Electronic Sensor Technology, Inc
Form 10-Q
November 03, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended SEPTEMBER 30, 2008

or

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ____________ to ____________

Commission file number 000-51859

ELECTRONIC SENSOR TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

NEVADA	98-0372780
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1077 Business Center Drive
Newbury Park, California 91320
(Address of principal executive offices)

(805) 480-1994
(Issuer's telephone number, including area code)

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

Yes [X] No [ ]

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	[ ]	Accelerated filer	[ ]
Non-accelerated filer (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).

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

155,853,385 shares of common stock as of October 24, 2008

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Certain statements in this quarterly report on Form 10-Q, including those relating to the company's plans regarding business and product development; product sales and distribution; market demands and developments in the homeland security, analytical instrumentation/quality control and environmental monitoring markets; and the sufficiency of the company's resources to satisfy operation cash requirements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may contain the words "believe," "anticipate," "expect," "predict," "estimate," "project," "will be," "will continue," "will likely result," or other similar words and phrases. Risks and uncertainties exist that may cause results to differ materially from those set forth in these forward-looking statements. Factors that could cause the anticipated results to differ from those described in the forward-looking statements include: risks related to changes in technology, our dependence on key personnel, our ability to protect our intellectual property rights, emergence of future competitors, changes in our largest customer's business and government regulation of homeland security companies. The forward-looking statements speak only as of the date they are made. We do not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements.

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ELECTRONIC SENSOR TECHNOLOGY, INC.
CONSOLIDATED BALANCE SHEET

	September 30, 2008	December 31, 2007
	(Unaudited)	(Audited)
ASSETS		
CURRENT ASSETS:		

Cash and cash equivalents	$ 729,503	$ 248,587
Certificate of deposit-restricted	12,384	12,384
Accounts receivable, net of allowance for uncollectible of $1,500 at September 30, 2008 and December 31, 2007	305,317	281,400
Prepaid expenses	93,506	80,761
Inventories	715,839	818,989
TOTAL CURRENT ASSETS	1,856,549	1,442,121
DEFERRED FINANCING COSTS, net	-	347,967
PROPERTY AND EQUIPMENT, net	131,625	174,111
SECURITY DEPOSITS	12,817	12,817
	$ 2,000,991	$ 1,977,016

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 420,452	$ 520,685
Deferred revenues	4,167	41,667
Derivative liabilities	-	2,376,543
Convertible debentures - current portion	-	2,333,333
Obligation under capital lease due within one year	17,925	17,875
TOTAL CURRENT LIABILITIES	442,544	5,290,103
CONVERTIBLE DEBENTURES - long-term portion, net of unamortized discount	1,948,168	2,527,777
LONG-TERM OBLIGATION UNDER CAPITAL LEASE	21,804	36,607
TOTAL LIABILITIES	2,412,516	7,854,487
STOCKHOLDERS' EQUITY		
Preferred stock, $.001 par value 50,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $.001 par value 200,000,000 shares authorized, 155,853,385 issued and outstanding at September 30, 2008 and 56,756,098 issued and outstanding at December 31, 2007	155,854	56,756
Additional paid-in capital	15,142,014	8,939,562
Accumulated deficit	(15,709,393)	(14,873,789)
TOTAL STOCKHOLDERS' EQUITY	(411,525)	(5,877,471)
	$ 2,000,991	$ 1,977,016

See unaudited notes to consolidated financial statements

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ELECTRONIC SENSOR TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Three Mon Septemb 2008
REVENUES	$ 1,303,570	$ 1,691,715	$ 543,928
COST OF SALES	828,487	891,798	367,843
GROSS PROFIT	475,083	799,917	176,085
OPERATING EXPENSES:			
Research and development	512,883	566,661	163,946
Selling, general and administrative	1,545,723	1,959,224	405,018
TOTAL OPERATING EXPENSES	2,058,606	2,525,885	568,964
LOSS FROM OPERATIONS	(1,583,523)	(1,725,968)	(392,879)
OTHER INCOME (EXPENSE)			
Other income - derivative	323,210	512,496	-
Gain from extinguishment of debt	1,261,864	-	-
Other income (expense)	-	1,751	-
Interest (expense)	(837,157)	(2,160,056)	(50,691)
TOTAL OTHER INCOME (EXPENSE)	747,917	(1,645,809)	(50,691)
NET (LOSS)	$ (835,606)	$ (3,371,777)	$ (443,570)
Loss per share, basic	$ (0.01)	$ (0.06)	$ (0.00)
Weighted average number of shares, basic	125,209,050	54,307,255	155,853,385
Loss per share, diluted	$ (0.01)	$ (0.07)	$ (0.00)
Weighted average number of shares, diluted	125,209,050	54,307,255	155,853,385

See unaudited notes to consolidated financial statements

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ELECTRONIC SENSOR TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	$ (835,606)	$ (3,371,777)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		

