

ELECTRONIC SYSTEMS TECHNOLOGY INC
Form 10-K
March 01, 2019

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

Form 10-K

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

For the fiscal year ended: December 31, 2018

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

For the transition period from _____ to _____

Commission file number: **000-27793**

ELECTRONIC SYSTEMS TECHNOLOGY INC.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of incorporation or organization)

91-1238077

(I.R.S. Employer Identification No.)

415 N. Quay St., Bldg B1, Kennewick, Washington

(Address of principal executive offices)

99336

(Zip Code)

Registrant's telephone number, including area code: **(509) 735-9092**

Securities registered under Section 12(b) of the Exchange Act:

Title of each class Name of each exchange on which registered

None

N/A

Securities registered under Section 12(g) of the Exchange Act:

Common

(Title of Class)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The aggregate market value of the registrant's common stock held by non-affiliates was \$1,266,127, based on the reported last sale price of common stock on June 30, 2018, which was the last business day of the registrant's most recently completed second fiscal quarter. For purposes of this computation, all executive officers and directors were deemed affiliates.

The number of shares outstanding of the registrant's common stock as of February 4, 2019: 4,946,502 shares.

ELECTRONIC SYSTEMS TECHNOLOGY INC.

FORM 10-K

Table of Contents

PART I 3

Item 1. Business.3

Item 1A. Risk Factors.7

Item 1B. Unresolved Staff Comments.8

Item 2. Properties.8

Item 3. Legal Proceedings.8

Item 4. Mine Safety Disclosure.8

PART II9

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

of Equity Securities.9

Item 6. Selected Financial Data.10

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.11

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.13

Item 8. Financial Statements and Supplementary Data.14

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.33

Item 9A. Controls and Procedures.33

Item 9B. Other Information.34

PART III34

Item 10. Directors, Executive Officers and Corporate Governance.34

Item 11. Executive Compensation.36

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

Stockholder Matters.38

Item 13. Certain Relationships and Related Transactions, and Director Independence.40

Item 14. Principal Accounting Fees and Services.40

PART IV41

Item 15. Exhibits and Financial Statement Schedules.41

SIGNATURES42

Table of Contents

PART I

FORWARD LOOKING STATEMENTS:

When used in this Annual Report and documents incorporated by reference, the terms “anticipates”, “believes”, “expects” and similar expressions are intended to identify in certain circumstances, forward-looking statements. Such statements are subject to uncertainties and risks that could cause actual results to differ materially from those projected, including the risks described in this Annual Report. Given these uncertainties, readers are cautioned not to place undue reliance on such statements. The Company also undertakes no obligation to update those forward-looking statements.

Item 1. Business.

For over 30 years, Electronic Systems Technology, Inc. (“EST”, “us”, “we”, or the “Company”) has specialized in the development and manufacturing of digital data (non-voice) radio transceivers for use in industrial wireless networking applications. With reliance on wireless communication in the modern world, the global modernization of industrial control systems now requires the benefits gained by use of wireless technology. EST designs and produces these specialized, hardened products to operate and survive in these difficult conditions.

The Company designs, develops, manufactures and markets the ESTeem® line of industrial wireless products and accessories. The Company’s products provide innovative communication solutions for applications not served or underutilized by conventional, commercial grade communication systems. The Company’s products are part of the ESTeem® Industrial Wireless Solutions for commercial, industrial, and government arenas both domestically and internationally. The Company’s products are marketed through direct sales, sales representatives, and resellers.

The Company was incorporated in the State of Washington in February 1984, and was granted a United States Patent for the “Wireless Computer Modem” in May 1987, and Canadian patent in October 1988. The Company established a "doing business as" or "DBA" structure, based on the Company's registered trade name of ESTeem® Wireless Modems in 2007. The Company continues to provide product improvements and enhancements to incorporate continuing technological developments, in response to customer needs and market opportunities. New opportunities may arise from changes in FCC regulations or technological developments, both of these are reviewed by management to identify both marketability and profitability.

Development efforts during 2018 were focused primarily on software enhancements for the new ESTeem® Horizon Series. These next generation industrial wireless products will improve our networking capability with higher data rates, improved support features and updates to the latest wireless standards.

In an effort to maintain and expand our customer base in the industrial control marketplace, we team with major automation hardware vendors such as Rockwell Automation. 2018 marks the 27th anniversary of our relationship with Rockwell Automation through their Encompass Program. Rockwell Automation has the largest market share in the United States and is a major entity in the world-wide automation and controls market place. The benefit of the Encompass program and similar partnering efforts is increased exposure to markets that would not otherwise be cost effective to have a direct marketing channel presence in.

PRODUCTS AND MARKETS

The Company's ESTeem® industrial wireless products provide communication links between computer networks, network enabled devices and mobile devices without cables. The widespread use of networked computer systems in business, industry and public service and the adoption of mobile devices in all aspects of modern life has created an environment where the wireless network is no longer a convenience but a necessity. As wireless networking proliferates through the modernization of the industrial sector the need for products such as the ESTeem® industrial wireless (specifically designed for rigors of operation in the industrial environment) will be increased dramatically. These wireless networks will be the backbone connections to the Internet for cloud based services such as the upcoming Internet of Things ("IoT") and Industrial Internet of Things ("IIoT").

All of the ESTeem® models come with industry standard Ethernet (Internet) communications ports and legacy serial ports to provide the broadest range of connections for both new and legacy hardware. The combined features such as AES 128 or AES 256 security encryption, self-healing repeaters, Mesh networking, long range operation and outdoor weatherproof cases make the ESTeem® products unique in our market space.

Table of Contents

PRODUCT APPLICATIONS

Some of the major applications and industries in which ESTeem® products are being utilized are as follows:

Water/Wastewater Mining
Oil/Gas Industrial Automation

PRODUCT LINES

The Company manufactures ten (10) models of the ESTeem® industrial wireless modems that operate in frequency from 150 MHz to 5.8 GHz and three (3) models for Molex under an agreement dated June 13th, 2017. A wireless modem is a hardware device for sending and receiving data over a radio carrier and is the foundation of our industrial wireless solutions. Each model will fit best in a specific application based upon several factors such as distance, required data rate and Federal Communication Commission (“FCC”) licensing requirements. Each wireless network is discussed in detail with the end customer to determine the best overall solution for their application. No single model or frequency band can solve all applications and having a diverse product selection is critical for expanding the customer base. The following is a summary of the products available from the Company:

ESTeem Model	Type	Frequency (MHz)	RF Power (Watts)	RF Data Rate	LOS Range (Miles)	Interface
210M	Narrow Band Licensed	150 to 174	2	64.8 Kbps	15	Ethernet/RS-232
195M	Narrow Band Licensed	150 to 174	4	12.5 Kbps	15	Ethernet/RS-232/422/485
210C	Narrow Band Licensed	450 to 470	2	64.8 Kbps	15	Ethernet/RS-232
195C	Narrow Band Licensed	450 to 470	4	12.5 Kbps	15	Ethernet/RS-232/422/485
195H	Narrow Band Licensed	217 to 220	2	50 Kbps	15	Ethernet/RS-232/422/485
Horizon900	Unlicensed	900	1	72.2 Mbps	10	Ethernet/ RS-232
Horizon2.4	Unlicensed	2400	1	150 Mbps	5-7	Ethernet/ RS-232
Horizon4.9	Licensed	4900	1	72.2 Mbps	5-7	Ethernet/ RS-232
Horizon5.8	Unlicensed	5800		300 Mbps	5-7	Ethernet/ RS-232

			.250 (Dual Stream)			
Edge900	Unlicensed	900	.25	1 Mbps	10	Ethernet/ RS-232

ADDITIONAL PRODUCTS AND SERVICES

The Company offers various accessories to support the ESTeem® products such as antennas, power supplies and cable assemblies. These accessories are purchased from other manufacturers and resold by EST to support the application of ESTeem® industrial wireless modems. The Company provides direct services to customers, such as repair and upgrade of ESTeem® products. To assist in the application of ESTeem industrial wireless modems, the Company also offers professional services, site survey testing, system start-up, and custom engineering services.

RESEARCH AND DEVELOPMENT AND NEW PRODUCTS

The Company's products compete in an environment of rapidly changing technology. This environment results in the necessity of the Company to be continually updating and enhancing existing products, as well as developing new products in order to remain competitive. Research and Development expenditures for new product development and improvements of existing products by the Company for 2018 and 2017 were \$179,413 and \$252,411. None of the Company's research and development expenses were paid directly by any of the Company's customers. During 2018, the Company contracted and will continue to contract with companies to provide software development and hardware design engineering expertise when required.

Development efforts during 2018 were focused primarily on software enhancements for the ESTeem® Horizon Series, 195 Narrow Band and 210 Series. These enhancements were developed based on customer needs. The Company plans continued research and development expenditures for development and improvement projects, as they are deemed necessary.

Table of Contents

 MARKETING, CUSTOMERS AND SUPPORT

The majority of the Company's products sold during 2018 were through the reselling efforts of non-exclusive, non-stocking distributors and resellers of the Company's products, with the remainder of the Company's sales distributed directly from the Company's facility through direct sales to end-users of the ESTeem® products. Customers generally place orders on an "as needed basis". Shipping of products is generally completed 1 to 15 working days after receipt of a customer order, with the exception of ongoing, scheduled projects, and custom designed equipment for specific customer applications. As of December 31, 2018, the Company had a sales order backlog of \$3,780.

