

ELECTRO SENSORS INC
Form 10-Q
May 15, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

Form 10-QSB

**ý QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2003

**o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE
ACT FOR THE TRANSITION PERIOD FROM TO**

Commission File Number 0-9587

ELECTRO-SENSORS, INC.

(Exact name of small business issuer as specified in its charter)

Minnesota

41-0943459

(State or other jurisdiction of incorporation or
organization)

(IRS Employer Identification No.)

6111 Blue Circle Drive
Minnetonka, Minnesota 55343-9108

(Address of principal executive offices)

(952) 930-0100

(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The number of shares outstanding of the registrant's Common Stock, \$0.10 par value, on May 13, 2003 was 3,160,938.

Transitional Small Business Disclosure Format (check one): Yes No

ELECTRO-SENSORS, INC.

Form 10-QSB

For the Period Ended March 31, 2003

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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(Unaudited)

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ELECTRO-SENSORS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | March 31, 2003 (unaudited) | December 31, 2002 |
|--------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash And Cash Equivalents | \$ 6,354,554 | \$ 6,723,160 |
| Investments | 3,143,774 | 4,202,210 |
| Trade Receivables | 536,855 | 550,252 |
| Less Allowance for Doubtful Accounts of \$12,739 and \$7,000, respectively. | | |
| Inventories | 720,601 | 738,012 |
| Prepaid Income Taxes | 422,686 | 342,735 |
| Other Current Assets | 66,753 | 69,748 |
| Total Current Assets | 11,245,223 | 12,626,117 |
| Property and Equipment, Net | 1,531,250 | 1,544,146 |
| Investment in Equity Method Investee | 306,710 | 502,181 |
| TOTAL ASSETS | \$ 13,083,183 | \$ 14,672,444 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 207,671 | \$ 285,539 |
| Accrued Expenses | 179,348 | 211,912 |
| Accrued Income Taxes | 0 | 0 |
| Deferred Revenue | 40,387 | 50,398 |
| Deferred Income Taxes | 1,058,137 | 1,424,600 |
| Total Current Liabilities | 1,485,543 | 1,972,449 |
| DEFERRED INCOME TAXES | 35,000 | 30,000 |
| STOCKHOLDERS EQUITY | | |
| Common Stock par value \$0.10 per share; Authorized 10,000,000 shares; Issued 3,160,938 and 3,155,260 shares, respectively. | 316,094 | 315,526 |
| Additional Paid-In Capital | 976,151 | 966,447 |
| Retained Earnings | 8,439,550 | 8,860,476 |
| Accumulated Other Comprehensive Income | 1,830,845 | 2,527,546 |
| Total Stockholders Equity | 11,562,640 | 12,669,995 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 13,083,183 | \$ 14,672,444 |

See Accompanying Notes to Consolidated Financial Statements

ELECTRO-SENSORS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | Three Months Ended March 31, | |
|----------------------------------------------|------------------------------|--------------|
| | 2003 | 2002 |
| Net Sales | \$ 986,539 | \$ 1,138,656 |
| Cost of Goods Sold | 400,522 | 493,227 |
| Gross Profit | 586,017 | 645,429 |
| Operating Expenses: | | |
| Selling and Marketing | 315,989 | 281,134 |
| General and Administrative | 297,845 | 211,350 |
| Research and Development | 211,598 | 225,141 |
| Total Operating Expenses | 825,432 | 717,625 |
| Operating Income (Loss) | (239,415) | (72,196) |
| Non-Operating Income (Expense): | | |
| Gain (Loss) on Sale of Investment Securities | 12,104 | 632,774 |
| Interest Income | 16,123 | 142,937 |
| Other Income (Expense) | (246) | (22,743) |
| Equity Gain (Loss) of Equity Method Investee | (195,471) | 0 |
| Total Non-Operating Income (Expense) | (167,490) | 752,968 |
| Net Income (Loss) | | |
| Before Income Taxes | (406,906) | 680,772 |
| Federal and State Income Taxes | (79,950) | 264,859 |
| Net Income (Loss) | \$ (326,955) | \$ 415,913 |
| Per share data: | | |
| Weighted average basic shares outstanding | 3,159,167 | 3,123,558 |
| Basic Net Income (Loss) Per Share | (0.10) | 0.13 |
| Weighted average diluted shares outstanding | 3,197,752 | 3,433,064 |
| Diluted Net Income (Loss) Per Share | (0.10) | 0.12 |

