ELECTRO SENSORS INC
Form 10-K
March 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2009

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

Commission file number 0-9587

ELECTRO-SENSORS, INC.

(Exact name of registrant 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, including zip code)

(952) 930-0100
(Registrant s telephone number)

Securities registered under Section 12(b) of the Exchange Act:
Common Stock, $0.10 par value, registered on the NASDAQ (Capital) Market
Securities registered under Section 12(g) of the Exchange Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No x

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K 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-K or any amendment to this Form 10-K. x

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

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

The aggregate market value of the voting stock held by non-affiliates (persons other than officers, directors, or holders of more than 5% of the outstanding stock) of the registrant was approximately $5,400,000 based upon the closing price of the Common Stock as reported on The Nasdaq Stock Market® on March 4, 2010.

The number of shares outstanding of the registrant s Common Stock, $0.10 par value, on March 4, 2010 was 3,380,290.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information called for by Part III of this Form 10-K is incorporated by reference from the registrant s Definitive Proxy Statement which will be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

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PART I

Item 1. Business.

Introduction

Electro-Sensors, Inc. (we , us , our , the Company or ESI) is engaged in two distinct operating segments: (1) the manufacture and distribution of industrial production monitoring and process control systems through our Production Monitoring Division, and (2) the development and distribution of PC-based software for both automated survey processing and hand printed character recognition through our AutoData Systems Division. The operating segments are based on the markets that we serve and the products that we provide to those markets.

In addition, through our subsidiary ESI Investment Company, we periodically make strategic investments in other businesses and companies, primarily when we believe that such investments will facilitate development of technology complementary to our existing products. Although we invest in other businesses and companies through our subsidiary ESI Investment Company, we do not intend to become an investment company and intend to remain primarily an operating company. Our primary investments are 343,267 shares of Rudolph Technologies, Inc. and 551,759 shares of PPT Vision, Inc. The Rudolph Technologies, Inc. investment is accounted for using the available-for-sale method. The PPT Vision investment is accounted for under the equity method of accounting.

Unless indicated otherwise, the terms Company and ESI when used herein, includes Electro-Sensors, Inc. and its consolidated subsidiaries. As of December 31, 2009, ESI had two consolidated subsidiaries: ESI Investment Company and Senstar Corporation. Senstar Corporation does not have any business operations.

ESI, incorporated in Minnesota in July 1968, has executive offices located at 6111 Blue Circle Drive, Minnetonka, Minnesota, 55343 and telephone number (952) 930-0100.

Operating Segments/Principal Products/Markets
We have three reportable operating segments based on the nature of our product lines: Production Monitoring, AutoData Systems Division, and Investments. Detailed financial results and segment information are provided below in Part II, Item 8, *Financial Statements and Supplementary Data Notes to Consolidated Financial Statements, Note 11, Segment Information*.

Production Monitoring Division

Our Production Monitoring Division manufactures and sells several different types of monitoring systems that measure actual machine production and operation rates, as well as systems that regulate the speed of related machines in production processes.

Speed Monitoring Systems. Our original products, speed monitoring systems, compare machine revolutions per minute or speed against acceptable rates as determined by the customer. The monitors generally have the same relative operating principle and use a non-contacting sensing head that translates the speed of a rotating shaft into analog readouts. The systems include a signal-generating pulser disc or wrap that attaches to a rotating shaft, the sensing device, and a control unit. The systems vary in complexity, from a simple system that detects slow-downs or stoppages, to more sophisticated systems that warn of deviations from precise tolerances and that permit various subsidiary operations to be determined through monitoring the shaft speed.

The speed monitoring systems include a line of digital products that translate sensor impulses from its production monitoring systems into digital readouts indicating production counts or rates, such as parts, gallons, or board feet. The speed monitoring systems also include alarm systems, tachometers, and other devices that translate impulses from the sensors into alarm signals, computer inputs, or digital displays that are usable by the customer.

Three production monitoring devices that do not operate by measuring shaft speeds are also in the speed monitoring systems product line. These devices are the tilt switch, vibration monitor, and slide gate position monitor. A tilt switch is designed to alert the operator when a storage bin or production system reaches a certain capacity (*e.g.,* when grain fills a silo). A vibration monitor will alert an operator when the vibration of a machine in a production system exceeds or is below a specified level. The slide gate position monitor is used in plant operations to provide feedback of the position of a slide gate. As part of our Electro-Sentry Hazard Monitoring system, we also have temperature sensors that are used to monitor bearing temperature and belt misalignment.

Drive Control Systems. In 1987, we expanded our speed monitoring systems product line to include products that regulate and synchronize machine speeds. Drive Control System products not only monitor machine operation levels, but also regulate the speed of motors on related machines in a production sequence to ensure that the performances of various operations are coordinated. In the past, these distinct features allowed us to market these products under the Drive Control Systems name. The product line consists of a line of digital control products for motors that require a complete closed loop PID (Proportional Integral Derivative) control. The closed loop controllers coordinate production speed among process motors and reduce waste.

In 1988, we entered into a sales agreement with Motrona GmbH (the West German manufacturer of a Synchronous Drive Controller (SDC) product line), giving us rights to distribute in the United States the drive control products manufactured by Motrona GmbH. The SDC product line manufactured by Motrona GmbH coordinates motors in a production machine with other parts of the machine process. The SDC products were designed as a precision speed reference for use with variable speed drives and to enable manufacturers to match speed/velocity and phase/position of independently driven machines so they operate together. Applications include synchronizing overhead and floor conveyors and load sharing of multiple motors.

We believe that manufacturing companies can achieve significant savings in both time and materials by adding drive control technology to existing manufacturing processes to coordinate operation of related machines. We intend to continue to market our products to this retro-fit market and also to companies building new manufacturing machinery or processing systems.

In 2008, we introduced our Electro-Sentry Hazard Monitoring System which integrates our sensors for bearing temperature, belt misalignment, and shaft speed with a programmable logic controller and touch screen interface to create a complete system for hazard monitoring. By doing this, we are enabling our customer to locate which part of the material handling system is operating incorrectly, typically in less than ten seconds. This is done by using visual diagrams on the touch screen.

We expect to continue to expend resources in development and marketing of our various Production Monitoring Systems throughout 2010.

AutoData Systems Division

AutoData became an operating segment in January 1993. We initially began development of the AutoData Systems Division (AutoData) as a development project chartered to create opportunities using proprietary pattern recognition technology. The current outcome of the project is two Microsoft® Windows®-based software programs that automate the collection of data from surveys and other forms. AutoData software reads hand-printed characters, checkmarks, and barcodes from images of scanned forms or from forms filled out online.

By automatically extracting information from paper forms and converting it into a format compatible with most computer databases, AutoData offers an alternative to manual data entry. This intelligent data entry alternative saves time, strain, and money compared to the manual method of data entry. The basis of the handprint reading capability is Associative Pattern Memory (APM), a patented pattern recognition algorithm. APM is a trainable, neural network-based memory that was incorporated in a Dynamic Link Library (DLL) and is used in the products currently sold by AutoData. The APM patent is owned by PPT Vision and AutoData has been granted an exclusive open-ended license to use the patent.

AutoData released AutoData Scannable Office software in March 2000. Scannable Office was the product replacement for PRO and provided an upgrade path for PRO customers. Scannable Office offered a key enhancement: integration with the Microsoft Office Suite. Scannable Office allows the user to create scannable forms in Microsoft Word. The software reads data from images of completed forms and automatically places the extracted data directly into Microsoft® Excel, Access, or any ODBC-compliant database, setting data up for analysis. Scannable Office has the widest recognition capabilities of the AutoData end-user products; it contains hand print (ICR), optical character (OCR), optical mark (OMR) and barcode recognition engines, and image capture capability.

In December 2002, we released AutoData ExpertScan . ExpertScan has hand print (ICR), optical mark (OMR) and barcode recognition engines, and image capture capability. Like Survey Plus 2000, ExpertScan automates survey and form processing, as well as tabulation of results. The product offers several form design and reporting enhancements. It has also been sold as an upgrade to Survey Plus 2000, which was retired in January 2005. ExpertScan provides a mid-range option for prospective AutoData customers. The most recent software, NetE-nable , a web add-on to ExpertScan released in August 2007, completes the Company s AutoData product offerings. Prospective customers frequently call AutoData in search of a single software program that combines both paper and web data collection, while existing ExpertScan customers have expressed a desire for web functionality. ExpertScan with NetE-nable fulfills both of these needs, and provides a single database (paper and web data combined) from which ExpertScan creates reports and analysis.

