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ALTEX INDUSTRIES INC
Form 10KSB
December 22, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-KSB

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

For the fiscal year ended September 30, 2008

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 (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 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.

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

Issuer's revenue for its most recent fiscal year: \$154,000

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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.

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ITEM 2. DESCRIPTION OF PROPERTY.

WELLS AND ACREAGE: At December 17, 2008, 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 December 17, 2008, 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.

| Fiscal Year | Production | | | | | |
|-------------|----------------|-----------|---------------|-----------|-----------------------------|-------|
| | Net Production | | Average Price | | Average Production Cost Per | |
| | Oil (Bbls) | Gas (Mcf) | Oil (Bbls) | Gas (Mcf) | Equivalent Barrel ("BOE") | |
| | | | | | | |
| 2008 | * | 2,000 | NA | \$ 6.33 | \$ | 21.01 |
| 2007 | * | 3,000 | NA | 7.00 | | 6.00 |
| 2006 | 3,000 | 19,000 | 44.67 | 10.79 | | 19.17 |

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*Less than 1,000 barrels.

DRILLING ACTIVITY: The Company did not participate in the drilling of any wells during FY06, FY07, or fiscal 2008 ("FY08").

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.

| Quarter | FY08 | | FY07 | |
|---------|----------|---------|----------|---------|
| | High Bid | Low Bid | High Bid | Low Bid |
| 1 | \$ 0.23 | \$ 0.21 | \$ 0.25 | \$ 0.20 |
| 2 | 0.23 | 0.19 | 0.25 | 0.22 |
| 3 | 0.22 | 0.16 | 0.26 | 0.22 |
| 4 | 0.20 | 0.17 | 0.25 | 0.21 |

At December 17, 2008, there were approximately 4,000 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.

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

FINANCIAL CONDITION

Cash balances decreased \$306,000 during FY08 because the Company used \$225,000 cash in operating activities, expended \$5,000 cash on information technology, and acquired 333,623 shares of its Common Stock for \$76,000 in cash. Other current assets declined from \$65,000 at September 30, 2007, to \$7,000 at September 30, 2008, principally because the Company received an income tax refund of \$50,000 during FY08. At December 31, 2007, the Company reduced proved oil and gas properties and related accumulated depreciation, depletion, amortization, and valuation allowance by \$4,000 to reflect final abandonment of wells in which the Company had owned small over-riding royalty interests. Also at December 31, 2007, the Company removed \$36,000 from other property and equipment and related accumulated depreciation, depletion, amortization, and

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valuation allowance to reflect the abandonment of obsolete office equipment.

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 December 17, 2008, the Company had no material commitments for capital expenditures.

During FY08 the Bureau of Land Management, the State of Wyoming, and the surface owner of the area that had contained AOC's East Tisdale Field in Johnson County, Wyoming, agreed that AOC had completed restoration and reclamation of the area that had contained the Field. The Bureau of Land Management and the State of Wyoming have released AOC's bonds, and the surface owner has released AOC from any further liability in connection with the Field or the area that had contained the Field. 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 FY07 and FY08 net cash used in operating activities was \$522,000 and \$225,000, respectively.

INVESTING ACTIVITIES. In FY07 and FY08 the Company expended \$6,000 and \$5,000 on information technology equipment, respectively.

FINANCING ACTIVITIES. In FY07 the Company expended \$15,000 to acquire 59,200 shares of its Common Stock, and in FY08 the Company expended \$76,000 to acquire 333,623 shares of its Common Stock.

RESULTS OF OPERATIONS

Oil and gas sales increased from \$21,000 in FY07 to \$34,000 in FY08 because of higher prices. Interest income decreased from \$243,000 in FY07 to \$120,000 in FY08 because of lower cash balances and lower interest rates. Lease operating expense increased from \$3,000 in FY07 to \$13,000 in FY08 because of higher repair and maintenance expense. General and administrative expense decreased from \$451,000 in FY07 to \$418,000 in FY08 principally because of lower legal, insurance, and consulting expense and lower payroll and franchise taxes. The absence of material revenue other than interest on cash balances in FY07 and FY08 resulted in a net loss of \$197,000 in FY07 and a net loss of \$303,000 in FY08.

