

ELECTRONIC SYSTEMS TECHNOLOGY INC  
Form 10-Q  
April 29, 2019

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 **March 31, 2019**

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**  
(State or other jurisdiction of incorporation)

**000-27793**  
(Commission File Number)

**91-1238077**  
(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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

|   |                          |                         |                                     |
|---|--------------------------|-------------------------|-------------------------------------|
| Large Accelerated Filer                       | <input type="checkbox"/> | Accelerated Filer       | <input type="checkbox"/>            |
| Non-Accelerated Filer                         | <input type="checkbox"/> | Small Reporting Company | <input checked="" type="checkbox"/> |
| (Do not check if a smaller reporting company) |                          | Emerging Growth Company | <input type="checkbox"/>            |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 April 16, 2019, the number of the Company's shares of common stock par value \$0.001, outstanding was 4,946,502.

**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## BALANCE SHEETS

(Unaudited)

|  | March 31,<br>2019   | December 31,<br>2018 |
|--|---------------------|----------------------|
| <b>ASSETS</b>                                      |                     |                      |
| Current assets                                     |                     |                      |
| Cash and cash equivalents                          | \$ 326,378          | \$ 323,667           |
| Certificates of deposit                            | 750,000             | 900,000              |
| Accounts receivable, net                           | 161,191             | 57,156               |
| Inventories  | 675,419             | 714,995              |
| Prepaid expenses                                   | 23,743              | 21,353               |
| Accrued interest receivable                        | 8,082               | 13,300               |
| Total current assets                               | 1,944,813           | 2,030,471            |
| Property and equipment, net of depreciation        | 18,375              | 20,368               |
| Right to use – Lease, net of amortization (NOTE 6) | 78,710              | -                    |
| <b>Total assets</b>                                | <b>\$ 2,041,898</b> | <b>\$ 2,050,839</b>  |
| <b>LIABILITIES and STOCKHOLDERS' EQUITY</b>        |                     |                      |
| Current liabilities                                |                     |                      |
| Accounts payable                                   | \$ 46,343           | \$ 71,257            |
| Refundable deposits                                | 10,184              | 10,310               |
| Accrued wages and bonus                            | 4,140               | 2,138                |
| Accrued vacation pay                               | 15,928              | 11,449               |
| Lease liability, current portion (NOTE 6)          | 52,282              | -                    |
| Other accrued liabilities                          | 3,168               | 2,514                |

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|   |              |              |
|---|--------------|--------------|
| Total current liabilities   | 132,045      | 97,668       |
| Lease liability, long-term portion payable (NOTE 6)                           | 26,428       | -            |
| <b>Total liabilities</b>  | 158,473      | 97,668       |
| Stockholders' equity  |              |              |
| Common stock, \$0.001 par value 50,000,000 shares                             |              |              |
| authorized 4,946,502 and 4,985,048 shares issued and outstanding respectively | 4,947        | 4,986        |
| Additional paid-in capital  | 929,159      | 944,040      |
| Retained earnings   | 949,319      | 1,004,145    |
| Total stockholders' equity  | 1,883,425    | 1,953,171    |
| <b>Total liabilities and stockholders' equity</b>                             | \$ 2,041,898 | \$ 2,050,839 |

See Notes to Financial Statements

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## STATEMENTS OF OPERATIONS

(Unaudited)