NetE-nable offers a more convenient way for people to respond on a survey or form to what an organization needs to know, in ways the customer or respondent might not if provided with only paper forms.

A major advantage of this new product is that it allows data from both paper and electronic forms to be collected by the same software in one easy-to-use package. Another big advantage is that no additional hardware is needed. Online forms are stored on the NetE-nable server in a secure environment along with any data that is collected.

The NetE-nable Wizard permits the user to transform any survey or form already created in ExpertScan into an online form. It only takes about seven clicks of the mouse to complete the process of publishing a form or survey to the Web. In four clicks, NetE-nable retrieves the data from the online form into the Access database that ExpertScan built automatically when the form was originally designed. Paper and Web form data automatically populates the same Access database, and the ExpertScan reports generator analyzes that data and creates a variety of reports.

The typical customer for NetE-nable is any current ExpertScan customer, as well as any future customers of ExpertScan software, which is a prerequisite for purchasing NetE-nable.

ExpertScan with NetE-nable continues to be a successful addition to the AutoData product line.

Marketing and Distribution

Production Monitoring Division. The Production Monitoring Division sells its products primarily through home office sales people who deal directly with customers and a number of manufacturer s representatives and distributors located throughout the United States, Mexico, China, Canada, Peru, Chile, Bolivia, Colombia, Thailand, Israel, Malaysia, Singapore, Great Britain, and South Africa. The sensing and control units are sold under the Electro-Sensors, Inc. brand as a range of products from simple sensors to complex motor speed controllers. These products are sold to businesses in all major standard industrial classifications, including grain, feed, biofuels, food processing, chemicals, agricultural, mining, utility, forest products, steel, tire, glass and electronics. Any business that uses machinery with a rotating shaft is a potential customer.

We advertise in national industrial periodicals that cover a wide range of industrial products and attend several national and international tradeshows designated for the industry throughout the year. A corporate website and other related industry websites are also used for advertising and marketing purposes. We expect to continue to market our products in this and related markets.

AutoData Systems Division. The AutoData Systems Division markets its products primarily through home office sales personnel who deal directly with end-users and a limited number of Value-Added Resellers (VARs). This division primarily sells in the United States, Canada and Western Europe, and currently actively markets only in the U.S.

Competition

Production Monitoring Division. Competition for our monitoring products arises from a broad range of industrial and commercial businesses. Design, quality and multiplicity of application, rather than price, are the focus of competition in selling these products. We face substantial competition for our production monitoring systems. Many of these competitors are well established and larger than us in terms of total sales volume. Among our larger competitors are Danaher Controls, Red Lion Controls, Control Concepts, 4B Elevator Components Ltd., Durant Corporation, and Contrex, Inc. We believe our competitive advantages include that our products are sold as ready-to-install units and that our products have a wide range of applications. Our major disadvantages include the fact that our major competitors are much larger, have a broader variety of sensing instruments, and have larger sales forces and established names.

AutoData Systems Division. Competition for the market segment primarily ranges from substitute products such as Data Entry suppliers, to directly competitive software suppliers, and suppliers of web-based survey software and services. We believe that few direct competitors have as sophisticated recognition capabilities as our products. However, our products face direct competition from both ends of the spectrum: larger competitors offering a broader array of software products and services, and firms similar in size that offer a low-priced, more limited product.

The market is segmented based primarily on price and capabilities, with the larger firms, notably Cardiff Software and Captiva Software, offering enterprise-wide systems with broad information capture capabilities. Our products are focused on desktop, rather than enterprise-wide, solutions, positioning our products as most appropriate to small offices and departments of larger organizations.

Because price is a primary competitive factor, we are subject to increasing pressures to make price adjustments to remain competitive. Such downward price adjustments, if any, may have an adverse impact on our results of operations if not offset by an increase in revenues and/or a reduction in expenses.

Suppliers

Production Monitoring Division. The Production Monitoring Division purchases parts and materials for its production monitoring systems from various manufacturers and distributors. In some instances, these materials are manufactured in accordance with proprietary designs. Multiple sources of these supplies and materials are readily available, and the Production Monitoring Division is not dependent on any single source for these supplies and materials. This Division has not experienced any problem of short supply or delays from its suppliers.

AutoData Systems Division. The AutoData Systems Division purchases a variety of supplies and materials from various vendors and is not dependent upon any one source.

We purchase a variety of parts, components, and other supplies from a variety of vendors for both of our operating divisions. While we usually have more than a single source of supply for those various parts, components and supplies, it is possible occasionally that there will be only one supplier for any single part, component or supply. Should a supplier be unwilling or unable to supply such an item in a timely manner, our business could be materially adversely affected.

Customers

We are not dependent upon a single or a few customers for a material (10% or more) portion of our sales in any of our operating divisions.

Patents, Trademarks and Licenses

The names Electro-Sensors and AutoData are trademarks registered with the U.S. Patent and Trademark Office, respectively as Reg. No. 1,142,310 and Reg. No. 1,874,543. We believe our trademarks have been and will continue to be useful in developing and protecting market recognition for our products.

We hold four patents relating to our Production Monitoring Systems, and have obtained six patents related to our character recognition technology. We have also entered into an open-ended license agreement with Motrona GmbH, a manufacturer of a Synchronous Drive Controller (SDC) product line, which grants us rights to distribute in the United States the drive control products manufactured by Motrona GmbH.

PPT Vision, Inc. has granted us an exclusive open-ended license that allows us to incorporate a patented neural network algorithm in our products. AutoData Systems Division uses this algorithm in its character recognition technology.

Governmental Approvals

We are not required to obtain governmental approval of our products.

Effect of Governmental Regulations

We do not believe that any existing or proposed governmental regulations will have a material effect on our business.

Research and Development

We invest in research and development programs to develop new products in related markets and to integrate state of the art technology into existing products.

Research and development expense (by division) during the past two fiscal years was:

Production Monitoring Division:

2009: $442,000
2008: $431,000

Our development projects for this division are undertaken based upon the identified specific needs of our customer base.

AutoData Systems Division:

2009: $201,000
2008: $199,000

We have continued to fund the AutoData Systems Division s development activities. The goal is to create low-cost software-based systems that enable accurate reading of hand-printed characters and other form elements used on paper forms, as well as software that allows creation of forms that are completed online when participants click on a URL generated by the software, with storing of the form data on an AutoData secure server and retrieval by the software to a database for built-in reports and analysis.

Our future success is dependent in part upon our ability to develop new products in our varying segments. Difficulties or delays in our ability to develop, produce, test and market new products could have a material adverse effect on future sales growth.

Compliance with Environmental Laws

Compliance with federal, state and local environmental provisions has only a nominal effect on current or anticipated capital expenditures and has had no material effect on earnings or on our competitive position.

Employees

As of March 4, 2010, we had 32 employees, of which 31 are full-time and one is part-time. We believe that our relations with our employees are good.

Our ability to maintain a competitive position and to continue to develop and market new products depends, in part, on our ability to retain key employees and qualified personnel. If we are unable to retain and/or recruit key employees, product development, marketing and sales could be negatively impacted.

Fluctuations in Operating Results. We have experienced fluctuations in our operating results in the past, and may experience fluctuations in the future, which may affect the market price of our Common Stock. Sales can fluctuate as a result of a variety of factors, many of which are beyond our control. Some of theses factors are: product competition and acceptance, timing of customer orders, cancellation of orders, the mix of products sold, downturns in the market and economic disruptions. Because fluctuations can happen, we caution investors that results of our operations for preceding periods may not be indicative of how we will perform in the future. There can be no assurance that we will experience continued earnings growth.

Further, investments held by our subsidiary, ESI Investment Company, are subject to significant positive and negative changes in value. In particular, our significant investment in Rudolph Technologies, Inc. has experienced substantial value fluctuations, both negative and positive, which are expected to continue. Our current intention is to continue to gradually liquidate our investment securities to finance our working capital needs as required.

Expending Funds for Changes in Industry Standards, Customer Preferences or Technology. Our business depends upon periodically introducing new and enhanced products and solutions for customer needs. The development of products requires us to commit financial resources, personnel and time, usually in advance of significant market demand for such products. In order to compete, we must anticipate both future demand and the technology available to meet that demand. There can be no assurance that our research and development efforts will lead to new products or product innovations that can be made available to or will be accepted by the market.

