

SENTEX SENSING TECHNOLOGY INC  
Form 10KSB  
March 15, 2007

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

**FORM 10-KSB**

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

Commission File No. 2-13328  
For the fiscal year ending November 30, 2006

**SENTEX SENSING TECHNOLOGY, INC.**

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(Exact name of registrant as specified in its charter)

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

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

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

44114  
(Zip Code)

(216) 687-0289

(Registrant's telephone number including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The Company's revenues for the period ended November 30, 2006 were \$21,245.

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The aggregate market value of Sentex Sensing Technology, Inc. Common Shares, no par value, held by non-affiliates, computed by reference to the average of the closing bid and asked prices as reported on March 13, 2007: \$11,990,866.

Number of shares of Common Shares (No Par Value) of SENTEX SENSING TECHNOLOGY, INC., issued and outstanding as of March 13, 2007 is 199,847,764.

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TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (Check One)

Yes  No

DOCUMENTS INCORPORATED BY REFERENCE

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

ITEMS OMITTED

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## ITEM 1 BUSINESS

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

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

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

## ITEM 3 LEGAL PROCEEDINGS

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

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

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

An information statement was mailed on September 6, 2006, to the shareholders of record on August 31, 2006 (the “Record Date”) of the Company in connection with certain actions approved by the written consent of the majority shareholders of the Company, dated as of July 24, 2006. The actions approved pursuant to the written consent were taken on September 26, 2006, 20 days after the mailing of the information statement.

Below, in bullet point format, were the most material terms of the transactions:

- Sentex and SecITV entered into a distribution agreement under which the Company will obtain the exclusive world-wide rights to market SecITV biometric products using its technology for a 50 year term.

In exchange for distribution rights, and under a share issuance and corporate governance agreement, 69,082,924 Sentex common shares were issued, at the direction of SecITV to 1stMF (the majority shareholder of SecITV) and 27,000,000 Sentex common shares were issued to two financial advisors that assisted with the transaction and are providing other services.

PART II

ITEM 5 MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

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

2006	HIGH	LOW
1 <sup>st</sup> Quarter	N/A	N/A
2 <sup>nd</sup> Quarter	N/A	N/A
3 <sup>rd</sup> Quarter	N/A	N/A
4 <sup>th</sup> Quarter	N/A	N/A
2005	HIGH	LOW
1 <sup>st</sup> Quarter	.05	.02
2 <sup>nd</sup> Quarter	.03	.02
3 <sup>rd</sup> Quarter	.05	.02
4 <sup>th</sup> Quarter	.09	.01

Due to the Company's stock ticker symbol being changed from SENS to SNTX in late 1996, historical 1996 stock price is not available.

The bid quotations represent inter-dealer quotations and do not include retail markup, markdown or commissions, and may not represent actual transactions. On March 13, 2007 there were 199,847,764 Common Shares issued, 199,847,764 Common Shares outstanding and approximately 1,106 holders of record of the outstanding Common Shares. The Company has not paid a dividend since becoming a public company in November of 1980. The Company does not plan to pay cash dividends in the foreseeable future.

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

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

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

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

### FINANCIAL CONDITION

#### Working Capital and Liquidity

During the last several fiscal years, the Company has incurred losses from operations. In addition, the Company's certified public accountants, Hausser + Taylor LLC, have included in their auditors' report, which covers the Company's financial statements for the years ended November 20, 2005 and November 30, 2006, a statement that the Company's recurring losses from operations raised substantial doubt about the Company's ability to continue as a going concern. For the period ended November 20, 2005 and for fiscal year 2006, the Company sustained losses of approximately \$377,000 and \$579,000, respectively. These losses have had a substantial adverse effect on the working capital of the Company.

In June of 2004, the Company restructured its \$2,500,000 in bank financing. This financing has subsequently been taken over by CPS, which now holds much of the working capital debt that has been used in the business during 2006. As of November 30, 2006, there was an outstanding balance of \$7,726,000 on the loans from CPS and Robert S. Kendall, its chairman. We believe these loans have been secured under terms no less favorable than we could have obtained pursuant to an arms-length transaction.