Depreciation and amortization	36,223	40,620
Decrease in allowance for doubtful accounts	-	(22,862)
Issuance of shares for payment of interest	280,000	140,000
Stock based compensation	30,604	94,041
Amortization of debt discount	589,114	1,750,000
Amortization of deferred financing costs	45,387	136,160
Gain on extinguishment of debt	(1,261,864)	-
Decrease in fair value of derivative liability	(323,210)	(503,746)
Changes in assets and liabilities:		
Accounts receivable	(23,917)	(46,856)
Inventories	103,151	263,745
Prepaid expenses	(12,745)	2,024
Accounts payable and accrued expenses	(100,232)	164,516
Deferred revenues	(37,500)	(37,500)
Net cash provided by (used in) operating activities	(1,510,595)	(1,391,635)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in restricted security deposit		237,616
Decrease in certificate of deposit	-	702,082
Proceeds from sale of property and equipment	9,884	-
Purchase of property and equipment	(3,620)	(143,071)
Net cash provided by (used in) investing activities	6,264	796,627
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in capital lease obligation	(14,753)	59,200
Proceeds from issuance of 9% convertible debentures	2,000,000	-
Proceeds from issuance of equity	3,500,000	-
Repayment of 8% convertible debentures	(3,500,000)	-
Net cash provided by financing activities	1,985,247	59,200
NET INCREASE (DECREASE) IN CASH	480,916	(535,808)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	248,587	1,094,141
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 729,503	$ 558,333
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$ 9,211	$ 145,919
NONCASH FINANCING AND INVESTING ACTIVITY:		
Reclassification of derivative liability to paid-in-capital	$ 2,053,333	$ -
Conversion of 8% convertible debentures into equity	$ 500,000	$ -
Debt discount related to 9% convertible debentures	$ 54,678	$ -
Purchase of property and equipment under capital lease	$ -	$ 59,200

See unaudited notes to consolidated financial statements.

ELECTRONIC SENSOR TECHNOLOGY, INC.
Notes to Consolidated Financial Statements
(Unaudited)

September 30, 2008

1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions to Form 10-Q and Item 10 of Regulation S-K. Accordingly, they do not include all the information and disclosures required for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements and related footnotes for the year ended December 31, 2007, included in the Annual Report filed on Form 10-KSB for the year then ended.

In the opinion of the management of Electronic Sensor Technology, Inc. (the "Company"), all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of September 30, 2008, and the results of operations and cash flows for the nine month period ending September 30, 2008 have been included. The results of operations for the nine month period ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report filed on Form 10-KSB as filed with the Securities and Exchange Commission for the year ended December 31, 2007.

2) Basis of Consolidation

The accompanying financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

3) Nature of Business and Summary of Significant Accounting Policies

a) Nature of Business

The Company develops and manufactures electronic devices used for vapor analysis. It markets its products through distribution channels in over 20 countries.

b) Cash and Cash Equivalents

The Company considers highly liquid financial instruments with maturities of three months or less at the time of purchase to be cash equivalents.

c) Certificate of Deposit - Restricted

The Company's credit card liability is secured and collateralized with a certificate of deposit in the amount of approximately $12,000.

d) Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts and the aging of the accounts receivable. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than the Company's historical experience, the Company's estimates of the recoverability of amounts due it could be adversely affected. The Company regularly reviews the adequacy of the Company's allowance for doubtful accounts through identification of specific receivables where it is expected that payments will not be received. The Company also establishes an unallocated reserve that is applied to all amounts that are not specifically identified. In determining specific receivables where collections may not be received, the Company reviews past due receivables and gives consideration to prior collection history and changes in the customer's overall business condition. The allowance for doubtful accounts reflects the Company's best estimate as of the reporting dates. Changes may occur in the future, which may require the Company to reassess the collectability of amounts and at which time the Company may need to provide additional allowances in excess of that currently provided.

e) Revenue Recognition

The Company records revenue from direct sales of products to end-users when the products are shipped, collection of the purchase price is probable and the Company has no significant further obligations to the customer. Costs of remaining insignificant Company obligations, if any, are accrued as costs of revenue at the time of revenue recognition. Cash payments received in advance of product shipment or service revenue are recorded as deferred revenue.

f) Shipping and Handling

The Company accounts for shipping and handling costs as a component of "Cost of Sales".

g) Inventories

Inventories are comprised of raw materials, work in process, and finished goods. Inventories are stated at the lower of cost or market and are determined using the first-in, first-out method.

h) Deferred Financing Costs

Deferred financing costs consist of direct costs incurred by the Company in connection with the issuance of its 8% convertible debentures. The direct costs include cash payments and fair value of warrants issued to the placement agent, which secured the financing. Deferred financing costs are amortized over 48 months using the effective interest rate method. On March 31, 2008, $3.5 million of the $7.0 million 8% convertible debentures was retired and the remaining $3.5 million was converted into equity. As such, the unamortized deferred financing costs related to the 8% convertible debentures were fully amortized at March 31, 2008.

i) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of five years.

j) Research and Development

Research and development costs are charged to operations as incurred and consists primarily of salaries and related benefits, raw materials and supplies.

k) Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

l) Fair Value of Financial Instruments

The fair value of certain financial instruments, including accounts receivable, accounts payable and accrued liabilities, approximate their carrying values due to the short maturity of these

instruments. The fair value as of September 30, 2008 of the 9% convertible debentures issued by the Company on March 28, 2008 amounts to $2,000,000, based on the Company's incremental borrowing rate.

m) Long-lived Assets

The Company reviews long-lived assets, such as property and equipment, to be held and used or disposed of, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value. At September 30, 2008 no assets were impaired.