Cautionary Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. We have made, and may continue to make, forward-looking statements with respect to our business and financial matters, including statements contained in this document, other filings with the Securities and Exchange Commission, and reports to shareholders. Forward-looking statements generally include discussion of current expectations or forecasts of future events and can be identified by the use of terminology such as believe, estimate, expect, intend, may, could, will, and similar words or expressions. Any statement that does not relate solely to historical fact sho considered forward-looking. Our forward-looking statements generally relate to our growth strategy, future financial results, product development and sales efforts. Forward-looking statements are made throughout this Annual Report, but primarily in this Item 1 and Item 7 - *Management s Discussion and Analysis of Financial Condition and Results of Operations*, and include statements relating to management s intentions that we not become an investment company, our expectations and intentions with respect to growth, statements relating to management s beliefs with respect to the spending slowdown in our market segments, marketing and product development, our expectations and beliefs with respect to the value of our intellectual property, our beliefs with respect to our competitive position in the marketplace, our intention with respect to gradually liquidating our investment securities to finance working capital needs, our expectations and beliefs with respect to the future performance of our investment securities, the adequacy of our facilities, expansion of the number of our manufacturer s representatives and exclusive distributors, our intention to develop new products, the possibility of acquiring compatible businesses as part of our growth strategy, our expectations with respect to our cash requirements and use of cash, our intention to hold our Treasury Bills until maturity, and our expectations with respect to the continuance of our quarterly dividend payments. Forward-looking statements cannot be guaranteed and actual results may vary materially due to the uncertainties and risks, known and unknown, associated with such statements, including our ability to successfully develop new products and manage our cash requirements. We undertake no obligations to update any forward-looking statements. We wish to caution investors that the following important factors, among others, in some cases have affected and in the future could affect our actual results of operations and cause such results to differ materially from those anticipated in forward-looking statements made in this document and elsewhere by us or on our behalf. It is not possible to foresee or identify all factors that could cause actual results to differ from expected or historical results. As such, investors should not consider any list of such factors to be an exhaustive statement of all risks, uncertainties or potentially inaccurate assumptions. These factors include:

- our ability to successfully develop new products;
- our ability to quickly and successfully adapt to changing industry technological standards;
- our ability to comply with existing and changing industry regulations;
- our ability to manage cash requirements;
- our ability to attract and retain new manufacturer s representatives and exclusive distributors;
- our ability to attract and retain key personnel, including senior management;
- our ability to adapt to changing economic conditions and manage downturns in the economy in general; and
- our ability to keep pace with competitors, some of whom are much larger and have substantially greater resources than us.

Item 1A. Risk Factors.

Not applicable.

Item 2. Properties.

We own and occupy a 25,400 square foot facility at 6111 Blue Circle Drive, Minnetonka, Minnesota 55343. All operating entities are located within this facility. The facility is in excellent condition and we continue to maintain and update the facility as necessary. The facility is anticipated to be adequate for our needs in 2010.

Item 3. Legal Proceedings.

We were not the subject of any legal proceedings as of the date of this filing. We are not aware of any threatened litigation.

Item 4. [Reserved]

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our Common Stock trades on the Nasdaq Capital Market of The Nasdaq Stock Market® under the symbol ELSE . The following table sets forth the quarterly high and low reported last sales prices for our Common Stock for each period indicated as reported on the Nasdaq system.

	Period	High	Low
2009	First Quarter	$ 3.59	$ 1.69
	Second Quarter	$ 3.15	$ 2.03
	Third Quarter	$ 3.11	$ 2.35
	Fourth Quarter	$ 4.18	$ 2.74
2008	First Quarter	$ 5.92	$ 4.27
	Second Quarter	$ 5.53	$ 4.25
	Third Quarter	$ 4.96	$ 3.71
	Fourth Quarter	$ 3.99	$ 2.51

Based on data provided by our transfer agent, management believes that as of March 5, 2010, the number of share owner accounts of record was approximately 117.

We paid cash dividends on our Common Stock of $0.16 per share in 2009 and 2008.

From time to time, we may be required to repurchase some of our securities as a result of obligations described in Note 9 to our 2009 consolidated financial statements. We did not repurchase any equity securities during the years ended December 31, 2009 and 2008.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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. Such decisions include the selection of applicable accounting principles and the use of judgment in their application, the results of which impact reported amounts and disclosures. Changes in economic conditions or other business circumstances may affect the outcomes of management s estimates and assumptions.

RESULTS OF OPERATIONS

Comparison of Fiscal Year 2009 vs. Fiscal Year 2008

Net Revenues

Net revenues for fiscal year 2009 decreased $828,000 to $5,901,000, or 12.3%, when compared to net revenues for fiscal year 2008.

Net revenues for the Production Monitoring Division decreased to $5,521,000, a decrease of $672,000, or 10.9%, when comparing fiscal year 2009 to fiscal year 2008. The Production Monitoring Division experienced a decrease in net sales for the year ended December 31, 2009 due in large part to the lagging world-wide economy. We continue to be impacted by a slowing of capital spending on plant construction and expansion projects in 2009, which has affected all product categories. The recent economic turmoil has resulted in a slowdown in spending across all of our major market segments, which management expects to continue into 2010. We have continued to expand the joint sales calls and training with all of our sales channel partners in order to increase their knowledge and our continued outreach to our clients. Throughout 2010, we expect to continue to expand the number of manufacturer s representatives and exclusive distributors. Our corporate web site provides significant information and product application knowledge to existing and prospective customers and also direct knowledge to our sales partners. New products developed and added to the product line in 2009 include an expanded Electro-Sentry Hazard Monitoring system & new versions of various sensors for hazardous installations.

We will continue to develop new products that broaden the Electro-Sentry hazard monitoring line and provide complete monitoring solutions to our customers. The customers for our Production Monitoring Division have diverse applications for our products in the grain, feed, bio-fuels, power generation, mining, chemical, and other processing areas. We are continuing to look for new industries to expand sales for our Production Monitoring Division. We may also consider acquiring compatible businesses as part of our growth strategy.

Net revenues for the AutoData Systems Division decreased to $380,000, a decrease of $156,000, or 29.1%, when comparing fiscal year 2009 to fiscal year 2008. This decrease was primarily due to decreased sales of the ExpertScan and Scannable Office software products and related hardware needs due to the general economic slowdown and the uncertainty of the impact the pending healthcare reform may have on the revenues of our healthcare customers.

NetE-nable, the web add-on to ExpertScan software, was released at the end of August 2007. ExpertScan with NetE-nable makes automated data collection faster, easier and more cost-effective. After initially slow sales because of the number of established competitors in the online form market, sales of NetE-nable remained steady throughout 2008. Sales in 2009 slowed significantly, however, due to the funding for non-profits and governmental entities tightening as a result of the economic turmoil during 2009. However, NetE-nable has the competitive advantage of offering one software program for both paper and electronic forms, and AutoData expects additional revenue from sales of NetE-nable to gradually return and increase during 2010, augmenting revenue from the ExpertScan and Scannable Office software programs.

Cost of Sales

Our cost of sales decreased from $2,546,000 to $2,436,000, a difference of $110,000, or 4.3%, when comparing fiscal year 2009 to fiscal year 2008. This decrease was primarily a result of decreased sales. We continue our efforts to maintain or reduce production costs by manufacturing products in the most cost effective manner. We continually look for lower cost sources of raw materials and outsource PC Board assembly when appropriate.

Gross Margins

Gross margin for the fiscal year 2009 was 58.7% versus 62.2% for the prior fiscal year. The decrease in gross margin was due to an increase in relative sales volume of lower margin, higher-priced items within the Production Monitoring Division. Gross margin for the Production Monitoring Division for the fiscal year ending December 31, 2009 and 2008 was 56.7% and 59.8%, respectively. The primary cause of the decrease in the gross margin was due to an increase in relative sales volume of lower margin, higher-priced items. Gross margin for the AutoData Systems Division for the fiscal year ending December 31, 2009 and 2008 was 88.7% and 89.1%, respectively. The decrease was due to a larger hardware sales dollar volume in fiscal year 2009. Gross margins on hardware are smaller than the gross margins on software.

Operating Expenses

Total operating expenses decreased by $211,000, or 6.5%, when comparing fiscal year 2009 to fiscal year 2008. Of this increase, the Production Monitoring Division contributed a decrease in operating expenses of $174,000, or 6.2%, when comparing fiscal year 2009 to fiscal year 2008. The AutoData Systems Division had a decrease in operating expenses of $37,000, or 8.4%, when comparing fiscal year 2009 to fiscal year 2008.

