ELECTRONIC SYSTEMS TECHNOLOGY INC
Form 10-K/A
April 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A-1

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, 2017

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	**91-1238077**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
415 N. Quay St., Bldg B1, Kennewick, Washington	**99336**
(Address of principal executive offices)	(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 $1,035,958, based on the reported last sale price of common stock on June 30, 2017, 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, 2018: 4,986,048 shares.

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EXPLANATORY NOTE

This Amendment No. 1 (Amendment No. 1) amends the Annual Report on Form 10-K of Electronic Systems Technology, Inc. (the Company) for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on February 24, 2017 (the Original Filing and the Original Filing Date). The only changes made to the Original Filing are the following items: Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations; and, Part II, Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities (collectively Revised Items). The Revised Items are filed herewith in this Amended Report in entirety.

Except as described above, this Amendment No. 1 does not amend, update, or change any other information contained in the Original Filing. This Amendment No. 1 speaks as of the Original Filing Date and does not reflect events that may have occurred subsequent to the Original Filing Date.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, currently-dated certifications from the Company s Chief Executive Officer and Chief Financial Officer are included as Exhibits to this Amendment No. 1, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

ELECTRONIC SYSTEMS TECHNOLOGY INC.

FORM 10-K

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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 the development and manufacturing of digital data (non-voice) radio transceivers for use in industrial wireless networking applications. With reliance on wireless communication in the modern world, the global modernization of industrial control systems now requires the benefits gained by use of wireless technology. EST designs and produces these specialized, hardened products to operate and survive in these difficult conditions.

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

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

Development efforts during 2017 were focused primarily on software enhancements for the new ESTeem® Horizon Series. These next generation industrial wireless products will improve our networking capability with higher data rates, improved support features and updates to the latest wireless standards.

In an effort to maintain and expand our customer base in the industrial control marketplace, we team with major automation hardware vendors such as Rockwell Automation. 2017 marks the 26th anniversary of our relationship with Rockwell Automation through their Encompass Program. Rockwell Automation has the largest market share in the United States and is a major entity in the world-wide automation and controls market place. The benefit of the Encompass program and similar partnering efforts is increased exposure to markets that would not otherwise be cost effective to have a direct marketing channel presence in.

PRODUCTS AND MARKETS

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

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

PRODUCT APPLICATIONS

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

Water/Wastewater	Mining
Oil/Gas	Industrial Automation

PRODUCT LINES

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

ESTeem Model	Type	Frequency (MHz)	RF Power (Watts)	RF Data Rate	LOS Range (Miles)	Interface
210M	Narrow Band Licensed	150 to 174	2	64.8 Kbps	15	Ethernet/RS-232
195M	Narrow Band Licensed	150 to 174	4	12.5 Kbps	15	Ethernet/RS-232/422/485
210C	Narrow Band Licensed	450 to 470	2	64.8 Kbps	15	Ethernet/RS-232
195C	Narrow Band Licensed	450 to 470	4	12.5 Kbps	15	Ethernet/RS-232/422/485
195H	Narrow Band Licensed	217 to 220	2	50 Kbps	15	Ethernet/RS-232/422/485
Horizon900	Unlicensed	900	1	72.2 Mbps	10	Ethernet/ RS-232
Horizon2.4	Unlicensed	2400	1	150 Mbps	5-7	Ethernet/ RS-232
Horizon4.9	Licensed	4900	1	72.2 Mbps	5-7	Ethernet/ RS-232
Horizon5.8	Unlicensed	5800	.250 (Dual Stream)	300 Mbps	5-7	Ethernet/ RS-232
Edge900	Unlicensed	900	.25	1 Mbps	10	Ethernet/ RS-232

ADDITIONAL PRODUCTS AND SERVICES

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

RESEARCH AND DEVELOPMENT AND NEW PRODUCTS

The Company s products compete in an environment of rapidly changing technology. This environment results in the necessity of the Company to be continually updating and enhancing existing products, as well as developing new products in order to remain competitive. Research and Development expenditures for new product development and improvements of existing products by the Company for 2017 and 2016 were $252,411 and $273,500. None of the Company s research and development expenses were paid directly by any of the Company s customers. During 2017, the Company contracted and will continue to contract with companies to provide software development and hardware design engineering expertise when required.

Development efforts during 2017 were focused primarily on software enhancements for the ESTeem® Horizon Series, 195 Narrow Band and 210 Series. These enhancements were developed based on Customer needs. The Company plans continued research and development expenditures for development and improvement projects, as they are deemed necessary.

MARKETING, CUSTOMERS AND SUPPORT

The majority of the Company s products sold during 2017 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, 2017, the Company had a sales order backlog of $6,677

During 2017, 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 2017, the Company employed sales managers and product support personal to concentrate marketing efforts in both domestic and Latin American industrial automation markets. During 2018, 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, 2017, 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.

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.

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 26% of the Company s inventory at December 31, 2017 consisted of parts having lead times ranging from 12 to 30 weeks. Some parts are maintained at high levels to assure availability to meet production requirements, and accordingly, account for a significant portion of the Company s inventory value. Based on past experience with component availability, distributor relationships, and inventory levels, the Company does not foresee shortages of materials used in production. However, developments in the electronic component marketplace, involving components used by the Company which are also used in cellular phones, personal technology devices and other technology devices, have the potential of creating negative availability and delivery issues for components used by the Company. The Company has been able to procure parts on a timely basis as of the date of this report, however procurement cannot be guaranteed in the future. If shortages were to occur, material interruption of production and product delivery to customers could occur.