n) Capital Lease

On June 28, 2007, the Company entered into a capital lease under which the present value of the minimum lease payments amounted to $59,200. The present value of the minimum lease payments was calculated using a discount rate of 11.41%. The principal balance of the capital lease obligation amounted to approximately $39,700 at September 30, 2008, including approximately $17,900 in the current portion of capital lease obligations in the accompanying consolidated balance sheet.

o) Derivative Liabilities

The Company accounts for its liquidated damages pursuant to FASB Staff Position No. EITF 00-19-2 "Accounting for Registration Payment Arrangements" ("FSP 00-19-2"). FSP 00-19-2 provides that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, should be separately recognized and measured in accordance with FASB Statement No.5, "Accounting for Contingencies". The registration statement payment arrangement should be recognized and measured as a separate unit of account from the financial instrument(s) subject to that arrangement. If the transfer of consideration under a registration payment arrangement is probable and can be reasonably estimated at inception, such contingent liability is included in the allocation of proceeds from the related financing instrument. The Company had registered all shares underlying the 8% convertible debentures as well as all shares underlying the warrants related to the 8% convertible debentures, but no longer maintains such registration, in light of the partial conversion and partial cancellation of the debentures and a portion of the warrants.

The Company accounts for its embedded conversion features and freestanding warrants pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which requires a periodic valuation of their fair value and a corresponding recognition of liabilities associated with such derivatives. The recognition of derivative liabilities related to the issuance of shares of common stock is applied first to the proceeds of such issuance, at the date of issuance, and the excess of derivative liabilities over the proceeds is recognized as other expense in the accompanying consolidated financial statements. The recognition of derivative liabilities related to the issuance of convertible debt is applied first to the proceeds of such issuance as a debt discount, at the date of issuance, and the excess of derivative liabilities over the proceeds is recognized as other expense in the accompanying consolidated financial statements. Any subsequent increase or decrease in the fair value of the derivative liabilities, which are measured at the balance sheet date, are recognized as other expense or other income, respectively.

p) Basic and Diluted Earnings Per Share

Basic earnings per share are calculated by dividing income available to stockholders by the weighted-average number of common shares outstanding during each period. Diluted earnings per share are computed by dividing income available to stockholders, adjusted for interest savings on

the convertible debenture and changes in income or loss associated with the derivative contract that would result if the contract had been recorded as an equity instrument for accounting purposes during the period, by the weighted average number of common shares outstanding during the period plus the net effect of stock options and warrants, effect of the convertible debentures, and embedded conversion features.

The outstanding options, warrants and shares equivalent issuable pursuant to embedded conversion features and warrants at September 30, 2008 are excluded from the loss per share computation for that period due to their antidilutive effect.

The following sets forth the computation of basic and diluted earnings per share at September 30:

	2008	2007
Numerator:		
Net (loss)	$ (835,606)	$ (3,371,777)
Net other (income)/expense associated with derivative contracts	(323,210)	(512,496)
Interest expense in convertible debentures	-	-
Net income (loss) for diluted earnings per share purposes	$ (1,158,816)	$ (3,884,273)
Denominator:		

Denominator for basic earnings per share- Weighted average shares outstanding	125,209,050	54,307,255
Effect of dilutive stock options and warrants, determined under the treasury stock method	-	-
Assume issued common shares for convertible debentures, determined under the if-converted method	-	-
Denominator for diluted earnings per share- Weighted average shares outstanding	125,209,050	54,307,255
Basic earnings (loss) per share	$ (0.01)	$ (0.06)
Diluted earnings (loss) per share	$ (0.01)	$ (0.07)

q) Stock Based Compensation

The Company adopted SFAS No. 123R, "Share Based Payments." SFAS No. 123R requires companies to expense the value of employee stock options and similar awards and applies to all outstanding and vested stock-based awards.

In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate; volatility; and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the amount of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what we have recorded in the current period. The impact of applying SFAS No. 123R approximated $30,600 in additional compensation

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expense during for the nine month period ended September 30, 2008. Such amount is included in general and administrative expenses on the statement of operations.

r) Risk Factors

Recently, the credit markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States federal government. While the ultimate outcome of these events cannot be predicted, they may have a material adverse effect on the Company's liquidity and financial condition if its ability to borrow money to finance its operations from its existing lenders or from other sources, or obtain credit from trade creditors were to be impaired. In addition, the recent economic crisis could also adversely impact our customers' ability to finance the purchase of electronic instruments from us or our suppliers' ability to provide us with product, either of which may negatively impact the Company's business and results of operations.

Concentration of Credit Risks

The Company is subject to concentrations of credit risk primarily from cash and cash equivalents. The Company's cash and cash equivalents accounts are held at financial institutions and are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $100,000 at September 30, 2008. During the nine-month periods ended September 30, 2008 and 2007, the Company has reached bank balances exceeding the FDIC insurance limit. While the Company periodically evaluates the credit quality of the financial institutions in which it holds deposits, it cannot reasonably alleviate the risk associated with the sudden failure of such financial institutions.

Customer Concentration

The Company's largest customer accounted for approximately 26% and 45% of its revenues during the nine-month periods ended September 30, 2008 and 2007, respectively. This same customer accounted for approximately 53% and 36% of the gross accounts receivable balance at September 30, 2008 and 2007, respectively.

Product Concentration

All of the Company's revenues were derived from the sale of electronic devices and related accessories used for vapor analysis.