See Accompanying Notes to Consolidated Financial Statements

ELECTRO-SENSORS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three Months Ended March 31, | |
|-----------------------------------------------------------------------|------------------------------|-------------|
| | 2003 | 2002 |
| Reconciliation of Net Income to Net Cash Provided By/(used in) | | |
| Operating Activities | | |
| Net Income | \$ (326,955) | \$ 415,913 |
| Adjustments to Reconcile Net Income to Net Cash Provided By/(used in) | | |
| Operating Activities: | | |
| Provision for Losses on Trade Receivables | 0 | (5,000) |
| Loss of Disposal of Segment | 0 | 0 |
| Depreciation | 27,076 | 9,622 |
| Deferred Taxes | 0 | 0 |
| Realized (Gain)/Loss on Sale of Investments | (12,104) | (638,874) |
| Equity Gain (Loss) of Equity Method Investee | 195,471 | 0 |
| (Increase)/Decrease In: | | |
| Trade Receivables | 13,397 | (132,056) |
| Inventory | 17,411 | 31,603 |
| Other Current Assets | 2,995 | (49,865) |
| Prepaid Income Taxes | (79,951) | 0 |
| Increase/(Decrease) in: | | |
| Accounts Payable | (77,868) | 56,568 |
| Customer Deposits | 0 | 2,856 |
| Accrued Expenses | (32,564) | 58,274 |
| Deferred Revenue | (10,011) | 0 |
| Accrued Income Taxes | 0 | (1,441,377) |
| Net Cash Provided by Operating Activities | (283,103) | (1,692,336) |
| Cash Flows from Investing Activities: | | |
| Proceeds From Sale of Investments | 12,374 | 632,774 |
| Purchase of Property and Equipment | (14,180) | (1,290) |
| Principal Payments Received on Note Receivable | 0 | 5,000 |
| Net Cash Provided By/ (used in) Investing Activities | (1,806) | 636,484 |
| Cash Flows from Financing Activities: | | |
| Proceeds from Issuance of Stock | 10,272 | 21,288 |
| Dividends Paid | (93,971) | (93,668) |
| Net Cash Provided By/ (used in) Financing Activities | (83,699) | (72,380) |
| Net Increase (Decrease) in Cash & Cash Equivalents | (368,606) | (1,128,232) |

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| | | |
|------------------------------------|-----------|-----------|
| Cash & Cash Equivalents, Beginning | 6,723,160 | 8,389,691 |
| Cash & Cash Equivalents, Ending | 6,354,554 | 7,261,459 |

Supplemental Schedule of Non-Cash Investing and Financing Activities

| | | |
|----------------------------------------------------------------|-----------|-----------|
| Net change in Unrealized Gain/ (Loss) on Marketable Securities | (696,701) | 1,190,277 |
|----------------------------------------------------------------|-----------|-----------|

See Accompanying Notes to Consolidated Financial Statements

ELECTRO-SENSORS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Nature of Business

The accompanying consolidated financial statements include the accounts of Electro-Sensors, Inc. and its wholly-owned subsidiary, ESI Investment Company. Intercompany accounts, transactions and earnings have been eliminated in consolidation. The consolidated entity is referred to as the Company.

Electro-Sensors, Inc. operates two distinct businesses. The first is the Controls Division, a division of Electro-Sensors, Inc. This division manufactures and markets a complete line of speed monitoring and motor control systems for industrial machinery. The Controls Division utilizes leading-edge technology to continuously improve its products and make them easier to use. The Controls Division's goal is to manufacture the industry-preferred product for every market served. These products are sold through an internal sales staff and distributors to a wide variety of manufacturers, OEM's and processors to monitor process machinery operations. The Controls Division markets its products to a number of different industries located throughout the United States and abroad.