During 2018, the Company continued advertising in trade publications specifically targeting industrial automation systems. There are approximately twenty major automation hardware manufacturers worldwide. The Company has maintained active attendance at tradeshow targeted toward the customers and markets in which it sells products. During 2018, the Company employed sales managers and product support personal to concentrate marketing efforts in the United States automation markets. During 2019, the Company intends to continue targeting domestic and foreign industrial automation markets. The Company maintains an internet web site to provide access to product and technical information for both present and potential customers of the Company's products. Due to existing reseller relationships, the Company has not implemented an electronic commerce internet website. The Company provides technical support and service for ESTeem® products through phone support, field technicians and internet sources. The Company believes high quality customer support is necessary and vital to differentiate ourselves in the industrial wireless modem market. To maintain a high level of customer support the Company has in the past, and will continue in the future, to make investments and expenditures in support of its customer service programs.

During the year ended December 31, 2018, one customer's sales accounted 10% or more of total sales revenues. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Financial Statements".

COMPETITION

The Company's competition varies according to the market in which the Company's products are competing. All of the markets in which the Company's products are sold are highly competitive. Listed below are the markets in which the Company's products compete and major competitors in those markets:

Major Market	Major Competitors
Industrial Automation	FreeWave Technologies, GE/Microwave Data Systems, Prosoft Technology and Cal Amp.

Computer networking, inter and intra building, and remote internet access. Cisco, Digital Wireless, D-link, Linksys, P-Com and Proxim

Management believes the ESTeem® products compete favorably in the market because of product choices, performance, price, and adaptability of the products to a wide range of applications. The Company's major limitation in competing with other manufacturers is its limited marketing budget, which currently limits the Company's nationwide advertising and sales force presence.

PATENTS, TRADEMARKS, AND PROPRIETARY INFORMATION

EST was granted a United States patent in 1987 for a "Wireless Computer Modem". In 1988, EST was granted a Canadian patent for a "Wireless Computer Modem". Both patents had lives of 17 years and have expired. The Company's rights to the ESTeem® Wireless Modem trademark, in uninterrupted use by the Company since 1985, were renewed in 2014. To protect the Company against unauthorized disclosure of proprietary information belonging to the Company, all employees, dealers, distributors, original equipment manufacturers, sales representatives and other persons having access to confidential information regarding Company products or technology are bound by non-disclosure agreements.

GOVERNMENT REGULATION

For operation in the United States, the ESTeem® industrial wireless products require FCC type acceptance. The FCC type acceptance is granted for devices, which demonstrate operation within mandated and tested performance criteria. All of the Company's products requiring FCC type acceptance have been granted such acceptance. All of the Company's current ESTeem® production models have also been granted type acceptance in Canada.

Table of Contents

The ESTeem® industrial wireless products that operate in the FCC licensed frequency band require licensing under Part 90 of the FCC Rules and Regulations, which must be applied for by the end user of the Company's products. The Company cannot guarantee customers will receive FCC licenses in the frequency spectrum for any particular application. The Company provides information to customers to assist in the application for FCC consumer licenses.

At the time of this filing the Company is unaware of any existing or proposed FCC regulation that would have a materially adverse effect on the Company's operations, but there can be no assurance that future FCC regulations will not have materially adverse effects on the operations of the Company.

SOURCE OF SUPPLY AND MANUFACTURING

The Company purchases certain components necessary for the production of the ESTeem® products from sole suppliers. Components including those manufactured by Hitachi, Motorola Corporation, Mitsubishi, Murata Corporation, Rakon, Toko America Inc. and Triquint, as purchased through a number of distributors, supply key components for the Company's products. The components provided by these and other companies could be replaced or substituted by other products, if it became necessary to do so. If this action occurred, a material interruption of production and material cost expenditures could take place during the process of locating and qualifying replacement components.

Approximately 24% of the Company's inventory at December 31, 2018 consisted of parts having lead times ranging from 12 to 30 weeks. Some parts are maintained at high levels to assure availability to meet production requirements, and accordingly, account for a significant portion of the Company's inventory value. Based on past experience with component availability, distributor relationships, and inventory levels, the Company does not foresee shortages of materials used in production. However, developments in the electronic component marketplace, involving components used by the Company which are also used in cellular phones, personal technology devices and other technology devices, have the potential of creating negative availability and delivery issues for components used by the Company. The Company has been able to procure parts on a timely basis as of the date of this report, however procurement cannot be guaranteed in the future. If shortages were to occur, material interruption of production and product delivery to customers could occur.

The Company contracts with multiple companies, for manufacturing of sub-assemblies and some engineering assistance services for the Company's products. By contracting with these companies, the Company is able to avoid staff fluctuations associated with operating its own manufacturing operation and reduced capital investments in specialized manufacturing equipment. Management reviews the costs for the services provided by these companies and regularly submits Requests for Quotes (RFQ) to multiple suppliers of these operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations", and "Financial Statements".

ACCESS TO COMPANY INFORMATION

The Registrant does not issue annual or quarterly reports to security holders other than the annual Form 10-K and quarterly Forms 10-Q as electronically filed with the Securities and Exchange Commission (“SEC”). Electronically filed reports may be accessed at www.sec.gov or via the Company’s website at www.esteem.com. We make available on our website such reports as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

EMPLOYEES

As of December 31, 2018, the Company employed a staff of 9 persons on a full-time basis, 2 in sales/marketing, 1 in technical support, 5 in engineering/manufacturing, and 1 in finance and administration. There were no significant changes to key personnel in 2018. Michael Eller was appointed as the Company’s President and Chief Accounting Officer on February 1, 2016. The Company’s operations are dependent upon key members of its engineering and management personnel. In the event services of these key individuals were lost to the Company, adverse effects on the Company’s operations may be realized.

Table of Contents

Item 1A. Risk Factors.

Our common stock value and our business, results of operations, cash flows and financial condition are subject to various risks, including, but not limited to those set forth below. If any of the following risks actually occurs, our common stock, business, results of operations, cash flows and financial condition could be materially adversely affected. These risk factors should be carefully considered together with the other information in this Annual Report on Form 10-K, including the risks and uncertainties described under the heading “Forward-Looking Statements.” If any of the events described in the risk factors below actually occur, our business, financial condition or results of operations could suffer significantly. In such case, the value of your investment could decline and you may lose all or part of the money you paid to buy our common stock.

We cannot predict whether we will be able to sustain revenue growth, profitability or positive cash flow. Our products are sold in highly competitive markets. Our revenues and operating results can be negatively affected by technology changes in our markets, economic conditions in our markets, and the level of competition in our markets.

Our marketing efforts may be unsuccessful due to limited marketing and sales capabilities. Our limited national advertising and sales coverage may result in the markets in which our products compete not being fully penetrated. The lack of market penetration may result in an adverse effect on our sale revenues. We must continue to develop and maintain appropriate marketing, sales, technical, customer service and distribution capabilities, or enter into agreements with third parties to provide these services to successfully market our products. A failure to develop these capabilities or obtain third-party agreements could adversely affect us.

We may be unable to produce products for sale if we are unable to obtain component materials. Our products require highly specialized components, which are subject to rapid obsolescence, limited availability and design change. Many of components of our products are also used in cellular phone, pagers and other technology devices. If we cannot obtain material to produce products for sale our sales revenues will be negatively impacted.

Our success depends on our ability to retain key management personnel. The success of our Company depends in large part on our ability to attract and retain highly qualified management, administrative, manufacturing, sales, and research and development personnel. Due to the specialized nature of our business, it may be difficult to locate and hire qualified personnel. Our success is significantly dependent on the performance and continued service of key members of Management, such as Chief Executive Officer, Michael Eller, and certain other key employees. If the services of any members of Management become unavailable for any reason, our business and prospects could be adversely affected. Although we have been successful in retaining highly capable and qualified management in the past, there can be no assurance that we will be able to do so in the future.

We may be adversely affected by government regulation. The Federal Communication Commission (FCC) governs use of the products we sell. If the FCC were to implement rules detrimental to our products and the markets in which they are offered our operations would be negatively impacted.

Rapid technological changes in our industry may adversely affect us if we do not keep pace with advancing technology. The wireless communication market is characterized by rapidly advancing technology. Our success depends on our ability to keep pace with advancing technology, processes and standards, such as cellular telephone based technology. We intend to continue to develop and enhance our products to meet perceived market opportunities. However, our development efforts may be rendered obsolete by research efforts and technological advances made by others, and devices other than those we currently produce may prove more advantageous.

We have material weaknesses in our internal controls which may result in us not being able to prevent or detect a material misstatement of our financial statements, which could harm our business and result in regulatory scrutiny. Pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”), Management conducted an assessment of the effectiveness of our internal controls over financial reporting for the year ending December 31, 2018. We determined that there continues to be material weakness affecting our internal control over financial reporting and, as a result of that weakness, our disclosure controls and procedures were not effective as of December 31, 2018. We have not maintained effective controls to ensure appropriate segregation of duties due to our limited number of employees in finance and administration. The same employee is responsible for the initiating and recording of transactions, thereby creating segregation of duties weaknesses. Due to this weakness and absence of sufficient mitigating controls, we determined that this control deficiency resulted in a more than remote likelihood that material misstatement or lack of disclosure within the annual or interim financial statements will not be prevented or detected. Avenues for mitigating our internal control weaknesses have been evaluated but mitigating controls have

Table of Contents

been deemed to be impractical and prohibitively costly due to the size of our organization at the current time. The material weakness in our internal controls may subject us to regulatory scrutiny with undetermined consequences.