Geographic Concentration

The Company sells its products internationally in 20 countries. Sales to these countries were approximately 43% and 69% of net revenues during the nine-month periods ended September 30, 2008 and 2007, respectively.

s) Recently Issued Accounting Pronouncements

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities -- including an amendment of FAS 115 ("SFAS No. 159"). SFAS No. 159 allows companies to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 also establishes presentation and disclosure requirements. SFAS No. 159 is effective for fiscal years beginning after November 15,

2007 and will be applied prospectively. The Company is currently evaluating the impact of adopting SFAS No. 159 on our consolidated financial position, results of operations and cash flows.

FASB Statement Number 141 (revised 2007)

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), Business Combinations. This Statement replaces FASB Statement No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This Statement's scope is broader than that of Statement 141, which applied only to business combinations in which control was obtained by transferring consideration. By applying the same method of accounting--the acquisition method--to all transactions and other events in which one entity obtains control over one or more other businesses, this Statement improves the comparability of the information about business combinations provided in financial reports.

This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. That replaces Statement 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values.

This Statement applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquirer), including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. This Statement applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for some business combinations. It does not apply to: (a) The formation of a joint venture, (b) The acquisition of an asset or a group of assets that does not constitute a business, (c) A combination between entities or businesses under common control, (d) A combination between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

FASB Statement Number 160

In December 2007, the FASB issued FASB Statement No. 160 - Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. Not-for-profit organizations should continue to apply the guidance in Accounting Research Bulletin No. 51, Consolidated Financial Statements, before the amendments made by this Statement, and any other applicable standards, until the Board issues interpretative guidance.

This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Before this Statement was

issued, limited guidance existed for reporting noncontrolling interests. As a result, considerable diversity in practice existed. So-called minority interests were reported in the consolidated statement of financial position as liabilities or in the mezzanine section between liabilities and equity. This Statement improves comparability by eliminating that diversity.

A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require: (a) The ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity, (b) The amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income, (c) Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. A parent's ownership interest in a subsidiary changes if the parent purchases additional ownership interests in its subsidiary or if the parent sells some of its ownership interests in its subsidiary. It also changes if the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. All of those transactions are economically similar, and this Statement requires that they be accounted for similarly, as equity transactions, (d) When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment, (e) Entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners.

This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. This Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

FASB 161 - Disclosures about Derivative Instruments and Hedging

Activities

In March 2008, the FASB issued FASB Statement No. 161, which amends and expands the disclosure requirements of FASB Statement No. 133 with the intent to provide users of financial statements with an enhanced understanding of; how and why an entity uses derivative instruments, how the derivative instruments and the related hedged items are accounted for and how the related hedged items affect an entity's financial position, performance and cash flows. This Statement is effective for financial statements for fiscal years and interim periods beginning after November 15, 2008. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

FASB 161 - The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 162, "The Hierarchy of Generally Accepted Accounting Principles." The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for non-governmental entities. We are currently evaluating the effects, if any, that SFAS No. 162 may have on our financial reporting.

4) Convertible debentures

8% Convertible Debentures

During December 2005, we issued in a private offering, $7,000,000 aggregate principal amount of 8% convertible debentures due December 7, 2009. The convertible debentures were convertible at any time on or prior to the maturity date at the option of the debenture holder at a conversion price of $0.4544, which was subsequently reduced to $0.4000 as per a Forbearance and Amendment Agreement, dated September 7, 2006, with the holders of the convertible debentures and can be redeemed at the lesser of $0.4000 or 90% of the average of the volume weighted average price for the 20 consecutive trading days immediately prior to the conversion date. Interest on the convertible debentures was payable in cash or stock, at the Company's option.

In connection with the issuance of the convertible debentures, the Company issued five-year warrants to purchase 12,130,314 shares of common stock at an exercise price of $0.4761 per share, which was subsequently reduced to $0.4300 per share as per a Forbearance and Amendment Agreement, dated September 7, 2006, with the holders of the warrants.

We paid professional fees of approximately $592,000 and issued 485,213 warrants with a fair value of approximately $136,000 relating to the issuance of the convertible debentures and warrants. The payments of professional fees and the fair value of the warrants, aggregating approximately $729,000, were recorded as deferred financing costs.

A Conversion and Termination Agreement was entered into with the debenture holders on February 26, 2008. Pursuant to the agreement, the convertible debenture holders agreed that in exchange for $3,500,000, the debenture holders would convert $3,500,000 of the principal amount of their 8%

convertible debentures, together with accrued interest thereon, at a conversion price of $0.35 per share of Common Stock. Upon receipt of the foregoing sum and the conversion shares of Common Stock, the debenture holders agreed to cancel the remainder of their 8% convertible debentures and 50% of the shares of Common Stock underlying warrants. With respect to the remaining 6,065,157 shares of Common Stock underlying the warrants, they will otherwise continue in full force and effect in accordance with their terms. On March 31, 2008, we remitted $3,500,000 in cash and transferred 10,400,000 shares of common stock to the debenture holders to completely retire the 8% convertible debentures.

The extinguishment of the convertible debentures resulted in a gain of approximately $1,261,900, which included the write off of related unamortized deferred financing costs of approximately $302,600.

