Company 2,383,615 shares of the Company's common stock at a price of $.09375 per share and 1,376,249 shares at a price of $0.06 per share in exchange for notes receivable that were consolidated into a $306,000 note receivable. In 1998 the Company's two non-executive directors each purchased 155,544 shares of the Company's common stock from the Company at a price of $0.17 per share in exchange for notes receivable from each of $26,000. Each of the three notes was non-recourse, secured by the respective shares, due on September 30, 2006, and bore interest at the Applicable Federal Rate. The Company reimbursed the president and the directors for interest expense related to the notes and indemnified them against additional tax due as a result of such reimbursement and indemnification. The Company recognized $11,000 of both interest income and general and administrative expense related to the notes in 2005 and 2006. In 2006 the Company purchased the 155,544 shares of the Company's Common Stock from each of the non-executive directors for total cash proceeds to each of $39,000. The non-executive directors each used $26,000 cash from the transaction to retire the outstanding loans. Also in 2006 the Company's president retired the $306,000 note receivable with a cash payment of $306,000.

NOTE 4 - MAJOR CUSTOMERS. In 2006 and 2005 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 86% of oil and gas sales in 2006 and 95% of oil and gas sales in 2005. In 2006 the two customers individually accounted for 75% and 11% of oil and gas sales, and in 2005 the two customers individually accounted for 78% and 17% of oil and gas sales.

NOTE 5 - LEASES. The Company rented office space under a noncancellable operating lease that expired in April 2004 and that the Company renewed for five years ending April 30, 2009. At September 30, 2006, required future payments under the lease are $21,000 for the years ending September 30, 2007, and September 30, 2008, and $12,000 for the year ending September 30, 2009. In 2006 and 2005 the Company incurred rent expense of $21,000.

NOTE 6 - RECLAMATION, RESTORATION, AND DISMANTLEMENT (RR&D). The Company is completing the restoration of the area that had contained its East Tisdale Field in Johnson County, Wyoming. The Company has removed all equipment from the field and has recontoured and reseeded virtually all disturbed areas in the field. Barring unforeseen events, the Company does not believe that the expense associated with any remaining restoration activities will be material, although this cannot be assured. After its bonds with the state and the Bureau of Land Management are released, the Company does not believe it will have any further liability in connection with the field, although this cannot be assured. The Company accounts for its remaining RR&D costs in accordance with SFAS 143, "Accounting for Asset Retirement Obligations". SFAS 143 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, 2006 and 2005, 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. Prices and costs in the tables below have been estimated using prices and costs in effect at the end of the years indicated. Prices are estimated net of estimated quality and transportation adjustments. 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.

ALTEX INDUSTRIES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 AND 2005

I. CAPITALIZED COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES

	SEPTEMBER 30, 2006
Proved properties	$ 95,000
Accumulated depreciation, depletion, amortization, and valuation allowance	(95,000)
Net capitalized cost	$ -

II. ESTIMATED QUANTITIES OF PROVED OIL AND GAS RESERVES

	OIL IN BARRELS	GAS IN MCFS
BALANCE AT SEPTEMBER 30, 2004	100,000	749,000
Revisions of previous estimates	34,000	151,000
Production	(11,000)	(83,000)
BALANCE AT SEPTEMBER 30, 2005	123,000	817,000
Sales of minerals in place	(120,000)	(798,000)
Revisions of previous estimates	-	-
Production	(3,000)	(19,000)
BALANCE AT SEPTEMBER 30, 2006	-	-

III. PRESENT VALUE OF ESTIMATED FUTURE NET REVENUE

	AT SEPTEMBER 30 2006	2005
Estimated future revenue	$ -	14,236,000
Estimated future expenditures	-	(6,119,000)
Estimated future net revenue	-	8,117,000
10% annual discount of estimated future net revenue	-	(3,854,000)
Present value of estimated future net revenue	$ -	4,263,000

IV. SUMMARY OF CHANGES IN PRESENT VALUE OF ESTIMATED FUTURE NET REVENUE

	YEAR ENDED SEPTEMBER 30 2006	2005
Present value of estimated future net revenue, beginning of year	$ 4,263,000	1,975,000
Sales, net of production costs	(184,000)	(561,000)
Sales of minerals in place	(2,568,000)	-
Net change in prices and costs of future production	-	2,095,000
Revisions of quantity estimates	-	974,000
Accretion of discount	-	198,000
Change in production rates and other	(1,511,000)	(418,000)
Present value of estimated future net revenue, end of year	$ -	4,263,000

19

EXHIBIT INDEX

10 Summary of Employment Agreement between the Company and Steven H. Cardin, effective October 1, 2006
31 Rule 13a-14(a)/15d-14(a) Certifications
32 Section 1350 Certifications

20