The market for our common stock is limited and our shareholders may have difficulty reselling their shares when desired or at attractive market prices. Our stock price and our listing may make it more difficult for our shareholders to resell shares when desired or at attractive prices. Our Company stock trades on the “over-the-counter” market and is listed on OTCQB tier of the OTC Markets bulletin board. Our common stock has continued to trade in low volumes and at low prices. Some investors view low-priced stocks as unduly speculative and therefore not appropriate candidates for investment. Many institutional investors have internal policies prohibiting the purchase or maintenance of positions in low-priced stocks.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

EST does not own any real property, plants, mines, or any other materially important physical properties. The Company's administrative offices, inventory and laboratories are located in leased facilities at 415 N. Quay Street, Bldg. B1, Kennewick, Washington. The Company leases approximately 8,600 square feet of office and laboratory space by a lease agreement with the Port of Kennewick in Kennewick, Washington. As of December 31, 2018, the total monthly lease cost, including tax, is \$5,542. The lease covers a period of three years, expiring September 2020.

The Company also owns miscellaneous assets, such as computer equipment, laboratory equipment, and furnishings. The Company does not have any real estate holdings or investments in real estate. The Company maintains insurance in such amounts and covering such losses, contingencies and occurrences that the Company deems adequate to protect its property. Insurance coverage includes a comprehensive liability policy covering legal liability for bodily injury or death of persons, and for property owned by, or under the control of the Company, as well as damage to the property of others. The Company also maintains fidelity insurance which provides coverage to the Company in the event of employee dishonesty.

Item 3. Legal Proceedings.

No proceedings are identified which involve a claim for damages against the Company.

Item 4. Mine Safety Disclosure.

Not Applicable

Table of Contents

PART II

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

There is no established market for trading the common stock of the Company. The common stock is not regularly quoted in the automated quotation system of a registered securities system or association. The common stock of the Company is traded on the "over-the-counter" market and is listed on OTCQB tier of the OTC Markets bulletin board under the symbol of "ELST". The following table sets forth the high and low sale prices of the Company's common stock for the quarterly period indicated for the last two (2) fiscal years.

The above data was compiled from information obtained from the OTC Bulletin Board quotation service.

(1) The above quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions. The closing price for our common stock on the OTCQB was \$0.38 on February 1, 2019.

The number of holders of record of common stock of the Registrant as of February 4, 2019 was 342 persons/entities with an unknown number of additional shareholders who hold shares through brokerage firms.

Our independent stock transfer agent is Corporate Stock Transfer, Inc. at 320 Cherry Creek Drive South, Suite 435, Denver CO 80209.

The Company does not maintain any form of Equity Compensation Plan.

Stock Repurchases

On January 13, 2016, the Company's Board of Directors approved a resolution authorizing the repurchase of up to \$100,000 of the Company's common stock at the price of \$0.38 per share. The Company's share repurchase program does not obligate it to acquire any specific number of shares. On March 2, 2016 the Company's Board of Director approved a resolution authorizing the repurchase of an additional \$150,000 of the Company's common stock at the

price of \$0.38 per share. Under the program (the “Stock Repurchase Plan”), shares may be repurchased in open market transactions, complying with Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Shares repurchased are retired.

The following table shows the Company’s activity and related information for the year ended December 31, 2018 under the Stock Repurchase Plan.

Table of Contents**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
January 1, 2017-January 31, 2017	98,764	\$0.38	98,764	559,130
February 1, 2017-February 28, 2017	-0-	-0-	-0-	559,130
March 1, 2017-March 31, 2017	7,725	\$0.38	106,489	551,405
April 1, 2017-April 30, 2017	45,601	\$0.38	152,090,	505,804
May 1, 2017-June 30, 2017	-0-	-0-	-0-	505,804
July 1, 2017-July 31, 2017	8,642	\$0.38	160,732	497,162
August 1, 2017-August 31, 2017	11,887	\$0.38	172,619	485,275
September 1, 2017-December 31, 2017	-0-	-0-	-0-	485,275
January 1, 2018 – November 31, 2018	-0-	-0-	-0-	485,275
December 1, 2018 – December 31, 2018	300	\$0.38	172,919	484,975
Total	172,919	\$0.38	172,919	484,975

Item 6. Selected Financial Data.

We are a “smaller reporting company” as defined by Regulation S-K and as such, are not providing the information contained in this item pursuant to Regulation S-K.

Table of Contents

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

Management's discussion and analysis is provided as supplement to, and is intended to be read in conjunction with the Company's audited financial statements and the accompanying integral notes ("Notes") thereto. The following statements may be forward-looking in nature and actual results may differ materially.

RESULTS OF OPERATIONS

GENERAL: The Company specializes in the manufacturing and development of data radio products. The Company offers product lines which provide innovative communication solutions for applications not served by existing conventional communication systems. The Company offers product lines in markets for process automation in commercial, industrial and government arenas domestically as well as internationally. The Company markets its products through direct sales, sales representatives, and domestic, as well as foreign, resellers. Operations of the Company are sustained solely from revenues received through sales of its products and services.

FISCAL YEAR 2018 vs. FISCAL YEAR 2017

GROSS REVENUES: Total revenues for the fiscal year 2018 were \$1,395,030 reflecting a decrease of 2.1% from \$1,425,128 in gross revenues for fiscal year 2017. During the year ended December 31, 2018, one customer's sales accounted for more than 10% of the total sales revenues. The decrease in total revenues is the result of decreased Engineering Services during 2018. Domestic Sales for the fiscal year were \$1,298,447 compared to \$1,198,674 in 2017. Sales to Foreign Customers for the fiscal year were \$96,583 compared to \$226,454 in 2017. Product sales increased to \$1,374,810 in 2018, as compared to 2017 sales of \$1,358,203, reflecting an increase of 1.2%. Management believes the increase in sales revenues is the result of increased product sales for the Company's Domestic sales segments, specifically industrial automation.

Interest revenues during 2018 increased to \$18,097 from 2017 level of \$11,411 due to the increased interest rates for the certificates of deposit held by the Company.

As of December 31, 2018, the Company had sales backlog of \$3,780. The Company's customers generally place orders on an "as needed basis". Shipment of the Company's products is generally completed within 1 to 15 working days after receipt of customer orders, with the exception of ongoing, scheduled projects, and custom designed equipment for specific customer applications.

COST OF SALES: Cost of Sales, as a percentage of net sales, was 48% and 45% respectively, for 2018 and 2017. Cost of Sales variances are the result of differences in the product mix sold and occurrences of obsolete inventory expense, as well as differences in the price discounting structure for the mix of products sold during the period.

INVENTORY: The Company's year-end inventory values for 2018 and 2017 were as follows:

	2018	2017
Parts	\$133,809	\$143,452
Work in progress	243,081	201,526
Finished goods	338,105	417,539
TOTAL	\$714,995	\$762,517

The Company's objective is to maintain inventory levels as low as possible to provide maximum cash liquidity, while at the same time meet production and delivery requirements.

OPERATING EXPENSES: Operating expenses decreased to \$853,628 in 2018, from 2017 levels of \$996,888. Material changes in expenses are comprised of the following components: Wages/Payroll Taxes/Benefits \$129,019, Travel, Professional and Purchased Services decreased by \$8,225 and \$11,453 respectively. Depreciation expense decreased during 2018 to \$11,076 from 2017 levels of \$19,939 due to the Company's decreased capital purchases.

Table of Contents**FISCAL YEAR 2017 vs. FISCAL YEAR 2016**

GROSS REVENUES: Revenues, for the fiscal year 2017 were \$1,425,128 reflecting a decrease of 4% from \$1,489,889 in revenues for fiscal year 2016. During the year ended December 31, 2017, no one customer's sales accounted for more than 10% of the total sales revenues. The decrease in total revenues is the result of decreased Engineering Services during 2017. Domestic Sales for the fiscal year were \$1,198,674 compared to \$1,219,493 in 2016. Sales to Foreign Customers for the fiscal year were \$226,454 compared to \$270,396 in 2016. Product sales decreased to \$1,358,203 in 2017, as compared to 2016 sales of \$1,379,530, reflecting a decrease of 1.5%. Management believes the decrease in sales revenues is the result of decreased product sales for the Company's foreign sales segments, specifically industrial automation.

Interest revenues during 2017 decreased to \$11,411 from 2016 level of \$11,923 due to the use of cash in operations.

As of December 31, 2017, the Company had sales backlog of \$6,677. The Company's customers generally place orders on an "as needed basis". Shipment of the Company's products is generally completed within 1 to 15 working days after receipt of customer orders, with the exception of ongoing, scheduled projects, and custom designed equipment for specific customer applications.

COST OF SALES: Cost of Sales, as a percentage of net sales, was 45% and 45% respectively, for 2017 and 2016. Cost of Sales variances are the result of differences in the product mix sold and occurrences of obsolete inventory expense, as well as differences in the price discounting structure for the mix of products sold during the period.

INVENTORY: The Company's year-end inventory values for 2017 and 2016 were as follows:

	2017	2016
Parts	\$143,452	\$185,911
Work in progress	201,526	216,859
Finished goods	417,539	300,377
TOTAL	\$762,517	\$703,147

The Company's objective is to maintain inventory levels as low as possible to provide maximum cash liquidity, while at the same time meet production and delivery requirements.