9% Convertible Debentures

On March 28, 2008, we received $5,500,000 from an investor, $3,500,000 of which was for Common Stock of the Company, and $2,000,000 for a convertible debenture bearing an interest rate of 9%, payable semi-annually in cash. The common stock shares were issued at a price of $0.0405 per share. The 9% convertible debenture has a five (5)-year term, and the conversion rate of the debenture is $0.0486. The difference between the conversion rate of the debenture and the closing price of the Company's common stock on the date of issuance resulted in a note discount of approximately $58,000. The note discount will be amortized over the term of the convertible debenture.

A condition of the new investment required the Company to use $3,500,000 to extinguish the 8% convertible debentures and this event occurred on March 31, 2008.

5) Derivative Liabilities

In connection with the issuance of the 8% convertible debentures in December 2005, the Company determined that the conversion feature of the convertible debentures represents an embedded derivative

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since the debentures are convertible into a variable number of shares upon conversion. Because there is no explicit number of shares that are to be delivered upon satisfaction of the convertible debentures and that there is no cap on the number of shares to be delivered upon expiration of the contract to a fixed number, the Company is unable to assert that it had sufficient authorized and unissued shares to settle its obligations under the convertible debentures and therefore, net-share settlement is not within the control of the Company. Accordingly, the convertible debentures are not considered to be conventional debt under EITF 00-19 and the embedded conversion feature must be bifurcated from the debt host and accounted for as a derivative liability.

A Conversion and Termination Agreement was entered into with the 8% convertible debenture holders on February 26, 2008. Pursuant to the agreement, the convertible debenture holders agreed that in exchange for $3,500,000, the debenture holders would convert $3,500,000 of the principal amount of their 8% convertible debentures, together with accrued interest thereon, at a conversion price of $0.35 per share of Common Stock. Upon receipt of the foregoing sum and the conversion shares of Common Stock, the debenture holders agreed to cancel the remainder of their 8% convertible debentures and 50% of the shares of Common Stock underlying warrants. With respect to the remaining shares of Common Stock underlying the warrants, they will otherwise continue in full force and effect in accordance with their terms. On March 31, 2008, we remitted $3,500,000 in cash and transferred 10,400,000 shares of Common Stock to the debenture holders.

As a result of the satisfaction of the Company's obligations under its 8% convertible debentures, the Company reclassified the derivative liabilities balance outstanding at March 31, 2008 from liability to equity. The amount of derivative liabilities that was reclassified to equity approximated $2,053,000.

6) Stockholders' Equity

Options

In 2005, the Board of Directors adopted the Electronic Sensor Technology, Inc. 2005 Stock Incentive Plan. The purpose of the Stock Incentive Plan is to attract and retain the services of experienced and knowledgeable individuals to serve as our employees, consultants and directors. On the date the Stock Incentive Plan was adopted, the total number of shares of common stock subject to it was 5,000,000. The Stock Incentive Plan is currently administered by the Board of Directors, and may be administered by any Committee authorized by the Board of Directors, so long as any such Committee is made up of Non-Employee Directors, as that term is defined in Rule 16(b)-3(b) of the Securities Exchange Act of 1934.

The Stock Incentive Plan is divided into two separate equity programs: the Discretionary Option Grant Program and the Stock Issuance Program. Under the Discretionary Option Grant Program, eligible persons may, at the discretion of the administrator, be granted options to purchase shares of common stock and stock appreciation rights. Under the Stock Issuance Program, eligible persons may, at the discretion of the administrator, be issued shares of common stock directly, either through the immediate purchase of such shares or as a bonus for services rendered for Electronic Sensor Technology (or a parent or subsidiary of Electronic Sensor Technology).

Pursuant to the terms of the Discretionary Option Grant Program, the exercise price per share is fixed by the administrator, but may not be less than 85% of the fair market value of the common stock on the date of grant, unless the recipient of a grant owns 10% or more of Electronic Sensor Technology's common stock, in which case the exercise price of the option must not be less than 110% of the fair market value. An option grant may be subject to vesting conditions. Options may be exercised in cash, with shares of the common stock of Electronic Sensor Technology already owned by the person or through a special sale and remittance procedure, provided that all applicable laws relating to the regulation and sale of securities have been complied with. This special sale and remittance procedure involves the optionee concurrently providing irrevocable written instructions to: (i) a designated brokerage firm to effect the immediate sale of the purchased shares and remit to Electronic Sensor Technology, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable federal, state and local income and employment taxes required to be withheld by

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Electronic Sensor Technology by reason of such exercise and (ii) Electronic Sensor Technology to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale. The term of an option granted pursuant to the Discretionary Option Grant

Program may not be more than 10 years.

The Discretionary Option Grant Program also allows for the granting of Incentive Options to purchase common stock, which may only be granted to employees, and are subject to certain dollar limitations. Any options granted under the Discretionary Option Grant Program that are not Incentive Options are considered Non-Statutory Options and are governed by the aforementioned terms. The exercise price of an Incentive Option must be no less than 100% of the fair market value of the common stock on the date of grant, unless the recipient of an award owns 10% or more of Electronic Sensor Technology's common stock, in which case the exercise price of an incentive stock option must not be less than 110% of the fair market value. The term of an Incentive Option granted may not be more than five years if the option is granted to a recipient who owns 10% or more of Electronic Sensor Technology's common stock, or 10 years for all other recipients of Incentive Options. Incentive Options are otherwise governed by the general terms of the Discretionary Option Grant Program.

