
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

Form 10-Q

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

For the quarterly period ended March 31, 2019

Or

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

For the transition period from _____ to _____

Commission File Number 000-09587

ELECTRO-SENSORS, INC.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or
organization)

41-0943459

(IRS Employer Identification No.)

**6111 Blue Circle Drive
Minnetonka, Minnesota 55343-9108**

(Address of principal executive offices)

(952) 930-0100

(Registrant's telephone number, including area code)

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 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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock	ELSE	Nasdaq Capital Market

The number of shares outstanding of the registrant's common stock, \$0.10 par value, on May 10, 2019 was 3,395,521.

ELECTRO-SENSORS, INC.
Form 10-Q
For the Periods Ended March 31, 2019

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ELECTRO-SENSORS, INC. CONDENSED BALANCE SHEETS

(in thousands except share and per share amounts)

	March 31, 2019 (unaudited)	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 954	\$ 1,057
Investments	7,732	7,742
Trade receivables, less allowance for doubtful accounts of \$11	1,075	896
Inventories	1,638	1,618
Other current assets	167	155
Income tax receivable	12	0
Total current assets	11,578	11,468
Deferred income tax asset, net	189	192
Intangible assets, net	510	565
Property and equipment, net	1,073	1,050
Total assets	\$ 13,350	\$ 13,275
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of financing lease	\$ 5	\$ 5
Accounts payable	207	116
Accrued expenses	417	405
Total current liabilities	629	526
Long-term liabilities		
Financing lease, net of current maturities	23	24
Total long-term liabilities	23	24
Commitments and contingencies		
Stockholders' equity		
Common stock par value \$0.10 per share; authorized 10,000,000 shares; 3,395,521 shares issued and outstanding	339	339
Additional paid-in capital	2,022	2,019
Retained earnings	10,304	10,335
Accumulated other comprehensive gain (unrealized gain on available-for-sale securities, net of income tax)	33	32
Total stockholders' equity	12,698	12,725
Total liabilities and stockholders' equity	\$ 13,350	\$ 13,275

See accompanying notes to unaudited condensed financial statements

ELECTRO-SENSORS, INC.
CONDENSED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands except share and per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2019	2018
Net sales	\$ 2,008	\$ 1,716
Cost of goods sold	941	800
Gross profit	1,067	916
Operating expenses		
Selling and marketing	485	435
General and administrative	472	532
Research and development	196	230
Total operating expenses	1,153	1,197
Operating loss	(86)	(281)
Non-operating income		
Interest income	44	23
Other income	2	2
Total non-operating income	46	25
Loss before income tax benefit	(40)	(256)
Benefit from income taxes	(9)	(54)
Net loss	\$ (31)	\$ (202)
Other comprehensive income (loss)		
Change in unrealized value of available-for-sale securities, net of income tax	\$ 1	\$ (1)
Other comprehensive income (loss)	1	(1)
Net comprehensive loss	\$ (30)	\$ (203)
Net loss per share data:		
Basic		
Net loss per share	\$ (0.01)	\$ (0.06)
Weighted average shares	3,395,521	3,395,521
Diluted		
Net loss per share	\$ (0.01)	\$ (0.06)
Weighted average shares	3,395,521	3,395,521

See accompanying notes to unaudited condensed financial statements

ELECTRO-SENSORS, INC.
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands except share and per share amounts)

	<u>Common Stock Issued</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance, December 31, 2018	3,395,521	\$ 339	\$ 2,019	\$ 10,335	\$ 32	\$ 12,725
Other comprehensive income					1	1
Stock-based compensation expense			3			3
Net loss				(31)		(31)
Balance, March 31, 2019 (unaudited)	3,395,521	339	2,022	10,304	33	12,698
Balance, December 30, 2017	3,395,521	339	2,004	10,352	12	12,707
Other comprehensive loss					(1)	(1)
Stock-based compensation expense			4			4
Change in accounting policy				(7)	7	0
Net loss				(202)		(202)
Balance, March 31, 2018 (unaudited)	<u>3,395,521</u>	<u>\$ 339</u>	<u>\$ 2,008</u>	<u>\$ 10,143</u>	<u>\$ 18</u>	<u>\$ 12,508</u>