#### Net Tax Operating Loss Carryforwards

As of November 20, 2006 the Company has approximately \$16,955,000 in net tax operating loss carryforwards which will expire at various dates through the year 2026 that are mainly attributable to losses incurred by Monitek. Federal tax law imposes restrictions on the use of net operating loss carryforwards in the event of a change in ownership, such as a merger. Due to the merger with Monitek, approximately \$6,265,000 of the \$16,955,000 net operating losses may be subject to these limitations and potentially may not be able to provide any economic benefit to the Company.

## RESULTS FROM OPERATIONS

### Fiscal 2006 as Compared to Fiscal 2005

Regency Technologies, LLC is now classified as a “Discontinued Operation” (see below). Operations now consist of administrative overhead of the Company, partially offset by miscellaneous income.

Interest expense at increased significantly from \$370,000 in 2005 to \$503,000 in 2006 and was due to increases in the prime rate experienced during the year.

## DISCONTINUED OPERATIONS

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

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

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

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

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

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

#### SUBSEQUENT EVENTS

Since the conclusion of Fiscal Year 2006, the Company has been working diligently to raise capital and do a strategic acquisition that will move us forward very quickly.

We have reached preliminary agreements with several entities and consequently signed a Memorandum of Understanding (MOU) with these organizations.

Our goal is to achieve final agreements under documentation that all parties can live with and bring them to a final conclusion.

We will attempt to keep you posted as we have through press releases and other communications.

New Accounting Standards - In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 158 ("SFAS 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)", effective for the Company for the year ending December 31, 2006. This statement requires the recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on the balance sheet, and the recognition of changes in that funded status through other comprehensive income. The Company does not believe the adoption of this standard will have a material impact on the consolidated financial statements.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (“SFAS 157”), “Fair Value Measurements”, effective for the Company beginning on January 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy that distinguishes between valuations obtained from sources independent of the entity and those from the entity’s own unobservable inputs that are not corroborated by observable market data. SFAS 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on earnings or changes in net assets for the period. The Company does not believe the adoption of this standard will have a material impact on the consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes,” effective for the Company beginning on January 1, 2007. FIN 48 clarifies the recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on disclosure and other matters. Currently, the Company does not expect this guidance to have a material impact on its financial statements.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, “Accounting for Servicing of Financial Assets” (“SFAS 156”), which amends accounting and reporting standards for servicing assets and liabilities under Statement of Financial Accounting Standards No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. Specifically, SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. For subsequent measurement purposes, SFAS 156 permits an entity to choose to measure servicing assets and liabilities either based on fair value or lower of cost or market. The Company does not believe the adoption of this standard will have a material impact on the consolidated financial statements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (“SFAS 159”), “The Fair Value Option for Financial Assets and Financial Liabilities”, effective for the Company beginning on January 1, 2008. This Statement provides entities with an option to report selected financial assets and liabilities at fair value, with the objective to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Company does not believe the adoption of this standard will have a material impact on the consolidated financial statements

#### ITEM 7 FINANCIAL STATEMENTS

See Index to Financial Statements appearing on page F-2

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

None.

#### ITEM 8A. CONTROLS AND PROCEDURES

The Company’s Chief Executive Officer and Principal Accounting Officer, after evaluating the effectiveness of the Company’s disclosure controls and procedures pursuant to Exchange Act Rule 13a-14 within 90 days of the filing of this annual report, have concluded that the Company’s disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. There were no significant changes in the Company’s internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company carried out its evaluation.

ITEM 8B. OTHER INFORMATION

None.

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## PART III

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

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

Name	Age	Position
Henrik Rubinstein	48	President and Director
Robert S. Kendall	68	Chairman, Treasurer and Director
William R. Sprow	68	Controller

HENRIK RUBINSTEIN has been the President since September 27, 2006. He shall maintain his position as a duly elected director of the Company until such time as his successor is duly qualified and elected. He has many years of experience as founder and managing director of Astro Datensysteme GmbH and acted from 1989 to 2006 as CEO of Astro Datensysteme AG. During this time, Astro AG developed its market position as a leading European biometrics security company. Mr Rubinstein is a visionary technologist with in-depth, first-hand experience in the development, management and marketing of innovative technology products. As an internationally recognized IT security specialist and with his thorough knowledge of the biometrics and IT security industry, Mr. Rubinstein holds presentations at international conferences and he is owner of a high clearance level for military as well as high security engagements in Germany, NATO and the United States Government. He has created an impressive worldwide network of contacts with decision makers in industry and government.