|                                    | Three Months Ended |                   |
|------------------------------------|--------------------|-------------------|
|                                    | March 31,<br>2019  | March 31,<br>2018 |
| <b>SALES - NET</b>                 | \$ 374,166         | \$ 307,828        |
| <b>COST OF SALES</b>               | (175,915)          | (163,583)         |
| <b>GROSS PROFIT</b>                | 198,251            | 144,245           |
| <b>OPERATING EXPENSES</b>          |                    |                   |
| General and administrative         | 93,506             | 82,811            |
| Research and development           | 65,474             | 60,637            |
| Marketing and sales                | 99,984             | 108,320           |
| <b>Total operating expenses</b>    | 258,964            | 251,768           |
| <b>OPERATING LOSS</b>              | (60,713)           | (107,523)         |
| <b>OTHER INCOME</b>                |                    |                   |
| Interest income                    | 5,887              | 3,731             |
| <b>Total other income</b>          | 5,887              | 3,731             |
| <b>NET LOSS BEFORE INCOME TAX</b>  | (54,826)           | (103,792)         |
| Benefit (provision) for income tax | -                  | -                 |
| <b>NET LOSS</b>                    | \$ (54,826)        | \$ (103,792)      |
| Basic and diluted loss per share   | \$ (0.01)          | \$ (0.02)         |
| Weighted average shares            | 4,953,043          | 4,986,048         |

See Notes to Financial Statements

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## STATEMENTS OF CASH FLOWS

(Unaudited)

|   | Three Months Ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2019  | March 31,<br>2018 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>            |                    |                   |
| Net loss  | \$ (54,826)        | \$ (103,792)      |
| Noncash items included in net loss:                     |                    |                   |
| Depreciation  | 1,993              | 2,769             |
| Changes in operating assets and liabilities:            |                    |                   |
| Accounts receivable, net                                | (104,035)          | (18,842)          |
| Inventories   | 39,576             | 33,147            |
| Accrued interest receivable                             | 5,218              | 365               |
| Prepaid expenses  | (2,390)            | 2,281             |
| Accounts payable  | (24,914)           | 14,455            |
| Refundable deposits                                     | (126)              | -                 |
| Other accrued liabilities                               | 7,135              | 2,580             |
| <b>NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES</b> | <b>(132,369)</b>   | <b>(67,037)</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>            |                    |                   |
| Certificates of deposit redeemed                        | 150,000            | 250,000           |
| <b>NET CASH PROVIDED FROM INVESTING ACTIVITIES</b>      | <b>150,000</b>     | <b>250,000</b>    |
| <b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>         |                    |                   |
| Repurchase of shares of common stock                    | (14,920)           | -                 |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>            | <b>(14,920)</b>    | <b>-</b>          |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>        | <b>2,711</b>       | <b>182,963</b>    |
| Cash and cash equivalents at beginning of period        | 323,667            | 208,101           |

|  |    |         |    |         |
|--|----|---------|----|---------|
| Cash and cash equivalents at end of period | \$ | 326,378 | \$ | 391,064 |
|--|----|---------|----|---------|

See Notes to Financial Statements

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ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

|                                  | Shares    | Amount   | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Total        |
|----------------------------------|-----------|----------|----------------------------------|----------------------|--------------|
| <b>Balances, January 1, 2018</b> | 4,986,048 | \$ 4,986 | \$ 944,161                       | \$ 1,120,244         | \$ 2,069,391 |
| Net loss                         | -         | -        | -                                | (103,792)            | (103,792)    |
| <b>BALANCE AT March 31, 2018</b> | 4,986,048 | \$ 4,986 | \$ 944,161                       | \$ 1,016,452         | \$ 1,965,599 |
| <b>Balances, January 1, 2019</b> | 4,985,748 | \$ 4,986 | \$ 944,040                       | \$ 1,004,145         | \$ 1,953,171 |
| Net loss                         | -         | -        | -                                | (54,826)             | (54,826)     |
| Common stock repurchased         | (39,246)  | (39)     | (14,881)                         | -                    | (14,920)     |
| <b>BALANCE AT MARCH 31, 2019</b> | 4,946,502 | \$ 4,947 | \$ 929,159                       | \$ 949,319           | \$ 1,883,425 |

See Notes to Financial Statements

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

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**NOTE 1 - BASIS OF PRESENTATION**

The financial statements, including notes, of Electronic Systems Technology, Inc. (the "Company") are representations of the Company's management, which is responsible for their integrity and objectivity. The accompanying unaudited financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, as well as the instructions to Form 10-Q. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of March 31, 2019, and its results of operations, cash flows, and changes in stockholders' equity for the three months ended March 31, 2019 and 2018. The balance sheet at December 31, 2018 was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements. All amounts presented are in U.S. dollars. For further information, refer to the financial statements and footnotes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

The results of operations for the three-month period ended March 31, 2019 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period. The Company estimates that for 2019 the anticipated effective annual federal income tax rate will be 0%.

