ELECTRONIC SYSTEMS TECHNOLOGY INC
Form 10-K
March 26, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended: December 31, 2009

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-know 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 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 $1,264,749 based on the reported last sale price of common stock on June 30, 2009, 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 March 2, 2010: 5,158,667 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into Parts I, II, III, and IV of this report: Forms 8-K dated February 19, 2009 and February 19, 2010.

ELECTRONIC SYSTEMS TECHNOLOGY INC.

FORM 10-K

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PART I

FORWARD LOOKING STATEMENTS:

When used in this Annual Report and the documents incorporated herein 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 risks and uncertainties 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.

Electronic Systems Technology, Inc. (EST or the Company) specializes in the manufacturing and development of wireless modem products. The Company uses manufacturing, marketing, and research and development efforts to produce and market the Company s line of ESTeem (tm) Wireless Modem products and accessories. The Company offers products, which provide innovative communication solutions for applications not served or underutilized by conventional communication systems. The Company s products are offered in the process automation markets in commercial, industrial, and government arenas both domestically and internationally, as well as domestic markets for public safety communications infrastructure. 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. During the past three years, the Company has continued product improvements and enhancements to incorporate continuing technological developments, and respond to customer needs and market opportunities. Development efforts during 2009 focused on continued software and hardware refinement to the existing ESTeem 195E family of modem products. In an effort to maintain and expand its customer base, specifically focusing on the industrial control marketplace, the Company continues efforts to team with all major programmable logic controller (PLC) hardware vendors. During 2009, the Company continued marketing products for use in SCADA, Industrial Automation and Public Safety Communication marketplaces.

PRODUCTS AND MARKETS

The Company s ESTeem wireless modem product lines provide wireless communication links between computers, peripherals, and instrumentation controls using radio frequency waves. The proliferation of computer applications in business, industry and public service has created a dynamic environment of automation and networking, requiring constantly growing amounts of data transfer. Prior to the invention of the ESTeem modem, the majority of data transfers used telephone modems or direct cable connections, both of which have costly side effects. Telephone modems have a potentially expensive monthly charge for the use of telephone lines, and direct cable connections can have installation costs as much or more than the cost of the communication system. ESTeem wireless modem products provide a wireless solution for data transfer by eliminating the need for conventional hardwiring and leased phone lines.

All of the ESTeem models (ESTeems) come with industry standard asynchronous or Ethernet communications ports, giving users new dimensions to Local Area Networking . ESTeem modems work on a packet burst communications concept. Packet systems, whether hardwired or radio, share the same principle of operation: data is taken from RS-232C, RS-422, RS-485 asynchronous or Ethernet ports and transmitted in Electronic Packets . Once a packet of data is formed, the packet is transmitted in a "burst," from one ESTeem modem to another ESTeem modem, hence the term "packet burst communications." Internal Digi-Repeater features allow the user to increase operating range by relaying transmission through multiple ESTeems to reach a destination ESTeem. An ESTeem can operate as an operating node, a repeater node, or both simultaneously, for added flexibility. Secure data communication is provided in the ESTeem products through use of proprietary technology and industry standard techniques.

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PRODUCT APPLICATIONS

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

Agriculture	Material Handling
Airport Lighting	Metals
Automotive	Power
Enterprise Networking	Public Safety
Entertainment	Oil/Gas
Factory Floor Networking	Solar Energy
Federal (military)	Water/Wastewater
Marine	Wind Power

PRODUCT LINES

Licensed Narrow Band Products

The Company s licensed, narrow band packet burst radio modems are typically used for commercial, industrial, and public safety applications. Typical indoor and outdoor fixed base and mobile applications include point to point as well as point to multi-point digital data networking. The distance is dependent on the product chosen as shown in the table below. Employing the internal digi-repeater feature in each radio modem can increase the line-of-sight (LOS) distances shown below for each product type.

