

ELECTRONIC SYSTEMS TECHNOLOGY INC
Form 10-Q
October 23, 2015

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2015**

OR

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

From _____ to _____

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Washington **000-27793** **91-1238077**
(State or other jurisdiction of incorporation) (Commission File Number) (IRS Employer Identification No.)

415 N. Quay St. Bldg B1 Kennewick WA **99336**
(Address of principal executive offices) (Zip Code)

(509) 735-9092

(Registrant's telephone number, including area code)

N/A

(Former name, former address & former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 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 filings for the past 90 days. YES x 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 x NO ..

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer

..

Accelerated filer

..

Non-accelerated filer

.. (Do not check if a smaller reporting company)

Smaller reporting company

x

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of September 30, 2015, the number of the Company's shares of common stock par value \$0.001, outstanding was 5,158,667.

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ELECTRONIC SYSTEMS TECHNOLOGY, INC.

FORM 10-Q

September 30, 2015

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.****ELECTRONIC SYSTEMS TECHNOLOGY, INC.****BALANCE SHEETS**September 30,
2015

December 31, 2014

(Unaudited)

ASSETS

Current assets

Cash and cash equivalents	\$	530,964	\$	637,086
Certificates of deposit		1,202,625		1,402,625
Accounts receivable		195,772		94,864
Inventories		626,349		719,137
Accrued interest receivable		8,093		3,109
Prepaid insurance		2,806		5,505
Prepaid expenses		19,534		8,919
Deferred income tax asset, current		25,214		49,600
Total current assets		2,611,357		2,920,845

Property and equipment, net		84,473		91,907
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Deferred income tax asset, net		54,708		31,301
Total assets	\$	2,750,538	\$	3,044,053

LIABILITIES & STOCKHOLDERS'**EQUITY**

Current liabilities

Accounts payable	\$	21,634	\$	14,573
Accrued liabilities		36,541		43,045
Refundable deposits		-		26,247
Total current liabilities		58,175		83,865
Total liabilities		58,175		83,865

COMMITMENTS and CONTINGENCIES

(NOTES 4, 5 & 7)

Stockholders' equity

Common stock, \$0.001 par value 50,000,000
shares authorized 5,158,667 shares issued and
outstanding

		5,159		5,159
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Additional paid-in capital	1,007,861	1,007,861
Retained earnings	1,679,343	1,947,168
Total stockholders equity	2,692,363	2,960,188
Total liabilities and stockholders equity	\$ 2,750,538	\$ 3,044,053

(See "Notes to Financial Statements")

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ELECTRONIC SYSTEMS TECHNOLOGY, INC.
STATEMENTS OF OPERATIONS

	Three Months Ended September 30, 2015	(Unaudited) Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
SALES, NET	\$ 401,748	\$ 355,651	\$ 1,160,527	\$ 1,287,436
SITE SUPPORT	37,332	24,756	81,899	125,057
COST OF SALES	(185,725)	(190,126)	(561,164)	(648,055)
GROSS PROFIT	253,355	190,281	681,262	764,438
OPERATING EXPENSES				
General and administrative	71,191	67,284	255,555	225,073
Research and development	72,502	80,798	219,731	205,440
Marketing	124,145	111,456	391,070	342,381
Customer service	32,658	29,699	91,466	88,404
TOTAL OPERATING EXPENSES	300,496	289,237	957,822	861,298
OPERATING INCOME (LOSS)	(47,141)	(98,956)	(276,560)	(96,859)
OTHER INCOME				
Interest income	2,937	2,492	8,735	8,017
TOTAL OTHER INCOME	2,937	2,492	8,735	8,017
NET INCOME (LOSS) BEFORE INCOME TAX	(44,204)	(96,464)	(267,825)	(88,842)
INCOME TAX				
Benefit (provision) for income tax	-	2,660	-	2,000
NET INCOME (LOSS)	\$ (44,204)	\$ (93,804)	\$ (267,825)	\$ (86,842)
Basic and diluted earnings per share	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.02)

Weighted average shares used
in computing income (loss) per
share:

Basic and diluted	5,158,667	5,158,667	5,158,667	5,158,667
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(See "Notes to Financial Statements")