See accompanying notes to unaudited condensed financial statements

ELECTRO-SENSORS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2019	2018
Cash flows used in operating activities		
Net loss	\$ (31)	\$ (202)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	77	79
Deferred income taxes	3	19
Stock-based compensation expense	3	4
Interest accrued on treasury bills	(44)	(22)
Change in:		
Trade receivables	(179)	47
Inventories	(20)	(27)
Other current assets	(12)	(30)
Accounts payable	91	(50)
Accrued expenses	12	20
Income tax receivable	(12)	(73)
Net cash used in operating activities	(112)	(235)
Cash flows from investing activities		
Purchases of treasury bills	(3,945)	(3,973)
Proceeds from the maturity of treasury bills	4,000	4,000
Purchase of property and equipment	(45)	(4)
Net cash from investing activities	10	23
Cash flows used in financing activities		
Payments on financing lease	(1)	0
Payment of contingent earn-out	0	(150)
Net cash used in financing activities	(1)	(150)
Net decrease in cash and cash equivalents	(103)	(362)
Cash and cash equivalents, beginning	1,057	963
Cash and cash equivalents, ending	<u><u>\$ 954</u></u>	<u><u>\$ 601</u></u>
Supplemental cash flow information		
Cash paid for income taxes	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

See accompanying notes to unaudited condensed financial statements

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2019
(in thousands except share and per share amounts)
(unaudited)

Note 1. Basis of Presentation

The accompanying unaudited 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 and regulations of the Securities and Exchange Commission to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

This report should be read together with the Company's Annual Report on Form 10-K for the year ended December 31, 2018, including the audited financial statements and footnotes therein.

Management believes that the unaudited financial statements include all adjustments, consisting of normal recurring accruals, necessary to fairly state the financial position and results of operations as of March 31, 2019 and for the three-month period then ended in accordance with accounting principles generally accepted in the United States of America. The results of interim periods may not be indicative of results to be expected for the year.

Nature of Business

Electro-Sensors, Inc. manufactures and markets a complete line of monitoring and control systems for a variety of industrial machinery. The Company uses leading-edge technology to continuously improve its products and expand the number of applications they can be used in, with the goal of manufacturing the industry-preferred product for every market served. The Company sells these products through an internal sales staff, manufacturers' representatives, and distributors to a wide variety of industries that use the products in a variety of applications to monitor process machinery operations. The Company markets its products to customers located throughout the United States, Canada, Latin America, Europe, and Asia.

Revenue Recognition

At contract inception, the Company assesses the goods and services promised to a customer and identifies a performance obligation for each promised good or service that is distinct. We also determine the transaction price for each performance obligation at contract inception. Our contracts, generally in the form of a purchase order, specify the product or service that is promised to the customer. The typical contract life is less than one month and contains a single performance obligation, to provide conforming goods or services to the customer. On some contracts, we have a second performance obligation which typically, is the initialization of the HazardPRO product. For contracts that have multiple performance obligations, we allocate the transaction price to each performance obligation using the relative stand-alone selling price. We generally determine stand-alone selling prices based on the observable stand-alone prices charged to customers. We recognize product revenue at the point in time when control of the product is transferred to the customer, which typically occurs when we ship the products. We recognize service revenue at the point in time when we have provided the service.

Fair Value Measurements

The carrying value of trade receivables, accounts payable, and other financial working capital items approximates fair value at March 31, 2019 and December 31, 2018, due to the short maturity nature of these instruments.

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2019
(in thousands except share and per share amounts)
(unaudited)

Stock-Based Compensation

The Company records compensation expense for stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes-Merton (“BSM”) option pricing model. The Company uses historical data, among other factors, to estimate the expected price volatility, the expected option life, and the expected forfeiture rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option.

As of March 31, 2019, there was approximately \$23 of unrecognized compensation expense related to unvested stock options. The Company expects to recognize this expense over the next three years.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates, including the underlying assumptions, consist of economic lives of long-lived assets, realizability of trade receivables, valuation of deferred tax assets/liabilities, inventory, investments, contingent earn-out, and stock compensation expense. It is at least reasonably possible that these estimates may change in the near term.

Net Loss per Common Share

Basic and diluted net loss per common share is determined by dividing net loss attributable to common stockholders by the weighted-average common shares outstanding during the period. For the three-month periods ended March 31, 2019 and 2018, the common shares underlying stock options have been excluded from the calculation because their effect would be anti-dilutive. Therefore, the weighted-average shares outstanding used to calculate both basic and diluted loss per common shares are the same.