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

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

There were three meetings of the Company's Board of Directors during the fiscal year ended November 30, 2006.

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

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

#### Code of Ethics

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

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

Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers and beneficial owners of more than ten percent of our common shares to file reports with the Securities and Exchange Commission regarding their ownership and changes in their ownership of our common shares. To our knowledge, during 2006, our executive officers, directors and greater than ten percent shareholders complied with all Section 16(a) filing requirements on time.

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## ITEM 10 EXECUTIVE COMPENSATION

The following information is set forth with respect to the Company's Chief Executive Officer. No other executive officer whose total compensation exceeded \$100,000 for the fiscal year ended November 30, 2006.

	ANNUAL COMPENSATION			OTHER
	YEAR	SALARIES	BONUS	ANNUAL COMPENSATION
Henrik Rubinstein	2006	-0-	-0-	-0-
Robert S. Kendall	2006	-0-	-0-	-0-
(Chairman and Treasurer)	2005	-0-	-0-	0-
	2004	-0-	-0-	-0-

## Long-Term Compensation:

No long-term compensation was paid during the fiscal years ended November 30, 2006, 2005, or 2004 to any executive officer of the Company by way of restricted stock awards, options or stock appreciation rights, or other long-term incentive plans.

## Stock Options:

The Company adopted the Sentex Sensing Technology, Inc. Stock Option Plan at a special meeting of its shareholders held on November 14, 1996. Under the Plan, the Company may grant different types of options covering up to 7,000,000 Common Shares to its existing and future directors, officers and employees. As of November 30, 2006, there were no Company stock options held by the directors or executive officers of the Company.

## Compensation Pursuant to Plans:

The Company has no plans pursuant to which cash or non-cash equivalents were paid during the fiscal years ended November 30, 2006, 2005, or 2004.

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

## Equity Compensation Plan Information

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

The following sets forth certain information regarding the beneficial ownership of the Common Shares as of February 19, 2007 by: (a) the Company's Directors; (b) each other person who is known by the Company to own beneficially more than 5% of the outstanding Common Shares; and (c) the Company's executive officers and Directors as a group. Except as otherwise described in the notes below, the following beneficial owners have sole voting power and sole investment power with respect to all Common Shares set forth opposite their names.

NAME AND ADDRESS OF BENEFICIAL OWNER (1)	AMOUNT AND NATURE OF BENEFICIAL OWNER	PERCENTAGE
Henrik Rubinstein	69,082,924	34.6%
Robert S. Kendall (2)	48,029,814	24.0%
William R. Sprow	—	—
CPS Capital, Limited (3) 1801 East Ninth Street Cleveland, Ohio 44114	48,029,814	24.0%

Balmoral Financial Services Company 7118 Dublin Road Dublin, OH 43017	15,000,000	7.5%
Viewpoint Technology, Inc. 7118 Dublin Road Dublin, OH 43017	12,000,000	6.0%
All Directors and Officers	117,112,738	58.6%

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

Change in Control

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

ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

CPS Management Agreement:

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

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

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

Working Capital Assistance:

During fiscal 1997 through fiscal 2001, CPS and Mr. Kendall provided the Company assistance in connection with funding its working capital needs in the form of loans and security for bank loans. From May 1997 through November 2002, CPS provided the Company a series of temporary capital loans at a prime interest rate plus 100 basis points. The outstanding balance of such loans total \$7,726,012, including accrued interest, as of November 30, 2006. From time to time, Mr. Kendall has also provided security to banks by permitting the banks to obtain a security interest in Mr. Kendall's personal assets and/or providing guarantees so the Company could obtain financing from the Bank. Except for the interest to be received on the loans provided by CPS, neither Mr. Kendall nor CPS has received nor will receive any remuneration in connection with providing such working capital assistance to the Company unless the notes are converted into Common Shares at some future date. The Company believes the interest payable to CPS is and was on terms no less favorable than could be obtained pursuant to an arms-length transaction.