The Company contracts with multiple companies, for manufacturing of sub-assemblies and some engineering assistance services for the Company s products. By contracting with these companies, the Company is able to avoid staff fluctuations associated with operating its own manufacturing operation and reduced capital investments in specialized manufacturing equipment. Management reviews the costs for the services provided by these companies and regularly submits Requests for Quotes (RFQ) to multiple suppliers of these operations. See Management s Discussion and Analysis of Financial Condition and Results of Operations , and Financial Statements . Beginning January 1, 2017, the Company began contracting the procurement and assembly of all of its Sub-Assembly manufacturing.

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, 2017, the Company employed a staff of 10 persons on a full-time basis, 3 in sales/marketing, 1 in technical support, 5 in engineering/manufacturing, and 1 in finance and administration. There were no significant changes to key personnel in 2017. Michael Eller was appointed as the Company s President and Chief Accounting Officer on February 1, 2016. The Company s operations are dependent upon key members of its engineering and management personnel. In the event services of these key individuals were lost to the Company, adverse effects on the Company s operations may be realized.

Item 1A. Risk Factors.

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

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

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

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

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

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

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

We have material weaknesses in our internal controls which may result in us not being able to prevent or detect a material misstatement of our financial statements, which could harm our business and result in regulatory scrutiny. Pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404), Management conducted an assessment of the effectiveness of our internal controls over financial reporting for the year ending December 31, 2017. 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, 2017. 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, 2017, the total monthly lease cost, including tax, is $5,445. The lease covers a period of three years, expiring September 2020.

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

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosure.

Not Applicable

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
2017		
First Quarter	$0.50	$0.32
Second Quarter	$1.00	$0.38
Third Quarter	$0.65	$0.38
Fourth Quarter	$0.64	$0.44
2016		
First Quarter	$0.40	$0.32
Second Quarter	0.57	0.38
Third Quarter	0.45	0.33
Fourth Quarter	0.51	0.38

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 $0.55 on February 5, 2018.

The number of holders of record of common stock of the Registrant as of February 5, 2018 was 346 persons/entities with an unknown number of additional shareholders who hold shares through brokerage firms.

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

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

Stock Repurchases

On January 13, 2016, the Company s Board of Directors approved a resolution authorizing the repurchase of up to $100,000 of the Company s common stock at the price of $0.38 per share. The Company s share repurchase program does not obligate it to acquire any specific number of shares. On March 2, 2016 the Company s Board of Director approved a resolution authorizing the repurchase of an additional $150,000 of the Company s common stock at the price of $0.38 per share. Under the program (the Stock Repurchase Plan), shares may be repurchased in open market transactions, complying with Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the Exchange Act). Shares repurchased are retired.

The following table shows the Company s activity and related information for the year ended December 31, 2017 under the Stock Repurchase Plan:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
January 1, 2017-January 31, 2017	1,000	$0.38	98,764	559,130
February 1, 2017-February 28, 2017	-0-	-0-	-0-	559,130
March 1, 2017-March 31,2017	7,725	$0.38	106,489	551,405
April 1, 2017-April 30, 2017	45,601	$0.38	152,090,	505,804
May 1, 2017-June 30, 2017	-0-	-0-	-0-	505,804
July 1, 2017-July 31, 2017	8,642	$0.38	160,732	497,162
August 1, 2017-August 31, 2017	11,887	$0.38	172,619	485,275
September 1, 2017-December 31, 2017	-0-	-0-	-0-	485,275
Total	172,619	$0.38	172,619	485,275

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 2017 vs. FISCAL YEAR 2016

GROSS REVENUES: Total revenues, including interest income, for the fiscal year 2017 were $1,436,539 reflecting a decrease of 4% from $1,501,812 in gross revenues for fiscal year 2016. During the year ended December 31, 2017, no one customer s sales accounted for more than 10% of the total sales revenues. The decrease in total revenues is the result of decreased Engineering Services during 2017. Domestic Sales for the fiscal year were $1,198,674 compared to $1,219,493 in 2016. Sales to Foreign Customers for the fiscal year were $226,454 compared to $270,396 in 2016. Product sales decreased to $1,358,203 in 2017, as compared to 2016 sales of $1,379,530, reflecting a decrease of 1.5%. Management believes the decrease in sales revenues is the result of decreased product sales for the Company s foreign sales segments, specifically industrial automation.

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

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

COST OF SALES: Cost of Sales, as a percentage of net sales, was 43% and 42% respectively, for 2017 and 2016. Cost of Sales variances are the result of differences in the product mix sold and occurrences of obsolete inventory expense, as well as differences in the price discounting structure for the mix of products sold during the period.

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

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

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

OPERATING EXPENSES: Operating expenses decreased to $996,887 in 2017, from 2016 levels of $1,041,041 primarily due to decreased non-wage expenses and depreciation during 2017. Material changes in expenses are comprised of the following components: Travel, Professional and Purchased Services decreased by $8,762 and $23,610 respectively. Depreciation expense decreased during 2017 to $19,939 from 2016 levels of $26,290 due to the Company s decreased capital purchases. Advertising expenses increased to $9,832 for 2017, compared to $9,552 for 2016, Materials and Supplies expense decreased during 2017 to $9,583 from 2016 levels of $23,965 due to decreased research and development related projects during 2017.