OPERATING EXPENSES: Operating expenses decreased to \$996,888 in 2017, from 2016 levels of \$1,041,041 primarily due to decreased non-wage expenses and depreciation during 2017. Material changes in expenses are comprised of the following components: Travel, Professional and Purchased Services decreased by \$8,762 and \$23,610 respectively. Depreciation expense decreased during 2017 to \$19,939 from 2016 levels of \$26,290 due to the Company's decreased capital purchases. Advertising expenses increased to \$9,832 for 2017, compared to \$9,552 for 2016, Materials and Supplies expense decreased during 2017 to \$9,583 from 2016 levels of \$23,965 due to decreased research and development related projects during 2017.

LIQUIDITY AND CAPITAL RESOURCES

The Company's revenues and expenses resulted in a net loss of \$116,099 for 2018, decreased from a net loss of \$447,855 for 2017. The decrease in net loss is the result of reduced operating expenses and the impact establishing a full valuation allowance against Deferred Tax Asset in 2017. At December 31, 2018, the Company's working capital was \$1,932,803 compared with \$2,037,947 at December 31, 2017. The Company's operations rely solely on the income generated from sales. The Company's major capital resource requirements are payment of employee salaries and benefits and maintaining inventory levels adequate for production. Extended availability for components critical for production of the Company's products, ranging from 12 to 30 weeks, require the Company to maintain high inventory levels. It is management's opinion that the Company's working capital as of December 31, 2018 is adequate for expected resource requirements for the next twelve months.

The Company's current asset to current liability ratio at December 31, 2018 was 20.8:1 compared to 46.5:1 at December 31, 2017. The decrease in current asset ratio is the result of the Company having increased accounts payable for year-end 2018 when compared with year-end 2017. The Company's cash resources at December 31, 2018, including cash and cash equivalent liquid assets, were \$1,223,667, compared to cash resources of \$1,208,101 at year-end 2017. The increase in cash and cash equivalent liquid assets is the result of reduction of inventory and increased accounts payable. The Company's cash and cash equivalent assets are held in checking, money market funds and Certificates of Deposits. The Company's accounts receivable at December 31, 2018 were \$57,156, compared to \$98,941 at year-end 2017. Management believes that all Company accounts receivable as of December 31, 2018 are collectible and does not have a reserve for uncollectable accounts.

Table of Contents

The Company believes the level of risk associated with customer receipts on export sales is minimal. Foreign shipments are made only after payment has been received or on Net 30 day credit terms to established foreign companies with which the Company has distributor relationships. Foreign orders are generally filled as soon as they are received therefore; foreign exchange rate fluctuations do not impact the Company.

Inventory levels as of December 31, 2018, were \$714,995, reflecting a decrease from December 31, 2017 levels of \$762,517. The decrease in inventory between December 31, 2018 and December 31, 2017, is due to decreased inventory in Finished Goods.

The Company had no capital expenditures during 2018. The Company intends on investing in additional capital equipment as deemed necessary to support development and manufacture of current and future products.

As of December 31, 2018, the Company's current liabilities increased to \$97,668, from 2017 year-end levels of \$44,788. The increase in current liabilities was impacted by an increase in accounts payable to \$71,257 from \$18,969 at the end of 2017.

The Company had no off balance sheet arrangements for the year ended December 31, 2018.

Inflation had minimal adverse effect on the Company's operations during 2018. Minimal adverse effect is anticipated during 2019.

FORWARD LOOKING STATEMENTS: The above discussion may contain forward-looking statements that involve a number of risks and uncertainties. These factors are more fully described in the "Risk Factors" section of Item 1A of this Annual Report on Form 10-K. In addition to the factors discussed above, among other factors that could cause actual results to differ materially are the following: competitive factors such as rival wireless architectures and price pressures; availability of third party component products at reasonable prices; inventory risks due to shifts in market demand and/or price erosion of purchased components; change in product mix, rapid advances in competing technologies and risk factors that are listed in the Company's reports filed with the Securities and Exchange Commission.

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

Not Applicable.

Table of Contents

Item 8. Financial Statements and Supplementary Data.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

FINANCIAL STATEMENTS AND SUPPLIMENTAL SCHEDULE

AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Table of Contents

TABLE OF CONTENTS

	Page
Report of Independent Registered Public Accounting Firm	16 -17
Financial Statements:	
Balance Sheets	18
Statements of Operations	19
Statements of Changes in Stockholders' Equity	20
Statements of Cash Flows	21
Notes to Financial Statements	21-30
Supplemental Schedule	32

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Electronic Systems Technology, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Electronic Systems Technology, Inc. (“the Company”) as of December 31, 2018 and 2017, and the related statements of operations, changes in stockholders’ equity and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Table of Contents

Supplemental Information

The supplemental schedule of operating expenses for the years ended December 31, 2018 and 2017 (“the supplemental information”) has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with accounting principles generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ DeCoria, Maichel & Teague, P.S.

We have served as the Company's auditor since 2012.

Spokane, Washington

February 22, 2019

Table of Contents

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 323,667	\$ 208,100
Certificates of deposit	900,000	1,000,000
Accounts receivable	57,156	98,941
Inventories	714,995	762,517
Prepaid expenses	21,353	8,040
Accrued interest receivable	13,300	5,137
 Total Current Assets	 2,030,471	 2,082,735
 PROPERTY AND EQUIPMENT – NET	 20,368	 31,444
 TOTAL ASSETS	 \$ 2,050,839	 \$ 2,114,179
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 71,257	\$ 18,969
Refundable deposits	10,310	3,937
Accrued wages and bonus	2,138	1,960
Accrued vacation pay	11,449	17,720
Other accrued liabilities	2,514	2,202
 Total Current Liabilities	 97,668	 44,788
TOTAL LIABILITIES	97,668	44,788
 COMMITMENTS (NOTE 8)	 -	 -
STOCKHOLDERS' EQUITY		
Common stock - \$.001 par value 50,000,000		
shares authorized, 4,985,748 and 4,986,048 shares issued		
and outstanding, respectively	4,986	4,986
Additional paid-in capital	944,040	944,161
Retained earnings	1,004,145	1,120,244
TOTAL STOCKHOLDERS' EQUITY	1,953,171	2,069,391
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,050,839	\$ 2,114,179

See Notes to Financial Statements.

Table of Contents

	2018	2017
SALES – NET	\$ 1,395,030	\$ 1,425,128
COST OF SALES	675,598	643,414
GROSS PROFIT	719,432	781,714
OPERATING EXPENSES	853,628	996,888
OPERATING LOSS	(134,196)	(215,174)
OTHER INCOME		
Interest income	18,097	11,411
TOTAL OTHER INCOME	18,097	11,411
NET LOSS BEFORE INCOME TAXES	(116,099)	(203,763)
FEDERAL INCOME TAX PROVISION	-	(244,092)
NET LOSS AFTER INCOME TAXES	\$ (116,099)	\$ (447,855)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.02)	\$ (0.09)
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	4,986,005	5,022,184

See Notes to Financial Statements.

Table of Contents

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-In Capital	Earnings	
BALANCE AT DECEMBER 31, 2016	5,060,903	\$ 5,061	\$ 972,609	\$ 1,568,099	\$ 2,545,769
Net loss	-	-	-	(447,855)	(447,855)
Stock repurchased	(74,855)	(75)	(28,448)	-	(28,523)
BALANCE AT DECEMBER 31, 2017					
	4,986,048	\$ 4,986	\$ 944,161	\$ 1,120,244	\$ 2,069,391
Net loss	-	-	-	(116,099)	(116,099)
Stock repurchased	(300)	-	(121)	-	(121)
BALANCE AT DECEMBER 31, 2018	4,985,748	\$ 4,986	\$ 944,040	\$ 1,004,145	\$ 1,953,171

See Notes to Financial Statements.

Table of Contents

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (116,099)	\$ (447,855)
Noncash expenses included in loss:		
Depreciation and amortization	11,076	19,939
Deferred income taxes	-	244,092
Decrease (increase) in operating assets:		
Accounts receivable	41,785	(27,739)
Inventories	47,522	(59,370)
Prepaid expenses	(13,313)	365
Accrued interest receivable	(8,163)	1,766
Increase (decrease) in operating liabilities:		
Accounts payable	52,288	3,855
Accrued wages, bonus, vacation and other accrued liabilities	(5,781)	(811)
Refundable deposits	6,373	(590)
Net Cash provided (used) by Operating Activities	15,688	(266,348)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of certificates of deposit	(900,000)	(1,000,000)
Proceeds from maturities of certificates of deposit	1,000,000	1,000,000
Net Cash provided by Investing Activities	100,000	-
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Repurchase of shares	(121)	(28,523)
Net Cash used by Financing Activities	(121)	(28,523)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	115,567	(294,871)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	208,100	502,971

CASH AND CASH EQUIVALENTS AT END OF YEAR	\$	323,667	\$	208,100
--	----	---------	----	---------

See Notes to Financial Statements.

21

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1 . Organization and Summary of Significant Accounting Policies

Business Organization

The Company was incorporated under the laws of the State of Washington on February 10, 1984, primarily to develop, produce, sell and distribute wireless modems that will allow communication between peripherals via radio frequency waves.

Effective September 13, 2007, the Company announced their establishment of a “doing business as” or dba structure, based on the Company’s registered trade name of ESTeem® Wireless Modems.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates used in the accompanying financial statements include the allowance for doubtful accounts receivable, inventory obsolescence, useful lives of depreciable assets, share-based compensation, and deferred income taxes. Actual results could differ from those estimates.