*Accounting Standards Updates Adopted*

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 adopted the update on January 1, 2019. Upon implementation of the new guidance, the Company recognized a liability and right-of-use asset of \$91,637 as of January 1, 2019 for its one operating lease. The Company elected the transition option to apply the new guidance at the effective date without adjusting comparative periods presented. (See Note 6).

*Accounting Standards Updates to Become Effective in Future Periods*

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.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

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## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## NOTES TO FINANCIAL STATEMENTS

(Unaudited)

**NOTE 2 - INVENTORIES**

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

|                  | March 31   | December 31 |
|------------------|------------|-------------|
|                  | 2019       | 2018        |
| Parts            | \$ 130,899 | \$ 133,809  |
| Work in progress | 192,541    | 243,081     |
| Finished goods   | 351,979    | 338,105     |
| Total inventory  | \$ 675,419 | 714,995     |

**NOTE 3 - EARNINGS (LOSS) PER SHARE**

Basic earnings (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 earnings (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 March 31, 2019 and 2018, the Company had 120,000 and 150,000 outstanding stock options, respectively, that could have a dilutive effect on future periods' net income. However, diluted earnings per share are not presented because their effect would be antidilutive due to Company's losses.

**NOTE 4 - STOCK OPTIONS**

As of March 31, 2019, 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 first quarter ended March 31, 2019.

A summary of option activity during the quarter ended March 31, 2019 is as follows:

|  | Number<br>Outstanding | Weighted-Average<br>Exercise Price Per Share | Weighted-Average<br>Remaining Life<br>(Years) | Approximate<br>Aggregate Intrinsic<br>Value |
|--|-----------------------|--|---|---|
| Outstanding and<br>Exercisable at December<br>31, 2018 | 120,000               | \$0.40                                       |   |   |
| Granted  | -                     | -  |   |   |
| Expired  | -                     | -  |   |   |
| Outstanding and<br>Exercisable at March 31,<br>2019    | 120,000               | \$0.40                                       | 1.4   | \$1,200                                     |

**NOTE 5 – 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 three month period ended March 31, 2019 and 2018, the Company's revenue from products sales was \$369,389 and \$305,564, respectively. Revenue from site support and engineering services was \$4,777 and \$2,264 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 three month period ended March 31, 2019 were \$292,193 compared to \$302,588 in 2018. Sales to foreign customers for the three month period ended March 31, 2019 were \$81,973 compared to \$5,240 in 2018.

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## NOTES TO FINANCIAL STATEMENTS

(Unaudited)

For the three month period ended March 31, 2019, sales to three customers represented more than 10% of total revenue, one customer represented more than 10% of total revenue for the same period in 2018.

|                     | 2019 Sales | 2019 %age of Total Sales | 2018 Sales | 2018 %age of Total Sales |
|---------------------|------------|--------------------------|------------|--------------------------|
| Domestic customer A | 84,788     | 23%                      | 68,842     | 22%                      |
| Domestic customer B | 72,350     | 19%                      |            |                          |
| Foreign customer C  | 52,076     | 14%                      |            |                          |

As of March 31, 2019 and 2018, the Company had a sales order backlog of \$11,538 and \$0, respectively.

**NOTE 6 - LEASES**

In February 2016, the FASB 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 implemented this standard effective January 1, 2019. Upon implementation of the new guidance, the Company recognized a liability and right-of-use asset of \$91,637 as of January 1, 2019 for its one operating lease. To calculate the liability and right to use asset, the Company utilized a 4.0% incremental borrowing rate to discount the future rent payments and remaining lease term of 1.75 years.