FISCAL YEAR 2016 vs. FISCAL YEAR 2015

GROSS REVENUES: Total revenues, including interest income, for the fiscal year 2016 were $1,501,812 reflecting a decrease of 4% from $1,561,823 in gross revenues for fiscal year 2015. During the year ended December 31, 2016, 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 2016. Domestic Sales for the fiscal year were $1,219,492 compared to $1,224,926 in 2015. Sales to Foreign Customers for the fiscal year were $270,396 compared to $325,658 in 2015. Product sales decreased to $1,489,889 in 2016, as compared to 2015 sales of $1,550,584, reflecting a decrease of 4%. 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 2016 increased to $11,923 from 2015 level of $11,239 due to increased rates of return received on the Company s investments.

As of December 31, 2016, the Company had sales backlog of $74,208. 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 46% and 43% respectively, for 2016 and 2015. 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 2016 and 2015 were as follows:

	2016	2015
Parts	$185,911	$181,798
Work in progress	216,859	233,055
Finished goods	300,377	188,438
TOTAL	$703,147	$603,291

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

OPERATING EXPENSES: Operating expenses decreased to $1,041,041 in 2016, from 2015 levels of $1,186,983 primarily due to decreased wages and depreciation during 2016. Material changes in expenses are comprised of the following components: Wages, payroll taxes and benefits decreased by $141,496 and $44,412 respectively. Depreciation expense decreased during 2016 to $26,290 from 2015 levels of $28,714 due to the Company s decreased capital purchases. Advertising expenses decreased to $9,552 for 2016, compared to $12,171 for 2015, Materials and Supplies expense decreased during 2016 to $23,965 from 2015 levels of $32,349 due to decreased research and development related projects during 2016. Purchased Services increased to $83,402 from 2015 level of 28,741 due to the FCC type acceptance fees related to Horizon Series product.

LIQUIDITY AND CAPITAL RESOURCES

The Company s revenues and expenses resulted in a net loss of $447,855 for 2017, increased from a net loss of $140,696 for 2016. The increase in net loss is the result of impact of writing off the Deferred Tax Asset in 2017. At December 31, 2017, the Company's working capital was $2,037,947 compared with $2,250,294 at December 31, 2016. 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, 2017 is adequate for expected resource requirements for the next twelve months.

The Company's current asset to current liability ratio at December 31, 2017 was 46.5:1 compared to 54.2:1 at December 31, 2016. The decrease in current asset ratio is the result of the Company having decreased Cash and cash equivalents for year-end 2017 when compared with year-end 2016. The Company's cash resources at December 31, 2017, including cash and cash equivalent liquid assets, were $1,208,100, compared to cash resources of $1,502,971 at year-end 2016. The decrease in cash and cash equivalent liquid assets is the result net loss impact when compared with year-end 2016. The Company s cash and cash equivalent assets are held in checking, money market funds and Certificates of Deposits. The Company's accounts receivable, at December 31, 2017, were $98,941, compared to $71,202 at year-end 2016. Management believes that all Company accounts receivable as of December 31, 2017 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, 2017, were $762,517, reflecting an increase from December 31, 2016 levels of $703,147. The increase in inventory between December 31, 2017 and December 31, 2016, is due to increased inventory in Finished Goods.

The Company had no capital expenditures during 2017. 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, 2017, the Company's current liabilities increased to $44,788, from 2016 year-end levels of $42,334. The increase in current liabilities was impacted by an increase in accounts payable to $18,969 from $15,114 at the end of 2016.

The Company had no off balance sheet arrangements for the year ended December 31, 2017.

Inflation had minimal adverse effect on the Company s operations during 2017. Minimal adverse effect is anticipated during 2018.

The Company does not believe that the Stock Repurchase Plan will have a negative impact on liquidity.

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

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

Not Applicable.

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, 2017 AND 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Electronic Systems Technology, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Electronic Systems Technology, Inc. (the Company) as of December 31, 2017 and 2016, and the related statements of operations, changes in stockholders equity and cash flows for the years then ended, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Supplemental Information

The supplemental schedule of operating expenses for the years ended December 31, 2017 and 2016 (the supplemental information) has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with accounting principles generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have served as the Company s auditor since 2012.

Spokane, Washington

February 20, 2018

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	$ 42,874	$ 115,734
Money market funds	165,227	387,237
Certificates of deposit	1,000,000	1,000,000
Accounts receivable	98,941	71,202
Inventories	762,517	703,147
Prepaid expenses	8,039	8,405
Accrued interest receivable	5,137	6,903
Total Current Assets	2,082,735	2,292,628
PROPERTY AND EQUIPMENT NET	31,444	51,383
DEFERRED INCOME TAX ASSET NET	-	244,092
TOTAL ASSETS	$ 2,114,179	$ 2,588,103
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 18,969	$ 15,114
Refundable deposits	3,937	4,527
Accrued wages and bonus	1,960	1,723
Accrued vacation pay	17,720	18,412
Other accrued liabilities	2,202	2,558
Total Current Liabilities	44,788	42,334
TOTAL LIABILITIES	44,788	42,334
COMMITMENTS (NOTE 8)		
STOCKHOLDERS EQUITY		
Common stock - $.001 par value 50,000,000 shares authorized, 4,986,048 and 5,060,903 shares issued and outstanding, respectively	4,986	5,061