Concentrations and Credit Risks

The Company places its cash with three major financial institutions. During the period, the Company had cash balances that were in excess of federally insured limits.

The Company purchases certain key components necessary for the production of its products from a limited number of suppliers. The components provided by the suppliers could be replaced or substituted by other products. It is possible that if this action became necessary, an interruption of production and/or material cost expenditures could

take place.

Revenue Recognition

The Company accounts for revenue in accordance with Accounting Standards Codification (ASC) Topic 606: Revenue from Contracts with Customers. Under Topic 606, a performance obligation is a promise in a contract with a customer to transfer a distinct good or service to the customer. Our contracts with customers contain a single performance obligation. A contract's transaction price is recognized as revenue when, or as, the performance obligation is satisfied.

The Company considers the contractual consideration payable by the customer when determining the transaction price of each contract. Revenue is recorded net of charges for certain sales incentives and discounts, and applicable state and local sales taxes, which represent components of the transaction price. Charges are estimated by us upon shipment of the product based on contractual terms, and actual charges typically do not vary materially from our estimates. Shipping estimates are determined by utilizing shipping costs provided by the various service providers websites based on number of packages, weight and destination. Shipping costs are included in the cost of goods sold as the revenue is captured in total sales.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1 . Organization and Summary of Significant Accounting Policies - (Continued)

Revenue Recognition - (Continued)

The Company receives payments from customers based on the terms established in our contracts. When amounts are billed and collected before the services are performed, they are included in deferred revenues. The Company does not generally sell its products with the right of return. Therefore, returns are accounted for when they occur and are accepted. Products sold to foreign customers are shipped after payment is received in U.S. funds, unless an established distributor relationship exists, or the customer is a foreign branch of a U.S. company.

Performance obligations for product sales are satisfied as of a point in time. Revenue is recognized when control of the product transfers to the customer, generally upon product shipment. Performance obligations for site support and engineering services are satisfied over-time if the customer receives the benefits as we perform work and we have a contractual right to payment. Revenue recognized on an over-time basis is based on costs incurred to date relative to milestones and total estimated costs at completion to measure progress.

The Company warrants its products as free of manufacturing defects and provides a refund of the purchase price, repair or replacement of the product for a period of one year from the date of installation by the first user/customer. No allowance for estimated warranty repairs or product returns has been recorded. Warranty expenses are immaterial based on the Company's historical warranty experience.

Financial Instruments

The Company's financial instruments are cash, money market funds, and certificates of deposit. The recorded values of cash, money market funds and certificates of deposit approximate their fair values based on their short-term nature.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and money market funds purchased with original maturities of three months or less.

Allowance for Uncollectible Accounts

The Company uses the allowance method to account for estimated uncollectible accounts receivable. Accounts receivable are presented net of an allowance for doubtful accounts. As of December 31, 2018 and 2017, the Company's estimate of doubtful accounts was zero. The Company's policy for writing off past due accounts receivable is based on the amount, time past due, and response received from the subject customer.

Inventories

Inventories are stated at lower of direct cost or market. Cost is determined on an average cost basis that approximates the first-in, first-out (FIFO) method. Market is determined based on net realizable value and consideration is given to obsolescence.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1 . Organization and Summary of Significant Accounting Policies - (Continued)

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported statement of operations.

Property and Equipment

Property and equipment is carried at cost. Major betterments are capitalized and de minimis purchases are expensed. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful life of property and equipment for purposes of computing depreciation is three to seven years. When the Company sells or otherwise disposes of property and equipment a gain or loss is recorded in the statement of operations. The cost of improvements that extend the life of property and equipment is capitalized. The Company periodically reviews its long-lived assets for impairment and, upon indication that the carrying value of such assets may not be recoverable, recognizes an impairment loss by a charge against current operations.

Certificates of Deposit

Certificates of deposit with original maturities ranging from one month to twelve months were \$900,000 and \$1,000,000 at December 31, 2018 and 2017, respectively.

Software Costs

Software purchased and used by the Company is capitalized as property and equipment based on its cost, and amortized over its useful life, usually not exceeding five years.

The Company capitalizes the costs of creating a software product to be sold, leased or otherwise marketed, for which technological feasibility has been established. Amortization of the software product, on a product-by-product basis, begins on the date the product is available for distribution to customers and continues over the estimated revenue-producing life, not to exceed five years.

Income Taxes

The provision (benefit) for income taxes is computed on the pretax income (loss) based on the current tax law. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates. The Company evaluates positive and negative information when estimating the valuation allowance for deferred tax assets. For tax positions that meet the more likely than not recognition threshold a deferred tax asset is recognized.

Research and Development

Research and development costs are expensed as operating expenses when incurred. Research and development expenditures for new product development and improvements of existing products by the Company for 2018 and 2017 were \$179,413 and \$252,411, respectively.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1 . Organization and Summary of Significant Accounting Policies - (Continued)

Advertising Costs

Costs incurred for producing and communicating advertising are expensed as operating expenses when incurred. Advertising costs for the years ended December 31, 2018 and 2017 were \$9,403 and \$9,832, respectively.

Earnings Per Share

The Company is required to have dual presentation of basic earnings per share (“EPS”) and diluted EPS. Basic EPS is computed as net income (loss) divided by the weighted average number of common shares outstanding for the period. Diluted EPS is calculated based on the weighted average number of common shares outstanding during the period plus the effect of potentially dilutive common stock equivalents.

Potentially dilutive common stock equivalents consist of 120,000 and 150,000 stock options outstanding as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the potentially dilutive stock options were not included in the calculation of the diluted weighted average number of shares outstanding or diluted EPS as their effect would have been anti-dilutive.

Share-Based Compensation

Share-based payments to employees, including grants of employee stock options, are measured at fair value and expensed in the statement of operations over the vesting period. See Note 7 for additional information. In addition to the recognition of expense in the financial statements, any excess tax benefits received upon exercise of options will be presented as a financing activity inflow rather than an adjustment of operating activity in the statement of cash flows.

Fair Value Measurements

For fair value measurements, the Company maximizes the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company follows a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Inputs are prioritized into three levels that may be used to measure fair value:

Level 1: Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2: Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quote prices for similar assets or liabilities in active markets; quoted prices for identical assets in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1 . Organization and Summary of Significant Accounting Policies - (Continued)

At December 31, 2018 and 2017, the Company has no assets or liabilities subject to fair value measurements on a recurring basis.

New Accounting Pronouncements

Accounting Standards Updates Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 Revenue Recognition, replacing guidance currently codified in Subtopic 605-10 Revenue Recognition-Overall. The new ASU establishes a new five step principles-based framework in an effort to significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. In August 2015, the FASB issued ASU No. 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. ASU No. 2015-14 deferred the effective date of ASU No. 2014-09 until annual and interim reporting periods beginning after December 15, 2017.

We adopted ASU No. 2014-09 as of January 1, 2018 using the modified-retrospective transition approach. The adoption of the update did not impact our existing method of recognizing revenue and had no impact on 2018 or previously issued financial statements. Additional disclosures required by the update have been included in Note 9.

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update provides guidance on classification for cash receipts and payments related to eight specific issues. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The adoption of this update on January 1, 2018 had minimal impact on the Company’s financial statements.

Accounting Standards Updates to Become Effective in Future Periods

In February 2016, the issued ASU No. 2016-02 Leases (Topic 842). The update modifies the classification criteria and requires lessees to recognize the assets and liabilities on the balance sheet for most leases. The update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the potential impact of implementing this update on the financial statements.

In August 2018, the FASB issued ASU No. 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The update removes, modifies and makes additions to the disclosure requirements on fair value measurements. The update is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact of this update on our fair value measurement disclosures.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.**NOTES TO FINANCIAL STATEMENTS**

2 . Inventories

Inventories consist of the following:

	2018	2017
Parts	\$ 133,809	\$ 143,452
Work in progress	243,081	201,526
Finished goods	338,105	417,539
	\$ 714,995	\$ 762,517

3 . Property and Equipment

Property and equipment consist of the following:

	2018	2017
Laboratory equipment	\$ 580,452	\$ 580,452
Software purchased	35,028	35,028
Furniture and fixtures	16,310	16,561
Dies and molds	130,176	130,176
	761,966	762,217
Accumulated depreciation and amortization	(741,598)	(730,773)
	\$ 20,368	\$ 31,444

4 . Income Taxes

Edgar Filing: ELECTRONIC SYSTEMS TECHNOLOGY INC - Form 10-K

For the year ended December 31, 2018, the Company did not have an income tax benefit nor provision because of continuing losses. The Company recognized a deferred income tax provision for the year ended December 31, 2017 of \$244,092 when it established a full valuation allowance against deferred tax assets.

The components of net deferred tax assets at December 31, were as follows:

	2018	2017
Accrued liabilities	\$ 2,400	3,700
Inventories	16,400	9,600
Other	1,400	800
Federal income tax credits	66,000	66,000
Net operating loss carryforwards	175,000	160,700
Less valuation allowance	(261,200)	(240,800)
Total deferred tax assets, net	\$ 0	\$ 0

Realization of the deferred tax asset is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards and the income tax carryforwards. Management determined that it does not believe it is more likely than not that all of the net deferred tax assets will be

ELECTRONIC SYSTEMS TECHNOLOGY, INC.**NOTES TO FINANCIAL STATEMENTS**

realized. Therefore, a valuation allowance has been recorded for the full net deferred tax asset at December 31, 2018 and 2017.