The Company leases its facilities from a port authority for \$5,542 per month for three years, expiring in September 2020, with annual increases based upon the Consumer Price Index.

The original lease was effective October 1, 2014 and contained a three year renewal option and a provision for an annual increase of 2% per year, plus Leasehold Tax of 12.84%. On September 5th, 2017, the Company exercised the three year option. The first year of this option was not subject to the 2% increase. The current lease does not contain the option to extend the lease. However, the Company believes that a new lease agreement will be signed prior to the expiration of the current lease. At March 31, 2019, the remaining lease term is 1.5 years

For the three month periods ended March 31, 2019 and 2018, lease expenses of \$16,627 and \$16,635, respectively, are included in the following expense classifications on the statement of operations:

|                            | March 31, |           |
|----------------------------|-----------|-----------|
|                            | 2019      | 2018      |
| Cost of sales              | \$ 3,325  | \$ 3,267  |
| General and administrative | 3,325     | 3,267     |
| Research and development   | 3,325     | 3,267     |
| Marketing and sales        | 6,652     | 6,834     |
| Total                      | \$ 16,627 | \$ 16,635 |

As of March 31, 2019, total future lease payments are as follows:

| For the 12 months ended March 31, |           |
|-----------------------------------|-----------|
| 2020                              | \$ 59,458 |
| 2021                              | 29,988    |
| Total                             | 89,446    |
| Less imputed interest             | (10,736)  |
| Net lease liability               | 78,710    |
| Current portion                   | 52,282    |
| Long-term portion                 | \$ 26,428 |

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

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**NOTE 7 – 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. During the three-month period ended March 31, 2019, the Company repurchased 39,246 shares for \$14,920; no shares were repurchased in the three-month period ended March 31, 2018. Since inception of the Stock Repurchase Plan, the Company has repurchased 212,165 shares for a total of \$80,622 through March 31, 2019 and \$169,378 of the original \$250,000 approved by the board remains.

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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 March 31, 2019. The following statements may be forward looking in nature and actual results may differ materially.*

**A. RESULTS OF OPERATIONS**

REVENUES: Total revenues from sales increased to \$374,166 for the first quarter of 2019 as compared to \$307,828 in the first quarter of 2018, reflecting an increase of 21.6%. Management believes the increase in sales revenues is due to increased foreign sales during first quarter of 2019 when compared with the same quarter of 2018.

The Company's revenues have historically fluctuated from quarter to quarter due to timing factors such as product shipments to customers, customer order placement, 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 with regard to the Company's revenues are difficult to predict.

A percentage breakdown of the Company's market segments of Domestic and Foreign Export sales, for the first quarter of 2019 and 2018 are as follows:

|                | For the first quarter | 2019 | 2018 |
|----------------|-----------------------|------|------|
| Domestic Sales |                       | 78%  | 98%  |
| Export Sales   |                       | 22%  | 2%   |

**BACKLOG:**

As of March 31, 2019, the Company had a sales order backlog of \$11,538. 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 5 working days after receipt of customer orders, with the exception of ongoing, scheduled projects, and custom designed equipment.

**COST OF SALES:**

Cost of sales percentages for the first quarters of 2019 and 2018 were 47% and 53% of respective net sales and are calculated excluding site support expenses of \$3,526 and \$1,252 respectively. The cost of sales percentage increase in the first quarter of 2019 is the result of the product mix sold during the same quarter of 2018.