Selling and marketing costs decreased by $167,000, or 11.4%, when comparing fiscal year 2009 to fiscal year 2008. Of this decrease, the Production Monitoring Division had a decrease of $129,000, or 9.9%. The AutoData Systems Division had a decrease of $38,000, or 22.5%. The decrease from the Production Monitoring Division was due to a decrease in outside sales representatives commission due to the decrease in sales, travel expenses, tradeshows, and advertising. The decrease from the AutoData Systems Division was due to decreases in salaries and wages and benefit expense due to a decrease in personnel in marketing, a decrease in commission expenses due to decreased sales, and decreased advertising.

General and administrative costs decreased by $57,000, or 4.9%, in fiscal year 2009 compared to fiscal year 2008. Of this decrease, the Production Monitoring Division had a decrease of $56,000, or 5.1%. This decrease was primarily due to decreases in computer supplies and maintenance expenses, credit card processing fees (due to decreased sales and a decrease in rates), and depreciation expense on furniture and fixtures, offset by an increase in the cost of employee retirement programs. The AutoData Systems Division had a decrease of $1,000, or 1.4%. The decrease for the AutoData Systems Division was due to a decrease in computer supplies and maintenance expenses, offset by an increase in bad debt expense due to an adjustment in 2008 for the decline in the allowance for doubtful accounts.

Research and development costs increased $13,000, or 2.1%, in fiscal year 2009 when compared with fiscal year 2008. The Production Monitoring Division research and development costs increased $11,000, or 2.5%, and AutoData Systems Division had an increase of $2,000, or 1.0%. The increase in research and development costs in the Production Monitoring Division was due to an increase in lab testing for product certification, offset by a decrease in prototypes, which was mainly for the Electro-Sentry system in 2008. The increase in the AutoData Systems Division was due to an increase in wages and benefits and computer supplies and maintenance expenses, offset by a decrease in contractor expenses for programming related to NetEnable.

Operating Income (Loss)

Operating income for fiscal year 2009 was $411,000, compared to operating income of $918,000 in 2008, a decrease of $507,000 or 55.2%.

The Production Monitoring Division had operating income of $478,000 compared to operating income of $882,000 in 2008, a decrease of $404,000, or 45.8%. The decrease in operating income was mainly due to a decrease in net sales (due in large part to fluctuations of commodity grain and feed product prices worldwide, which negatively impacted the business of several of our customers), a decrease in our overall gross margin (from 59.8% to 56.7%, primarily due to an increase in relative sales volume of lower margin, higher-priced items), and an increase in the percentage of operating expenses to net sales (from 45.6% of net sales in 2008 to 48.0% of net sales in 2009).

The AutoData Systems Division had an operating loss of $67,000 in fiscal 2009 compared to an operating income of $36,000 for fiscal 2008, a decrease of $103,000, or 286.1%. This decrease in operating income was due primarily to a decrease in sales of software and hardware.

Non-Operating Income

ESI Investment Company continues to provide us with an alternative source of earnings through investments in available-for-sale securities; however, our intent is to remain an operations-based company. Our investments in available-for-sale securities are subject to significant positive and negative changes in value. In addition to income from the sale of investments, we also realize interest income from our short-term holdings.

Investment income for fiscal year 2009 decreased by $48,000 to $24,000. The decrease was driven by a decrease in interest income offset by the recognized loss on a $35,000 investment in Minn Shares, Inc. in 2008. The decrease of 88.3% or $83,000 in interest income earned on temporary cash investments was a result of decreased interest rates on Treasury Bills, which were 2.07% in January 2008 and 0.152% in December 2009.

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 a separate component of stockholders equity. Dividends on marketable equity securities are recognized in income when declared. Investments in unregistered securities are reported at original cost.

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.

Net Income After Tax

We reported net income after tax for fiscal year 2009 of $334,000, as compared to net income of $606,000 in 2008, a decrease of $272,000, or 44.9%. Earnings per share were $0.10 in 2009 compared to earnings per share of $0.18 in 2008.

OFF-BALANCE SHEET ARRANGEMENTS

We are not a party to any off-balance sheet transactions, arrangements or obligations that have, or are reasonably likely to have, a material effect on our financial condition, changes in the financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $746,000 and $5,529,000 at December 31, 2009 and 2008, respectively. The net decrease in our cash and cash equivalents was $4,783,000 during fiscal year 2009. The decrease was mainly due to the purchase of Treasury Bills with a maturity date of more than three months during 2009. In prior years, we purchased three month Treasury Bills, which we included in cash and cash equivalents.

Cash from operating activities of $707,000 for the year ended December 31, 2009 was primarily a result of our net income adjusted for depreciation expense on capital assets, and changes in accounts receivable, inventories, and income tax activity. Cash from operating activities increased $429,000 for the year ended December 31, 2009 when compared to the year ended December 31, 2008 due to an increase of $543,000 in inventories and a $594,000 increase in accrued income taxes, offset by a $272,000 decrease in net income and a $457,000 decrease in trade receivables. The net change in inventories was due a reduction of $331,000 at December 31, 2009 compared to the prior year and an increase of $212,000 at December 31, 2008 when compared to the prior year. The net change in accrued income taxes was due an increase of $132,000 at December 31, 2009 compared to the prior year and a decrease of $462,000 at December 31, 2008 when compared to the prior year. The net change in trade receivables was due a reduction of $205,000 at December 31, 2009 compared to the prior year and an increase of $252,000 at December 31, 2008 when compared to the prior year.

Cash used in investing activities was $4,968,000 for the year ended December 31, 2009 compared to cash provided by investing activities of $5,000 for the year ended December 31, 2008. The significant increase in cash used for investing activities was due to purchases of Treasury Bills, with a maturity date of more than three months, of $9,949,000, offset by a sale of Treasury Bills of $4,980,000. There were no such purchases or sales during the year ended December 31, 2008 because the Treasury Bills were classified as cash equivalents.

Cash used in financing activities was $522,000 and $533,000 for the years ended December 31, 2009 and 2008, respectively. During the years ended December 31, 2009 and 2008, we paid aggregate dividends of $539,000 each year. During the years ended December 31, 2009 and 2008, we had $9,000 and $6,000, respectively, in stock purchases under the Employee Stock Purchase Plan. Also, in the year ended December 31, 2009, $8,000 in stock options were exercised.

Our ongoing cash requirements will be primarily for capital expenditures, acquisitions, research and development in both the Production Monitoring and AutoData divisions, 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 next 12 months.

Our primary investments are 343,267 shares of Rudolph Technologies, Inc. (Rudolph), listed on the Nasdaq stock market and 551,759 shares of PPT Vision, Inc (PPT), listed on the Pink Sheets. The Rudolph investment is accounted for using the available-for-sale method. The PPT investment is accounted for under the equity method of accounting. The fair value of the Rudolph investment totaled $2,307,000 and $1,212,000 as of December 31, 2009 and 2008, respectively. The fair value of the PPT investment totaled $39,000 and $33,000 as of December 31, 2009 and 2008, respectively. These stocks are subject to fluctuations in price and could have a negative effect on our liquidity. Liquid securities are periodically sold as deemed appropriate by management. The market value of PPT and Rudolph stock as of February 26, 2010 was $33,000 and $2,732,000, respectively.

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. Such decisions include the selection of applicable accounting principles and the use of judgment in their application, the results of which impact reported amounts and disclosures. Changes in economic conditions or other business circumstances may affect the outcomes of management s estimates and assumptions.

Significant estimates, including the underlying assumptions, consist of the economic lives of property and equipment, realizability of accounts receivable, valuation of deferred tax assets/liabilities, valuation of inventory and valuation of investments. It is at least reasonably possible that these estimates may change in the near term.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Electro-Sensors, Inc. and Subsidiaries
Minnetonka, Minnesota

We have audited the accompanying consolidated balance sheet of Electro-Sensors, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for the fiscal years ended December 31, 2009 and 2008. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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 purposes 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Electro-Sensors, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years ended December 31, 2009 and 2008, in conformity with U.S. generally accepted accounting principles.