ELECTRONIC SYSTEMS TECHNOLOGY, INC.
STATEMENTS OF CASH FLOWS

	(Unaudited)	
	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
CASH FLOWS USED BY OPERATING ACTIVITIES		
Net loss	\$ (267,825)	\$ (86,842)
Noncash items included in net loss:		
Depreciation	21,914	11,476
Deferred income taxes	979	(6,200)
Share based compensation	-	2,245
Changes in operating assets and liabilities:		
Account receivable	(100,908)	(61,251)
Inventories	92,788	(89,958)
Accrued interest receivable	(4,984)	(3,496)
Prepaid insurance	2,699	3,997
Prepaid expenses	(10,616)	2,153
Deposits	-	13,083
Accounts payable	7,061	(846)
Accrued liabilities	(6,503)	(11,263)
Refundable deposits	(26,247)	(4,635)
NET CASH FLOWS USED BY OPERATING ACTIVITIES	(291,642)	(231,537)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Certificates of deposit redeemed	200,000	356,000
Purchases of property and equipment	(14,480)	(68,560)
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	185,520	287,440
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(106,122)	55,904
Cash and cash equivalents at beginning of period	637,086	896,580
Cash and cash equivalents at ending of period	\$ 530,964	\$ 952,484

(See "Notes to Financial Statements")

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The financial statements of Electronic Systems Technology, Inc. (the "Company"), presented in this Form 10Q are unaudited and reflect, in the opinion of Management, a fair presentation of operations for the three month and nine month periods ended September 30, 2015 and September 30, 2014. All adjustments of a normal recurring nature and necessary for a fair presentation of the results for the periods covered have been made. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the applicable rules and regulations of the Securities and Exchange Commission. In preparation of the financial statements, certain amounts and balances have been reformatted from previously filed reports to conform to the format of this quarterly presentation. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Form 10K for the year ended December 31, 2014 as filed with Securities and Exchange Commission.

The results of operations for the three and nine months ended September 30, 2015 and September 30, 2014, are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

New Accounting Pronouncements

In July of 2015 the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2015-11 Simplifying the Measurement of Inventory an update to Inventory Topic 330. The ASU simplifies the concept of lower of cost or market to the low of cost and net realizable value. The amendments in the ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years.

NOTE 2 - INVENTORIES

Inventories are stated at lower of direct cost or market with cost determined using the FIFO (first in, first out) method. Inventories consist of the following:

	September 30,	December 31,
	2015	2014
Parts	\$ 184,849	\$ 283,375
Work in progress	258,073	276,853
Finished goods	183,427	158,909
	\$ 626,349	\$ 719,137

NOTE 3 - INCOME (LOSS) PER SHARE

Basic income (loss) per share excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted income (loss) per share reflects potential dilution occurring if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. At September 30, 2015 and 2014 the Company had 195,000 and 440,000 outstanding stock options, respectively, that could have a dilutive effect on future periods. However, at September 30, 2015 and 2014 there was no dilutive effect of stock options on earnings per share or weighted average shares outstanding.

NOTE 4 - STOCK OPTIONS

As of September 30, 2015, the Company had outstanding stock options, which have been granted periodically to individual employees and directors with no less than three years of continuous tenure with the Company. The Board of Directors did not issue stock options during the nine months ended September 30, 2015. The Board of Directors granted 150,000 stock options subject to shareholder approval during the Annual Shareholders meeting, June 3, 2016. The estimated expense that would be recognized for these options is approximately \$1,900.

NOTE 4 - STOCK OPTIONS, Continued

The fair value of each option award is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2014.

	2014
Dividend yield	0.00%
Expected volatility	75%
Risk-free interest rate	0.68%
Expected term (in years)	3
Estimated Fair Value per Option Granted	\$0.20

The Company uses historical data to estimate option exercise rates. The option exercise rate for option grants in 2005 through 2014 was 6.00%.

A summary of option activity during the nine months ended September 30, 2015, is as follows:

	Number	Weighted-Average Exercise Price Per Share
	Outstanding	
Outstanding at December 31, 2014	440,000	\$0.39
Granted	--	--
Exercised	--	--
Expired	(245,000)	0.37
Outstanding at September 30, 2015	195,000	\$0.39

NOTE 5 - LEASES

The Company leases its facilities from a port authority for \$5,251 per month for three years, expiring in September 2017, with annual increases based upon the Consumer Price Index.

NOTE 6 - COMMITMENTS and CONTINGENCIES

In 2009, the Company entered into a licensing agreement with Wi-LAN, Inc. (a Canadian Company), to pay royalties for certain licensing rights and liability releases. Such amounts are not considered significant by the Company.

NOTE 7 - SEGMENT REPORTING

Segment information is prepared on the same basis that the Company's management reviews financial information for operational decision making purposes. The Company has two reportable segments, domestic and foreign, based on the geographic location of the customers. Both segments sell radio modem products (requiring an FCC license or license free Ethernet products), related accessories for radio modem products for industrial automation projects, and mobile data computer products. The foreign segment sells the Company's products and services outside the United States.

