Electronic Sensor Technology, Inc
Form 10-Q
May 14, 2009

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 MARCH 31, 2009

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 [ ]   Smaller reporting company [X]
(Do not check if a smaller reporting company)

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 May 6, 2009

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.

INDEX TO FINANCIAL STATEMENTS

ELECTRONIC SENSOR TECHNOLOGY, INC.
CONSOLIDATED BALANCE SHEETS
ASSETS

	March 31, 2009 (Unaudited)
CURRENT ASSETS:	
Cash and cash equivalents	$ 203,062
Certificate of deposit-restricted	15,500
Accounts receivable, net of allowance for uncollectible of $4,200 at March 31, 2009 and $0 at December 31, 2008	296,702
Prepaid expenses	74,705
Inventories	474,223

TOTAL CURRENT ASSETS	1,064,192
PROPERTY AND EQUIPMENT, net	98,700
SECURITY DEPOSITS	12,817
	$ 1,175,709

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 481,314
Obligation under capital lease due within one year	20,601
TOTAL CURRENT LIABILITIES	501,915
CONVERTIBLE DEBENTURES - long-term portion, net of unamortized discount	1,953,871
LONG-TERM OBLIGATION UNDER CAPITAL LEASE	11,211
TOTAL LIABILITIES	2,466,997
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 March 31, 2009 and December 31, 2008	155,854
Additional paid-in capital	15,211,132
Accumulated deficit	(16,658,274)
TOTAL STOCKHOLDERS' EQUITY	(812,118)
	$ 1,175,709

See unaudited notes to consolidated financial statements

ELECTRONIC SENSOR TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
REVENUES	$ 285,906	$ 393,533
COST OF SALES	169,321	228,140
GROSS PROFIT	116,585	165,393
OPERATING EXPENSES:		
Research and development	109,792	177,323
Selling, general and administrative	439,620	487,762
TOTAL OPERATING EXPENSES	549,412	665,085
LOSS FROM OPERATIONS	(432,827)	(499,692)
OTHER INCOME (EXPENSE)		
Other income (expense) - derivative	-	323,210

Loss on sale of property and equipment	(1,121)	-
Gain on extinguishment of debt	-	1,261,864
Interest (expense)	(49,055)	(734,269)
TOTAL OTHER INCOME (EXPENSE)	(50,176)	850,805
NET INCOME (LOSS)	$ (483,003)	$ 351,113
Earnings (loss) per share, basic	$ 0.00	$ 0.01
Weighted average number of shares, basic	155,853,385	61,579,041
Loss per share, diluted	$ 0.00	$ 0.00
Weighted average number of shares, diluted	155,853,385	63,387,932

See unaudited notes to consolidated financial statements

F-2

ELECTRONIC SENSOR TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (483,003)	$ 351,113
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,741	13,112
Increase in allowance for doubtful accounts	4,200	-
Issuance of shares for payment of interest	-	280,000
Stock based compensation	3,831	13,101
Amortization of debt discount	2,854	583,428
Amortization of deferred financing costs	-	45,387
Gain on extinguishment of debt	-	(1,261,864)
Decrease in fair value of derivative liability	-	(323,210)
Changes in assets and liabilities:		
Accounts receivable	(16,258)	59,765
Inventories	83,231	66,975
Prepaid expenses	(15,487)	(11,410)
Accounts payable and accrued expenses	128,948	(5,745)
Deferred revenues	-	(12,500)
Net cash provided by (used in) operating activities	(280,943)	(201,848)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	4,772	9,036
Net cash provided by investing activities	4,772	9,036
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in capital lease obligation	(4,795)	(4,280)
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 (used in) financing activities	(4,795)	1,995,720
NET INCREASE (DECREASE) IN CASH	(280,966)	1,802,908
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	484,028	248,587
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 203,062	$ 2,051,495
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$ 1,279	$ 1,817
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	$ -	$ 57,613

See unaudited notes to consolidated financial statements.