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 in interests in producing oil and gas wells or in one or more other

ventures that produce revenue and net income, the Company is likely to experience net losses. With the exception of unanticipated RR&D, unanticipated environmental expense, and possible changes in interest rates, 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, 58, 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, 57, 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, 52, a CPA, was Chairman and CEO of IMS, which

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provided computerized accounting systems to the oil and gas industry and was a reseller of microcomputer products to the Fortune 1000, and was Chairman and CEO of Seca Graphics, Inc., which provided design and mapping services and software to the cable television and telecommunications industries. Mr. Fante has been a private investor for the last five years and currently owns and operates CB Paws, which retails high-end accessories for dogs and cats. Mr. Fante has been a Director since 1989.

The Board of Directors has a separately-designated standing Audit Committee which is comprised of Messrs. Fante and Chernow. The Board of Directors has determined that the Company has at least one Audit Committee Financial Expert

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serving on its Audit Committee: Mr. Fante is an Audit Committee Financial Expert, and he is independent, as that term is defined by NASDAQ.

Messrs. Chernow's, Cardin's, and Fante's terms as Directors continue until their successors are duly elected and qualified. The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

ITEM 10. EXECUTIVE COMPENSATION.

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

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (\$) | Total (\$) |
|-----------------------------|-------|----------------|---------------|
| ----- | ----- | ----- | ----- |
| Steven H. Cardin, CEO | 2008 | 256,551 | 256,551 |
| ----- | ----- | ----- | ----- |
| Steven H. Cardin, CEO | 2007 | 244,335 | 244,335 |
| ----- | ----- | ----- | ----- |

Effective October 1, 2006, the Company renewed its Employment Agreement with Mr. Cardin. The Agreement has an initial term of five years and provides that Mr. Cardin is to receive an annual base salary of \$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

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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.

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DIRECTOR COMPENSATION

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

Each Director who is not also an officer of the Company receives \$1,000 per month for service as a Director. No additional fees are paid for service on Committees of the Board or for attendance at Board or Committee Meetings.

ITEM 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 December 17, 2008, is known to the Company to be the beneficial owner of more than five percent of the Company's Common Stock and information regarding Common Stock of the Company beneficially owned, as of December 17, 2008, 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 | Percent of Class |
|--------------------------------------|---------------------------|---------------------|
| | Beneficially Owned | |

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| | | |
|--|-----------|--------|
| Steven H. Cardin (Director and Executive Officer) POB 1057 Breckenridge CO 80424-1057 | 7,233,866 | 51.84% |
| All Directors and Executive Officers as a Group (1 Person) | 7,233,866 | 51.84% |

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

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

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 - Incorporated herein by reference to Form 10-KSB for fiscal year ended September 30, 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 FY08: \$9,000. Billed for FY07: \$9,000.

AUDIT-RELATED FEES. None.

TAX FEES. None.

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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 FY08 and FY07 no Audit-Related Fees, Tax Fees, or Other Fees were billed by the Company's principal accountant.

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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

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By: Steven H. Cardin, CEO

Date: December 17, 2008

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: December 17, 2008

/s/ STEPHEN F. FANTE

By: Stephen F. Fante, Director

Date: December 17, 2008

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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, 2008, 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, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Altex Industries, Inc. and subsidiary as of September 30, 2008, and the consolidated results of its operations, changes in stockholders' equity and cash flows for each of the years in the two-year period ended September 30, 2008, in conformity with U.S.

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generally accepted accounting principles.