Additional paid-in capital		944,161		972,609
Retained earnings		1,120,244		1,568,099
TOTAL STOCKHOLDERS EQUITY		2,069,391		2,545,769
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	2,114,179	$	2,588,103

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
SALES NET	$ 1,425,128	$ 1,489,889
COST OF SALES	643,414	677,166
GROSS PROFIT	781,714	812,722
OPERATING EXPENSES	996,888	1,041,041
OPERATING LOSS	(215,174)	(228,319)
OTHER INCOME		
Interest income	11,411	11,923
TOTAL OTHER INCOME	11,411	11,923
NET LOSS BEFORE INCOME TAXES	(203,763)	(216,396)
FEDERAL INCOME TAX BENEFIT (PROVISION)	(244,092)	75,700
NET LOSS AFTER INCOME TAXES	$ (447,855)	$ (140,696)
BASIC AND DILUTED LOSS PER SHARE	$ (0.09)	$ (0.03)
OUTSTANDING BASIC AND DILUTED		
WEIGHTED AVERAGE SHARES	5,022,184	5,090,487

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2015	5,158,667	$ 5,159	$ 1,007,861	$ 1,708,795	$ 2,721,815
Net loss	-	-	-	(140,696)	(140,696)
Stock repurchased	(97,764)	(98)	(37,093)	-	(37,191)
Share-based compensation			1,841		1,841
BALANCE AT DECEMBER 31, 2016	5,060,903	$ 5,061	$ 972,609	$ 1,568,099	$ 2,545,769
Net loss	-	-	-	(447,855)	(447,855)
Stock repurchased	(74,855)	(75)	(28,448)	-	(28,523)
Share-based compensation	-	-	-	-	-
BALANCE AT DECEMBER 31, 2017	4,986,048	$ 4,986	$ 944,161	$ 1,120,244	$ 2,069,391

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (447,855)	$ (140,696)
Noncash expenses included in loss:		
Depreciation and amortization	19,939	26,290
Deferred income taxes	244,092	(75,700)
Share-based compensation	-	1,841
Decrease (increase) in operating assets:		
Accounts receivable	(27,739)	(4,925)
Inventories	(59,370)	(99,856)
Prepaid expenses	366	2,019
Federal income tax refund receivable	-	2,721
Accrued interest receivable	1,766	958
Increase (decrease) in operating liabilities:		
Accounts payable	3,855	6,564
Accrued wages, bonus, vacation and other accrued liabilities	(811)	(687)
Refundable deposits	(590)	948
Net Cash used by Operating Activities	(266,347)	(280,523)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of certificates of deposit	(1,000,000)	(1,000,000)
Proceeds from maturities of certificates of deposit	1,000,000	1,202,625
Net Cash from Investing Activities	-	202,625
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Repurchase of shares	(28,523)	(37,191)
Net Cash used in Financing Activities	(28,523)	(37,191)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(294,870)	(115,089)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		502,971		618,060
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	208,101	$	502,971
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash and cash equivalents:				
Cash	$	42,874	$	115,734
Money market funds		165,227		387,237
Total cash and cash equivalents	$	208,101	$	502,971

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1.

Organization and Summary of Significant Accounting Policies

Business Organization

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

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

Accounting Estimates

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

Concentrations and Credit Risks

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

The Company s customers, to which trade credit terms are extended, consist of United States and local governments and foreign and domestic companies. Domestic sales for the fiscal year were $1,198,674 compared to $1,219,493 in 2016. Sales to foreign customers for the fiscal year were $226,454 compared to $270,396 in 2016.

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

Revenue Recognition

The Company recognizes revenue from product sales when the goods are shipped or delivered and title and risk of loss pass to the customer. Provision for certain sales incentives and discounts to customers are accounted for as reductions in sales in the period the related sales are recorded. Sales are recorded net of applicable state and local sales tax. Products sold to foreign customers are shipped after payment is received in U.S. funds, unless an established distributor relationship exists or the customer is a foreign branch of a U.S. company.

Revenues from site support and engineering services are recognized as the Company performs the services. When amounts are billed and collected before the services are performed they are included in deferred revenues. Revenue is recognized based upon proportional performance when the contract contains performance milestones.

The Company does not generally sell its products with the right of return. Therefore, returns are accounted for when they occur and are accepted.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1.

Organization and Summary of Significant Accounting Policies - (Continued)

Revenue Recognition - (Continued)

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

Financial Instruments

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

Cash and Cash Equivalents

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

Allowance for Uncollectible Accounts

The Company uses the allowance method to account for estimated uncollectible accounts receivable. Accounts receivable are presented net of an allowance for doubtful accounts. As of December 31, 2017 and 2016, the Company s estimate of doubtful accounts was zero. The Company s policy for writing off past due accounts receivable is based on the amount, time past due, and response received from the subject customer.

Inventories

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

Property and Equipment

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

Certificates of Deposit

Certificates of deposit with original maturities ranging from three months to twelve months were $1,000,000 and $1,000,000 at December 31, 2017 and 2016 respectively.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1.

Organization and Summary of Significant Accounting Policies - (Continued)

Software Costs

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

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

Income Taxes

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

Research and Development

Research and development costs are expensed as operating expenses when incurred. Research and development expenditures for new product development and improvements of existing products by the Company for 2017 and 2016 were $252,411 and $273,500, respectively.