For the three months ended March 31, 2019 and 2018 options to purchase 332,500 and 307,500 weighted average common shares, respectively, have been excluded from the computations of diluted weighted-average shares outstanding because their effect would be anti-dilutive.

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2019
(in thousands except share and per share amounts)
(unaudited)

Note 2. Investments

The Company has investments in commercial paper, Treasury Bills, and common equity securities of a private U.S. company. The commercial paper investment is in U.S. debt with ratings of A-1+, P-1, and F1+. The Treasury Bills have remaining terms ranging from one month to eight months at March 31, 2019.

The Company classifies its investments in commercial paper and Treasury Bills as available-for-sale, accounted for at fair value with unrealized gains and losses recognized in accumulated other comprehensive gain on the balance sheet.

Prior to January 1, 2018, the Company accounted for equity securities at fair value with unrealized gains and losses recognized in accumulated other comprehensive gain on the balance sheet. Realized gains and losses on equity securities sold or impaired were recognized in non-operating income on the statement of comprehensive income (loss).

On January 1, 2018, the Company adopted ASU 2016-01, which changed how the Company accounted for equity securities. Equity securities are now measured at fair value and starting January 1, 2018 unrealized gains and losses have been recognized in non-operating income. Upon adoption, the Company reclassified \$7 of net unrealized losses related to equity securities from accumulated other comprehensive gain to retained earnings.

The cost and estimated fair value of the Company's investments are as follows:

	Cost	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2019				
Commercial Paper	\$ 722	\$ 0	\$ 0	\$ 722
Treasury Bills	7,645	42	0	7,687
Equity Securities	45	0	0	45
	8,412	42	0	8,454
Less Cash Equivalents	722	0	0	722
Total Investments, March 31, 2019	<u>\$ 7,690</u>	<u>\$ 42</u>	<u>\$ 0</u>	<u>\$ 7,732</u>
December 31, 2018				
Commercial Paper	\$ 667	\$ 0	\$ 0	\$ 667
Treasury Bills	7,656	41	0	7,697
Equity Securities	45	0	0	45
	8,368	41	0	8,409
Less Cash Equivalents	667	0	0	667
Total Investments, December 31, 2018	<u>\$ 7,701</u>	<u>\$ 41</u>	<u>\$ 0</u>	<u>\$ 7,742</u>

ELECTRO-SENSORS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2019
(in thousands except share and per share amounts)
(unaudited)

Note 3. Fair Value Measurements

The following table provides information on those assets and liabilities measured at fair value on a recurring basis.

March 31, 2019

	Carrying amount		Fair Value Measurement Using		
	in balance sheet	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash equivalents					
Commercial paper	\$ 722	\$ 722	\$ 722	\$ 0	\$ 0
Treasury bills	7,687	7,687	7,687	0	0
Equity Securities	45	45	0	0	45

December 31, 2018

	Carrying amount		Fair Value Measurement Using		
	in balance sheet	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash equivalents					
Commercial paper	\$ 667	\$ 667	\$ 667	\$ 0	\$ 0
Treasury bills	7,697	7,697	7,697	0	0
Equity Securities	45	45	0	0	45

The fair value of the commercial paper and treasury bills is based on quoted market prices in an active market. There is no public market for the available-for-sale equity security owned by the Company. The Company has determined the fair value for this equity security based on financial and other factors that are considered level 3 inputs in the fair value hierarchy.

The change in level 3 liabilities at fair value on a recurring basis for the three months ended March 31, 2018 are as follows:

	Three Months Ended March 31, 2018
Beginning Balance	\$ 150
Change in Fair Value	0
Payments	(150)
Ending Balance	<u>\$ 0</u>

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This Form 10-Q 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 our expectations, beliefs, intentions or strategies regarding the future. Forward-looking statements include, but are not limited to, statements relating to our marketing efforts; our efforts to accelerate future growth or income; our business development activities; our efforts to maintain or reduce production costs; our expected use of cash on hand; our cash requirements; and the sufficiency of our cash flows. Any statement that is not based solely upon historical facts, including our strategies for the future and the outcome of events that have not yet occurred, is a forward-looking statement.