The second business is AutoData Systems (ADS), a division of Electro-Sensors, Inc. ADS designs and markets desktop software systems that read hand printed characters, checkmarks and bar code information from scanned or faxed forms. ADS products are designed to provide capabilities to automate data collection to end users, resellers and developers in the United States, Canada, Europe and Asia.

In both divisions, the Company grants credits to customers under normal industry terms, generally 30 days.

ESI Investment Company owns marketable securities which have experienced significant appreciation in value since the IPO of August Technology in 2000. Since late 2000, the Company has recognized income from the sale of its holdings in August Technology Corporation. See Note 4 for additional information regarding its investments. During May 2002, ESI Investment participated in a rights offering by PPT Vision, Inc. (PPTV). As a result of the additional investment in PPTV, the Company has changed its reporting of this investment to the equity method of accounting. See Note 4 for additional information about this investment and the related change to the equity method. The Company's investments in marketable securities are subject to normal market risks, which are unhedged.

Note 2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States

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of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The Balance Sheet at December 31, 2002 has been derived from the Company's audited financial statements for the year ended December 31, 2002, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2002.

Note 3. Revenue Recognition

Revenue recognition of production monitoring equipment:

All production monitoring equipment is shipped without an evaluation or acceptance period. Revenues from the sale of the products and any related warranty costs are recognized at the time of shipment. The Company's distributors are not granted any price protection. Sales to all customers, including distributors, are final and no right of return after shipment exists.

Software revenue recognition:

The Company recognizes revenue upon shipment of its character recognition software. The product is sold to the end user and risk of loss is transferred, and the Company has no continuing obligations, once its products are delivered to the shipper. The Company recognizes revenue upon shipment, net of return reserves based on historical experience. To recognize revenue, it must also be probable that the Company will collect the accounts receivable from its customers. In some situations, the Company receives advance payments from its customers. Revenue associated with these advance payments is deferred until the product is shipped. Warranty reserves are provided at the time revenue is recognized for the estimated cost of replacing defective products.

Note 4. Investments

The Company's investments consist of marketable equity securities, primarily common stocks, government debt securities, money market funds and unregistered equity securities. The estimated fair value of marketable equity securities is based on quoted market prices and therefore subject to the inherent risk of market fluctuations.

Management determines the appropriate classification of securities at the date individual investments are acquired, and evaluates the appropriateness of such classification at each balance sheet date.

Since the Company does not buy investments in anticipation of short-term fluctuations in market prices, the investments in marketable equity securities has been classified as available-for-sale. Available-for-sale securities are stated at fair value, and unrealized holding gains and losses, net of the related deferred tax effect, are reported as separate component of stockholders' equity. Investments in unregistered securities are reported at original cost. Dividends on equity securities held for investment are recognized in income when declared.

Realized gains and losses, including losses from declines in value of specific securities determined by management to be other-than-temporary, are included in income. Realized gains and losses are determined on the basis of the specific securities sold.

Note 4. Investments

Change in Reporting for the Company's Investment in PPT Vision, Inc.

During 2002, the Company purchased 1,108,868 shares of common stock of PPT Vision, Inc. (PPT). PPT is a publicly-traded corporation in which the Company had previously owned 549,084 shares, or 10.0%, of PPT's outstanding common stock. At March 31, 2003, the Company owned 1,657,952 shares of PPT, which is 16.4% of PPT's outstanding common stock. The fair value of its holdings based on the quoted market price at March 31, 2003 was approximately \$828,976. The Company also owns warrants to purchase approximately 549,084 additional shares of PPT common stock at a per share price of \$2.50. The warrants are currently exercisable, and expire September 30, 2003.