4 . Income Taxes - (Continued)

At December 31, 2018, the Company had approximately \$66,000 of research and development income tax credits available to reduce federal income taxes in future periods. The credits expire from 2033-2036. In addition, at December 31, 2018, the Company had approximately \$835,000 of net operating loss carryforwards, \$750,000 of which will expire between 2033 and 2036. The remaining balance of \$85,000 will never expire but whose utilization is limited to 80% of taxable income in any future year.

The differences between the provision (benefit) for federal income taxes and federal income taxes computed using the U.S. statutory federal income tax rate (21% for 2018 and 35% for 2017) were as follows:

	2018	2017
Amount computed using the statutory rate	\$ (24,381)	\$ (69,900)
Other	3,981	3,394
Research and development credits	-	(3,062)
Impact of change in federal tax rate	-	102,439
Change in valuation allowance	20,400	211,221
Provision (benefit) for federal income taxes	\$ -	\$ 244,092

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act (the "Act") resulting in significant modifications to existing law. We have completed the accounting for the effects of the Act during the quarter ended December 31, 2017. Our financial statements for the year ended December 31, 2017 reflect certain effects of the Act which includes a reduction in the corporate tax rate from 35% to 21% as well as other changes. As a result of the changes to tax laws and tax rates under the Act, we incurred incremental income tax expense of \$102,439 during the year ended December 31, 2017, which consisted primarily of the remeasurement of deferred tax assets and liabilities from 35% to 21% and application of a full valuation allowance.

Should the Company have future accrued interest expense and penalties related to uncertain income tax positions, they will recognize those expenses in income tax expense.

The Company files federal income tax returns in the United States only. The Company is no longer subject to federal income tax examination by tax authorities for years before 2015. The Company has evaluated all tax positions for open years and has concluded that they have no material unrecognized tax benefits or penalties.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.**NOTES TO FINANCIAL STATEMENTS**

5 . Profit Sharing Salary Deferral 401-K Plan

The Company sponsors a Profit Sharing Plan and Salary Deferral 401-K Plan and Trust. All employees over the age of twenty-one are eligible. On January 1, 2006, the Company adopted a four percent salary matching provision. The Company contributed \$15,742 and \$15,149 to the plan for the years ended December 31, 2018 and 2017 respectively.

6 . Employee Bonus Program

The Board of Directors establishes Sales and Net Income thresholds at the start of each year that are used in calculating the amount of Bonuses that may be awarded. If these thresholds are not achieved, there will be no bonus issued. There was no accrual or expense recorded for 2018 or 2017.

7 . Share-Based Compensation

The Company grants stock options to individual employees and directors with three years continuous tenure. After termination of employment, stock options may be exercised within ninety days, after which they are subject to forfeiture. There were no option grants during 2018 and 2017.

In the years ended December 31, 2018 and 2017, the Company recognized \$0 and \$0 respectively, in share-based compensation expense. No non-vested share-based compensation arrangements existed as of December 31, 2018 and 2017.

A summary of option activity follows:

	Number Outstanding	Weighted Average Exercise Price Per Option	Weighted Average Remaining Contractual Term (Years)
Balance at December 31, 2016	220,000	0.40	2.8

Edgar Filing: ELECTRONIC SYSTEMS TECHNOLOGY INC - Form 10-K

Granted	-0-	-0-	
Expired/Forfeited	(70,000)	0.38	
Balance at December 31, 2017	150,000	0.40	2.6
Granted	-0-	-0-	
Expired/Forfeited	(30,000)	0.40	
Balance at December 31, 2018	120,000	0.40	1.6
Outstanding and Exercisable at December 31, 2018	120,000	\$ 0.40	1.6

The aggregate intrinsic value of the options outstanding and exercisable at December 31, 2018, was \$0.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

8 . Leases

The Company leases its facilities from a port authority for three years, expiring in September 2020, with annual increases based upon the Consumer Price Index. The lease expense for the years ended December 31, 2018 and 2017 was \$65,633 and \$65,341 respectively. The lease expense commitment through the year ended December 31, 2020 is expected to be approximately \$66,800 per year.

9 . Revenue

The Company product revenue includes industrial wireless products and accessories such as antennas, power supplies and cable assemblies. The Company also provides direct site support and engineering services to customers, such as repair and upgrade of its products. During the years ended December 31, 2018 and 2017, the Company's revenue from products sales was \$1,374,810 and \$1,358,203, respectively. Revenue from site support and engineering services was \$20,220 and \$ 66,925 respectively, over the same periods.

The Company's customers, to which trade credit terms are extended, consist of United States and local governments and foreign and domestic companies. Domestic sales for the fiscal year were \$1,298,447 compared to \$1,198,674 in 2017. Sales to foreign customers for the fiscal year were \$96,583 compared to \$226,454 in 2017.

During 2018, sales to one customer represented more than 10% of total revenue. Sales to this domestic customer totaled \$260,944 and were for products only. No such customer had sale greater than 10% of total revenue in 2017.

As of December 31, 2018 and 2017, the Company had a sales order backlog of \$3,780 and \$6,677, respectively.

10 . Stock Repurchase

On January 13, 2016, the Company's Board of Directors approved a resolution authorizing the repurchase of up to \$100,000 of the Company's common stock at the price of \$0.38 per share. The Company's share repurchase program does not obligate it to acquire any specific number of shares. On March 2, 2016, the Company's Board of Director approved a resolution authorizing the repurchase of an additional \$150,000 of the Company's common stock at the price of \$0.38 per share. Under the program (the "Stock Repurchase Plan"), shares may be repurchased in open market transactions, complying with Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Shares repurchased are retired. As of December 30, 2018, \$184,291 remains of \$250,000 approved by the board. The Company repurchased 97,764, 74,855 and 300 shares in 2016, 2017 and 2018 respectively, bringing the total number of shares repurchased to 172,919. On January 15, 2019 an additional 39,246 shares were repurchased.

Table of Contents

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

SUPPLEMENTAL SCHEDULE

31

Table of Contents

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Advertising	\$ 9,403	\$ 9,832
Dues and subscriptions	3,275	3,850
Depreciation	11,076	19,939
Insurance	11,538	12,526
Materials and supplies	8,898	9,583
Office and administration	7,813	8,623
Printing	2,897	1,194
Professional services	134,485	146,051
Rent and utilities	73,528	73,805
Repair and maintenance	1,281	1,676
Salaries and benefits	585,761	694,467
Taxes, licenses & health	160,532	180,473
insurance		
Telephone	8,309	9,158
Trade shows	22,820	29,306
Travel expenses	29,495	37,720
	1,071,111	1,238,203
Expenses allocated to cost of sales	(217,483)	(241,315)
Total Operating Expenses	\$ 853,628	\$ 996,888

Table of Contents

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

None

Item 9A. Controls and Procedures.

Conclusions of Management Regarding Effectiveness of Disclosure Controls and Procedures.

Under the supervision and with the participation of our Management, including the Chief Executive Officer and Principal Accounting Officer, these positions are currently held by the same individual, we have evaluated the effectiveness of our disclosure controls and procedures (as such terms are defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Principal Accounting Officer have concluded that there was a material weakness affecting our internal control over financial reporting and, as a result of this weakness, our disclosure controls and procedures were not effective as of December 31, 2018.

Management's Report on Internal Control over Financial Reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the company. The Company's internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

As of December 31, 2018, management conducted an assessment of the effectiveness of EST's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control — Integrated Framework," (2013) issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Management, under the supervision and with the participation of the Company's Chief Executive Officer and Principal Accounting Officer, assessed the effectiveness of the Company's internal control over

financial reporting as of December 31, 2018 and concluded that it is ineffective in assuring that the financial reports of the Company are free from material errors or misstatements. The material weakness is as follows:

We did not maintain effective controls to ensure appropriate segregation of duties as the same officer and employee was responsible for the initiating and recording of transactions, thereby creating segregation of duties weaknesses. Due to the (1) significance of segregation of duties to the preparation of reliable financial statements, (2) the significance of potential misstatement that could have resulted due to the deficient controls and (3) the absence of sufficient other mitigating controls, we determined that this control deficiency resulted in more than a remote likelihood that a material misstatement or lack of disclosure within the annual or interim financial statements will not be prevented or detected.

Management's Remediation Initiatives

Management has evaluated and continues to evaluate, avenues for mitigating our internal controls weaknesses, but mitigating controls have been deemed to be impractical and prohibitively costly due to the size of our organization at the current time. Management does not foresee implementing a cost effective method of mitigating our internal control weaknesses in the near term. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks.

Changes in internal control over financial reporting.

During the quarter ended December 31, 2018, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**Item 9B. Other Information.**

None

PART III**Item 10. Directors, Executive Officers and Corporate Governance.**

IDENTIFICATION OF DIRECTORS:

The following table sets forth the names and ages of all directors of the Company as of December 31, 2018 as well as the term in office and principal occupation of each director.

Name of Director	Term in Office	Age	Principal Occupation
T.L. Kirchner	06/02/17 – 06/05/20	70	Former President of the Company
Vern Kornelsen	06/02/17 – 06/05/20	86	General Partner of EDCO
Thomas Schaefer	06/01/2018 – 06/01/2021	57	President of Phoenix Digital Corp
Donald Siecke	06/01/2018 – 06/01/2021	78	President of Kelmore Development Corp.
Michael W. Eller	06/04/16-06/06/19	58	President of Electronic Systems Technology, Inc.