Advertising Costs

Costs incurred for producing and communicating advertising are expensed as operating expenses when incurred. Advertising costs for the years ended December 31, 2017 and 2016 were $9,832 and $9,552, respectively.

Earnings Per Share

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

Potentially dilutive common stock equivalents consist of 150,000 and 220,000 stock options outstanding as of December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the potentially dilutive stock options were not included in the calculation of the diluted weighted average number of shares outstanding or diluted EPS as their effect would have been anti-dilutive.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1.

Organization and Summary of Significant Accounting Policies - (Continued)

Share-Based Compensation

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718 requires all share-based payments to employees, including grants of employee stock options, be measured at fair value and expensed in the statement of operations over the service period. See Note 7 for additional information. In addition to the recognition of expense in the financial statements, under FASB ASC 718, any excess tax benefits received upon exercise of options will be presented as a financing activity inflow rather than an adjustment of operating activity.

Fair Value Measurements

ASC 820 "Fair Value Measurements ("ASC 820") requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value:

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

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

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

At December 31, 2017 and 2016 the Company has no assets or liabilities subject to fair value measurements on a recurring basis.

New Accounting Pronouncements

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 is currently evaluating the potential impact of implementing this update on the financial statements.

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

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

1.

Organization and Summary of Significant Accounting Policies - (Continued)

Revenue Recognition

In May 2014, the FASB issued authoritative guidance related to new accounting requirements for the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for the goods or services. The guidance also includes enhanced disclosure requirements which are intended to help financial statement users better understand the nature, amount, timing and uncertainty of revenue being recognized. Subsequent to the release of this guidance, the FASB has issued additional updates intended to provide interpretive clarifications and to reduce the cost and complexity of applying the new revenue recognition standard both at transition and on an ongoing basis. The new standard and related amendments are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted for annual reporting periods beginning after December 15, 2016, including interim periods within that annual reporting period. Upon adoption of the new standard, the use of either a full retrospective or cumulative effect transition method is permitted. The Company is currently in the process of evaluating the potential impact this new guidance will have on the Company s financial statements and at this time, does not believe this standard will have a material effect on the Company's financial condition, results of operations or liquidity.

Inventory

In July 2015, the FASB issued authoritative guidance intended to simplify the measurement of inventory. The amendment requires entities to measure in-scope inventory at the lower of cost and net realizable value, and replaces the current requirement to measure in-scope inventory at the lower of cost or market, which considers replacement cost, net realizable value, and net realizable value less an approximate normal profit margin. This guidance is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2016. The adoption, on January 1, 2017 of this guidance did not have a material impact on the Company s financial statements.

Reclassifications

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

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

2.

Inventories

Inventories consist of the following:

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

3.

Property and Equipment

Property and equipment consist of the following:

		2017		2016
Laboratory equipment	$	580,482	$	580,482
Software purchased		35,028		35,028
Furniture and fixtures		16,531		16,531
Dies and molds		130,176		130,176
		762,217		762,217
Accumulated depreciation and amortization		(730,773)		(710,834)
	$	31,444	$	51,383

4.

Income Taxes

At December 31, 2017, the Company had approximately $66,000 of research and development income tax credits available to reduce federal income taxes in future periods. The credits expire from 2033-2036. In addition, at December 31, 2017, the Company had approximately $843,000 of net operating loss carryforwards which will expire between 2033 and 2036.

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

	2017	2016
Accrued liabilities	$ 11,300	$ 7,892
Inventories	1,300	16,197
Federal income tax credits	69,000	66,353
Net operating loss carryforwards	177,000	201,029
Less valuation allowance	(258,600)	(47,379)
Total deferred tax assets, net	$ 0	$ 244,092

Realization of the deferred tax asset is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards and the income tax carryforwards. Management determined in 2017 that it does not believe it is more likely than not that all of the net deferred tax assets will be realized. Therefore, a valuation allowance has been recorded for the full net deferred tax asset at December 31, 2017.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

4.

Income Taxes - (Continued)

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

		2017		2016
Amount computed using the statutory rate	$	(69,900)	$	(75,739)
Other		3,394		2,080
Research and development credits		(3,062)		(10,500)
Federal tax rate change		102,439		
Change in valuation allowance		211,221		8,459
Provision (Benefit) for federal income taxes	$	244,092	$	(75,700)

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

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

The Company files federal income tax returns in the United States only. The Company is no longer subject to federal income tax examination by tax authorities for years before 2014. The Company has evaluated all tax positions for open years and has concluded that they have no material unrecognized tax benefits or penalties.

5.

Profit Sharing Salary Deferral 401-K Plan

The Company sponsors a Profit Sharing Plan and Salary Deferral 401-K Plan and Trust. All employees over the age of twenty-one are eligible. On January 1, 2006, the Company adopted a four percent salary matching provision. The Company contributed $15,149 and $19,236 to the plan for the years ended December 31, 2017 and 2016 respectively.

6.

Employee Bonus Program

The Board of Directors establishes Sales and Net Income thresholds at the start of each year that are used in calculating the amount of Bonuses that may be awarded. If these thresholds are not achieved, there will be no bonus issued. There was no accrual or expense recorded for 2017 or 2016.

7.