In connection with the additional investment in PPT, it was determined that the Company could exercise significant influence over the operations of PPT. As a result, its ownership interest is now reported using the equity method of accounting for investments. The investment was previously reported as an available-for-sale security, showing the market value on the balance sheet and recording any unrealized gains and losses in other comprehensive income.

Under the equity method of accounting, the Company's proportionate share of PPT income or loss through January 31, 2003 is included in the Company's net income with a corresponding increase or decrease in the carrying value of its investment.

As a result of this change to the equity method of accounting, the balance sheets at March 31, 2002 and December 31, 2002 have been adjusted to show the Company's investment in PPT based on the equity method rather than based on market value method of accounting. Retained earnings at those dates have been adjusted to reflect equity method earnings from prior periods and accumulated other comprehensive income at those dates has been adjusted to eliminate unrealized gains and losses from PPT that were recorded in prior periods. In addition, the income statements for the three months ended March 31, 2003 and 2002 show the Company's portion of PPT's earnings from those periods.

Realized gains and losses, including losses from declines in value of specific securities determined by management to be other-than-temporary, are included in income. Realized gains and losses are determined on the basis of the specific securities sold.

Note 5. Comprehensive Income

Comprehensive income includes the Company's net income plus other comprehensive income items, which are excluded from net income. The Company's other income consists of unrealized gains (losses), net of income taxes and reclassification adjustments for gains and losses included in net income.

| | Three Months Ended March 31, | |
|--------------------------------------------------------------|------------------------------|-------------|
| | 2003 | 2002 |
| Net Income | \$ (326,955) | \$ 415,913 |
| Other Comprehensive Gain: | | |
| Change in Unrealized Value Investments, net | (688,701) | 1,624,900 |
| Less: | | |
| Reclassification Adjustment for Gains Included In Net Income | (8,000) | (428,793) |
| Total Comprehensive Income | \$ (1,023,656) | (1,612,020) |

Note 6. Segment Information

The Company has three reportable operating segments based on the nature of its product lines: Production Monitoring, Character Recognition, and Investments. The Production Monitoring Division manufactures and markets a complete line of speed monitoring and motor control systems for industrial machinery. The Character Recognition Division designs and markets a desktop software-based system that reads hand printed characters, checkmarks, and bar code information from scanned or faxed forms. Sales of this system include software and can include hardware. The Investments Division holds investments in marketable and non-marketable securities.

In evaluating segment performance, management focuses on sales and income before taxes. The Company has no inter-segment sales.

The following is financial information relating to the continuing operating segments:

| | Three Months Ended March 31, | |
|------------------------------------------------------------|-------------------------------------|---------------------|
| | 2003 | 2002 |
| External Sales | | |
| Production Monitoring | \$ 844,013 | \$ 932,464 |
| Character Recognition | 142,526 | 206,192 |
| Investments | 0 | 0 |
| Total | \$ 986,539 | \$ 1,138,656 |
| Net Income Before Taxes and Discontinued Operations | | |
| Production Monitoring | \$ (121,939) | \$ 30,830 |
| Character Recognition | (28,670) | (307) |
| Investments | (256,297) | 650,249 |
| Total | \$ (406,906) | \$ 680,772 |

Item 2. Management's Discussion and Analysis or Plan of Operation

RESULTS OF OPERATIONS

Comparison of Quarter 1, 2003 vs. Quarter 1, 2002

Net Revenues

Net revenues for the three-month period ended March 31, 2003 decreased \$152,117, or 13.4%, when compared to net revenues for the same period in 2002. Of this decrease, \$88,441 is attributable to the Controls Division, and \$63,676 is due to the Character Recognition Division. This decline in demand for production control instruments is attributable to the decreased purchases by machine and process equipment builders that supply production machinery for new manufacturing processes. All products contributed to the decrease in sales equally. New products for monitoring a larger range of machine vibration sensing and slide gate position are being developed to expand the range of product applications.

Cost of Sales

The Company's cost of sales decreased \$92,705, or 18.8%, for the three months ended March 31, 2003 when comparing the same period in 2002. In addition to the decrease resulting from the lower sales volume, cost of sales was reduced as a result of the company's efforts to reduce production costs. The cost improvements were accomplished principally from a reduction in production personnel.