ESTeem Model	**Type**	**Frequency** (MHz)	**RF Power** (Watts)	**RF Data Rate** (bps)	**LOS Range** (Miles)	**Interface**
192C	Narrow Band Licensed	450 to 470	1 to 5	19.2 K	15	RS-232/422/485
192CHP	Narrow Band Licensed	450 to 470	10, 20, or 30	19.2 K	40-70	RS-232/422/485
192F	Narrow Band Licensed	400 to 420	1 to 5	19.2 K	15	RS-232/422/485
192M	Narrow Band Licensed	150 to 174	1 to 5	19.2 K	15	RS-232/422/485

192MHP	Narrow Band Licensed	150 to 174	10, 20, or 30	19.2 K	40-70	RS-232/422/485

Unlicensed Ethernet Spread Spectrum Products

The Company s Ethernet radios are high performance spread spectrum transceivers employing the industry standard, 10baseT, Ethernet connectivity for commercial, industrial and public safety applications operating in the unlicensed 2.4 GHz and 900 MHz frequency spectrum with data transfer rates from 200Kbps to 54 Mbps. Typical installations include data rate critical, point to point, point to multi-point, last-mile bridge data networking and mobile applications for distances of approximately 5 to 7 miles line-of-sight without the use of the digi-repeater option. The high data capability of these products allows them to be used in Video and Voice over Internet Protocol (VoIP) applications.

ESTeem Model	**Type**	**Frequency** (MHz)	**RF Power** (Watts)	**RF Data Rate** (bps)	**LOS Range** (Miles)	**Interface**
195Eg	Unlicensed	2400	1	1-54 M	5-7	Ethernet/Serial
195Ed	Unlicensed	900	.250 to .630	1-54 M	5-7	Ethernet and Serial
195Es	Unlicensed	900	.125 or 1	200K	10	Ethernet and Serial
WLANC	Unlicensed	2400	0.3	1-11 M	300-3000 ft.	Ethernet

Licensed Spread Spectrum Products

The Model 195Ep is a high performance, direct sequence spread spectrum transceiver employing the industry standard, 10baseT, Ethernet connectivity, specifically designed to operate on the US Government allocated frequencies in the 4.9 GHz spectrum for Homeland Defense and first responder networks and infrastructures. Typical outdoor applications include point to point and point to multi-point digital data networking for distances to approximately 5 to 7 miles line-of-sight without the use of the digi-repeater option.

ESTeem Model	**Type**	**Frequency** (MHz)	**RF Power** (Watts)	**RF Data Rate** (bps)	**LOS Range** (Miles)	**Interface**
195Ep	Licensed	4900	2	1-54 M	5-7	Ethernet

ADDITIONAL PRODUCTS AND SERVICES

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

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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 2009 and 2008 were $273,389 and $490,239, respectively. None of the Company s research and development expenses were paid directly by any of the Company s customers. During 2009, the Company contracted and will continue to contract, with independent, nonaffiliated, engineering companies specializing in software development and hardware design, when such expertise is required.

Development efforts during 2009 focused on the continued software and hardware refinement to the existing ESTeem 195E family of modem products. 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 2009 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, 2009, the Company had a backlog of $63,800 in sales orders.

During 2009, the Company continued advertising in trade publications specifically targeted at users of control, instrumentation, and automation systems, as well as domestic public safety entities. The Company s advertising targeted potential users of Programmable Logic Controllers (PLCs). There are approximately twenty major PLC manufacturers worldwide. The Company has maintained active attendance of tradeshows targeted toward the customers and markets in which it sells products. During 2009, the Company employed sales managers to concentrate marketing and sales efforts in both domestic and Latin American industrial automation, and public safety communication markets. During 2010, the Company intends to continue strategies targeting existing markets of industrial automation and public safety networks. 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 the variable configuration possibilities of the Company s products, and 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 its business. 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, 2009, no sales to any single customer comprised 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 in and major competitors in those markets:

Major Market	Major Competitors
Industrial Automation	Data-Linc, Freewave, GE/Microwave Data Systems and Prosoft.
Computer networking, inter and intra building, and remote internet access.	Adaptive Broadband, Cisco, Digital Wireless, Dlink, Linksys, P-Com and Proxim
Mobile Data Computer systems for public safety applications	Data Radio, IP Mobilenet, GE/Microwave Data Systems, Motorola, Trango Broadband, and various cellular service providers using GPRS architectures.