Denver, Colorado
December 12, 2008

/s/ Comiskey & Company
PROFESSIONAL CORPORATION

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ALTEX INDUSTRIES, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEET SEPTEMBER 30, 2008

ASSETS

CURRENT ASSETS

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 4,291,000 |
| Accounts receivable | 6,000 |
| Other | 7,000 |
| | ----- |
| Total current assets | 4,304,000 |
| | ----- |

PROPERTY AND EQUIPMENT, AT COST

| | |
|---|-----------|
| Proved oil and gas properties (successful efforts method) (Notes 6 and 7) | 91,000 |
| Other | 38,000 |
| | ----- |
| | 129,000 |
| Less accumulated depreciation, depletion, amortization, and valuation allowance | (123,000) |
| | ----- |
| Net property and equipment | 6,000 |

OTHER ASSETS

7,000

\$ 4,317,000

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

| | |
|---------------------------|-----------|
| Accounts payable | \$ 23,000 |
| Other accrued expenses | 37,000 |
| | ----- |
| Total current liabilities | 60,000 |
| | ----- |

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, 13,953,901 shares issued and outstanding | 140,000 |
| Additional paid-in capital | 13,974,000 |
| Accumulated deficit | (9,857,000) |

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 4,257,000

 \$ 4,317,000

See accompanying notes to consolidated financial statements.

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ALTEX INDUSTRIES, INC. AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF OPERATIONS
 YEARS ENDED SEPTEMBER 30, 2008 AND 2007

| | 2008 | 2007 |
|---|--------------|--------------|
| REVENUE | | |
| Oil and gas sales | \$ 34,000 | \$ 21,000 |
| Interest (Note 3) | 120,000 | 243,000 |
| Other expense | - | (1,000) |
| | ----- | ----- |
| | 154,000 | 263,000 |
| | ----- | ----- |
| COSTS AND EXPENSES | | |
| Lease operating | 13,000 | 3,000 |
| Production taxes | 3,000 | 2,000 |
| General and administrative (Note 3) | 418,000 | 451,000 |
| Reclamation, restoration, and dismantlement | 19,000 | - |
| Depreciation, depletion, and amortization | 4,000 | 4,000 |
| | ----- | ----- |
| | 457,000 | 460,000 |
| | ----- | ----- |
| NET LOSS BEFORE INCOME TAXES | (303,000) | (197,000) |
| | ----- | ----- |
| INCOME TAX BENEFIT (EXPENSE) | | |
| Current | - | 51,000 |
| Deferred | - | (51,000) |
| | ----- | ----- |
| | - | - |
| | ----- | ----- |
| NET LOSS | \$ (303,000) | \$ (197,000) |
| | ----- | ----- |
| LOSS PER SHARE OF COMMON STOCK | \$ (0.022) | \$ (0.014) |
| | ----- | ----- |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 14,080,290 | 14,329,207 |
| | ----- | ----- |

See accompanying notes to consolidated financial statements.

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ALTEX INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

| | COMMON STOCK SHARES | STOCK AMOUNT | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED DEFICIT | TREASURY STOCK |
|--|------------------------|-----------------|----------------------------------|------------------------|-------------------|
| BALANCES AT SEPTEMBER 30, 2006 | 14,346,724 | \$ 144,000 | 14,061,000 | (9,357,000) | |
| Net loss | | | | (197,000) | |
| Acquisition of treasury stock, 59,200 shares at \$0.254 per share | | | | | (15,000) |
| Retirement of treasury stock | (59,200) | (1,000) | (14,000) | | 15,000 |
| BALANCES AT SEPTEMBER 30, 2007 | 14,287,524 | \$ 143,000 | 14,047,000 | (9,554,000) | |
| Net loss | | | | (303,000) | |
| Acquisition of treasury stock, 333,623 shares at \$0.228 per share | | | | | (76,000) |
| Retirement of treasury stock | (333,623) | (3,000) | (73,000) | | 76,000 |
| BALANCES AT SEPTEMBER 30, 2008 | 13,953,901 | \$ 140,000 | 13,974,000 | (9,857,000) | |

See accompanying notes to consolidated financial statements.