/s/ Boulay, Heutmaker, Zibell & Co. P.L.L.P.
Certified Public Accountants

Minneapolis, Minnesota
March 9, 2010

ELECTRO-SENSORS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(in thousands except share and per share amounts)

	December 2009		December 2008	
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**746**	$	5,529
Treasury Bills		**4,980**		0
Available-for-sale securities		**2,311**		1,215
Trade receivables, less allowance for doubtful accounts of $11 and $8, respectively		**777**		575
Inventories		**908**		1,239
Income tax receivable		**0**		117
Other current assets		**84**		87
Total current assets		**9,806**		8,762
Property and equipment, net		**1,228**		1,336
Total assets	**$**	**11,034**	$	10,098
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities				
Accounts payable	**$**	**79**	$	59
Accrued expenses		**172**		155
Deferred revenue		**76**		86
Accrued income tax		**15**		0
Deferred income tax		**877**		475
Total current liabilities		**1,219**		775
Commitments and contingencies				
Stockholders equity				
Common stock par value $0.10 per share; authorized 10,000,000 shares; issued and outstanding: 3,376,794 and 3,366,880 shares, respectively		**338**		337
Additional paid-in capital		**1,529**		1,513
Retained earnings		**6,578**		6,783
Accumulated other comprehensive income (unrealized gain on available-for-sale securities, net of income tax)		**1,370**		690
Total stockholders equity		**9,815**		9,323
Total liabilities and stockholders equity	**$**	**11,034**	$	10,098

See Notes to Consolidated Financial Statements

ELECTRO-SENSORS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands except share and per share amounts)

	Years ended December 31, 2009	2008
Net Sales	**$ 5,901**	$ 6,729
Cost of Goods Sold	**2,436**	2,546
Gross Profit	**3,465**	4,183
Operating Expenses		
Selling and marketing	**1,300**	1,467
General and administrative	**1,111**	1,168
Research and development	**643**	630
Total Operating Expenses	**3,054**	3,265
Operating Income	**411**	918
Non-operating Income (Expense):		
Gain (loss) on investment securities	**4**	(33)
Interest income	**11**	94
Other income	**9**	11
Total Non-operating Income	**24**	72
Income before Income Taxes	**435**	990
Federal and State Income Taxes	**101**	384
Net Income	**$ 334**	$ 606
Net Income per share data		
Basic		
Net income per share	**$ .10**	$ .18
Weighted average shares	**3,370,822**	3,366,493
Diluted		
Net income per share	**$ .10**	$ .18
Weighted average shares	**3,400,383**	3,397,273
Dividends paid per common share	**$ 0.16**	$ 0.16

See Notes to Consolidated Financial Statements

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

	Common Stock Issued		Additional			Accumulated other	Total
	Shares	Amount	paid-in capital	Retained earnings	Comprehensive income/(loss)	comprehensive income	Stockholders equity
Balance, January 1, 2008	3,365,463	$ 337	$ 1,507	$ 6,716		$ 2,327	**$ 10,887**
Unrealized losses on investments net of reclassification adjustment and taxes					$ (1,637)	(1,637)	**(1,637)**
Stock issued through the employee stock purchase plan	1,417	0	6				**6**
Dividend on common stock				(539)			**(539)**
Net income				606	606		**606**
Total comprehensive loss					$ (1,031)		
Balance, December 31, 2008	3,366,880	337	1,513	6,783		690	**9,323**
Exercise of stock options	6,000	1	7				**8**
Unrealized gains on investments net of reclassification adjustment and taxes					680	680	**680**
Stock issued through the employee stock purchase plan	3,914	0	9				**9**
Dividend on common stock				(539)			**(539)**
Net income				334	334		**334**
Total comprehensive gain					**$ 1,014**		
Balance, December 31, 2009	**3,376,794**	**$ 338**	**$ 1,529**	**$ 6,578**		**$ 1,370**	**$ 9,815**

See Notes to Consolidated Financial Statements

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

	Years ended December 31, 2009	2008
Cash flows from operating activities		
Net Income	**$ 334**	$ 606
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	**111**	122
Realized (gain) loss of investments	**(4)**	33
Interest accrued on investments	**(11)**	0
Change in allowance for doubtful accounts	**3**	(9)
Deferred income taxes	**(14)**	104
(Increase)/decrease in:		
Trade receivables	**(205)**	252
Inventories	**331**	(212)
Other current assets	**3**	4
Increase/(decrease) in:		
Accounts payable	**20**	(48)
Accrued expenses	**17**	(115)
Deferred revenue	**(10)**	3
Accrued income taxes	**132**	(462)
Net cash from operating activities	**707**	278
Cash flows from (used in) investing activities:		
Proceeds from sale of available-for-sale securities	**4**	5
Purchase of treasury bills	**(9,949)**	0
Proceeds from the sale of treasury bills	**4,980**	0
Purchase of property and equipment	**(3)**	0
Net cash provided by (used in) investing activities	**(4,968)**	5
Cash flows from (used in) financing activities:		
Proceeds from issuance of stock	**17**	6
Dividends paid	**(539)**	(539)
Net cash used in financing activities	**(522)**	(533)
Net decrease in cash and cash equivalents	**(4,783)**	(250)
Cash and cash equivalents, beginning	**5,529**	5,779
Cash and cash equivalents, ending	**$ 746**	$ 5,529
Supplemental schedule of non-cash investing and financing activities		
Net change in unrealized gain on investments, net of tax	**$ 680**	$ (1,637)
Cash paid during the year for income taxes	**$ 0**	$ 753

See Notes to Consolidated Financial Statements

ELECTRO-SENSORS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

The accompanying consolidated financial statements include the accounts of Electro-Sensors, Inc. and its wholly-owned subsidiaries, ESI Investment Company and Senstar Corporation. Senstar has no operations. Intercompany accounts, transactions and earnings have been eliminated in consolidation. The consolidated entity is referred to as the Company or ESI .

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

The second business is the AutoData Systems Division (AutoData). AutoData designs and markets desktop software based systems that read handprinted characters, checkmarks and bar code information from scanned or faxed forms, in addition to collecting and reporting data from web forms. AutoData products are designed to provide capabilities to automate data collection and are sold by internal sales staff to end users, resellers and developers in the United States, Canada, Europe and Asia.

In addition, through its subsidiary ESI Investment Company, the Company periodically makes strategic investments in other businesses and companies, primarily when the Company believes that such investments will facilitate development of technology complementary to the Company s products. Although ESI, through its subsidiary ESI Investment Company, invests in other businesses or companies, ESI does not intend to become an investment company and intends to remain primarily an operating company. The Company s primary investments are 343,267 shares of Rudolph Technologies, Inc. (Rudolph) and 551,759 shares of PPT Vision, Inc (PPT). The Rudolph investment is accounted for using the available-for-sale method. The PPT investment is accounted for under the equity method of accounting. See Note 2 for additional information regarding its investments. The Company s investments in securities are subject to normal market risks.

Significant accounting policies of the Company are summarized below:

Use of estimates

The preparation of the consolidated financial statements, in accordance with generally accepted principles in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates, including the underlying assumptions, consist of the economic lives of property and equipment, realizability of accounts receivable, valuation of deferred tax assets/liabilities, valuation of inventory and valuation of investments. It is at least reasonably possible that these estimates may change in the near term.

Cash and cash equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are invested in money market accounts and three month Treasury Bills. Cash equivalents are carried at cost plus accrued interest which approximates fair value.

The Company maintains its cash or cash equivalents in primarily one bank deposit account, which, at times, may exceed federally insured limits. The Company has not experienced any losses on such accounts. The Company believes it is not exposed to any significant credit risk on cash.

Trade receivables and credit policies

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. Accounts receivables are stated at the amount billed to the customer. Customer account balances with invoices over 90 days are considered delinquent. The Company does not accrue interest on delinquent accounts receivable.

Payments of accounts receivable are allocated to the specific invoices identified on the customer s remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts that reflects management s best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 90 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management uses this information to estimate the allowance.

Available-for-sale securities

The Company s investments consist of equity securities, primarily common stocks, government debt securities and money market funds. The estimated fair value of publicly traded equity securities (other than those accounted for based upon the equity method of accounting) 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 and sell investments with the objective of generating profits on short-term fluctuations in market price, the investments in marketable equity securities have been classified as available-for-sale (unless accounted for on the equity method of accounting). 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. Dividends on marketable equity securities 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 (unless accounted for on the equity method of accounting), are included in income. Realized gains and losses are determined on the basis of the specific securities sold.

During February 2009, the Company purchased $4,972,000 in six month Treasury Bills. The Treasury Bills matured on August 6, 2009. With the proceeds, the Company purchased $4,977,000 in one year Treasury Bills, which had five months until maturity. The Treasury Bills are due on January 10, 2010. It is the intention of management to hold the Treasury Bills until maturity.

Inventories

Inventories include material, labor and overhead and are valued at the lower of cost (first-in, first-out) or market.