Share-Based Compensation

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

August 7, 2015, the Board of Directors passed a resolution approving 250,000 stock options for grant to management subject to Shareholder approval at the 2016 Annual Shareholders Meeting. The resolution was approved by the Shareholders and 150,000 of the 250,000 options approved were granted.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

7.

Share-Based Compensation - (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:

	2016
Dividend yield	0.00%
Expected volatility	75%
Risk-free interest rate	0.68%
Option exercise rate	6.4%
Expected term (in years)	3
Estimated fair value per option granted	$ 0.20

The average risk-free interest rate was based on the three-year U.S. Treasury Bond rate in effect as of the grant date. The expected volatility is determined using a weighted average of weekly historical volatility of the stock price over a period prior to the grant dates. The Company uses historical data to estimate option exercise rates.

In the years ended December 31, 2017 and 2016, the Company recognized $0 and $1,841 respectively, in share-based compensation expense. No non-vested share-based compensation arrangements existed as of December 31, 2017 and 2016.

A summary of option activity follows:

	Number Outstanding	Weighted Average Exercise Price Per Option	Weighted Average Remaining Contractual Term (Years)
Balance at December 31, 2015	185,000	0.36	1.2

Granted	150,000	0.40	3.9
Expired	(115,000)	0.33	
Balance at December 31, 2016	220,000	0.40	2.8
Granted	-0-	-0-	
Expired	(70,000)	0.38	
Balance at December 31, 2017	150,000	0.40	2.6
Outstanding and Exercisable at December 31, 2017	150,000	$ 0.40	2.6

The aggregate intrinsic value of the options outstanding and exercisable at December 31, 2017, was $18,000.

8.

Leases

The Company leases its facilities from a port authority for three years, expiring in September 2020, with annual increases based upon the Consumer Price Index. The lease expense for the years ended December 31, 2017 and 2016 was $63,299 and $63,299 respectively. The lease expense commitment through the year ended December 31, 2020 is expected to be approximately $65,856 per year.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

SUPPLEMENTAL SCHEDULE

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Advertising	$ 9,832	$ 9,552
Dues and subscriptions	3,850	1,885
Depreciation	19,939	26,290
Insurance	12,526	11,566
Materials and supplies	9,583	23,965
Office and administration	8,623	19,547
Printing	1,194	1,302
Professional services	146,051	171,353
Rent and utilities	73,805	72,854
Repair and maintenance	1,676	1,614
Salaries and benefits	694,467	724,479
Taxes, licenses & health insurance	180,473	182,827
Telephone	9,158	9,219
Trade shows	29,306	28,522
Travel expenses	37,720	46,483
	1,238,203	1,331,458
Expenses allocated to cost of sales	(241,315)	(290,417)
Total Operating Expenses	$ 996,888	$ 1,041,041

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

None

Item 9A. Controls and Procedures.

Conclusions of Management Regarding Effectiveness of Disclosure Controls and Procedures.

Under the supervision and with the participation of our Management, including the Chief Executive Officer and Principal Accounting Officer, these positions are currently held by the same individual, we have evaluated the effectiveness of our disclosure controls and procedures (as such terms are defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Principal Accounting Officer have concluded that there was a material weakness affecting our internal control over financial reporting and, as a result of this weakness, our disclosure controls and procedures were not effective as of December 31, 2016.

Management s Report on Internal Control over Financial Reporting.

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

As of December 31, 2017 Management conducted an assessment of the effectiveness of EST s internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Management, under the supervision and with the participation of the Company s Chief Executive Officer and Principal Accounting Officer, assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2017 and concluded that it is ineffective in assuring that the financial reports of the Company are free from material errors or misstatements. The material weakness is as follows:

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

Management s Remediation Initiatives

This Annual Report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only Management s report in this Annual Report.

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

Changes in internal control over financial reporting.

During the quarter ended December 31, 2017, there were no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information.

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

IDENTIFICATION OF DIRECTORS:

The following table sets forth the names and ages of all directors of the Company as of December 31, 2017 as well as the term in office and principal occupation of each director.

Name of Director	Term in Office	Age	Principal Occupation
Theodore Deinard	06/05/15-06/01/18	45	President of QFMI Management, Inc.
T.L. Kirchner	06/02/17 06/05/20	69	Former President of the Company
Barry Knott	06/05/15-06/01/18	62	CEO of Lifeloc Technologies, Inc.
Vern Kornelsen	06/02/17 06/05/20	85	General Partner of EDCO
Michael W. Eller	06/04/16-06/06/19	57	President of Electronic Systems Technology, Inc.

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

Audit Committee

The Audit Committee of the Board of Directors as of December 31, 2017 is comprised of Barry Knott (Chairman) and Theodore Deinard. The Audit Committee met on one occasion in 2017. The Board of Directors has determined that none of the audit committee members can be classified as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K. The Board of Directors does not contain a member that can be classified as an audit committee financial expert under the referenced definition. The Board of Directors believes that attracting and retaining board members that could be classified as an audit committee financial expert is unlikely due to the high cost of such Director candidates.

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

Compensation Committee

There is no Compensation Committee of the Board of Directors. The Board of Directors did establish an Employee/Director Stock Option Committee consisting of all Directors. The committee existed for the sole purpose of recommending the recipients and amounts of the Company awarded stock options during 2017. There is no charter for the Employee/Director Stock Option Committee.