During the quarter ended September 30, 2015 and 2014, domestic customers represented approximately 86% and 97%, respectively, of total net revenues. Foreign customers represented approximately 14% and 3% of total net revenues for the same respective periods. During the quarter ended September 30, 2015, sales to one customer comprised more than 10% of the Company's sales revenues. The sales to that customer were 19.3%. During the quarter ended September 30, 2014, sales to two customers comprised more than 10% of the Company's sales revenues. The sales to Customer A and Customer B were 15.5% and 11.5%, respectively. Revenues from foreign countries during the third quarter of 2015 consist primarily of revenues from product sales to Croatia, Peru and Mexico.

NOTE 7 - SEGMENT REPORTING, Continued

During the first nine months of 2015 and 2014, domestic customers represented approximately 79% and 86%, respectively, of total net revenues. Foreign customers represented approximately 21% and 14% of total net revenues for the same respective periods. During the first nine months of 2015, sales to no one single customer were greater than 10% of the Company's sales revenues. Revenues from foreign countries during the first nine months of 2015 consist primarily of revenues from product sales to Peru, Canada and Croatia.

Management evaluates performance based on net revenues and operating expenses. Where applicable, portions of the administrative function expenses are allocated between the operating segments. The operating segments share the same manufacturing and distributing facilities. Costs of operating the manufacturing plant, equipment, inventory, and accounts receivable are allocated directly to each segment.

Summary financial information for the two reportable segments for the third quarter and first nine months of 2015 and 2014 is as follows:

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
<u>Three months ended September 30,</u>			
<u>2015</u>			
Total sales	\$ 375,433	\$ 63,647	\$ 439,080
Total other income	2,937	-	2,937
Income (loss) before tax	(54,240)	10,036	(44,204)
Depreciation/amortization	6,801	-	6,801
Net capital expenditures	-	-	-
<u>Three months ended September 30,</u>			
<u>2014</u>			
Total sales	\$ 367,657	\$ 12,750	\$ 380,407
Total other income	2,492	-	2,492
Income (loss) before tax	(78,833)	(17,631)	(96,464)
Depreciation/amortization	5,989	-	5,989
Net capital expenditures	27,547	-	27,547
<u>Nine months ended September 30,</u>			
<u>2015</u>			
Total sales	\$ 980,681	\$ 261,745	\$ 1,242,426
Total other income	8,735	-	8,735
Income (loss) before tax	(334,753)	66,928	(267,825)

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Depreciation/amortization	21,914	-	21,914
Net capital expenditures	14,480	-	14,480

Nine Months ended September 30, 2014

Total sales	\$ 1,207,925	\$ 204,568	\$ 1,412,493
Total other income	8,017	-	8,017
Income (loss) before tax	(141,725)	52,883	(88,842)
Depreciation/amortization	11,476	-	11,476
Net capital expenditures	68,560	-	68,560

At September 30, 2015

Identifiable assets	\$ 2,750,538	\$ -	\$ 2,750,538
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At December 31, 2014

Identifiable assets	\$ 3,045,753	\$ 1,800	\$ 3,047,553
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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATION**

Management's discussion and analysis is intended to be read in conjunction with the Company's unaudited financial statements and the integral notes thereto for the quarter ended September 30, 2015. The following statements may be forward looking in nature and actual results may differ materially.

A. Results of Operations

REVENUES:

Total revenues from the sale of the Company's ESTeem wireless modem products and services increased to \$439,080 for the third quarter of 2015, compared to \$380,407 for the third quarter of 2014. Gross revenues, including interest income, increased to \$442,017 for the quarter ended September 30, 2015, from \$382,899 for the same quarter of 2014. Year to date sales decreased to \$1,242,426 as of September 30, 2015 as compared to \$1,412,493 as of September 30, 2014. Year to date gross revenues decreased to \$1,251,161 as of September 30, 2015 compared to \$1,420,510 as of September 30, 2014. Management believes the increase in quarterly sales revenue is due to improved demand for core products during the quarter, and decrease year to date sales revenues is due to decreased engineering services and core products.

The Company's revenues have historically fluctuated from quarter to quarter due to timing factors such as customer order placement and product shipments to customers, as well as customer buying trends, and changes in the general economic environment. The procurement process regarding plant and project automation, or project development, which usually surrounds the decision to purchase ESTeem products, can be lengthy. This procurement process may involve bid activities unrelated to the ESTeem products, such as additional systems and subcontract work, as well as capital budget considerations on the part of the customer. Because of the complexity of this procurement process, forecasts in regard to the Company's revenues become difficult to predict.