Management believes the ESTeem products compete favorably in the market because of 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.

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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 2005. To protect the Company against unauthorized disclosure of proprietary information belonging to the Company, all employees, dealers, distributors, original equipment manufacturers, sales representatives and other persons having access to confidential information regarding Company products or technology are bound by non-disclosure agreements.

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

GOVERNMENT REGULATION

For operation in the United States, the ESTeem Radio Modems require Federal Communications Commission (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 radio modem products that operate in the FCC licensed frequency band require licensing under Part 90 of the FCC Rules and Regulations, which must be applied for by the end user of the Company s products. The Company cannot guarantee customers will receive FCC licenses in the frequency spectrum for any particular application. The Company provides information to customers to assist in the application for FCC consumer licenses. The ESTeem 195Eg, 195Es and 195Ed products operate in the nonlicensed, 2.4 GHz and 900 MHz spread spectrum frequency band, respectively, which do not require licenses for users of those products.

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

SOURCE OF SUPPLY AND MANUFACTURING

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

Approximately 10% of the Company s inventory at December 31, 2009 consisted of parts having lead times ranging from 12 to 18 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, pagers and other personal 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.

For assembly of the Company s products, the Company contracts with Manufacturing Services, Inc., in Kennewick, Washington, using materials provided by the Company. By contracting with Manufacturing Services, Inc., the Company is able to avoid staff fluctuations associated with operating its own manufacturing operation. The President of Manufacturing Services, Michael Brown, as well as the former President of Manufacturing Services, Melvin H. Brown, are both Directors of the Company. Management believes all prices for services, provided by Manufacturing Services, Inc., are as favorable as could be obtained from comparable manufacturing services companies. See Management s Discussion and Analysis of Financial Condition and Results of Operations , and Financial Statements .

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REPORTS TO SECURITY HOLDERS

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 SEC. Electronically filed reports may be accessed at www.sec.gov. 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, 2009, the Company employed a staff of 15 persons on a full time basis, 4 in sales/marketing, 3 in technical support, 7 in engineering/manufacturing, and 1 in finance and administration. 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.

The current widespread economic downturn could continue to adversely impact our customers, diminish the demand for our products, and harm our operations and financial performance. We experienced a decrease in sales revenues during 2008 and 2009 which we believe is the result of the continued economic downturn and tenuous economic recovery causing our customers to reduce, delay or eliminate capital investment spending that involved our products. This decrease in sales revenues resulted in us incurring a net loss during 2008 and marginal profitability during 2009. If the economic downturn continues or the recent economic recovery stagnates, decreased product sales may continue and we may incur net losses in the future, which would negatively impact ability to generate cash flow for our operations.

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, for instance we compete in different markets against companies like Cisco and Motorola. 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. Limited national advertising and sales coverage may result in the markets in which our products are offered not being fully penetrated. This lack of market penetration may result in an adverse effect on our sale revenues. We must continue to develop 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. For instance, many of our components are also used in cellular phone, pagers and personal communication 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, Tom Kirchner, Vice President of Engineering, D. Brent Strecker 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 industry standards. 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, 2009. We determined that there was a material weakness affecting our internal control over financial reporting and, as a result of that weakness, our disclosure controls and procedures were not effective as of December 31, 2009. We have not maintained effective controls to ensure appropriate segregation of duties due to our limited number of employees in finance and administration, with the same employee being responsible for the initiating and recording of transactions, thereby creating segregation of duties weaknesses. Due to this weakness and 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. Avenues for mitigating our internal control weaknesses are being evaluated, but mitigating controls are impractical and prohibitively costly due to the size of our organization. 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 as such 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 Bulletin Board (OTC 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 January 1, 2010, the total monthly lease cost is $4,360. The lease covers a period of three years, expiring September 2011.