Pursuant to the terms of the Stock Issuance Program, the purchase price per share of common stock issued is fixed by the administrator, but may not be less than 85% of the fair market value of the common stock on the issuance date, unless the recipient of a such common stock owns 10% or more of Electronic Sensor Technology's common stock, in which case the purchase price must not be less than 100% of the fair market value. Common stock may be issued in exchange for cash or past services rendered to Electronic Sensor Technology (or any parent or subsidiary of Electronic Sensor Technology). Common stock issued may be fully and immediately vested upon issuance or may vest in one or more installments, at the discretion of the administrator.

Management used Black Scholes methodology to determine the fair value of the options on the date of issue based on the following assumptions. The expected volatility was based on the average historical volatility of comparable publicly-traded companies.

Exercise price	$ 0.03 - $ 0.24
Market value	$ 0.03 - $ 0.24
Expected dividend yield	0%
Expected volatility	36% - 39%
Risk free interest rate	4.01% - 4.54%
Expected life of option	5 years

The fair value of the granted stock options shares was approximately $257,000 or $0.06 per share. Approximately $114,000 and $31,000 were charged to compensation expense in 2007 and in the nine month period ended September 30, 2008, respectively. The remaining amount will be amortized to compensation expense over future periods based on the vesting schedule of the respective stock option shares. The total compensation cost related to nonvested awards not yet recognized amounted to approximately $101,000 at September 30, 2008. This compensation cost will be recognized over the weighted average period of the remaining terms of the stock options, unless the options are terminated sooner.

The following tables summarize all stock option grants to employees and non-employees as of September 30, 2008:

Stock Options	Number of Options	Weighted Average Exercise Price
Balance at December 31, 2006	1,219,500	$ 0.93
Granted	2,657,950	$ 0.22

Exercised	-	$	-
Forfeited	(439,500)	$	0.73
Balance at December 31, 2007	3,437,950	$	0.41
Granted	1,739,130	$	0.03
Exercised	-	$	-
Forfeited	(1,042,600)	$	0.49
Balance at September 30, 2008	4,134,480	$	0.23
Options exercisable at September 30, 2008	1,423,775	$	0.48
Weighted average fair value of options granted during 2008	1,739,130	$	0.03

A summary of the status of the Company's nonvested shares as of September 30, 2008, and changes during the fiscal year then ended as presented below.

Nonvested Shares	Shares		Weighted Average Grant Date Fair Value
Nonvested at December 31, 2006	-	$	-
Granted	2,657,950	$	0.22
Vested	(898,250)	$	0.09
Cancelled	(161,500)	$	0.09
Nonvested at December 31, 2007	1,598,200	$	0.09
Granted	1,739,130	$	0.03
Vested	(433,025)	$	0.22
Cancelled	(193,600)	$	0.24
Nonvested at September 30, 2008	2,710,705	$	0.10

Options Outstanding						Options Exercisable		
Exercise Price		Number Outstanding as of September 30, 2008	Weighted Average Remaining Contractual Years	Weighted Average Exercise Price		Number Exercisable at September 30, 2008	Weighted Average Exercise Price	
$	0.03	1,739,130	9.83	$	0.03	-	$	-
$	0.19	222,750	8.42	$	0.19	222,750	$	0.19
$	0.20	1,000,000	8.75	$	0.20	325,000	$	0.20
$	0.24	697,100	8.33	$	0.24	400,525	$	0.24
$	1.00	475,500	6.33	$	1.00	475,500	$	1.00
		4,134,480	8.83	$	0.23	1,423,775	$	0.48

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

You should read the following discussion and analysis of our financial condition and results of operations together with our interim financial statements and the related notes appearing at the beginning of this report. The interim financial statements and this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2007 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-KSB filed with the Securities and Exchange Commission.

Overview

The Company is engaged in the development, manufacturing, and sales of a patented product called zNose(R); a device designed to detect and analyze chemical odors and vapors, or, in other words, an electronic "nose." We believe the zNose(R) is superior to other electronic "noses" because of its speed, specificity and sensitivity. The zNose(R) is capable of measuring and quantifying the chemistry of any compound, fragrance, vapor or odor with parts per trillion sensitivity in 10 seconds. We also believe the zNose(R) has the unique ability to quantify and speciate the subject chemical vapor by creating visual olfactory images. This enables the measured odor or vapor to be easily identified by the user.

We believe that our products will have broad applications in the homeland security, analytical instrumentation/quality control, and environmental monitoring and detection markets. The Company is involved in ongoing product research and development efforts in that regard. The Company has also concentrated its efforts on further product development, testing and proving and continuing to expand our sales and support organization.

The Company was originally incorporated under the laws of the state of Nevada as "Bluestone Ventures, Inc." on July 12, 2000. From inception until February 1, 2005, we engaged in the business of acquiring, exploring and developing certain mining properties in Ontario, Canada. Upon acquisition of Electronic Sensor Technology, L.P. ("ELP"), we abandoned our mining business and adopted ELP's business of developing, manufacturing and selling the vapor analysis device. On January 26, 2005, we changed our name to "Electronic Sensor Technology, Inc."

Our executive offices are located at 1077 Business Center Circle, Newbury Park, California 91320 and our telephone number is (805) 480-1994.

