ELECTRONIC SYSTEMS TECHNOLOGY INC
Form 10-K/A
August 16, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K /A**

Amendment No. 1.

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended: December 31, 2015**

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**<br>(State or other jurisdiction of incorporation or organization) | **91-1238077**<br>(I.R.S. Employer Identification No.) |
| **415 N. Quay St., Bldg B1, Kennewick, Washington**<br>(Address of principal executive offices) | **99336**<br>(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 o No þ

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

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 þ No o

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 þ No o

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. o

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 | ¨ | (Do not check if a smaller reporting company) | Smaller reporting company | þ |

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

The aggregate market value of the registrant's common stock held by non-affiliates was $1,055,752, based on the reported last sale price of common stock on June 30, 2015, 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, 2016: 5,158,667 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into Parts I, II, III, and IV of this report: Forms 8-K dated January 13, 2016.



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**ELECTRONIC SYSTEMS TECHNOLOGY INC.**

**FORM 10-K /A**

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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 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 require 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 2015 were focused primarily on our 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. The ESTeem® Horizon Series will expand our market opportunities and be available for sale in 2016.

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. 2015 marks the 24th 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 self-healing repeaters, Mesh networking, long range operation and outdoor weatherproof cases make the ESTeem® products unique in our market space.

## PRODUCT APPLICATIONS

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

| | |
|---|---|
| Water/Wastewater | Agriculture |
| 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. A wireless modems 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 | .5 to 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 | .5 to 4 | 12.5 Kbps | 15 | Ethernet/RS-232/422/485 |
| 195H | Narrow Band Licensed | 217 to 220 | .5 to 2 | 50 Kbps | 15 | Ethernet/RS-232/422/485 |
| 195Eg | Unlicensed | 2400 | .250 to1 | 1-54 Mbps | 5-7 | Ethernet/ RS-232 |
| 195Ed | Unlicensed | 900 | .250 to 1 | 1-54 Mbps | 5-7 | Ethernet/ RS-232 |
| 195Es | Unlicensed | 900 | .125 to 1 | 200Kbps | 10 | Ethernet/ RS-232 |
| 195Ea | Unlicensed | 5800 | .200 to .600 | 6-54Mbps | 5-7 | Ethernet/ RS-232 |
| 195Ep | Licensed | 4900 | .250 to 2 | 6-54 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 2015 and 2014 were $277,126 and $286,375. None of the Company s research and development expenses were paid directly by any of the Company s customers. During 2015, the Company contracted and will continue to contract with companies to provide software development and hardware design engineering expertise when required.

Development efforts during 2015 were focused primarily on the ESTeem® Horizon Series products due to obsolescence of components. The redesigned products will operate at higher speeds and increase data throughput. The Company plans continued research and development expenditures for development and improvement projects, as they are deemed necessary.

## MARKETING, CUSTOMERS AND SUPPORT

The majority of the Company s products sold during 2015 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, 2015, the Company had a sales order backlog of $68,330.

During 2015, 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 tradeshows targeted toward the customers and markets in which it sells products. During 2015, the Company employed sales managers and product support personal to concentrate marketing efforts in both domestic and Latin American industrial automation markets. During 2016, 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, 2015, no 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.

On September 15, 2009, Wi-LAN, Inc, an Ontario, Canada Company (TSX: WIN)( Wi-LAN ) notified the Company of alleged patent infringement. On November 17, 2009, we entered into a Licensing Agreement with Wi-LAN. Subject to confidentiality provisions, the agreement requires us to pay royalties and in return we are granted certain licensing rights and liability releases. The allegations by Wi-LAN relate to amendments to Institute of Electrical and Electronics Engineers (IEEE) standard 802.11 wireless architecture, adopted in 1997. Approximately half of the Company s current products are subject to the alleged patent infringements from Wi-LAN. The cost of the licensing agreement to the Company is considered by Management to be insignificant.

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.

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. The ESTeem® 195Ea, 195Eg, 195Es and 195Ed products operate in the non-licensed, 900 MHz, 2.4GHz, and 5.8 GHz spread spectrum frequency bands, respectively, which do not require licenses for users of those products.

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 10% of the Company s inventory at December 31, 2015 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. Materials are provided by the Company. 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. However, the information found on our website, or on other websites linked to our website, is not a part of this or any other report filed by the Company with the SEC. Interested parties also may read and copy any material filed with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information may be obtained on the operation of the Public Reference Room by calling the SEC at 1(800) SEC-0330.

EMPLOYEES

As of December 31, 2015, the Company employed a staff of 11 persons on a full time basis, 3 in sales/marketing, 2 in technical support, 5 in engineering/manufacturing, and 1 in finance and administration. There was one significant change to key personnel in 2015. Tom Kirchner retired July 31, 2015. Michael Eller now serves as the acting President and Chief Accounting Officer. 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.

**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 /A , 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.



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**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, 2015. 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, 2015. 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 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, 2015, the total monthly lease cost, including tax, is $5,348. The lease covers a period of three years, expiring September 2017.

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 maintains key man life insurance protecting the Company in the event of the death of the Company s President. 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

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.

| | Price (1) | |
|---|---|---|
| | High | Low |
| 2015 | | |
| First Quarter | $0.49 | $0.38 |
| Second Quarter | 0.42 | 0.38 |
| Third Quarter | 0.60 | 0.38 |
| Fourth Quarter | 0.41 | 0.26 |
| | | |
| 2014 | | |
| First Quarter | $0.45 | $0.26 |
| Second Quarter | 0.53 | 0.39 |
| Third Quarter | 0.58 | 0.46 |
| Fourth Quarter | 0.57 | 0.40 |

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 4, 2016.