Fair value of financial instruments

The Company s financial instruments consist of cash and cash equivalents, Treasury Bills, investments, short-term trade receivables and payables for which current carrying amounts approximate fair market value.

Property and equipment

Property and equipment are stated at cost. Depreciation is provided over estimated useful lives by use of the straight line method. Maintenance and repairs are expensed as incurred. Major improvements and betterments are capitalized.

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including, but not limited to, discounted cash flow models, quoted market values and third-party independent appraisals.

Software costs

The Company capitalizes stand alone software production costs after technological feasibility has been established and prior to general release to clients. Annual amortization of capitalized software will be based on the greater amount computed using the straight-line method over the estimated 36-month economic product life or using the ratio that current gross revenue for the software product bears to the total of current and anticipated future gross revenues for that product. Software maintenance and modification costs are expensed as incurred.

Revenue recognition of production monitoring equipment

The Company recognizes revenue from the sale of its production monitoring equipment when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed and determinable and collection of the resulting receivable is reasonably assured. The Company may offer discounts to its distributors or quantity discounts that are recorded at the time of sale. The Company recognizes revenue on products sold to customers and distributors upon shipment because the contracts do not include post-shipment obligations. In addition to exchanges and warranty returns, customers have refund rights. Our standard products are used in a wide variety of industries, returns are minimal and insignificant to the financial statements and are recognized when the returned product is received by the Company. In some situations, the Company receives advance payments from its customers. Revenue associated with these advance payments is deferred until the product is shipped or services performed.

Software revenue recognition

The Company recognizes revenue upon shipment of its automated data collection 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. To recognize revenue, it must also be probable that the Company will collect the accounts receivable from its customers. AutoData customers pay an annual maintenance fee for software support, which is recognized as deferred revenue on the consolidated balance sheet and is recognized in income, on a monthly basis, over the life of the contract. The Company recognizes hardware shipped with software when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed and determinable and collection of the resulting receivable is reasonably assured.

Advertising costs

The Company expenses advertising costs as incurred. Total advertising expense was $172,000 and $233,000 for the years ended December 31, 2009 and 2008, respectively.

Research and development

Expenditures for research and development are expensed as incurred.

Depreciation

The cost of property and equipment is depreciated on the straight-line method over the estimated useful lives.

Estimated useful lives are as follows

	Years
Equipment	3-10
Furniture and Fixtures	3-10
Building	7-40

Depreciation expense for the years ended December 31, 2009 and 2008 was $111,000 and $122,000, respectively.

Income taxes

Deferred income taxes are provided on an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax bases of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. 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, excluding the portion of the deferred liability allocated to other comprehensive income. Deferred taxes are reduced by a valuation allowance to the extent that realization of the related deferred tax asset is not assured.

Net income per common share

EPS excludes dilution and is determined by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities and other contracts to issue common stock were exercised or converted into common stock.

The following information presents the Company s computations of basic and diluted EPS for the periods presented in the statements of operations.

	Income	Shares	Per share amount
2009:			
Basic EPS	$ 334,000	3,370,822	$ 0.10
Effect of dilutive employee stock options		29,561	
Diluted EPS	$ 334,000	3,400,383	$ 0.10
2008:			
Basic EPS	$ 606,000	3,366,493	$ 0.18
Effect of dilutive employee stock options		30,780	
Diluted EPS	$ 606,000	3,397,273	$ 0.18

Stock Compensation

The Company records compensation expense for employee stock options based on the estimated fair value of the options on the date of grant using the Black-Scholes-Merton (BSM) 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 rate is based on the U.S. Treasury yield curve in effect at the time of grant for the estimated life of the option. At December 31, 2009, the Company had one stock-based employee compensation plan. There were no option grants in 2009 or 2008. During the year ended December 31, 2009, three employees exercised a total of 6,000 options. There were no options exercised during the year ended December 31, 2008.

Recently Issued Accounting Pronouncements

The FASB issued an amendment during 2009 to the original Fair Value Measurements pronouncement. Part of the amendment requires the disclosure of transfers in and out Level 1 and Level 2 investments. This portion of the amendment becomes effective for fiscal years beginning after December 31, 2009. The amendment also requires a disclosure reconciling the activity in Level 3 investments. This portion of the amendment becomes effective for fiscal years beginning after December 31, 2010. The amendment should have no material effect on the Company s statements of financial condition or results of operations at December 31, 2009 or going forward.

Note 2. Investments

The cost and estimated fair value of the investments (other than an investment accounted for under the equity method of accounting) are as follows:

		Cost		Gross unrealized gain		Gross unrealized loss		Fair value
December 31, 2008								
Treasury Bills	$	5,180,000	$	0	$	0	$	5,180,000
Money Market Funds		169,000		0		0		169,000
Equity Securities		101,000		1,169,000		(55,000)		1,215,000
		5,450,000		1,169,000		(55,000)		6,564,000
Less Cash Equivalents		5,349,000		0		0		5,349,000
Total Investments, December 31, 2008	$	101,000	$	1,169,000	$	(55,000)	$	1,215,000
December 31, 2009								
Treasury Bills	$	4,980,000	$	0	$	0	$	4,980,000
Money Market Funds		385,000		0		0		385,000
Equity Securities		101,000		2,264,000		(54,000)		2,311,000
		5,466,000		2,264,000		(54,000)		7,676,000
Less Cash Equivalents		385,000		0		0		385,000
Total Investments, December 31, 2009	$	5,081,000	$	2,264,000	$	(54,000)	$	7,291,000

Realized gains and losses on investments are as follows:

	December 31,			
		2009		**2008**
Gross Realized Gains	**$**	**4,000**	$	2,000
Gross Realized Losses		**0**		(35,000)
Net Realized Gain (Loss)	**$**	**4,000**	$	(33,000)

At December 31, 2009 and 2008, the Company s significant investment in equity securities is 343,267 shares of Rudolph, accounted for under the available-for-sale method. As of December 31, 2009, the aggregate value of the Company s Rudolph shares as reported on the Nasdaq Stock Exchange was approximately $2,307,000 with an approximate cost of $45,000.

Investment Reported on Equity Method

At December 31, 2009, the Company owned 551,759 shares of PPT, which is 1.5% of PPT s outstanding common stock. The fair value of its holdings based on the quoted market price at December 31, 2009 was approximately $39,000 with an approximate cost of $2,434,000.

Since the Company owns approximately 1.5% of PPT s outstanding stock and the Company s Secretary owns a controlling interest in PPT, it has been determined that the Company has significant influence over the operations of PPT, and as a result its ownership interest should be reported using the equity method of accounting for investments.

Under the equity method of accounting, the Company s proportionate share of PPT s net loss would ordinarily be directly reflected on the Company s income statement, along with a corresponding reduction in the PPT investment account on the Company s balance sheet. However, where net losses exceed the value of the initial investment, these losses are no longer recognized in the financial statements, but rather are suspended and applied against the investor s proportionate share in any future net earnings for the investee. Accordingly, since the Company s proportionate share of PPT s previous net losses have already reduced the PPT investment account on its balance sheet to $0, the Company s proportionate share of PPT s net loss through December 31, 2009 has not been recognized on its current financial statements. At December 31, 2009, the Company had approximately $1,517,000 in suspended losses from its investment in PPT that will be used to offset future recognition of equity method earnings from the investment.

Note 3. Fair Value Measurements

Effective January 1, 2008, the Company adopted Fair Value Measurements accounting standards as they relate to our financial instruments. The standard for fair value measurements defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements. Fair value standards permit companies to irrevocably choose to measure certain financial instruments and other items at fair value. The standards also establish presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities.

Under the fair value standards, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The fair value standards establish a hierarchy in determining the fair value of an asset or liability. The fair value hierarchy has three levels of inputs, both observable and unobservable. Fair value standards require the utilization of the lowest possible level of input to determine fair value. Level 1 inputs include quoted market prices in an active market for identical assets or liabilities. Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data.

Except for those assets and liabilities which are required by authoritative accounting guidance to be recorded at fair value in our consolidated balance sheets, we have elected not to record any other assets or liabilities at fair value, as permitted by the fair value standards. No events occurred during the year ended December 31, 2009 which would require adjustment to the recognized balances of assets or liabilities which are recorded at fair value on a nonrecurring basis.