**OPERATING EXPENSES:**

Operating expenses for the first quarter of 2019 increased \$7,196 from first quarter of 2018 levels. The following is a delineation of operating expenses:

|                            | March 31,  | March 31,  | Increase   |
|----------------------------|------------|------------|------------|
|                            | 2019       | 2018       | (Decrease) |
| General and administrative | \$ 93,506  | \$ 82,811  | \$ 10,695  |
| Research and development   | 65,474     | 60,637     | 4,837      |
| Marketing and sales        | 99,984     | 108,320    | (8,336)    |
| Total operating expenses   | \$ 258,964 | \$ 251,768 | \$ 7,196   |

**General and administrative:** For the first quarter of 2019, general and administrative expenses increased \$10,695 to \$93,506, due to increased wages and professional services when compared with the same quarter of 2018.

**Research and development:** Research and development expenses increased \$4,837 to \$65,474 during the first quarter of 2019 due to increased expenses related to prototype build costs when compared with the same quarter of 2018.

**Marketing and sales:** During the first quarter of 2019, marketing and sales expenses decreased \$8,336 to \$99,984 when compared with the same period of 2018, due to decreased payroll, taxes and benefits during the first quarter of 2018.

**INTEREST INCOME:**

The Company earned \$5,887 in interest income during the quarter ended March 31, 2019. Sources of this income were money market accounts and certificates of deposit.

**NET LOSS:**

The Company had a net loss of \$54,826 for the first quarter of 2019 compared to a net loss of \$103,792 for the same quarter of 2018. The decrease in net loss during 2019 is the result of increased sales revenues and gross margins.

## **B. FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

The Corporation's current asset to current liabilities ratio at March 31, 2019 was 14.7 compared to 20.8 at December 31, 2018. The decrease in current ratio is due to the current portion of lease liability at March 31, 2019 as compared to December 31, 2018.

At March 31, 2019, the Company had cash and cash equivalents of \$326,378 as compared to cash and cash equivalent of \$323,667 at December 31, 2018, primarily reflecting redemption of certificates of deposits that were held at December 31, 2018.

Cash used in operating activities increased by \$65,332 for the three month period ended March 31, 2019 when compared to the same period in 2018. During that period accounts receivable increased by \$104,035 which is a result of increased sales and the timing of these sales. Accounts payable decreased \$24,914 compared to the same period of 2018.

Cash provided from investing was \$150,000 due to the redemption of a CD during the first quarter of 2018, This is a decrease of \$100,000 from the prior year, as the additional redemption of certificates of deposit was not required due to the reduction of net loss during the three month period ended March 31, 2019 compared to 2018. Cash used in financing activities was \$14,920 for the repurchase of the Company's common stock during the three month period ended March 31, 2019.

In management's opinion, the Company's cash and cash equivalents and other working capital at March 31, 2019 is sufficient to satisfy requirements for operations, capital expenditures, and other expenditures as may arise during 2019.

***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.**

There is no established market for trading the common stock of the Company. The market for the Company's common stock is limited, and as such shareholders may have difficulty reselling their shares when desired or at attractive market prices. The Common Stock is not regularly quoted in the automated quotation system of a registered securities system or association. Our common stock, par value \$0.001 per share, is quoted on the OTC Markets Group QB (OTCQB) under the symbol "ELST". The OTCQB is a network of security dealers who buy and sell stock. The dealers are connected by a computer network which provides information on current "bids" and "asks" as well as volume information. The OTCQB is not considered a "national exchange". The "over-the-counter" quotations do not reflect inter-dealer prices, retail mark-ups commissions or actual transactions. The Company's 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 4. Controls and Procedures**

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 March 31, 2019. Based on this evaluation, our Chief Executive Officer and Chief Financial 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 March 31, 2019.

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.

### **Changes in Internal Control Over Financial Reporting**

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II—OTHER INFORMATION**

**Item 5. Other Information**

None

**Item 6. Exhibits**

| EXHIBIT 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 |

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SIGNATURES

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

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

By: /s/ Michael W. Eller

Date: April 26, 2019 Name: Michael W. Eller  
Title: President  
(Principal Executive Officer)

By: /s/ Michael W. Eller

Date: April 26, 2019 Name: Michael W. Eller  
Title: President  
(Principal Accounting Officer)

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