Management believes that there are no agreements or understanding between the directors and suppliers or contractors of the Company.

Audit Committee

The Audit Committee of the Board of Directors as of December 31, 2018 is comprised of Don Siecke (Chairman) and Tom Schaefer. The Audit Committee met on one occasion in 2018. The Board of Directors has determined that Mr. Siecke is an “audit committee financial expert” as defined in Item 407(d)(5) of Regulation S-K promulgated by the SEC. The Board’s conclusions regarding the qualifications of Mr. Siecke as an audit committee financial expert were based on his experience as a certified public accountant and his degree in accounting.

The Board has also adopted a charter for the Audit Committee. The charter for the audit committee is available on our website at www.esteem.com . The audit committee charter is also available in print to any shareholder who requests it.

Compensation Committee

There is no Compensation Committee of the Board of Directors. The Board of Directors did establish an Employee/Director Stock Option Committee consisting of all Directors. The committee existed for the sole purpose of recommending the recipients and amounts of the Company awarded stock options during 2018. There is no charter for the Employee/Director Stock Option Committee.

Code of Ethics

On June 2, 2005, the Company's Board of Directors adopted a Code of Ethics for the Company. The Codes of Ethics, and any subsequent amendments thereto, (other than technical, administrative or non-substantive amendments), and any waivers of a provision of the Code of Ethics for directors or executive officers, are available on our website at www.esteem.com.

IDENTIFICATION OF EXECUTIVE OFFICERS

The following table sets forth the names and ages of all executive officers of the Company as of December 31, 2018; all positions by such persons; term of office and the period during which he has served as such; and any arrangement or understanding between him and any other person(s) pursuant to which he was elected as an officer:

Name of Officer	Age	Position	Term of Office	Period of Service
Michael Eller	58	President/CEO/Principal Accounting Officer	Employed at will	9 / 7 / 1 2 - Present

The following is a brief description of the business experience during the last five years of each director and/or executive officer of the Company.

Table of Contents

T.L. KIRCHNER. Mr. Kirchner is founder, Past President and a Director of the Company. Mr. Kirchner does not serve as a director for any other company registered under the Securities Exchange Act.

VERN D. KORNELSEN. Mr. Kornelsen is the General Partner of EDCO Partners LLLP. Mr. Kornelsen formerly practiced as a certified public accountant in Denver, CO for many years and is a financial consultant to several early stage companies. He was a director of Valleylab for 10 years, and led an investor group that provided a portion of its initial funding. Mr. Kornelsen has been a director and participated in the capitalizing of a number of early stage companies, and is currently a director and audit-committee member of a publicly-held company, Encision Inc. of Boulder, CO. He is also the Chairman, Secretary, Director, and CFO of Lifeloc Technologies, Inc., a publicly-held company located in Wheat Ridge, CO.

THOMAS J. SCHAEFER: Mr. Schaefer is the President of Phoenix Digital Corporation a privately held company based in Scottsdale, AZ that provides redundant mission critical networking technology for industrial automation systems. Prior to working at PDC, Mr. Schaefer spent 30 years at Rockwell Automation. His last assignment was the Global Industry Manager for Rockwell's Water Industry focus. During Mr. Schaefer's tenure at Rockwell he held various positions that included P&L responsibility for the Service business unit, Sales and Marketing for Software/MES, and Sales and Application responsibility for the Drive Systems/Power Products group.

DONALD E. SIECKE. Mr. Siecke practiced as a certified public accountant in the state of Colorado from 1963 to 1976. He has been president of Kelmore Development Corp., a real estate development company, since 1981, and serves as the chairman of Redstone Bank, a Colorado bank of which he was a founding director. He is a director of several privately held companies, metropolitan districts, and charitable organizations. He received a BS degree in business administration from the University of Denver in 1961, having majored in accounting. In determining

MICHAEL W. ELLER. Mr. Eller is the President and Principal Accounting Officer. During the last five years Mr. Eller has been a full time employee of the Company. Previous experience, Macys Logistics and Operations where he was employed as the Vice President of Operations and Director of Finances. Mr. Eller does not serve as a director for any other company registered under the Securities Exchange Act.

Family Relationships

None.

Section 16(A) Beneficial Ownership Reporting Compliance

During the year ended December 31, 2018 to the knowledge of Management, there was no director, officer, or beneficial owner of more than 10% any class of equity securities of the registrant who failed to file on a timely basis the required disclosure form as required by Section 16(a) of the Securities and Exchange Act of 1934.

Indemnification

The Company's By-Laws address indemnification of Directors and Officers. Washington Law provides that Washington corporations may include within their Articles of Incorporation provisions eliminating or limiting the personal liability of their directors and officers in shareholder actions brought to obtain damages for alleged breaches of fiduciary duties, as long as the alleged acts or omissions did not involve intentional misconduct, fraud, a knowing violation of law or payment of dividends in violation of the Washington statutes. Washington law also allows Washington corporations to include in their Articles of Incorporation or Bylaws provisions to the effect that expenses of officers and directors incurred in defending a civil or criminal action must be paid by the corporation as they are incurred, subject to an undertaking on behalf of the officer or director that he or she will repay such expenses if it is ultimately determined by a court of competent jurisdiction that such officer or director is not entitled to be indemnified by the corporation because such officer or director did not act in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation. The Company's Articles of Incorporation provide that a director or officer is not personally liable to the Company or its shareholders for damages for any breach of fiduciary duty as a director or officer, except for liability for (i) acts or omissions which involve intentional misconduct, fraud or a knowing violation of law, or (ii) the payment of distribution in violation of Washington Business Corporation Act.

Table of Contents**Related Person Transactions Policy and Procedures**

As set forth in the written charter of the Audit Committee, any related person transaction involving a Company director or executive officer must be reviewed and approved by the Audit Committee. Any member of the Audit Committee who is a related person with respect to a transaction under review may not participate in the deliberations or vote on the approval or ratification of the transaction. Related persons include any director or executive officer, certain shareholders and any of their “immediate family members” (as defined by SEC regulations).

Item 11. Executive Compensation.

The Company’s principal executive officer and principal accounting officer is Michael W. Eller.

Information concerning the compensation of the Company’s principal executive officer and principal accounting officer, as well as any other compensated employees of the Registrant's whose total compensation exceeded \$100,000 during 2018 and 2017 is provided in the following Summary Compensation Table (collectively, the “Named Executive Officers” or “NEOs”):

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$) (c)	Bonus (\$)(1) (d)	Stock Awards (\$) (e)	Option Awards (\$)(2) (f)	Non-Equity Incentive Plan Compensation (\$) (g)	Change in Pension Value and Non- qualified Deferred Compensation Earnings (\$) (h)	All Other Compen- sation (\$)(3) (i)	Total (\$) (j)
Michael W. Eller President CEO/Principal Accounting Officer	2018	\$115,300	-	-	-	-	-	\$21,305	\$136,605
	2017	\$111,900	-	-	-	-	-	\$20,833	\$132,733

(1) Includes amounts paid under the Non-qualified Employee Profit Sharing Bonus.

(2) Amount represents the dollar amount recognized for financial statement reporting purposes Assumptions made in the valuation of stock option awards are disclosed in Note 7 of the Notes to the Consolidated Financial Statements in this Form 10-K.

(3) All Other Compensation consists of premiums paid for Severance pay, Group Health Insurance, Accrued Vacation Pay and Company paid 401(k) matching amounts.

The information specified concerning the stock options of the named executive officers during the fiscal year ended December 31, 2018 is provided in the following Option/SAR Grants in the Last Fiscal Year Table:

OPTION/SAR GRANTS IN LAST FISCAL YEAR				
Individual Grants (5)				
(a)	(b)	(c)	(d)	(e)
Name	Number of Securities Underlying Options/SARs Granted # (5)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or base price (\$/Share)	Expiration Date
Michael W. Eller	-0-	0%	\$0.00	n/a

(5) This table does not include Stock Options granted previously.

Table of Contents

The information specified concerning the stock options of the named executive officers during the fiscal year ended December 31, 2018 is provided in the following Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Options/SAR Values Table:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Option Awards					Stock Awards			
	Equity	Equity	Equity	Equity	Equity	Equity	Equity	Equity	Equity
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Michael W. Eller	35,000	0	0	\$0.40	8/6/20	0	0	0	0

The Company does not currently have a Long-Term Incentive Plan (“LTIP”).

Compensation to outside directors is limited to reimbursement of out-of-pocket expenses that are incurred in connection with the directors' duties associated with the Company's business. The Board of Directors approved a stipend for members that are not employed by the company in the amount of \$375 per quarter of service on the Board of Directors. There is currently no other compensation arrangements for the Company's directors. (See "Security Ownership of Certain Beneficial Owners and Management" for Stock Options granted in previous years.) The information specified concerning items of Director Compensation for the fiscal year ended December 31, 2018 is provided in the following Director Compensation Table:

DIRECTOR COMPENSATION

Name	Fees						Total (\$)
	Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation	All Other Compensation	
(1)	(\$)(2)	(\$)	(\$)(3)	(\$)	(\$)	(\$)(4)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Theodore Deinard	\$850	\$0	\$0	\$0	\$0	\$0	\$850
T.L. Kirchner	\$1,350	\$0	\$0	\$0	\$0	\$0	\$1,350
Barry Knott	\$850	\$0	\$0	\$0	\$0	\$0	\$850
Vern Kornelsen	\$1,350	\$0	\$0	\$0	\$0	\$0	\$1,350
Thomas Schaefer	\$500	\$0	\$0	\$0	\$0	\$0	\$500
Donald Siecke	\$500	\$0	\$0	\$0	\$0	\$0	\$500
Michael W. Eller	\$0	\$0	\$0	\$0	\$0	\$0	\$0

(1) Compensation information for Michael Eller, President and Principal Accounting Officer is contained in the Executive Compensation Summary Compensation Table.