ELECTRONIC SENSOR TECHNOLOGY, INC.
Notes to Consolidated Financial Statements
(Unaudited)
March 31, 2009

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, 2008, included in the Annual Report filed on Form 10-K 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 March 31, 2009, and the results of operations and cash flows for the three month period ending March 31, 2009 have been included. The results of operations for the three month period ended March 31, 2009 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-K as filed with the Securities and Exchange Commission for the year ended December 31, 2008.

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 had two certificates of deposit in place at March 31, 2009. One, in the amount of $12,000, was used to secure and collateralize the Company's credit card liability. The other certificate of deposit in the amount of $3,500 was used to provide a performance guarantee for a sale to an oversea customer.

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) 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.

i) 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.

j) 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.

k) 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 March 31, 2009 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.

l) 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 March 31, 2009 no assets were impaired.

m) 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 $31,800 at March 31, 2009, including approximately $20,600 in the current portion of capital lease obligations in the accompanying consolidated balance sheet.

n) 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 March 31, 2009 and 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 March 31:

	2009	2008
Numerator:		
Net income (loss)	$ (483,003)	$ 351,113
Net other (income)/expense associated with derivative contracts	-	(323,210)
Interest expense in convertible debentures	-	1,081
Net income (loss) for diluted earnings per share purposes	$ (483,003)	$ 28,984
Denominator:		
Denominator for basic earnings per share- Weighted average shares outstanding	155,853,385	61,579,041
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	-	1,808,891
Denominator for diluted earnings per share- Weighted average shares outstanding	155,853,385	63,387,932
Basic earnings (loss) per share	$ 0.00	$ 0.01
Diluted earnings (loss) per share	$ 0.00	$ 0.00

o) 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 $3,800 in additional compensation expense during for the three month period ended March 31, 2009. Such amount is included in general and administrative expenses on the statement of operations.

p) 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 $250,000 at March 31, 2009. During the three-month periods ended March 31, 2009 and 2008, 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 42% and 31% of its revenues during the three-month periods ended March 31, 2009 and 2008, respectively. The customer accounted for approximately 40% and 55% of the gross accounts receivable balance at March 31, 2009 and 2008, 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 56% and 54% of net revenues during the three-month periods ended March 31, 2009 and 2008, respectively.

q) Recently Issued Accounting Pronouncements

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

9% Convertible Debentures

On March 28, 2008, we received $2,000,000 from an investor in exchange for a convertible debenture bearing an interest rate of 9%, payable semi-annually in cash. The convertible debenture has a five (5)-year term, and the conversion rate of the debenture is $0.0486 (equal to 41,152,263 common shares). 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.

5) 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 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.

	2009	2008
Exercise price	$0.02 - $0.24	$0.19 - $0.24

F-9

	2009	2008
Market value	$0.02 - $0.24	$0.19 - $0.24
Expected dividend yield	0%	0%
Expected volatility	36% - 47%	36% - 39%
Risk free interest rate	3.81% - 4.54%	4.03% - 4.54%
Expected life of option	5 years	5 years

The fair value of the granted stock options shares was approximately $0.03 per share. Approximately $13,000 and $4,000 were charged to compensation for the quarters ended March 31, 2008 and 2009, 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 $33,000 at March 31, 2009. 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 March 31, 2009:

Stock Options	Number of Options	Weighted Average Exercise Price
Balance at December 31, 2007	3,437,950	$ 0.41
Granted	2,000,000	$ 0.03
Exercised	-	$ -
Forfeited	(2,291,050)	$ 0.37
Balance at December 31, 2008	3,146,900	$ 0.19
Granted	-	$ -

Exercised	-	$ -
Forfeited	(150,000)	$ 0.24
Balance at March 31, 2009	2,996,900	$ 0.18
Options exercisable at March 31, 2009	813,200	$ 0.56
Weighted average fair value of options granted during 2009	-	$ -

A summary of the status of the Company's nonvested shares as of March 31, 2009, and changes during the fiscal period then ended as presented below.