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

Item 3. Legal Proceedings.

No proceedings are identified which involve a claim for damages, exclusive of interest and costs that exceed 10% of the current assets of the Company.

Item 4. Submission of Matters to a Vote of Security Holders.

The Company did not submit any matters for shareholder approval during the fourth quarter of the 2009 fiscal year.

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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 the OTC electronic 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.

	Sale Price	
	High	Low
2009		
First Quarter	$0.35	$0.23
Second Quarter	0.38	0.22
Third Quarter	0.44	0.26
Fourth Quarter	0.55	0.30
2008		
First Quarter	$0.99	$0.66
Second Quarter	0.80	0.66
Third Quarter	0.68	0.36
Fourth Quarter	0.51	0.31

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

The number of record holders of common stock of the Registrant as of January 2, 2010 was 430 persons/entities.

Electronic Systems Technology Inc. paid non-cumulative, cash distributions on July 17, 2006, July 13, 2005, July 14, 2004, July 9, 1999, July 9, 1998, and July 11, 1997, respectively, each equivalent to $0.01 per outstanding share. The Company paid non-cumulative cash distributions on July 16, 2003, equivalent to $0.015 per outstanding share, and on

July 17, 2007 and July 18, 2008 equivalent to $0.02 per outstanding share. Dividends undertaken by the Company will be solely at the discretion of the Board of Directors.

Item 6. Selected Financial Data.

Not Applicable

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

Management s discussion and analysis is intended to be read in conjunction the Company s audited financial statements the integral 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 wireless modem 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, and domestically to public safety entities for mobile data computer terminal (MDC) applications. 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 2009 vs. FISCAL YEAR 2008

GROSS REVENUES: Total revenues for the fiscal year 2009 were $1,892,000 reflecting a 13% decrease from $2,169,592 gross revenues for fiscal year 2008. The decrease in total revenues is the result of decreased product sales and decreased interest revenues during 2009. Product sales decreased to $1,867,076 in 2009, as compared to 2008 sales of $2,108,700, reflecting a decrease in sales of 11%. Management believes the decrease in sales revenues is the result of decreased sales of products in all of the Company s market segments due to the continued widespread economic downturn experienced both in the United States and worldwide during 2009 resulting in reduced or eliminated capital investment spending by the Company s customers. Based on the decrease in sales revenues

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experienced in 2009 and the tenuous economic recovery in the United States, Management expects similar sales revenues during 2010. The Company intends to continue targeting existing markets of industrial controls and MDC applications, and continued sales manager activities for coverage and exposure in the domestic industrial automation market. Management remains committed to implementing existing marketing strategies, however sustaining sales revenues for 2010 cannot be guaranteed due to the highly competitive markets in which the Company s products and services are marketed and the continuing economic downturn in the United States.

Interest revenues decreased to $24,369 from 2008 levels of $59,718 due to decreased rates of return received on the Company s investments.

OPERATING SEGMENTS

Segment information is prepared on the same basis that the Company s Management reviews financial information for operational decision-making purposes. The Company s operating segment information is contained in Financial Statements, Notes to Financial Statements, Note 13 Segment Reporting .

Domestic Revenues

The Company s domestic operations represent 75% of the Company s total sales revenues. Domestic operations sell ESTeem modem products, accessories and service primarily through domestic resellers, as well as directly to end users of the Company s products. Domestic revenues decreased to $1,397,253 for the year ended 2009, compared to $1,515,876 for the year ended 2008. The decrease in domestic revenues is the result of decreased sales for MDC and Industrial Automation applications during 2009. Management believes the weak domestic sales revenues are due to the continued widespread economic downturn experienced in the United States during 2009 resulting in reduced or eliminated capital investment spending by the Company s customers. A majority of the Company's domestic product sales during 2009 were employed in industrial automation applications. An example of an industrial automation application is a municipal water treatment operation, which employs the ESTeem modem to transmit industrial control information to and from control room areas via a wireless communications infrastructure. It is the opinion of Management that industrial automation applications will continue to provide the largest portion of the Company's revenues in the foreseeable future.