The number of holders of record of common stock of the Registrant as of February 2, 2016 was 355 persons/entities with an unknown number of additional shareholders who hold shares through brokerage firms.

Our independent stock transfer agent is Computershare Investor Services located at 350 Indiana Street, Suite 800, Golden CO 80401.

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

**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.

**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 2015 vs. FISCAL YEAR 2014

GROSS REVENUES: Total revenues, including interest income, for the fiscal year 2015 were $1,561,823 reflecting a decrease of 17% from $1,877,937 in gross revenues for fiscal year 2014. During the year ended December 31, 2015, 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 domestic product sales during 2015. Domestic Sales for the fiscal year were $1,224,926 compared to $1,571,995 in 2014. Sales to Foreign Customers for the fiscal year were $325,658 compared to $295,425 in 2014. Product sales decreased to $1,550,584 in 2015, as compared to 2014 sales of $1,867,420, reflecting a decrease of 17%. Management believes the decrease in sales revenues is the result of decreased product sales for the Company s domestic sales segments, specifically industrial automation.

Interest revenues during 2015 increased to $11,239 from 2014 level of $10,517 due to increased rates of return received on the Company s investments.

As of December 31, 2015, the Company had sales backlog of $68,330. 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 43% and 42% respectively, for 2015 and 2014. 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 2015 and 2014 were as follows:

| | 2015 | 2014 |
|---|---|---|
| Parts | $181,798 | $283,375 |
| Work in progress | 233,055 | 276,853 |
| Finished goods | 188,438 | 158,909 |
| TOTAL | $603,291 | $719,137 |

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 increased to $1,186,983 in 2015, from 2014 levels of $1,181,225 primarily due to increased depreciation during 2015. Material changes in expenses are comprised of the following components: Wages and payroll taxes decreased by $17,210 and $5,853 respectively. Depreciation expense increased during 2015 to $28,714 from 2014 levels of $17,824 due to the Company s increased capital purchases. Advertising expenses decreased to $12,171 for 2015, compared to $16,091 for 2014, Materials and Supplies expense decreased during 2015 to $32,349 from 2014 levels of $34,443 due to decreased research and development related projects during 2015.

FISCAL YEAR 2014 vs. FISCAL YEAR 2013

GROSS REVENUES: Total revenues, including interest income, for the fiscal year 2014 were $1,877,937 reflecting a decrease of 15% from $2,198,416 in gross revenues for fiscal year 2013. During the year ended December 31, 2014, 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 domestic product

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sales during 2013. Product sales decreased to $1,867,420 in 2014, as compared to 2013 sales of $2,190,258, reflecting a decrease of 15%. Management believes the decrease in sales revenues is the result of decreased product sales for the Company s domestic sales segments, specifically industrial automation. Management believes the decreased foreign product sales revenues during 2014 are the result of the fragile global economic conditions significantly impacting capital expenditures for projects involving the Company s products having been delayed or cancelled. The Company intends to continue targeting the domestic and foreign industrial control markets. Management remains committed to pursuing existing marketing strategies, however cannot guarantee sustained sales revenues during 2015 in the continued fragile economic conditions that exist globally.

Interest revenues during 2014 increased to $10,517 from 2013 level of $8,158 due to increased rates of return received on the Company s investments.

As of December 31, 2014, the Company had sales backlog of $30,463. 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company s revenues and expenses resulted in a net loss of $238,373 for 2015, increased from a net loss of $101,790 for 2014. The decrease in profitability is the result of decreased sales revenues, increased operating expenses when compared with 2014. At December 31, 2015, the Company's working capital was $2,500,267 compared with $2,836,980 at December 31, 2014. 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, 2015 is adequate for expected resource requirements for the next twelve months.

The Company's current asset to current liability ratio at December 31, 2015 was 71.4:1 compared to 34.9:1 at December 31, 2014. The increase in current asset ratio is the result of the Company having decreased Accounts Payable and Customer Deposits for year-end 2015 when compared with year-end 2014. The Company's cash resources at December 31, 2015, including cash and cash equivalent liquid assets, were $618,060, compared to cash resources of $637,086 at year-end 2014. The decrease in cash and cash equivalent liquid assets is the result net loss impact when comparted with year-end 2014. The Company s cash and cash equivalent assets are held in checking, money market investment accounts and Certificates of Deposits. The Company's accounts receivable, at December 31, 2015, were $66,276, compared to $94,864 at year-end 2014. Management believes that all Company accounts receivable as of December 31, 2015 are collectible and does not have a reserve for uncollectable accounts.

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, 2015, were $603,291, reflecting a decrease from December 31, 2014 levels of $719,137. The decrease in inventory between December 31, 2015 and December 31, 2014, is due to an effort to minimize the quantities of components and sub-assemblies, specifically for slow moving items.

The Company had capital expenditures of $14,480 during 2015 primarily for phone system upgrades and a manufacturing die. 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, 2015, the Company's current liabilities decreased to $35,509, from 2014 year-end levels of $83,865. The decrease in current liabilities was impacted by lower Accrued Vacation and refundable deposits, $11,733 and $22,667 respectively.

The Company had no off balance sheet arrangements for the year ended December 31, 2015.

Inflation had minimal adverse effect on the Company s operations during 2015. Minimal adverse effect is anticipated during 2016.

**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 /A .. 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.



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**Item 8. Financial Statements and Supplementary Data.**

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

FINANCIAL STATEMENTS

AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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