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ALTEX INDUSTRIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

| | 2008 | 2007 |
|--|--------------|--------------|
| CASH FLOWS USED IN OPERATING ACTIVITIES | | |
| Net loss | \$ (303,000) | \$ (197,000) |
| Adjustments to reconcile net loss to net cash provided used in operating activities | | |
| Deferred income taxes | - | 51,000 |
| Depreciation, depletion, and amortization | 4,000 | 4,000 |
| (Increase) decrease in accounts receivable | (2,000) | 1,000 |
| (Increase) decrease in other current assets | 58,000 | (50,000) |
| Decrease in other assets | 1,000 | 2,000 |
| Increase (decrease) in accounts payable | 16,000 | (14,000) |
| Decrease in current income taxes payable | - | (51,000) |
| Increase (decrease) in accrued production costs | 1,000 | (17,000) |
| Decrease in other accrued expenses | - | (251,000) |

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| | | |
|--|-------------|-------------|
| Net cash used in operating activities | (225,000) | (522,000) |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | |
| Additions to other property and equipment | (5,000) | (6,000) |
| | (5,000) | (6,000) |
| CASH FLOWS USED IN FINANCING ACTIVITIES | | |
| Acquisition of treasury stock | (76,000) | (15,000) |
| | (76,000) | (15,000) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (306,000) | (543,000) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 4,597,000 | 5,140,000 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$4,291,000 | \$4,597,000 |

See accompanying notes to consolidated financial statements.

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ALTEX INDUSTRIES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2008 and 2007

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 primarily from interest income from cash deposits and, to a lesser degree, from 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.

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

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based on estimated quantities of proved reserves and estimated RR&D (Note 6). Upon the sale or retirement of property and equipment, the cost thereof and the accumulated depreciation, depletion, and valuation allowance are removed from the accounts, and the resulting gain or loss is credited or charged to operations. Actual RR&D expense in excess of estimated RR&D expense is charged to operations.

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

CASH EQUIVALENTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS: For purposes of the statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amount reported on the balance sheet for cash and cash equivalents approximates its fair value.

INCOME TAXES: The Company follows the asset and liability method of accounting for deferred income taxes. The asset and liability method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between financial accounting and tax bases of assets and liabilities. The Company adopted Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," on October 1, 2007. There was no increase in liabilities for unrecognized tax benefits as a result of this implementation. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expense. There was neither interest nor penalty at September 30, 2008.

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.

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Notes to Consolidated Financial Statements
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CONCENTRATIONS OF CREDIT RISK: The Company maintains significant amounts of cash and sometimes permits cash balances in national banking institutions to exceed FDIC limits.

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

RECENT ACCOUNTING PRONOUNCEMENTS:

In September 2006 the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," (SFAS 157) effective for fiscal years beginning after November 15, 2007. 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

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value measurements. The adoption of this statement is not expected to have a material impact on the financial statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" effective for fiscal years beginning after November 15, 2007. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. The Company is currently evaluating the impact of SFAS 159 on its consolidated financial statements.

NOTE 2 - INCOME TAXES. At September 30, 2008, the Company had a depletion carryfor-ward of \$860,000 and a net operating loss carryforward ("NOL") of \$577,000. \$247,000 of the NOL expires in 2027 and \$303,000 expires in 2028. The approximate tax effect of each type of temporary difference and carryfor-ward that gives rise to a significant portion of deferred tax assets at September 30, 2008, computed in accordance with SFAS No. 109, is as follows:

DEFERRED TAX ASSETS

| | |
|---------------------------------|------------|
| Depletion carryforward | \$ 301,000 |
| Net operating loss carryforward | 202,000 |
| | ----- |
| TOTAL NET DEFERRED TAX ASSETS | 503,000 |
| Less valuation allowance | (503,000) |
| | ----- |
| NET DEFERRED TAX ASSET | \$ - |
| | ----- |

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

| | 2008 | 2007 |
|---|-------------|------------|
| | ----- | ----- |
| Tax benefit at 35% of net earnings | \$(106,000) | \$(68,000) |
| State income tax, net of Federal benefit | - | - |
| Change in valuation allowance for net deferred tax assets | 107,000 | 58,000 |
| Other | (1,000) | 10,000 |
| | ----- | ----- |
| Income tax expense | \$ - | \$ - |
| | ----- | ----- |

As of September 30, 2008, the Company has no unrecognized tax benefit as a result of uncertain tax positions. As of September 30, 2008, the Company's tax years that remain subject to examination are 2005 - 2008 (Federal jurisdiction) and 2004 - 2008 (state jurisdictions).