Nonvested Shares	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2007	1,598,200	$ 0.09
Granted	2,000,000	$ 0.03
Vested	(191,850)	$ 0.24
Cancelled	(1,158,300)	$ 0.21
Nonvested at December 31, 2008	2,248,050	$ 0.09
Granted	-	$ -
Vested	(64,350)	$ 0.24
Cancelled	-	-
Nonvested at March 31, 2009	2,183,700	$ 0.04

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding as of March 31, 2009	Weighted Average Remaining Contractual Years	Weighted Average Exercise Price	Number Exercisable at March 31, 2009	Weighted Average Exercise Price
$ 0.02	1,000,000	9.65	$ 0.02	-	$ -
$ 0.03	1,000,000	9.32	$ 0.03	-	$ -
$ 0.19	161,500	7.93	$ 0.19	161,500	$ 0.19
$ 0.24	482,400	7.79	$ 0.24	298,700	$ 0.24
$ 1.00	353,000	5.84	$ 1.00	353,000	$ 1.00
	2,996,900	8.70	$ 0.18	813,200	$ 0.56

Warrants

The following table summarizes the warrants outstanding at March 31, 2009:

Issue Date	Expiration Date	Number of Shares of Common Stock	Price	Basis for Warrant Issuance

03/09/05	03/08/10	200,000	2.40	Media consulting services
05/09/05	05/08/10	75,000	2.40	Media consulting services
08/09/05	08/08/10	75,000	2.40	Media consulting services
12/07/05	12/06/10	485,213	0.4761	Investment advisor
12/07/05	12/06/10	2,166,128	0.43	Convertible debenture
12/07/05	12/06/10	3,899,030	0.43	Convertible debenture
		6,900,371	Outstanding at March 31, 2009	

6) Subsequent Events

On April 10, 2009, the Company received $1 million from an investor in exchange for a debenture bearing an interest rate of 9% with a maturity of one year. The debenture grants the investor a security interest in all of the intellectual property of the Company.

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, 2008 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-K 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 March 31, 2009 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 table sets forth, as a percentage of revenues, certain items included in the company's Income Statements (see Financial Statements and Notes) for the periods indicated:

	Three Months Ended March 31	
Statement of Operations Data:	2009	2008
Revenues	100%	100%
Cost of Sales	59%	58%
Gross Profit	41%	42%
Operating Expenses	192%	169%

(Loss) From Operations......................	(151%)	(127%)
Other Income (Expense)......................	(18%)	216%
Net (Loss)..................................	(169%)	89%

Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

Revenues are derived from product sales and product support services. For the three months ending March 31, 2009, revenues were $285,900 which was $107,600 less than for the same period in 2008. Although the same number of units was shipped as in 2008, revenues were lowered due to an averaged 24% across-the-board price reduction on all of our instruments. The price reductions were necessitated by the impact of current global economic conditions on the durable capital equipment market. Revenues were also negatively impacted by a significant (91%) drop in sales support revenues due to most of the quarter's sales were to international customers whose post-sales support requirements are handled by their respective sales representative or distributor. Also impacting revenues was the company's license agreement with a customer which ended in October 2008 and was not renewed. The license agreement provided $12,500 in quarterly royalty income for the company.

The company anticipates the stresses of current global economic conditions on the commercial durable equipment market to continue. These conditions have caused many of our customers to postpone their purchases of capital equipment. Until global economic conditions improve, we expect the commercial durable equipment market to remain stagnant.

During the quarter, we introduced our latest product, the Model 4500, to the homeland security market. The Model 4500 is a mobile unit that is based on our proprietary core technologies which provide accurate analysis on a real time basis. We are optimistic that this product will be enthusiastically received by homeland security customers.