A percentage breakdown of EST's Domestic and Export Sales, for the third quarter of 2015 and 2014 are as follows:

	For the third quarter of	
	2015	2014
Domestic Sales	86%	97%
Export Sales	14%	3%

OPERATING SEGMENTS:

Segment information is prepared on the same basis that the Company's Management reviews financial information for operational decision-making purposes. The Company's operating segment information is contained in Financial Statements, Notes to Financial Statements, Note 6 Segment Reporting .

Domestic Revenues

During the quarter ended September 30, 2015, the Company's domestic operations represented 86% of the Company's total sales revenues. Domestic operations sell ESTeem modem products, accessories and service primarily through domestic resellers, as well as directly to end users of the Company's products. Domestic sales revenues increased to \$375,433 for the quarter ended September 30, 2015, compared to \$367,657 for the quarter ended September 30, 2014.

Management believes the increase in sales revenues is due to increased domestic sales for water/waste water and mining industrial automation projects during the three month period. During the quarter ended September 30, 2015, one customer, comprised more than 10% of the Company's sales revenues.

Domestic segment operating loss was \$54,240 for the quarter ended September 30, 2015 as compared with a segment operating loss of \$78,833 for the same quarter of 2014, due to increased sales revenues for the segment during the third quarter of 2015.

For the nine-month period ended September 30, 2015, the Company's domestic operations represented 79% of the Company's total sales revenues. Year to date domestic sales revenues increased to \$980,681 as of September 30, 2015 compared to \$1,207,925 for the same period of 2014. Management believes the decrease in year to date sales revenues is due to decreased engineering services and core product sales during the first nine months of 2015.

Year to date domestic segment operating loss was \$334,753 for the period ended September 30, 2015 as compared with a segment operating loss of \$141,725 for the same period of 2014, due to decreased sales during the first nine months of 2015.

Foreign Revenues

The Company's foreign operating segment represented 14% of the Company's total net revenues for the quarter ended September 30, 2015. The foreign operating segment is based wholly in the United States and maintains no assets outside of the United States. The foreign operating segment sells ESTeem modem products, accessories and service primarily through foreign resellers, as well as directly to end customers of the Company's products located outside the United States.

During the quarter ended September 30, 2015, the Company had \$63,647 in foreign export sales, amounting to 14% of total net revenues of the Company for the quarter, compared with foreign export sales of \$12,750 for the same quarter of 2014. Management believes the increase in foreign sales revenues was due to increased demand in industrial automation and mining. Revenues from foreign countries during the third quarter of 2015 consist primarily of revenues from product sales to Croatia, Peru and Mexico. No foreign sales to a single customer comprised 10% or more of the Company's product sales for the quarter ended September 30, 2015. Products purchased by foreign customers were used primarily in industrial automation applications. We believe the majority of foreign export sales are the results of the Company's Latin American sales staff, EST foreign reseller activity, and the Company's internet website presence.

Operating profit for the foreign segment was \$10,036 for the quarter ended September 30, 2015 as compared with a net operating loss of \$17,631 for the same period of 2014, due to leveraging over-head for the segment during the third quarter of 2015.

For the nine-month period ended September 30, 2015, the Company had \$261,745 in foreign export sales, amounting to 21% of total sales revenues of the Company for the period, compared with foreign export sales of \$204,568 for the same period of 2014. Management believes the increase in foreign sales revenues is due to higher than anticipated foreign sales revenues from projects in Peru, Croatia and Canada during the first nine months of 2015.

Year to date foreign segment operating income was \$66,928 for the period ended September 30, 2015 as compared with a segment operating income of \$52,883 for the same period of 2014, due to increased sales for the segment during the first nine months of 2015.

BACKLOG:

The Corporation had a sales order backlog of approximately \$2,144 as of September 30, 2015. The Company's customers generally place orders on an "as needed basis". Shipment for most of the Company's products is generally made within 1 to 15 working days after receipt of customer orders, with the exception of ongoing, scheduled projects, and custom designed equipment.

COST OF SALES:

Cost of sales percentage for the third quarter of 2015 and 2014 was 38% and 47%, respectively. The cost of sales decrease for the third quarter of 2015 is the result of the product mix for items sold during and the ability to leverage manufacturing costs.