Critical Accounting Policies

The Company records revenue from direct sales of products to end-users when the products are shipped, collection of the purchase price is probable and the Company has no significant further obligations to the customer. Costs of remaining insignificant Company obligations, if any, are accrued as costs of revenue at the time of revenue recognition. Cash payments received in advance of product shipment or service revenue are recorded as deferred revenue.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company reviews long-lived assets, such as property and equipment, to be held and used or disposed of, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value. At September 30, 2008 no assets were impaired.

Plan of Operations

Over the course of the next 12 months, we intend to execute our business plan and focus our business development efforts in the following key areas:

- By diversifying our product offerings to enhance the usefulness of our solutions for customers who will have already adopted one or more products;
- By enhancing our product lines and developing new products to attract new customers; and
- By developing partnering relationships with wide-ranging sales and distribution channel leaders already serving our vertical market space in a way that assists them in developing new revenue streams and opportunities through improved technical and sales support and customer services.

Results of Operations

The following tables sets forth, in $ and as a percentage of revenues, certain items included in the Company's Income Statements (see Financial Statements and Notes) for the periods indicated:

	Nine Months Ended September 30	
Statement of Operations Data:	2008	2007
Revenues	100%	100%
Cost of Sales	64%	53%
Gross Profit	36%	47%
Operating Expenses	158%	149%
(Loss) From Operations	(122%)	(102%)
Other Income (Expense)	57%	(97%)
Net (Loss)	(65%)	(199%)

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Revenues are derived from product sales and product support services. For the nine months ending September 30, 2008, revenues were $1,304,000 which was $388,000 less than for the same period in 2007. For the quarter, revenues were $544,000 or $20,000 better than third quarter 2007. The improvement in quarterly performance was due to an increase in shipments which resulted from aggressive pricing on our Model 4200 instrument that is being discontinued in its current configuration. Year-to-date performance continues to be severely impacted by a significant drop in business from our Chinese distributor whose purchases are 56% below that of last year. The combined revenues from all other geographical markets, excluding China, are approximately 4% improved over last year with growth in the domestic market, offsetting a decrease in the European market.

Cost of Sales consist of product costs and expenses associated with product support services. For the three and nine month periods ending September 30, 2008, cost of sales were $368,000 and $828,000, compared to $307,000 and $892,000 in 2007. For the same periods, cost of sales, as a percentage of revenues, were 68% and 64%, respectively, versus 59% and 53%, in 2007. Cost of sales continues to be negatively impacted by overhead spending and labor variances totaling $106,000 for the nine month period, compared to $104,000 in 2007. The variances were caused by a slow down in production to reflect lower sales activities and to work-off on-hand inventory. In connection with the discontinuance of the Model 4200 in its current configuration, associated materials inventory approximating $30,000 were written off during the quarter. Excluding the impact of the variances and inventory write off, cost of sales for the first nine months of 2008 would be 53% of revenues or 6% worse than last year.

Gross profit was $475,000 or 36% of sales for the nine months ending September 30, 2008, compared to $800,000 or 47% of sales for the same period in 2007. For the quarter, gross profit was 32% of revenues or 9% worse than third quarter 2007. The decrease in gross margin for the quarter is due primarily to aggressive pricing on the Model

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4200 that was initiated to sell off the currently configured Model 4200 instrument which will be discontinued, and to write off of associated Model 4200 materials inventory.

Research and Development costs for the nine months ending September 30, 2008 were $513,000 versus $567,000 for the same period in 2007. The $54,000 improvement is attributed to lower personnel expenses due to reduction of census ($67,000) and to non-recurring patent attorney expenses incurred in 2007. These improvements were offset by higher operating expenses.

Selling, General and Administrative expenses for the three and nine months ending September 30, 2008 were $405,000 and $1,546,000, compared to $572,000 and $1,959,000 for the same periods in 2007. The improvements in spending for both the quarter and year-to-date ($413,000) resulted from a decrease in personnel expenses due to a reduction in census ($221,000), reduction in the use of outside services ($75,000), reduction in operating expenses ($109,000), selective attendance at trade shows ($29,000), offset by an increase in facilities expenses ($21,000).

Interest expense for the nine months ending September 30, 2008 was $837,000, as compared to $2,160,000 for the same period in 2007. The $1,323,000 reduction in interest expense is due to retirement of the $7.0 million 8% convertible debentures, and related debt discount, on March 31, 2008. Previously, interest expense included both interest accrued on the 8% convertible debentures as well as amortization of the related debt discount. Since the beginning of the second quarter, interest expense pertains mostly to the interest accrued on the $2.0 million convertible debenture, which was issued on March 28, 2008.

Other income-derivatives primarily consist of the decrease in the fair value of derivative liabilities between the measurement dates which are the balance sheet dates. On March 31, 2008, we satisfied our obligations under the 8% convertible debentures and as a result, the Company can assert that it has a sufficient amount of authorized and unissued shares to settle its obligations which can be settled in shares. Accordingly, the Company reclassified all contracts, warrants, and other convertible instruments outstanding at March 31, 2008 from liability to equity (see Note 5).

Gain on extinguishment of debt is the gain realized from the early retirement of the 8% convertible debentures on March 31, 2008 (see Note 4).