ITEM 13 EXHIBIT LISTS AND REPORTS ON FORM 8-K

(A) EXHIBITS

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
3.1	Certificate of Incorporation, as amended (3)
3.2	First Amended and Restated Bylaws of the Company (6)
3.3	Certificate of Incorporation of Sentex Acquisition Corp. (4)
3.5	Certificate of Merger (Sentex Systems, Inc. into Sentex) (4)
3.6	Certificate of Incorporation of Sentex Systems, Inc. (5)
4.1	Specimen Certificate of Common Shares (3)
10.2	Consulting Agreement with Ms. Joanne Bianco, dated March 1, 1996 (2)
10.3	Sentex 1996 Long-Term Incentive Stock Option Plan (1)
21.1	List of Subsidiaries (6)
27.1	Financial Data Schedule
31.1	302 Certification of Chief Executive Officer
31.2	302 Certification of Chief Financial Officer
32.1	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 200

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1) Incorporated by reference to Annex A of the Joint Proxy Statement/Prospectus which is a part of Amendment No. 1 to the Registration Statement on Form S-4, filed on October 4, 1996, File No. 333-12993 (the "Registration Statement").

2) Incorporated by reference to exhibits of the Registration Statement bearing the same exhibit numbers.

3) Incorporated by reference to exhibits bearing same exhibit numbers, filed with the Company's Registration Statement on Form S-1, File No. 2-86860.

4) Incorporated by reference to exhibits bearing the same exhibit numbers, file with the Company's Form 10-KSB for the fiscal year ended November 30, 1992.

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

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

(B)

REPORTS ON FORM 8-K

None.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

Aggregate audit fees billed for professional services rendered by Hausser + Taylor LLC (the "Firm") for auditing registrant's annual financial statements included in the registrant's 10-KSB and review of its internal financial statements included in the registrant's 10-QSB's were \$35,000 in 2006 and \$31,100 in 2005.

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

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

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SIGNATURE

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

Date: March 14, 2007

SENTEX SENSING TECHNOLOGY, INC.

By: /s/ Robert S. Kendall

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Robert S. Kendall, Chairman

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

/s/ Henrik Rubinstein  
Henrik Rubinstein      President                      March 14, 2007

/s/ Robert S. Kendall  
Robert S. Kendall      Chairman and                      March 14, 2007  
                                 Treasurer

/s/ William R. Sprow  
William R. Sprow      Chief Financial                      March 14, 2007  
                                 Officer

/s/ William R. Sprow  
William R. Sprow      Controller                              March 14, 2007

**SENTEX SENSING TECHNOLOGY, INC.  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL REPORT**

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of Sentex Sensing Technology, Inc. and subsidiaries as of November 30, 2006, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the two years in the period ended November 30, 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. The Company has determined that it 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 Sentex Sensing Technology, Inc. and subsidiaries as of November 30, 2006, and the consolidated results of their operations and their cash flows for each of the two years in the period ended November 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2A to the financial statements, the Company has in the past and continues to sustain substantial net and operating losses. At November 30, 2006, current liabilities exceed current assets by \$8,272,195. This and other matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Hausser + Taylor LLC

Cleveland, Ohio  
March 14, 2007  
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## SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

November 30, 2006

<u>ASSETS</u>	
OTHER ASSETS	
Distribution agreement	\$ 1,900,000
<u>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</u>	
CURRENT LIABILITIES	
Notes payable:	
Related party	\$ 7,726,012
Trade and other accounts payable (\$441,671 to related parties)	533,760
Convertible subordinated notes payable	12,423
Total current liabilities	\$ 8,272,195
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY (DEFICIT)	
Common stock, no par value	
Authorized - 200,000,000 shares	
Issued - 199,847,764 shares	
Outstanding - 199,847,764 shares	4,767,579
Retained earnings (deficit)	(11,139,774)
Total stockholders' equity (deficit)	(6,372,195)
	\$ 1,900,000

The accompanying notes are an integral part of these financial statements.

## SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended November 30, 2006 and 2005

	2006	2005
<b>REVENUES</b>		
Sales	\$ -	\$ —
Interest and other income	21,245	159,175
Total revenues	21,245	159,175
<b>COST AND EXPENSES</b>		
Selling, general and administrative	96,611	255,730
Total costs and expenses	96,611	255,730
<b>LOSS FROM OPERATIONS</b>	<b>(75,366)</b>	<b>(96,555)</b>
<b>OTHER EXPENSE</b>		
Interest	503,243	369,819
Other expense	—	3,665
<b>LOSS FROM CONTINUING OPERATIONS</b>	<b>(578,609)</b>	<b>(470,039)</b>
<b>NET LOSS ON DISPOSAL OF SUBSIDIARY</b>	<b>—</b>	<b>(14,414)</b>
<b>INCOME(LOSS) FROM DISCONTINUED OPERATIONS</b>	<b>—</b>	<b>107,817</b>
<b>NET LOSS</b>	<b>(578,609)</b>	<b>(376,636)</b>
<b>NET LOSS PER SHARE (BASIC AND DILUTED)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>120,875,556</b>	<b>103,764,911</b>

The accompanying notes are an integral part of these financial statements.



SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

Years Ended November 30, 2006 and 2005

	Common Stock		Retained	Treasury Stock		Total
	Shares	Amount	Earnings (Deficit)	Shares	Amount	Stockholders' Equity (Deficit)
Balance – November 30, 2004	109,460,911	\$ 2,867,579	\$ (9,915,061)	7,696,000	\$ (269,468)	\$ (7,316,950)
Issued shares	2,000,000					
Net loss	—		(376,636)	—		(376,636)
Balance – November 30, 2005	111,460,911	2,867,579	(10,291,697)	7,696,000		(7,693,586)
Reissued treasury shares	7,696,000	165,000	(269,468)	(7,696,000)		165,000
Issued shares	80,690,853	1,735,000				1,735,000
Net loss			(578,609)			(578,609)
Balance - November 30, 2006	199,847,764	\$ 4,767,579	\$ (11,139,774)	—	\$ —	-\$ (6,372,195)

The accompanying notes are an integral part of these financial statements.

## SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended November 30, 2006 and 2005

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (578,609)	\$ (376,636)
Adjustments to reconcile net loss to net cash used by operating activities:		
Loss on disposal of subsidiary	—	14,414
Forgiveness of inter-company debt	—	(232,500)
Depreciation and amortization	—	3,134
Noncash interest expense	503,243	369,819
Changes in assets and liabilities:		
Accounts receivable	—	5,700
Inventory	—	7,219
Other assets	—	36,042
Accounts payable	(21,387)	78,692
Accrued liabilities	(35,372)	(508,585)
Total adjustments	446,484	(226,065)
Net cash used by operating activities	(132,125)	(602,701)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of leasehold improvements	—	(19,003)
Paid in Capital Interest	—	(34,248)
Net cash provided by financing activities	—	(53,251)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on notes and accounts payable - related party	132,057	697,999
Payments on note payable - related party	—	(54,851)
Net cash provided by financing activities	132,057	643,148
<b>NET DECREASE IN CASH</b>	<b>(68)</b>	<b>(12,804)</b>
<b>CASH – BEGINNING OF YEAR</b>	<b>68</b>	<b>12,872</b>
<b>CASH – END OF YEAR</b>	<b>\$ —</b>	<b>\$ 68</b>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ —	\$ —

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

The accompanying notes are an integral part of these financial statements.

## SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Effective November 20, 2005 the Company transferred substantially all of the net assets of Regency Technologies Ltd. to two of the Regency management team members and others. (See Note 11.). The Company had been unsuccessful in its quest to raise growth capital that was necessary for further growth of Regency Technologies Ltd.

We therefore completed a smaller transaction whereby members of management and others invested their own capital under a purchase agreement with JJJ-RT, LLC which resulted in their acquiring control of Regency.

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

This business has been accounted for as a discontinued operation in the consolidated statements of operations for the period ended November 30, 2005.

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

**BALANCE SHEET  
DATA****2006**

Current assets	\$	721,074
Fixed Assets (Net)		428,204
Other assets		990
Total Assets	\$	1,150,268
Current Liabilities		260,327
Partners' Equity		889,941
Total liabilities and partners' equity	\$	1,150,268

**INCOME  
STATEMENT**Years Ended November 30,  
2006                      2005**REVENUES**

Net sales	\$	5,714,448	\$	2,996,278
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**COST AND  
EXPENSES**

Cost of sales		3,960,951		1,705,855
Selling and general		1,759,250		1,376,403

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Total cost and expenses	5,720,201	3,082,258
Other income	35,268	193,797
<b>NET INCOME</b>	<b>\$ 29,515</b>	<b>\$ 107,817</b>