Gross Margins

Gross margins for the three-month period ended March 31, 2003 were 59.4% versus 58.4% for the same period of the prior fiscal year. The improvement in gross margin percentage is due mainly to reductions in production staffing, implemented during the 3rd and 4th quarter of 2002.

Operating Expenses

Total operating expenses increased \$107,807, or 15.0% for the three months ended March 31, 2003 when compared to the same period of the prior year.

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Selling and marketing costs increased \$34,855, or 12.4%, for the three-months ended March 31, 2003 when compared to the same period in 2002. Of this increase, the Controls Division contributed \$11,829, and the Character Recognition Division contributed \$23,027. This increase in selling and marketing expense is predominantly due to marketing expenses for product launches, a greater number of sales trips, new literature, and ad development.

General and administrative costs increased \$86,495, or 40.9%, for the three-months ended March 31, 2003 compared to the same period in 2002. The increase is primarily due to a change in procedure for accounting for general company expenses. Historically, the company would divide general expenses such as liability insurance, office supplies, and building expenses over the various departments based on a set percentage. Beginning January 2003, for ease of accounting and analysis, we have determined to classify such general expenses into General and Administrative costs. Of the increase, the Controls Division contributed \$64,978 and the Character Recognition Division contributed \$21,527.

Research and development costs decreased \$13,543, or 6.0%, for the three months ended March 31, 2003 compared to the same period in 2002. Of this decrease, the Character Recognition Division contributed a 31.7% decrease and the Controls Division contributed an increase of 15.4%. The decrease in the Character Recognition Division is due to reduced development expenses this quarter on the ExpertScan product. This product was released in December 2002. The increase in the Controls Division is primarily due to the Company's increased effort in developing new products to be introduced to our market.

Non-Operating Income (Loss)

Non-Operating Income decreased by \$920,458 from March 31, 2002 compared to March 31, 2003 or a decrease of 122.2%. Of this decrease, \$126,814 is from interest income, a result of reduced rates on temporary cash investments and a reduction in amounts invested. \$620,670 of the decrease is due to Gain on the sale of securities, which fluctuates from quarter to quarter due to management's evaluation of the securities held. As a result of recent declines in the market price of technology stocks, management decided to reduce the number of August Technology shares sold during the three months ended March 31, 2003.

Net Income (Loss) Before Taxes

Net income before taxes decreased \$1,087,680, or 160%, to a loss of \$406,906 for the three-month period ended March 31, 2003 compared to the same period in 2002. Of the \$406,906 loss for the first three months of 2003, \$195,471 is due to the PPT equity method accounting.

The Controls Division had a net loss of \$121,939 for the three months ended March 31, 2003 compared to net income of \$30,830 for the same period in 2002. This difference is due to reduced sales revenue covering consistent overhead costs, continued new product development expenditures, marketing expenses related to new product release, and the software conversion and related training and operational support costs.

The Character Recognition Division had a net loss of \$28,670 for the three months ending March 31, 2003 compared to the loss of \$307 for same period in 2002. This increase is mainly attributable to increased marketing costs to the product release and launch of the new ExpertScan software product and the decrease in sales revenue for the quarter. The overall operating expenses for this division increased 6.24%.

Investment income from investment securities decreased \$620,670, or 98.1%, for the three months ended March 31, 2003 compared to the same period in 2002. As a result of the general decline in the stock market and particularly the decline in the price of August Technology, the Company reduced the number of shares sold as compared to the prior quarters.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$6,354,554 at March 31, 2003 and \$6,723,160 at March 31, 2002. Cash used in operating activities of \$283,103 for the three months ended March 31, 2003 was primarily a result of our net loss adjusted for non-cash charges.

Cash (used)/provided in investing activities was (\$1,806) and \$636,484 for the three months ended March 31, 2003 and 2002, respectively. Cash used for capital expenditures was \$14,180 and \$1,290 for the three months ended March 31, 2003 and 2002, respectively. Proceeds from the sale of investments declined from \$632,774 for the three months ended March 31, 2003 to \$12,374 for the same period in 2002.