(2) Amount represents the Director Stipend paid in 2018.

(3) Amount represents the dollar amount recognized for financial statement reporting purposes. Assumptions made in the valuation of stock option awards are disclosed in Note 7 of the Notes to the Consolidated Financial Statements in this Form 10-K.

(4) Amounts represent reimbursement of out-of-pocket expenses related to directors' duties associated with the Company's business (ie. travel expenses for attending Company Director's Meetings).

The Company currently does not hold any Employment Contracts or Change of Control Arrangements with any parties.

Table of Contents**Option Exercises**

During our fiscal year ended December 31, 2018, there were no options exercised by our NEO's or Directors.

We do not currently have a Long-Term Incentive Plan ("LTIP").

Summary of Executive Employment Agreements

There are no executive employment agreements with any officer.

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth, as of December 31, 2018, the amount and percentage of the Common Stock of the Company, which according to information supplied by the Company, is beneficially owned by each person who, to the best knowledge of the Company, is the beneficial owner (as defined below) of more than five (5%) of the outstanding common stock.

Title of Class	Name & Address of Beneficial Owner (1)	Amount & Nature of	
		Beneficial Ownership	Percent of Class
Common	EDCO Partners LLLP 4605 Denice Drive Englewood CO 80111	1,553,500	31.2%
Common	T.L. Kirchner 415 N. Quay St. Kennewick WA 99336	403,488	8.1%

Common	Zeff Capital, LP	602,181	12.1%
--------	------------------	---------	-------

1601 Broadway, 12th Floor

New York NY 10019

(1) Under Rule 13d-3, issued by the Securities and Exchange Commission, a person is, in general, deemed to "Beneficially own" any shares if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares (a) voting power, which includes the power to vote or to direct the voting of those shares and/or (b) investment power, which included the power to dispose, or to direct the disposition of those securities. The foregoing table gives effect to shares deemed beneficially owned under Rule 13d-3 based on the information supplied to the Company. To the knowledge of the Company, the persons named in the table have sole voting power and investment power with respect to all shares of Common Stock beneficially owned by them.

Table of Contents

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth, as of February 5, 2018, amount and percentage of the Common Stock of the Company, which according to information supplied by the Company, is beneficially owned by Management, including officers and directors of the Company.

Name/Address of Beneficial Owner (1)	Title of Class	Amount & Nature of Beneficial Ownership	Percent of Class
T.L. Kirchner (Director)/415 N. Quay St., Bldg B1 Kennewick, WA	Common	403,488	8.1%
Vern Kornelsen (Director)/415 N. Quay St., Bldg B1 Kennewick, WA	Common	1,553,500	31.2%
Thomas Schaefer (Director)/415 N. Quay St., Bldg B1 Kennewick, WA	Common	-	-
Donald Siecke (Director)/415 N. Quay St., Bldg B1 Kennewick, WA	Common	-(2)	-
Michael W. Eller (Officer)/415 N. Quay St., Bldg B1 Kennewick, WA	Common	35,000 (1)	0.7%
All Officers and Directors as a group	Common	1,991,988	40.0%

(1) Includes 35,000 stock options issued 8/7/2015.

(2) Mr. Siecke does not own any shares directly. However, EDCO Partners LLLC, of which Mr. Siecke is a limited partner, holds 498,916 shares on his behalf.

On various dates, the Company's Board of Directors has approved Stock Option Bonuses for Directors and Employees. The following is a summary of the Stock Option bonuses currently outstanding: Options are exercisable at fixed prices. Options may not be exercised in blocks of less than 5,000 shares. Options not exercised expire five years after approval date or 30 days following termination of employment/board membership, whichever occurs first. In the event of acquisition, merger, recapitalization or similar events of the Company, the optionee will receive equivalent shares if one of the foregoing events occurs or will have a 10-day window in which to exercise the options. Option grants are not transferable or assignable except to the optionee's estate in the event of the optionee's death.

Recipients of Stock Options currently unexpired as of December 31, 2018 were as follows:

Name	Option Shares	Exercise Price
		Per Share (\$)
Grant Date: 8-7-2015		
Alan B. Cook	25,000	0.40
Eric P. Marske	30,000	0.40
Michael Eller	35,000	0.40
Dan Tolley	30,000	0.40
Total	120,000	0.40

Table of Contents

Stock options must be exercised within 90 days after termination of employment/board membership. During 2018, 30,000 options were forfeited, no options were granted and no shares under option were exercised. At December 31, 2018, there were 120,000 options outstanding and exercisable.

Changes in Control:

The Board of Directors is aware of no circumstances which may result in a change of control of the Company.

Certain Business Relationships:

There have been no unusual business relationships during the last fiscal year of the Registrant between the Company and affiliates as described in Item 404 (b) (1-6) of Regulation S-K.

Indebtedness of Management:

No Director or executive officer or nominee for Director, or any member of the immediate family of such has been indebted to the Company during the past year.

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

TRANSACTIONS WITH MANAGEMENT AND OTHERS

None.

Item 14. Principal Accounting Fees and Services.

AUDIT AND NON-AUDIT FEES

The following table presents fees billed to us during December 31, 2017 and 2016, for professional services provided by DeCcoria Maichel & Teague.

Year Ended	December 31, 2018	December 31, 2017
Audit fees (1)	\$38,000	\$38,000
Audit-related fees (2)	-	-
Tax fees (3)	2,700	2,700
All other fees (4)	1,150	-
Total Fees	\$41,850	\$40,700

(1) Audit fees consist of fees billed for professional services provided in connection with the audit of the Company's financial statements and reviews of our quarterly financial statements.

(2) Audit-related fees consist of assurance and related services that include, but are not limited to, internal control reviews, attest services not required by statute or regulation and consultation concerning financial accounting and reporting standards.

(3) Tax fees consist of the aggregate fees billed for professional services for tax compliance, tax advice, and tax planning. These services include preparation of federal income tax returns.

(4) All other fees consist of fees billed for products and services other than the services reported above.

Our Audit Committee reviewed the audit and tax services rendered by DeCoria Maichel & Teague and concluded that such services were compatible with maintaining the auditors' independence. All audit, non-audit, tax services, and other services performed by our independent accountants are pre-approved by our Audit Committee to assure that such services do not impair the auditors' independence from us. We do not use DeCoria Maichel & Teague for financial information system design and implementation. These services, which include designing or implementing a system that aggregates source data underlying the financial statements or generates information that is significant to our financial statements, are provided internally. We do not engage DeCoria Maichel & Teague to provide compliance outsourcing services.

Table of Contents**PART IV****Item 15. Exhibits and Financial Statement Schedules.**

Documents filed as part of this report on Form 10-K or incorporated by reference:

(1) Our financial statements can be found in Item 8 of this report.

(2) Financial Statement Schedules (omitted because they are either not required, are not applicable, or the required information is disclosed in the notes to the financial statements or related notes).

The following exhibits are filed with this Annual Report on Form 10-K. Certain exhibits have been previously filed with the Securities and Exchange Commission and are incorporated by reference.

E X H I B I T NUMBER	DESCRIPTION
3.1	Articles of Incorporation filed as Exhibit 2.1 to Form S-18, Registration Statement No. 2-92949-S, filed November 5, 1984 **
3.2	Amended Articles of Incorporation of the Registrant, filed as Exhibit (c) to Form 8-K, filed March 15, 1985 **
3.3	By-Laws filed as Exhibit 2.1 to Form S-18, Registration Statement No. 2-92949-S, filed November 5, 1984 **
3.4	Amendments to By-Laws filed as Exhibit (c) to Form 8-K, filed March 15, 1985 **
4	Instrument defining the rights of security holders including indentures.
	<u>Exhibit II Form S-18 Registration Statement No. 2-92949-S</u> is incorporated herein by reference.
	<u>Form 8A Registration Statement, 000-27793, dated October 25, 1999</u> **
14	<u>Code of Ethics</u> , as Exhibit 14.3 to Form 10-KSB, filed March 26, 2008 **
31.1	<u>Section 302 Certification, CEO</u>
31.2	<u>Section 302 Certification, CFO</u>
32.1	<u>Section 906 Certification, CEO</u>
32.2	<u>Section 906 Certification, CFO</u>

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**Incorporated by reference

Table of Contents

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

By: /s/ Michael W. Eller

Michael W. Eller, President

(Principal Executive Officer, Director)

Date: February 28, 2019

By: /s/ Michael W. Eller

Michael W. Eller, President

(Principal Accounting Officer)

Date: February 28, 2019

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ T.L. KIRCHNER T.L. Kirchner	Director	February 28, 2019
/s/ VERN KORNELSEN Vern D. Kornelsen	Director	February 28, 2019
/s/ THOMAS SCHAEFER	Director	February 28, 2019

Thomas Schaefer

/s/ DONALD SIECKE Director February 28, 2019
Don Siecke