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

- A. Going Concern - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company has in the past and continues to sustain substantial net and operating losses. The Company continues to be dependant on the funding resources of one of its substantial shareholders. At November 30, 2006 current liabilities exceed current assets by \$8,272,195. Additionally, at November 30, 2006, the Company has no operations. These and other matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. The Company's ability to continue in existence is primarily dependent upon its planned ability to arrange adequate financing and to attain profitable operating activities to sustain required cash flows.
- B. Distribution Agreement - The value of the agreement is based upon the fair value of the shares exchanged for the exclusive rights to sell, distribute or manufacture certain biometric products worldwide. This asset will be amortized over a period of ten years and will be subject to impairment of value in future periods.
- C. Receivable and Credit Policies - Through November 20, 2005 accounts receivable were uncollateralized customer obligations due with various trade terms from the invoice date and were stated at the amount billed to the customer. Payments of accounts receivable were applied to the specific invoices identified on the customer's remittance advice. The carrying amount of accounts receivable was reported net of the allowance for doubtful accounts reserve, which reflects management's best estimate of the amount that would not be collected.
- D. Revenue Recognition - Through November 20, 2005 the Company records revenue as customers were billed for consulting services.
- E. Concentration of Credit and Risk Factors - Financial instruments which potentially subject the Company to concentrations of credit risk include cash and cash equivalents. The Company places its cash and cash equivalents with high credit quality financial institutions. The amount on deposit in any one institution that exceeds federally insured limits is subject to credit risk. Also see Notes 2.B., 2.G., and 11.
- F. Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

G. Income Taxes - The Company utilizes Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax basis of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those temporary differences that have future tax consequences using the current enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce the deferred tax asset to the amount that will, more likely than not, be realized. Income tax expense is the current tax payable or refundable for the period plus or minus the net change in the deferred tax assets and liabilities.

H. Fair Value of Certain Financial Instruments - The fair values of cash, accounts payable, and other short-term obligations approximate their carrying values because of the short maturity of these financial instruments.

I. Loss Per Share - Loss per share is calculated using the weighted average number of shares outstanding. Potentially dilutive securities are insignificant.

J. New Accounting Standards - In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 158 ("SFAS 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)", effective for the Company for the year ending December 31, 2006. This statement requires the recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability on the balance sheet, and the recognition of changes in that funded status through other comprehensive income. The Company does not believe the adoption of this standard will have a material impact on the consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements", effective for the Company beginning on January 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy that distinguishes between valuations obtained from sources independent of the entity and those from the entity's own unobservable inputs that are not corroborated by observable market data. SFAS 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on earnings or changes in net assets for the period. The Company does not believe the adoption of this standard will have a material impact on the consolidated financial statements.

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In June 2006, the FASB issued Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes,” effective for the Company beginning on January 1, 2007. FIN 48 clarifies the recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on disclosure and other matters. Currently, the Company does not expect this guidance to have a material impact on its financial statements.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, “Accounting for Servicing of Financial Assets” (“SFAS 156”), which amends accounting and reporting standards for servicing assets and liabilities under Statement of Financial Accounting Standards No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. Specifically, SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. For subsequent measurement purposes, SFAS 156 permits an entity to choose to measure servicing assets and liabilities either based on fair value or lower of cost or market. The Company does not believe the adoption of this standard will have a material impact on the consolidated financial statements

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (“SFAS 159”), “The Fair Value Option for Financial Assets and Financial Liabilities”, effective for the Company beginning on January 1, 2008. This Statement provides entities with an option to report selected financial assets and liabilities at fair value, with the objective to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. The Company does not believe the adoption of this standard will have a material impact on the consolidated financial statements

K. Certain amounts in the financial statements for the year ended November 30, 2006 have been reclassified to conform with current year presentation.

**Note 3. Investment in Regency Technologies, Ltd.**

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

The net loss on disposal of subsidiary (Regency Technologies, Ltd.) is the result of recognizing the net investment deficit in Regency as of November 20, 2005 as income to bring the value of the investment to zero and decreasing that gain by the forgiveness of inter-company debt as stated in the Contribution and Investment Agreement. (See note 11.)