All forward-looking statements in this document are based on information available to us as of the date of this Form 10-Q, and we assume no obligation to update any of these forward-looking statements, other than as required by law. Our actual results could differ materially from those projected or indicated in these forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause future results to differ materially from our recent results or those projected in the forward-looking statements, including the accuracy of management’s assumptions with respect to industry trends, fluctuations in industry conditions, the accuracy of management’s assumptions regarding expenses and our cash needs and those listed under the heading “Cautionary Statements” under “Item 1—Business,” in our Annual Report on Form 10-K for the year ended December 31, 2018.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make decisions based upon estimates, assumptions, and factors it considers relevant to the circumstances. These decisions include the selection of applicable accounting principles and the use of judgment in their application, and affect reported amounts and disclosures. Changes in economic conditions or other business circumstances may affect the outcomes of management’s estimates and assumptions. An in-depth description of our accounting estimates can be found in the interim financial statements included in this report and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. We have not developed new estimates subsequent to those discussed in our Annual Report.

SELECTED FINANCIAL INFORMATION

The following table contains selected financial information, for the periods indicated, from our statements of comprehensive loss expressed as a percentage of net sales.

	Three Months Ended March 31,	
	2019	2018
Net sales	100.0 %	100.0 %
Cost of goods sold	46.9	46.6
Gross profit	53.1	53.4
Operating expenses		
Selling and marketing	24.1	25.3
General and administrative	23.5	31.0
Research and development	9.8	13.4
Total operating expenses	57.4	69.7
Operating loss	(4.3)	(16.3)
Non-operating income		
Interest income	2.2	1.3
Other income	0.1	0.1
Total non-operating income	2.3	1.4
Loss before income tax benefit	(2.0)	(14.9)
Benefit from income taxes	(0.4)	(3.1)
Net loss	(1.6)%	(11.8)%

The following paragraphs discuss the Company's performance for the three months ended March 31, 2019 and 2018.

RESULTS OF OPERATIONS (in thousands)

Net Sales

Net sales for the period ending March 31, 2019 were \$2,008, an increase of \$292, or 17.0%, from \$1,716 in 2018. This increase was driven by a more than 50% increase in sales from large orders, which we define as orders over \$5, as during the period customers moved forward with a number of large projects related to capacity expansion or facility modernization.

Gross Profit

Gross profit for the first quarter of 2019 increased \$151, or 16.5%, over the same period in 2018. Gross margin, as a percentage of net sales, decreased slightly in the first quarter of 2019 to 53.1%, versus 53.4% in the same period in 2018. The change in the gross margin percentage was primarily due to a change in product mix.

Operating Expenses

Total operating expenses decreased \$44, or 3.7%, for the first quarter of 2019 compared to the same period in 2018, and also decreased as a percentage of net sales to 57.4% from 69.7%.

- Selling and marketing expenses in the first quarter of 2019 increased \$50, or 11.5%, from the same period in 2018, but decreased as a percentage of net sales to 24.1% from 25.3%. The increase resulted primarily from an increase in internal sales staff compensation due to increased sales and changes in compensation plans.
- General and administrative expenses decreased \$60, or 11.3%, for the first quarter of 2019 compared to the same period in 2018, and decreased as a percentage of net sales to 23.5% from 31.0%. The decrease was due primarily to lower legal fees and lower compensation costs due to a decrease in headcount in 2019; partially offset by higher expenses related to computer supplies, software, and testing.
- Research and development expenses decreased \$34, or 14.8%, in the first quarter of 2019 from the same period in 2018, and decreased as a percentage of net sales to 9.8% from 13.4%. The decrease was due to higher contract engineering costs related to product enhancements completed in the first quarter of last year.

Non-Operating Income

Non-operating income, consisting primarily of interest income, increased by \$21, or 84.0%, for the first quarter of 2019 compared to the same period in 2018. The increase was primarily due to higher interest income primarily the result of higher interest rates on Treasury Bills.

Loss Before Income Tax Benefit

Loss before income tax benefit was \$40 for the first quarter of 2019, representing a decrease in the first quarter loss of \$216, or 84.4%, compared to a loss of \$256 for the same period in 2018. The decrease in the loss was the result of higher net sales and lower operating expenses as discussed above.

Income Taxes

The Company's income tax benefit percentage increased to 22.5% for the first quarter of 2019 from 21.1% in the first quarter of 2018.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$954 at March 31, 2019 and \$1,057 at December 31, 2018. The decrease was primarily the result of cash used in operating activities due to increased trade receivables due to the timing of sales during the quarter.