Liquidity and Capital Resources

For the nine months ending September 30, net cash used by the Company for operating activities were $1,510,600 and $1,391,600 for 2008 and 2007 respectively. Cash used for the nine months ending September 30, 2008 was comprised of the net loss for the period of $835,600, less net non-cash items (including depreciation and amortization expenses of $36,200, issuance of common shares for payment of interest of $280,000, amortization of debt discount of $589,100, amortization of deferred financing costs of $45,400, stock based compensation of $30,600, less decrease in fair value of derivative liability of $323,200, gain on early retirement of debt of $1,261,900) of $603,800 and less the net change in operating assets and liabilities of $71,200. Cash used in operations during the same nine months of 2007 was comprised of the net loss for the period of $3,371,800, plus net non-cash expenses (including depreciation and amortization expenses of $40,600, stock based compensation of $94,000, issuance of common shares for payment of interest of $140,000, amortization of debt discount of $1,750,000, amortization of deferred financing costs of $136,200, less decrease in fair value of derivative liability of $503,700, and decrease in allowance for doubtful accounts of $22,900) of $1,634,200, and plus the net change in operating assets and liabilities of $346,000.

Investing activities provided cash of $6,300 in the first nine months of 2008 and $796,700 during the same period in 2007. For the period, cash of $9,900 was provided from the sale of property and equipment and $3,600 was used to purchase capital equipment. In 2007, cash was provided through a decrease in our certificate of deposit of $702,100 and a decrease in restricted deposit of $237,600 while $143,000 was used to purchase capital equipment.

Financing activities for the first nine months of 2008 provided cash of $1,985,200 which included $2,000,000 received from the issuance of 9% convertible debentures to an investor, $3,500,000 from the issuance of equity to the same investor, less $3,500,000 used to retire the 8% convertible debentures and a decrease in capital lease

obligation of $14,800. Financing activities for the first nine months of 2007 provided cash of $59,200 through incurrence of a capital lease obligation for the same amount.

On September 30, 2008 the Company's cash (including cash equivalents) was $729,500, compared to $558,300 on September 30, 2007. The Company had a working capital on September 30, 2008 of $1,414,000. The Company's working deficit at September 30, 2007 was $3,787,100. The working deficit at September 30, 2007 included derivative liabilities of $2,852,700 - excluding this amount from current liabilities; the working deficit would be $934,400.

Seasonality and Quarterly Results

We have not experienced and do not foresee any seasonality to our revenues or our results of operations.

Inflation

Although we currently use a limited number of sources for most of the supplies and services that we use in the manufacturing of our vapor detection and analysis technology, our raw materials and finished products are sourced from cost-competitive industries. While prices for our raw materials may vary significantly based on market trends, we have not experienced and do not foresee any material inflationary trends for our product sources.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

This Item is not applicable to smaller reporting companies.

Item 4T. Controls and Procedures.

The company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report on Form 10-Q, have concluded that, based on such evaluation, the company's disclosure controls and procedures were effective to ensure that material information relating to the company is recorded, processed, summarized, and reported in a timely matter. In designing and evaluating the disclosure controls and procedures, the company's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and the company's management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

There were no changes in the company's internal control over financial reporting that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

PART II.
OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any pending material legal proceedings and are not aware of any threatened or contemplated proceeding by any governmental authority against us.

Item 1A. Risk Factors.

This Item is not applicable to smaller reporting companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On July 25, 2008, we granted an option to each of Maggie Tham and William Wittmeyer, directors of Electronic Sensor Technology, to acquire 869,565 shares of our common stock. The options were not registered; however, 500,000 shares of the common stock underlying each the options is registered pursuant to our Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 25, 2005, and the remaining shares of common stock underlying each of the options are unregistered. Details regarding this issuance are included in the Current Report on Form 8-K that we filed on October 21, 2008, which is incorporated herein by reference.

We did not repurchase any of our equity securities during the three months ended September 30, 2008.

Item 3. Defaults Upon Senior Securities.

During the three months ended September 30, 2008, there were no material defaults upon senior securities.

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

On July 10, 2008, the company received a written consent in lieu of an annual meeting of shareholders from the holders of a majority of the outstanding shares of common stock of the company entitled to vote as of such date and as of the record date, in connection with the election of directors of the company. The following directors were elected pursuant to such written consent: Teong C. Lim, Barry S. Howe, William Wittmeyer, Maggie Tham, Rita Benoy Bushon, Lewis Larson and James Wilburn. The holders of 104,377,312 shares of our common stock (approximately 67% of our outstanding common stock) executed the written consent.

Since the date of such written consent, on July 25, 2008, Barry S. Howe resigned as President and Chief Executive Officer and as a director of the company and the Board of Directors resolved to decrease the size of the Board of Directors from seven (7) directors to six (6) directors, as further described in our current report on Form 8-K filed on July 29, 2008. In addition, on August 29, 2008, Rita Benoy Bushon resigned as a director of the company and was replaced by Low Gay Teck, as further described in our current report on Form 8-K filed on September 2, 2008.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Principal Financial and Accounting Officer Pursuant to Section 302 of the Sarbanes-

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32.1	Oxley Act. Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELECTRONIC SENSOR TECHNOLOGY, INC.

Dated: November 3, 2008

By: /s/ Teong Lim

Name: Teong Lim
Title: President and
Chief Executive Officer
(Principal Executive Officer)

Dated: November 3, 2008

By: /s/ Philip Yee

Name: Philip Yee
Title: Secretary, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)