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The Company holds a relatively large investment in August Technology, which is valued at quoted market price on March 31, 2003. The quoted market prices represent an estimate of what the Company may have realized if the shares were traded on the open exchange. The potential amount realized from a sale of a significant portion of the Company's holdings in either August or PPT may be affected by factors other than those reflected in the quoted market price. The most significant of which is the market's ability to absorb a large block of securities. In addition the market value of the securities may be subject to significant fluctuation in quoted market prices. The market value of the investment in August Technology at March 31, 2003 and May 12, 2003 was \$2,984,000 and \$3,101,000 respectively. The market value of the equity method investment in PPT is approximately \$829,000 at March 31, 2002 and \$1,243,000 at May 12, 2003.

Cash used in financing activities was (\$83,699) and (\$72,380) for the three months ended March 31, 2003 and 2002, respectively. For the three months ended March 31, 2003, our employees purchased \$10,272 of common stock under our employee plans. During the three months ended March 31, 2003 and 2002, the Company paid aggregate dividends of \$93,971 and \$93,668, respectively.

Our ongoing cash requirements will be primarily for capital expenditures, acquisitions, research and development and working capital. Management believes that cash on hand and any cash provided by operations will be sufficient to meet our cash requirements through at least the remainder of the year.

FORWARD-LOOKING STATEMENTS

This Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company's expectations, beliefs, intentions or strategies regarding the future. Forward-looking statements include, but are not limited to, statements regarding the extent and timing of future revenues and expenses and customer demand, future financial condition and availability of capital resources, changes in worldwide general economic conditions, cyclical capital spending by customers, the Company's ability to keep pace with technological developments and evolving industry standards, worldwide competition, and the Company's ability to protect its existing intellectual property from challenges from third parties and other factors. Any statement that is not based upon historical facts should be considered a forward-looking statement.

All forward-looking statements in this document are based on information available to the Company as of the date hereof, and the Company assumes no obligation to update any such forward-looking statements. It is important to note that the Company's actual results could differ materially from those in such forward-looking statements. The forward-looking statements of the Company are subject to risks and uncertainties. Some of the factors that could cause future results to differ materially from the Company's recent results or those projected in the forward-looking statements are detailed in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2001, filed with the Securities and Exchange Commission.

Item 3. Controls and Procedures.

The Company's Chief Executive Officer and Chief Financial Officer (**its principal executive officer and principal financial officer, respectively**), evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities and Exchange Act of 1934, as amended) within 90 days prior to the filing date of this quarterly report. Based on this evaluation the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in internal controls that could significantly affect the disclosure controls and procedures since the date of the evaluation.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

There were no material developments in previously reported legal proceedings.

Item 2. Changes in Securities

No changes have been made to any registered securities nor were there any sales of unregistered securities during the quarter ended March 31, 2003.

Item 3. Defaults Upon Senior Securities

No event constituting a default has occurred with respect to any senior security of the Registrant.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Certification Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K No reports on Form 8-K were filed during the three months ended March 31, 2003

SIGNATURES

In accordance with the requirements 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.

Electro-Sensors, Inc.

May 13, 2003

/s/ Bradley D. Slye
Bradley D. Slye, President
(Chief Executive Officer and Principal Accounting Officer)

CERTIFICATION

I, Bradley D. Slye, Chief Executive Officer and Chief Financial Officer of Electro-Sensors, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Electro-Sensors Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function);

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a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 13, 2003

/s/ Bradley D. Slye
Bradley D. Slye, President
(Principal Executive Officer and Principal Accounting Officer)

EXHIBIT INDEX

ELECTRO-SENSORS, INC.

FORM 10-QSB FOR QUARTER ENDED MARCH 31, 2003

| Exhibit | Description |
|----------------|---------------------------------------------------------------------|
| 99.1 | Certification Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 |