Code of Ethics

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

IDENTIFICATION OF EXECUTIVE OFFICERS

The following table sets forth the names and ages of all executive officers of the Company as of December 31, 2017; all positions by such persons; term of office and the period during which he has served as such; and any arrangement or understanding between him and any other person(s) pursuant to which he was elected as an officer:

Name of Officer	Age	Position	Term of Office	Period of Service
Michael Eller	57	President/CEO/Principal Accounting Officer	Employed at will	9/7/12- Present

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

THEODORE DEINARD. Mr. Deinard joined Quadrant in 2008 and is responsible for making investments and overseeing companies at the firm. Mr. Deinard holds Director level positions in multiple portfolio companies along with Executive level roles at certain times. Mr. Deinard is also President of QFMI Management, Inc., an alternative investment management firm, controlled by an affiliate of Quadrant. Previously, Mr. Deinard was a Director at Citigroup Global Markets. He holds a BA from Yale University.

T.L. KIRCHNER. Mr. Kirchner is founder, Past President and a Director of the Company. During the last five years Mr. Kirchner devoted 100% of his time to the management of the Company. His primary duties are to oversee the management and marketing functions of the Company. Mr. Kirchner does not serve as a director for any other company registered under the Securities Exchange Act.

BARRY KNOTT. Mr. Knott was formally the Chief Executive Officer of Lifeloc Technologies, Inc., located in Denver, Colorado, and has extensive experience in general management, and particularly sales and marketing. Previous experience includes positions as the President and CEO of Cognitive Solutions, Inc.; Vice President of Sales and Marketing for Wide Format Printing (Nashua Corporation); Vice President and General Manager of Zebra Technologies Corporation; and several other similar positions. He holds an MBA degree from Queens University, Ontario, Canada, and a BA degree from the University of New Brunswick, New Brunswick, Canada.

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

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

Family Relationships

None.

Section 16(A) Beneficial Ownership Reporting Compliance

During the year ended December 31, 2017 to the knowledge of Management, there was no director, officer, or beneficial owner of more than 10% any class of equity securities of the registrant who failed to file on a timely basis the required disclosure form as required by Section 16(a) of the Securities and Exchange Act of 1934.

Indemnification

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

Related Person Transactions Policy and Procedures

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

Item 11. Executive Compensation.

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

Information concerning the compensation of the Company s principal executive officer and principal accounting officer, as well as any other compensated employees of the Registrant's whose total compensation exceeded $100,000 during 2017 and 2016 is provided in the following Summary Compensation Table (collectively, the Named Executive Officers or NEOs):

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock Awards ($)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($) (g)	Change in Pension Value and Non-qualified Deferred Compensation	All Other Compen-sation ($)(3)	Total ($)

(a)	(b)	(c)	(d)	(e)	(f)		Earnings ($) (h)	(i)	(j)
Michael W. Eller	2017	$111,900	-	-	-	-	-	$20,833	$132,733
	2016	$108,334	-	-	$430	-	-	$19,033	$127,797
President CEO/Principal Accounting Officer									
Todd Elliott	2017	$101,800	-	-	-	-	-	$5,145	$106,945
	2016	$100,005	-	-	$368	-	-	$4,723	$105,095

(1)

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

(2)

Amount represents the dollar amount recognized for financial statement reporting purposes in accordance with ASC 718. Assumptions made in the valuation of stock option awards are disclosed in Note 7 of the Notes to the Consolidated Financial Statements in this Form 10-K.

(3)

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

The information specified concerning the stock options of the named executive officers during the fiscal year ended December 31, 2017 is provided in the following Option/SAR Grants in the Last Fiscal Year Table:

OPTION/SAR GRANTS IN LAST FISCAL YEAR

Individual Grants (5)

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

(5)

This table does not include Stock Options granted previously.

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The information specified concerning the stock options of the named executive officers during the fiscal year ended December 31, 2017 is provided in the following Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Options/SAR Values Table:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercised Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (j)
Michael W. Eller	35,000	0	0	$0.40	8/6/20	0	0	0	0

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

Compensation to outside directors is limited to reimbursement of out-of-pocket expenses that are incurred in connection with the directors duties associated with the Company's business. The Board of Directors approved a stipend for members that are not employed by the company in the amount of $300 per quarter of service on the Board of Directors. There is currently no other compensation arrangements for the Company s directors. (See Security Ownership of Certain Beneficial Owners and Management for Stock Options granted in previous years.) The information specified concerning items of Director Compensation for the fiscal year ended December 31, 2016 is provided in the following Director Compensation Table:

DIRECTOR COMPENSATION

Name (1) (a)	Fees Earned or Paid in Cash ($)(2) (b)	Stock Awards ($) (c)	Option Awards ($)(3) (d)	Non-Equity Incentive Plan Compensation ($) (e)	Nonqualified Deferred Compensation ($) (f)	All Other Compensation ($)(4) (g)	Total ($) (h)
Theodore Deinard	$1,200	$0	$0	$0	$0	$0	$1,200
T.L. Kirchner	$1,200	$0	$0	$0	$0	$0	$1,200
Barry Knott	$1,200	$0	$0	$0	$0	$0	$1,200
Vern Kornelsen	$1,200	$0	$0	$0	$0	$0	$1,200
Michael W. Eller	$0	$0	$0	$0	$0	$0	$0

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

(2) Amount represents the Director Stipend paid in 2017.