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

	Carrying Amount In Consolidated Balance Sheet December 31, 2008	Fair Value December 31, 2008	Fair Value Measurement Using Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents:					
Money Market Funds	$ 169,000	$ 169,000	$ 169,000	$	$
Treasury Bills	$ 5,180,000	$ 5,180,000	$ 5,180,000	$	$
Available-for-sale:					
Securities	$ 1,215,000	$ 1,215,000	$ 1,215,000	$	$

	Carrying Amount In Consolidated Balance Sheet December 31, 2009	Fair Value December 31, 2009	Fair Value Measurement Using Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents:					
Money Market Funds	$ 385,000	$ 385,000	$ 385,000	$	$
Treasury Bills	$ 4,980,000	$ 4,980,000	$ 4,980,000	$	$
Available-for-sale:					
Securities	$ 2,311,000	$ 2,311,000	$ 2,311,000	$	$

The fair value of the money market funds and treasury bills are based on quoted market prices in an active market. Investments include equity securities that are traded in an active market. Closing stock prices are readily available from active markets and are used as being representative of fair value. The Company classifies these securities as level 1.

Note 4. Inventories

Inventories used in the determination of cost of goods sold are as follows:

	December 31, 2009	2008
Raw Materials	**$ 624,000**	$ 840,000
Work In Process	**134,000**	195,000
Finished Goods	**150,000**	204,000
Total Inventories	**$ 908,000**	$ 1,239,000

Note 5. Property and Equipment

The following is a summary of property and equipment:

	December 31, 2009	2008
Equipment	**$ 290,000**	$ 316,000
Furniture and Fixtures	**493,000**	501,000
Building	**1,370,000**	1,370,000
Land	**415,000**	415,000
	2,568,000	2,602,000
Less Accumulated Depreciation	**1,340,000**	1,266,000
Total Property and Equipment	**$ 1,228,000**	$ 1,336,000

Note 6. Accrued Expenses

Accrued expenses include the following:

	December 31, 2009	2008
Wages and Commissions	**$ 131,000**	$ 127,000
Other	**41,000**	28,000
Total Accrued Expenses	**$ 172,000**	$ 155,000

Note 7. Commitments

Lease commitments

The Company is leasing office equipment under operating leases expiring at various dates through 2013.

Minimum lease payments required under non-cancelable operating leases are as follows:

Year	Amount
2010	$ 12,000
2011	9,000
2012	9,000
2013	4,000
Total Minimum Lease Payments	**$ 34,000**

Rental expense charged to operations was $29,000 and $32,000 for the years ended December 31, 2009 and 2008, respectively.

Note 8. Common Stock Options and Stock Purchase Plan

Stock options

The 1997 Stock Option Plan includes both nonqualified and incentive stock options. Payment for the shares may be made in cash, shares of the Company s Common Stock or a combination thereof. Under the terms of the plan, incentive stock options are granted at 100% of fair market value on the date of grant and may be exercised at various times depending upon the terms of the option. The nonqualified stock options were granted to directors to purchase shares of the Company s Common Stock. All existing options expire 10 years from the date of grant or one year from the date of death.

The following table summarizes the activity for outstanding incentive stock options:

	Options Outstanding					
	Number of Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value (1)
Balance at January 1, 2008	25,780	$	3.19	5.2		
Granted	0					
Exercised	0					
Canceled/forfeited/expired	0					
Balance at December 31, 2008	25,780		3.19	4.2		
Granted	0					
Exercised	6,000		1.33			
Canceled/forfeited/expired	0					
Balance at December 31, 2009	19,780	$	3.75	3.3	$	0
Vested and exercisable as of December 31, 2009	19,780	$	3.75	3.3	$	0
Vested and expected to vest as of December 31, 2009	19,780	$	3.75	3.3	$	0

(1) The aggregate intrinsic value is calculated as approximately the difference between the weighted average exercise price of the underlying awards and the Company s estimated current fair market value at December 31, 2009.

The following table summarizes the activity for outstanding director stock options:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (1)
Balance at January 1, 2008	5,000	$ 5.36	9.3	
Granted	0			
Exercised	0			
Canceled/forfeited/expired	0			
Balance at December 31, 2008	5,000	5.36	8.3	
Granted	0			
Exercised	0			
Canceled/forfeited/expired	0			
Balance at December 31, 2009	5,000	$ 5.36	7.3	$ 0
Vested and exercisable as of December 31, 2009	5,000	$ 5.36		$ 0
Vested and expected to vest as of December 31, 2009	5,000	$ 5.36		$ 0

(1) The aggregate intrinsic value is calculated as approximately the difference between the weighted average exercise price of the underlying awards and the Company s estimated current fair market value at December 31, 2009.

As of December 31, 2009 and 2008, respectively there was no unrecognized compensation cost related to stock options that is expected to be recognized over a period of 1-2 years. To the extent the forfeiture rate is different than we have anticipated, stock-based compensation related to these awards will be different from our expectations.

Stock-based compensation

The Company has a stock option plan and an employee stock purchase and bonus plan. Under the 1997 Stock Option Plan, the Company is authorized to grant up to 450,000 shares of its Common Stock. The Company had 24,780 shares granted and exercisable under this plan, as of December 31, 2009. Under the Employee Stock Purchase and Bonus Plan, the Company is authorized to sell and issue up to 150,000 shares of its Common Stock to its full-time employees. During 2009 and 2008, shares of 3,914 and 1,417 respectively, were issued under this plan. At December 31, 2009, 82,574 shares were available for future issuance.

Stock purchase plan

The Employee Stock Purchase and Bonus Plan (the Employee Stock Plan) allows employees to set aside up to 10% of their earnings for the purchase of shares of the Company s Common Stock. The purchase price is the lower of 85% of the market value at the date of the grant or the exercise date, which is six months from the date of the grant.

Note 9. Benefit Plans

Employee stock ownership plan

The Company sponsors an employee stock ownership plan (ESOP) that covers substantially all employees who work 1,000 or more hours during the year. The ESOP has, at various times, secured financing from the Company to purchase the Company s shares on the open market. When the Plan purchases shares with the proceeds of the Company loans, the shares are pledged as collateral for its debt. The shares are maintained in a suspense account until released and allocated to participant accounts. The Plan owns 150,088 shares of the Company s stock at December 31, 2009. All shares held by the Plan have been released and allocated. The dividends paid by the Company on shares held by the Plan are allocated to the participant accounts. The Plan had no debt to the Company at December 31, 2009.

There was no compensation expense for contributions to the ESOP plan for the years ended December 31, 2009 and 2008.

In the event a terminated ESOP participant desires to sell his or her shares of the Company s stock and the shares are not readily tradable, the Company may be required to purchase the shares from the participant at their fair market value. At December 31, 2009, 150,088 shares of the Company s stock, with an aggregate fair market value of approximately $558,000, are held by ESOP participants who, if terminated, would be subject to the repurchase requirement.

Profit sharing plan and savings plan

The Company has a salary reduction and profit sharing plan which conforms to IRS provisions for 401(k) plans. The Company may make profit sharing contributions with the approval of the Board of Directors. The Board of Directors decided to make no contribution for the years 2009 and 2008 other than its matching of 401(k) salary reductions, which totaled $61,000 and $59,000 for 2009 and 2008, respectively.

Note 10. Income Taxes

The components of the income tax provision for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Current:		
Federal	$ 115,000	$ 291,000
State	0	12,000
Deferred:		
Federal	(12,000)	73,000
State	(2,000)	8,000
Total Federal and State Income Taxes	$ 101,000	$ 384,000

The provision for income taxes for the years ended December 31, 2009 and 2008 differs from the amount obtained by applying the U.S. federal income tax rate to pretax income due to the following:

	2009	2008
Computed Expected Federal Tax Expense	$ 148,000	$ 337,000
Increase (Decrease) in Taxes Resulting From:		
State Income Taxes, net of Federal Benefit	9,000	9,000
Credits	(49,000)	(43,000)
Other	0	81,000
Permanent Differences	(7,000)	0
Total Federal and State Income Taxes	$ 101,000	$ 384,000

The components of the net deferred tax asset (liability) consist of:

	2009	2008
Deferred Tax Assets:		
Vacation Disallowance	$ 28,000	$ 27,000
Allowance for Doubtful Accounts	4,000	3,000
Investment in Equity Method Investee	974,000	962,000
Valuation Allowance	(974,000)	(962,000)
Total Deferred Tax Assets	$ 32,000	$ 30,000
Deferred Tax Liabilities:		
Prepaid Expenses	$ 31,000	$ 31,000
Depreciation	39,000	51,000
Net Unrealized Gain on Investments	839,000	423,000
Total Deferred Tax Liabilities	$ 909,000	$ 505,000
Net Deferred Tax Liability	$ (877,000)	$ (475,000)

In June 2006, the FASB issued an interpretation of Accounting for Uncertainty in Income Taxes. The standard clarifies the requirements relating to the recognition of income tax benefits. The standard provides a two-step approach to recognizing and measuring tax benefits when realization of the benefits is uncertain. The first step is to determine whether the benefit meets the more-likely-than-not condition for recognition and the second step is to determine the amount to be recognized based on the cumulative probability that exceeds 50%. As a result of the implementation, the company performed a comprehensive review of its material tax positions in accordance with recognition and measurement standards.