NOTE 3 - RELATED PARTY TRANSACTIONS. Effective October 1, 2006, the Company

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entered into a five-year employment agreement with its president which provides for a base salary of \$244,000 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.

NOTE 4 - MAJOR CUSTOMERS. In 2008 the Company had three customers who individually accounted for 10% or more of the Company's oil and gas sales and who, in aggregate, accounted for 82% of oil and gas sales. In 2008 the three customers individually accounted for 36%, 23%, and 23% of oil and gas sales. In 2007 the Company had four customers who individually accounted for 10% or more of the Company's oil and gas sales and who, in aggregate, accounted for 78% of oil and gas sales. In 2007 the four customers individually accounted for 41%, 16%, 11% and 10% of oil and gas sales.

NOTE 5 - LEASES. The Company rents office space under a noncancellable operating lease that expires April 30, 2009. Required future payments under the lease are \$12,000. In 2008 and 2007 the Company incurred rent expense of \$21,000.

NOTE 6 - RECLAMATION, RESTORATION, AND DISMANTLEMENT (RR&D). During the year ending September 30, 2008, the Bureau of Land Management, the State of Wyoming, and the surface owner of the area that had contained AOC's East Tisdale Field in Johnson County, Wyoming, agreed that AOC had completed restoration and reclamation of the area that had contained the Field. The Bureau of Land Management and the State of Wyoming have released AOC's bonds, and the surface owner has released AOC from any further liability in connection with the Field or the area that had contained the Field. AOC 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, 2008 and 2007, 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.

I. CAPITALIZED COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES

| | September 30, 2008 |
|---|--------------------|
| | |
| Proved properties | \$ 91,000 |
| Accumulated depreciation, depletion, amortization, and valuation allowance | (91,000) |
| | |

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Net capitalized cost \$ -

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II. ESTIMATED QUANTITIES OF PROVED OIL AND GAS RESERVES

| | Oil in Barrels | Gas in Mcfs |
|-------------------------------|----------------|-------------|
| | ----- | ----- |
| Balance at September 30, 2006 | - | - |
| Balance at September 30, 2007 | - | - |
| Balance at September 30, 2008 | - | - |

III. PRESENT VALUE OF ESTIMATED FUTURE NET REVENUE

| | At September 30 | |
|---|-----------------|-------|
| | 2008 | 2007 |
| | ----- | ----- |
| Estimated future revenue | \$ - | - |
| Estimated future expenditures | - | - |
| | ----- | ----- |
| Estimated future net revenue | - | - |
| 10% annual discount of estimated future net revenue | - | - |
| | ----- | ----- |
| Present value of estimated future net revenue | \$ - | - |
| | ----- | ----- |

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

| | Year ended September 30 | |
|--|-------------------------|-------|
| | 2008 | 2007 |
| | ----- | ----- |
| Present value of estimated future net revenue, beginning of year | \$ - | - |
| Sales, net of production costs | - | - |
| Sales of minerals in place | - | - |
| Net change in prices and costs of future production | - | - |
| Revisions of quantity estimates | - | - |
| Accretion of discount | - | - |
| Change in production rates and other | - | - |
| | ----- | ----- |
| Present value of estimated future net revenue, end of year | \$ - | - |
| | ----- | ----- |

EXHIBIT INDEX

| | |
|----|---|
| 31 | Rule 13a-14(a)/15d-14(a) Certifications |
| 32 | Section 1350 Certifications |