Cash used in operating activities was \$112 and \$235 for the three months ended March 31, 2019 and 2018, respectively. The \$123 decrease in cash used was due to the lower net loss in 2019 compared to 2018 and an increase in accounts payable, partially offset by an increase in trade receivables. The lower net loss in 2019, as compared to the prior year net loss, was primarily due to increased revenue and lower operating expenses for the three-month period. The increase in accounts payable is due to timing of payments. The increase in trade receivables is due to the timing of sales and collections on accounts.

Cash generated from investing activities was \$10 and \$23 for the three months ended March 31, 2019 and 2018, respectively. During the three months ended March 31, 2019 and 2018, the Company had net proceeds of Treasury Bills with a maturity date of more than three months of \$55 and \$27, respectively. In addition, we purchased \$45 and \$4 of property and equipment during the three months ended of 2019 and 2018, respectively.

Cash used in financing activities in the three months ended March 31, 2019 and 2018 was \$1 and \$150, respectively. The cash used in 2019 was principal payments on the financing lease on right-to-use assets. The cash used in 2018 was the final payment on the contingent earn-out owed for the technology purchased from Harvest Engineering, Inc. in 2014.

Our ongoing cash requirements will be primarily for capital expenditures, research and development, working capital, and growth initiatives. Management believes that our cash on hand and any cash generated from operations will be sufficient to meet our cash requirements through at least the next 12 months.

Future Business Development Activities

The Company continues to seek growth opportunities, both internally through the Company's existing portfolio of products, technologies and markets, as well as externally through technology partnerships or related-product acquisitions.

Off-balance Sheet Arrangements

As of March 31, 2019, the Company had no off-balance sheet arrangements or transactions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), were effective as of March 31, 2019.

Remediation of Previously Disclosed Material Weakness in Internal Control over Financial Reporting

As previously disclosed in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2018, management identified a material weakness as of that date. The identified material weakness was in connection with our controls over revenue recognition around period cut off. In response to the material weakness, with the oversight of the Audit Committee, we implemented changes to our internal control over financial reporting, which consisted primarily of training our personnel to properly adhere to our existing controls over revenue recognition around period cut off. We have completed documentation of these corrective actions and, based on the evidence obtained in validating the design effectiveness of the implemented control, we have concluded that the previously disclosed material weakness has been remediated as of March 31, 2019.

Changes in Internal Control Over Financial Reporting

The change described under "Remediation of Previously Disclosed Material Weakness in Internal Control over Financial Reporting" above represents a change in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the three months ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Other than this change, there were no changes in the Company's internal control over financial reporting during the first quarter of 2019 identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. As noted above, the material weakness in our controls over revenue recognition around period cutoff reported in our annual report at December 31, 2018 has been fully remediated as of March 31, 2019.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings – None

Item 1A. Risk Factors – Not Applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – None

Item 3. Defaults Upon Senior Securities – None

Item 4. Mine Safety Disclosures – Not Applicable

Item 5. Other Information – None

Item 6. Exhibits

Exhibit	Description
31.1	Certification of CEO and CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of CEO and CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from Electro-Sensors, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019, formatted in eXtensible Business Reporting Language XBRL: (i) Condensed Balance Sheets as of March 31, 2019 and December 31, 2018, (ii) Condensed Statements of Comprehensive Loss for the three months ended March 31, 2019 and March 31, 2018, (iii) Condensed Statements of Cash Flows for the three months ended March 31, 2019 and March 31, 2018, (iv) Condensed Statements of Changes in Stockholders' Equity for the Three Months ended March 31, 2019 and March 31, 2018, and (v) Notes to Financial Statements.

SIGNATURES

Pursuant to 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, 2019

/s/ David L. Klenk

David L. Klenk
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial
Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY-ACT OF 2002**

I, David L. Klenk, certify that:

1. I have reviewed this report on Form 10-Q of Electro-Sensors Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 13, 2019

/s/ David L. Klenk

David L. Klenk
Chief Executive Officer and Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Electro-Sensors, Inc. (the “Company”) on Form 10-Q for the quarter ended March 31, 2019 as filed with the Securities and Exchange Commission (the “Report”), I, David L. Klenk, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 13, 2019

/s/ David L. Klenk
David L. Klenk
Chief Executive Officer and Chief Financial Officer