(3) Amount represents the dollar amount recognized for financial statement reporting purposes in accordance with ASC 718. Assumptions made in the valuation of stock option awards are disclosed in Note 7 of the Notes to the Consolidated Financial Statements in this Form 10-K.

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

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

Option Exercises

During our fiscal year ended December 31, 2017, there were no options exercised by our NEO s or Directors.

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

Summary of Executive Employment Agreements

There are no executive employment agreements with any officer.

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

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth, as of December 31, 2017, the amount and percentage of the Common Stock of the Company, which according to information supplied by the Company, is beneficially owned by each person who, to the best knowledge of the Company, is the beneficial owner (as defined below) of more than five (5%) of the outstanding common stock.

Title of Class	Name & Address of Beneficial Owner (1)	Amount & Nature of Beneficial Ownership	Percent of Class
Common	EDCO Partners LLLP 4605 Denice Drive	1,553,500	31.2%

	Englewood CO 80111		
Common	T.L. Kirchner 415 N. Quay St. Kennewick WA 99336	403,488	8.1%
Common	Zeff Capital, LP 1601 Broadway, 12th Floor New York NY 10019	369,849	7.4%
Common	Theodore Deinard & Jennifer Quasha-Deinard 1345 Avenue of the Americas New York NY 10105	288,384	5.8%

(1)

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

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth, as of February 5, 2017, amount and percentage of the Common Stock of the Company, which according to information supplied by the Company, is beneficially owned by Management, including officers and directors of the Company.

Name/Address of Beneficial Owner (1)	Title of Class	Amount & Nature of Beneficial Ownership	Percent of Class
Theodore Deinard (Director)/415 N. Quay St., Bldg B1 Kennewick, WA	Common	288,384	5.8%
T.L. Kirchner (Director)/415 N. Quay St., Bldg B1 Kennewick, WA	Common	403,488	8.1%
Barry Knott (Director)/415 N. Quay St., Bldg B1 Kennewick, WA	Common	-	-
Vern Kornelsen (Director)/415 N. Quay St., Bldg B1 Kennewick, WA	Common	1,553,500	31.2%
Michael W. Eller (Officer)/415 N. Quay St., Bldg B1 Kennewick, WA	Common	35,000 (1)	0.7%
All Officers and Directors as a group	Common	2,280,372	45.7%

(1)

Includes 35,000 stock options issued 8/7/2015

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

Recipients of Stock Options currently unexpired as of December 31, 2017 were as follows:

Name	Option Shares	Exercise Price Per Share ($)
Grant Date: 8-7-2015		
Todd Elliott	30,000	0.40
Alan B. Cook	25,000	0.40
Eric P. Marske	30,000	0.40
Michael Eller	35,000	0.40
Dan Tolley	30,000	0.40
Total	150,000	0.40

Stock options must be exercised within 90 days after termination of employment/board membership. During 2017, 70,000 options expired, no options were granted and no shares under option were exercised. At December 31, 2017 there were 150,000 options outstanding and exercisable.

Changes in Control:

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

Certain Business Relationships:

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

Indebtedness of Management:

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

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

TRANSACTIONS WITH MANAGEMENT AND OTHERS

None.

Item 14. Principal Accounting Fees and Services.

AUDIT AND NON-AUDIT FEES

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

Year Ended	December 31, 2017	December 31, 2016
Audit fees (1)	$35,000	$40,769
Audit-related fees (2)	-	-
Tax fees (3)	2,700	3,534
All other fees (4)	-	-
Total Fees	$37,700	$44,303

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

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

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

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

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

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

(1)

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

(2)

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

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

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation filed as Exhibit 2.1 to Form S-18, Registration Statement No. 2-92949-S, filed November 5, 1984 **
3.2	Amended Articles of Incorporation of the Registrant, filed as Exhibit (c) to Form 8-K, filed March 15, 1985 **
3.3	By-Laws filed as Exhibit 2.1 to Form S-18, Registration Statement No. 2-92949-S, filed November 5, 1984 **
3.4	Amendments to By-Laws filed as Exhibit (c) to Form 8-K, filed March 15, 1985 **
4	Instrument defining the rights of security holders including indentures. Exhibit II Form S-18 Registration Statement No. 2-92949-S is incorporated herein by reference.

	Form 8A Registration Statement, 000-27793, dated October 25, 1999 **
14	Code of Ethics, as Exhibit 14.3 to Form 10-KSB, filed March 26, 2008 **
31.1	Section 302 Certification, CEO
31.2	Section 302 Certification, CFO
32.1	Section 906 Certification, CEO
32.2	Section 906 Certification, CFO
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**

Incorporated by reference

SIGNATURES

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

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

By: /s/ Michael W. Eller

Michael W. Eller, President

(Principal Executive Officer, Director)

Date: April 9, 2018

By: /s/ Michael W. Eller

Michael W. Eller, President

(Principal Accounting Officer)

Date: April 9, 2018

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

Signature	Title	Date
/s/ THEODORE DEINARD Theodore Deinard	Director	April 9, 2018

/s/ T.L. KIRCHNER T.L. Kirchner	Director	April 9, 2018
/s/ BARRY KNOTT Barry Knott	Director	April 9, 2018
/s/ VERN KORNELSEN Vern D. Kornelsen	Director	April 9, 2018