Cost of Sales consist of product costs and expenses associated with product support services. For the three-month period ending March 31, cost of sales was $169,000 versus $228,000 in 2008. On a percentage of revenues basis, cost of sales were approximately the same for both years, 59% versus 58% for 2009 and 2008, respectively. It

should be noted that the 2009 cost of sales percentage was negatively impacted by the across-the-board price decreases on our instrument product line which offset cost improvements on our products.

Gross profit was $116,600 or 41% of sales for the three months ending March 31, 2009, compared to $165,400 or 42% of sales for the same period in 2008. Gross profit was negatively impact by the across-the-board price reduction on our instruments. The price reductions had a negative impact on gross profit of approximately 9 percentage points.

Research and Development costs for the three months ending March 31, 2009 were $110,000 versus $177,000 for the same period in 2008. The $67,000 improvement is attributed to lower personnel expenses due to reduction of census ($67,000), lower operating expenses ($9,000), offset by higher facilities expenses.

Selling, General and Administrative expenses for the three months ending March 31, 2009 were $440,000, compared to $488,000 for the same period in 2008. The $48,000 improvement in spending resulted from a decrease in personnel expenses due to a reduction in census ($56,000), reduction in operating expenses ($66,000), offset by increases in the use of outside services ($14,000), and facilities expenses ($60,000).

Interest expense for the three months ending March 31, 2009 was $49,000, as compared to $734,000 for the same period in 2008. In 2009, interest expense pertains mostly to the interest accrued on the $2.0 million 9% convertible debenture issued on March 28, 2008. 2008 interest expense included both interest accrued on the $7.0 million 8% convertible debentures as well as amortization of the related debt discount. The 8% convertible debenture was retired on March 28, 2008.

Other income-derivatives. There was no income from derivatives in 2009. Such income from derivatives in 2008 resulted primarily from 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 asserted 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.

Gain on extinguishment of debt. In 2008, a gain was realized from the early retirement of the 8% convertible debentures on March 31, 2008. There were no debt retirements in the first three months of 2009.

Liquidity and Capital Resources

For the three months ending March 31, net cash used by the company for operating activities were $281,000 and $201,800 for 2009 and 2008 respectively. Cash used for the three months ending March 31, 2009 was comprised of the net loss for the period of $483,000, plus net non-cash items (including depreciation and amortization expenses of $10,700, increase in allowance for doubtful accounts of $4,200, stock based compensation of $3,800, and amortization of debt discount of $2,900) of $21,600, and plus the net change in operating assets and liabilities of $180,400. Cash used in operations during the same three months of 2008 was comprised of the net income for the period of $351,100, less net non-cash expenses (including depreciation and amortization expenses of $13,100, stock based compensation of $13,100, issuance of common shares for payment of interest of $280,000, amortization of debt discount of $583,400, amortization of deferred financing costs of $45,400, less decrease in fair value of derivative liability of $323,200, and gain on early retirement of debt of $1,261,800) of $650,000, and plus the net change in operating assets and liabilities of $97,100.

Investing activities provided cash for the three-month period ended March 31, were $4,800 and $9,000 for 2009 and 2008, respectively. In both years, the cash provided were from the sale of property and equipment.

Financing activities for the first three months of 2009 used cash of $4,800 which resulted from a decrease in capital lease obligation. For the same period in 2008, financing activities provided cash of $1,995,700 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 $4,300.

4

On March 31, 2009 the company's cash (including cash equivalents) was $203,100, compared to $2,051,500 on March 31, 2008. On April 10, 2009, the company received $1,000,000 from an investor in exchange for a debenture (see Note 6). The company had working capitals of $562,300 and $2,567,200 on March 31, 2009 and 2008, respectively.

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.

We did not sell any unregistered equity securities or repurchase any of our equity securities during the three months ended March 31, 2009.

Item 3. Defaults Upon Senior Securities.

During the three months ended March 31, 2009, there were no material defaults upon senior securities.

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

None.

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-Oxley Act.
32.1	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.

6

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: May 14, 2009

By: /s/ Teong Lim

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

Dated: May 14, 2009

By: /s/ Philip Yee

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