OPERATING EXPENSES:

Operating expenses for the third quarter of 2015 increased \$11,259 from the third quarter of 2014. The following is an outline of operating expenses:

For the quarter ended:	September 30, 2015	September 30, 2014	Increase (Decrease)
General and Administrative	\$ 71,191	\$ 67,284	\$ 3,907
Research/Development	72,502	80,798	(8,296)
Marketing	124,145	111,456	12,689
Customer Service	32,658	29,699	2,959
Total Operating Expenses	\$ 300,496	\$ 289,237	\$ 11,259

GENERAL AND ADMINISTRATIVE:

During the third quarter of 2015, general and administrative expenses increased \$3,907 to \$71,191 from the same quarter of 2014, due to professional services.

RESEARCH AND DEVELOPMENT:

Research and development expenses decreased \$8,296 to \$72,502 during the third quarter of 2015, when compared with the same period in 2014 due to decreased services purchased.

MARKETING:

During the third quarter of 2015, marketing expenses increased \$12,689 to \$124,145 from the same period in 2014, due to increased wages and trade show related expenses.

CUSTOMER SERVICE:

Customer service expenses during the third quarter of 2015 increased \$2,959 to \$32,658 when compared with the same quarter in 2014 due to increased department related wages during the period.

INTEREST AND DIVIDEND INCOME:

The Corporation earned \$2,937 in interest and dividend income during the quarter ended September 30, 2015. Sources of this income were money market accounts and certificates of deposit.

NET INCOME (LOSS):

The Company had a net loss of \$44,204 for the third quarter of 2015, compared to a net loss of \$93,804 for the same quarter of 2014. For the nine-month period ended September 30, 2015, the Company recorded a net loss of \$267,825, compared with a net loss of \$86,842 for the same period of 2014. The decrease in the Company's net loss is the result of increased sales revenues and increased gross margin during the third quarter of 2015.

TAXES:

The Company has set an allowance of \$15,912 to reduce the value of the Deferred Tax Asset (non-current) to reflect the amount that may not be realizable in future periods.

B. Financial Condition, Liquidity and Capital Resources

The Corporation's current asset to current liabilities ratio at September 30, 2015 was 44.9:1 compared to 34.8:1 at December 31, 2014. For the quarter ending September 30, 2015, the Company had cash and cash equivalents of \$530,964; compared to cash and cash equivalent holdings of \$637,086 at December 31, 2014. The Company had certificates of deposit investments in the amount of \$1,202,625 at September 30, 2015 and \$1,402,625 at December 31, 2014.

Accounts receivable increased to \$195,772 as of September 30, 2015, from December 31, 2014 levels of \$94,864, due to sales revenue timing differences between the third quarter of 2015 and year end 2014. Inventories decreased to \$626,349 as of September 30, 2015, from December 31, 2014 levels of \$719,137, due primarily to a reduction of parts used in manufacturing. The Company's fixed assets, net of depreciation, decreased to \$84,473 as of September 30, 2015 from December 31, 2014 levels of \$91,907.

As of September 30, 2015, the Company's accounts payable balance was \$21,634 as compared with \$14,573 at December 31, 2014, and reflects amounts owed for inventory items, contracted services, and state tax liabilities. Accrued liabilities as of September 30, 2015 were \$36,541 compared with \$43,045 at December 31, 2014, and reflect items such as accrued vacation benefits and payroll tax liability.

In Management's opinion, the Company's cash and cash equivalent reserves, and working capital at September 30, 2015 are sufficient to satisfy requirements for operations, capital expenditures, and other expenditures as may arise during the remainder of 2015.

The Company did not declare or issue any cash dividends during 2014 or 2015.

FORWARD LOOKING STATEMENTS: *The above discussion may contain forward looking statements that involve a number of risks and uncertainties. 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, and risk factors that are listed in the Company's reports and registration statements filed with the Securities and Exchange Commission.*

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable

Item 4. Controls and Procedures.

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.

An evaluation has been performed under the supervision and with the participation of our Management, including our Chief Executive Officer and Principal Accounting Officer, of the effectiveness of the design and the operation of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) as of September 30, 2015. Based on this evaluation, our Chief Executive Officer and Principal Accounting Officer have determined that there was a 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 September 30, 2015.

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 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.

There have been no changes during the quarter ended September 30, 2015 in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not involved in any material current of pending legal proceedings

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

None

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosure

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

**E X H I B I T
NUMBER**

DESCRIPTION

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

SIGNATURES

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

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

Date: October 23, 2015

/s/ Michael W. Eller
Name: Michael Eller
Title: Acting President

(Chief Executive Officer)

Date: October 23, 2015

/s/ Michael W. Eller
Name: Michael Eller
Title: Vice President

(Principal Accounting Officer)