The Company is subject to the following material taxing jurisdictions: U.S. and Minnesota. The tax years that remain open to examination by the Internal Revenue Service are 2006 through 2009. The tax years that remain open to examination by the Minnesota Department of Revenue are 2005 through 2009. Our policy is to recognize interest and penalties related to uncertain tax benefits in income tax expense. We have no accrued interest or penalties related to uncertain tax positions as of January 1, 2009 or December 31, 2009.

Note 11. Segment Information

The Company has three reportable operating segments based on the nature of its product lines: Production Monitoring, AutoData Systems, and Investments. The Production Monitoring Division manufactures and markets a complete line of speed monitoring and motor control systems for industrial machinery. The AutoData Systems Division designs and markets desktop software based systems that read handprinted characters, checkmarks and bar code information from scanned or faxed forms, in addition to collecting and reporting data from web forms. Sales of these systems include software and can include hardware. ESI Investment Company holds investments in marketable and non-marketable securities.

The accounting policies of the segments are the same as those described in Note 1. In evaluating segment performance, management focuses on sales and income before taxes. The Company has no inter-segment sales.

The net income (loss) before taxes reported below has excluded an inter-segment allocation of expenses. The net income (loss) before taxes reported as of December 31, 2008 below has been changed to conform to the classification used in 2009.

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

	2009	2008
Net revenues		
Production Monitoring (products)	$ **5,521,000**	$ 6,193,000
AutoData Systems (software and related hardware)	**380,000**	536,000
ESI Investment Company	**0**	0
Total	**5,901,000**	6,729,000
Sales in foreign countries		
Production Monitoring	**378,000**	477,000
AutoData Systems	**27,000**	15,000
ESI Investment Company	**0**	0
Total	**405,000**	492,000
Interest income		
Production Monitoring	**2,000**	18,000
AutoData Systems	**0**	0
ESI Investment Company	**9,000**	76,000
Total	**11,000**	94,000
Depreciation expense		
Production Monitoring	**106,000**	117,000
AutoData Systems	**5,000**	5,000
ESI Investment Company	**0**	0
Total	**111,000**	122,000
Capital purchases		
Production Monitoring	**2,000**	0
AutoData Systems	**1,000**	0
ESI Investment Company	**0**	0
Total	**3,000**	0
Total assets		
Production Monitoring	**2,135,000**	2,105,000
AutoData Systems	**0**	0
ESI Investment Company	**8,899,000**	7,993,000
Total	**11,034,000**	10,098,000
Income before income taxes		
Production Monitoring	**489,000**	912,000
AutoData Systems	**(67,000)**	36,000
ESI Investment Company	**13,000**	42,000
Total	**435,000**	990,000

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A(T). Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The person serving as our principal executive officer and principal financial officer evaluated the effectiveness of our 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). Based on this evaluation, the person serving as the Company s principal executive officer and principal financial officer has concluded that the Company s disclosure controls and procedures were effective as of December 31, 2009 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management s Report on Internal Control over Financial Reporting

Under Section 404 of the Sarbanes-Oxley Act of 2002, our management is required to assess the effectiveness of the Company s internal control over financial reporting as of the end of each fiscal year and report, based on that assessment, whether the Company s internal control over financial reporting is effective.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is designed to provide reasonable assurance as to the reliability of the Company s financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s management has assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2009. In making this assessment, the Company used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. The Company s assessment included extensive documenting, evaluating and testing the design and operating effectiveness of its internal control over financial reporting. Based on this evaluation, the person serving as the Company s principal executive officer and principal financial officer has concluded that the Company s internal controls were effective as of December 31, 2009.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to the attestation by the Company s registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management s report in this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the fourth quarter of 2009, which were 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.

Item 9B. Other Information.

None.

PART III

Certain information required by Part III is incorporated by reference to the Company s Definitive Proxy Statement pursuant to Regulation 14A (the Proxy Statement) for its Annual Meeting of Shareholders to be held April 21, 2010 (Annual Meeting).

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 is incorporated herein by reference to the sections entitled Election of Directors, Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Code of Ethics and Business Conduct and Corporate Governance Audit Committee that appear in the Company s Definitive Proxy Statement for its Annual Meeting. Information concerning executive officers Bradley D. Slye and Peter R. Peterson is included in the sections referred to above.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated herein by reference to the section entitled Executive Compensation that appears in the Company s Definitive Proxy Statement for its Annual Meeting.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 relating to security ownership of certain beneficial owners and management is incorporated herein by reference to the section entitled Security Ownership of Certain Beneficial Owners and Management that appears in the Company s Definitive Proxy Statement for its Annual Meeting.

The following table provides information as of December 31, 2009 about the Company s equity compensation plans.

Equity Compensation Plan Information

	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	24,780	$4.08	102,990[1]
Equity compensation plans not approved by security holders			
Total	24,780	$4.08	102,990[1]

[1] Includes 10,250 shares issuable pursuant to the 1997 Stock Option Plan and 92,740 shares issuable pursuant to the 1996 Employee Stock Option Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 is incorporated herein by reference to the sections entitled Corporate Governance Independence, Election of Directors and Transactions with Related Persons, Promoters and Certain Control Persons that appear in the Company s Definitive Proxy Statement for its Annual Meeting.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 relating to principal accounting fees and services is incorporated herein by reference to the section entitled Disclosure of Fees Paid to Independent Auditors that appears in the Company s Definitive Proxy Statement for its Annual Meeting of Shareholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

Financial Statements.

Reference is made to the Index to Consolidated Financial Statements appearing on Page 13 hereof.

Financial Statement Schedules.

The Financial Statement Schedules have been omitted either because they are not required or because the information has been included in the financial statements or the notes thereto included in this Annual Report.

Exhibits.

See Exhibit Index on the page following the signatures.

SIGNATURES

Pursuant to the requirements of Section 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.

ELECTRO-SENSORS, INC.
(Registrant)
By: /s/ BRADLEY D. SLYE
Bradley D. Slye
President and Chief Executive Officer
Date: March 9, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

(Power of Attorney)

Each person whose signature appears below constitutes and appoints BRADLEY D. SLYE and PETER R. PETERSON as his true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Signature	**Title**	**Date**
/s/ Bradley D. Slye	Chairman, President and Director (CEO and CFO)	March 9, 2010
/s/ Peter R. Peterson	Director and Secretary	March 9, 2010
/s/ Joseph A. Marino	Director	March 9, 2010
/s/ Geoffrey W. Miller	Director	March 9, 2010
/s/ Robert W. Heller	Director	March 9, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

EXHIBIT INDEX TO FORM 10-K

For the Fiscal Year Ended
December 31, 2009

Commission File No. 0-9587

Exhibit Number	Exhibit Description
^3.1	Registrant s Restated Articles of Incorporation, as amended incorporated by reference to Exhibit 3.1 to the Company s 1991 Form 10-KSB
^3.2	Registrant s Bylaws, as amended to date incorporated by reference to Exhibit 3.2 to the Company s 1997 Form 10-KSB
4.1	Specimen Common Stock Certificate
^*10.1	Electro-Sensors, Inc. s 1987 Stock Option Plan incorporated by reference to Exhibit A to the Company s Proxy Statement dated April 21, 1987 for the Company s 1987 Annual Meeting of Shareholders
^*10.2	Electro-Sensors, Inc. s 1997 Stock Option Plan and forms of Incentive and Nonqualified Stock Option Agreements thereunder incorporated by reference to Exhibit 10.6 to the Company s 1997 Form 10-KSB
*10.3	Summary of Compensation Arrangements with Directors
*10.4	Summary of Compensation Arrangements with Executive Officers
21	Subsidiaries of Registrant (Name and State of Incorporation): ESI Investment Company Minnesota Senstar Corporation Minnesota
24.1	Power of Attorney (see Signature page)
31.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Letter to Shareholders dated March 3, 2010
99.2	Investor Information

^ Incorporated by reference to a previously filed report or document SEC File No. 0-9587
* Management contract or compensatory plan or arrangement