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## SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Note 4. Notes Payable - Bank and Other Borrowing Arrangements**

During the years ended November 30, 2006 and 2005, the Company's principal stockholder (CPS Capital, Ltd.) and the Company's Chairman provided the Company assistance in connection with funding its working capital needs in the form of loans and security for bank loans. As of November 30, 2006, the Company had notes payable of \$7,726,012 including accrued interest of approximately \$1,832,000 (bearing interest at 1% over the prime rate) to its principal stockholder in connection with such unsecured loans.

Interest expense for the years ended November 30, 2006 and 2005 amounted to \$503,243 and \$369,819, respectively.

**Note 5. Convertible Subordinated Notes Payable**

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

**Note 6. Stock Incentive Plan**

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



Company and are subject to automatic acceleration of any vesting requirements given certain changes in control of the Company. No options were outstanding to purchase the Company's stock during the years ended November 30, 2006 and 2005.

Stock appreciation rights may be awarded by the Committee at the time or subsequent to the time of the granting of options. Stock appreciation rights awarded shall provide that the option holder shall have the right to receive an amount equal to 100% of the excess, if any, of the fair market value of the shares of common stock covered by the option over the option price. Such amount shall be payable, as determined by the Committee, in one or more of the following manners: (a) cash; (b) fully-paid shares of common stock having a fair market value equal to such amount; or (c) a combination of cash and shares of common stock. As of November 30, 2006, the Company has not granted any appreciation rights under the Incentive Plan.

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## SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 7. Profit-Sharing Plan**

The Company has a profit-sharing plan and a 401(k) retirement plan for the benefit of eligible employees. Contributions under the plans are determined at the discretion of the Board of Directors and are credited to employees based upon a percentage of eligible salaries. The Company elected to suspend all contributions for the years ended November 30, 2006 and 2005.

**Note 8. Income Taxes**

As referred to in Note 2, the Company utilizes SFAS 109, "Accounting for Income Taxes." A reconciliation between the Company's effective income tax rate and the statutory federal income tax rate is as follows for the years ended November 30:

	2006	2005
Expected federal income tax benefit at the statutory rate	(34.0)%	(34.0)%
Increase in taxes resulting from:		
Effect of operating loss for which no tax carrybacks are available	(34.0)	34.0
	—%	—%

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

	2006	2005
Deferred tax assets:		
Net operating loss carryforward	\$ 3,634,600	\$ 3,437,700
Other	—	—
Total gross deferred tax assets	3,634,600	3,437,700
Less valuation allowance	3,634,600	3,437,700
Net deferred tax assets	\$ —	\$ —

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

The Company established a valuation allowance against tax benefits that are potentially available to the Company but have not yet been recognized. This valuation allowance relates to the amount of net operating loss carryforwards in excess of existing net taxable temporary differences and to certain deductible temporary differences that may not

reverse during periods in which the Company may generate net taxable income. During the years ended November 30, 2006 and 2005, the Company recorded increases of \$196,900 and \$202,300, respectively, in the valuation allowance primarily as a result of the net operating loss generated during the year.

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At November 30, 2006, the Company had approximately \$16,955,000 of net operating loss carryforwards available to offset future federal taxable income. The federal non-limited net operating loss carryforwards expire at various dates from 2014 through 2026. Federal tax law imposes restrictions on the utilization of net operating loss carryforwards in the event of a change in ownership. The Company's net operating loss includes approximately \$6,265,000 of loss carryforwards that may be subject to limitations as a result of these provisions.

**Note 9. Related Party Transactions**

The Company has a management agreement with an affiliate and significant stockholder, CPS Capital, Ltd., to perform management and executive services. Based on limited operations, the Company and CPS agreed to reduce the management fee until the Company expands its operations. As of November 30, 2006, the balance due for unpaid management fees was \$441,671.

**Note 10. Distribution Agreement**

On September 27, 2006 the Company issued 96,082,924 shares of common stock in exchange for an exclusive distribution agreement with SecITV. SecITV manufactures and distributes products in the biometric and security arena based on fingerprint identification, face recognition and voice recognition technology. The average value of the stock was determined to be approximately \$ .02 per share as of the date of the transaction. This value is based on the limited trading activity of the common stock on the open market.

**Note 11. Other**

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

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 11. Other (Continued)**

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

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

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

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

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SENTEX SENSING TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 11. Other (Continued)**

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

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