The Company s domestic sales included sales of the Company s products for MDC systems to public entities, which accounted for 2% of the Company s domestic sales during 2009. Management believes MDCS sales were weak during

2009 due to the continued economic downturn experienced in the United States resulting in reduced government funding for projects involving the Company s products. An example of an MDC system for a public entity is a local area network (LAN), between police department computer dispatch centers and individual police vehicles. Management believes funding of MDC projects on local, state and federal levels cannot be guaranteed and therefore MDC projects involving the Company s products become very difficult to predict.

Domestic segment operating income was $81,762 for 2009 as compared with a segment operating loss of $129,161 for 2008 due to decreased segment operating expenses during 2009 when compared with 2008.

Foreign Revenues

The Company s foreign operating segment represents 25% of the Company s total sales revenues. The foreign operating segment is based wholly in the United States and maintains no assets outside of the United States. The foreign operating segment sells ESTeem modem products, accessories and service primarily through foreign resellers, as well as directly to end customers of the Company s products located outside the United States.

During 2009, the Company had $469,823 in foreign export sales, amounting to 25% of sales revenues for the year, compared with foreign export sales of $592,824 for 2008, reflecting a decrease of 21%. The decrease in segment sales revenues is due to the continued widespread economic downturn experienced both in the United States and worldwide during 2009 resulting in reduced or eliminated capital investment spending by the Company s customers. Products purchased by foreign customers were used primarily in industrial automation applications. Management believes the majority of foreign export sales are the results of the Company s Latin American sales staff, EST foreign reseller activity, and the Company s internet website presence.

Operating income for the foreign segment increased to $191,485 for 2009 as compared with $187,866 for 2008 due to decreased segment operating expenses during 2009 when compared with 2008.

Unallocated Corporate

Unallocated corporate expenses relate to functions, such as accounting, corporate management and administration, that support but are not attributable to the Company s domestic or foreign operating segments, including salaries, wages and other expenses related to the

performance of these support functions. Unallocated corporate expenses decreased during 2009 to $250,648 as compared with $286,520 for 2008, and represented expense to total net revenue percentage of 13% for both 2009 and 2008.

As of December 31, 2009, the Company had a backlog of $63,800 in sales orders. The Company s customers generally place orders on an "as needed basis". Shipment for 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 gross sales, was 42% and 45% respectively, for 2009 and 2008. Cost of Sales variances are the result of differences in the product mix sold and obsolete inventory occurrences, 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 2009 and 2008 were as follows:

	2009	2008
Parts	$258,583	$312,540
Work in progress	25,327	4
Finished goods	219,416	327,235
TOTAL	$503,326	$639,779

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. Approximately 10% of the Company s inventory at December 31, 2009 consisted of parts having lead times ranging from 12 to 18 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, pagers and other personal 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. Inventory levels decreased between December 31, 2008 and December 31, 2009, due to decreased material purchases by the Company that more closely matched reduced sales revenues.

OPERATING EXPENSES: Operating expenses decreased to $1,092,019 in 2009, from 2008 levels of $1,446,312 as a result of cost reduction measures implemented during 2009 which included wage reductions for all Company employees, a hiring freeze for new employees, and minimal planned capital expenditures. Material changes in expenses are comprised of the following components: Advertising decreased to $14,194 from $18,087 in 2008 due to differences in trade show related advertising when compared with 2008. Depreciation expense decreased during 2009 to $40,142 from 2008 levels of $50,068 due to the Company s decreased depreciable assets and decreased capital purchases when compared with 2008. Supplies and materials expense decreased to $12,124 for 2009 from 2008 levels of $37,328 due to decreased research and development related supplies during 2009. Professional services decreased to $113,239 from 2008 levels of $302,231 due to curtailed spending on subcontracted software development and engineering expertise by the Company during 2009. Travel expenses decreased to $65,898 for 2009, compared to $98,659 for 2008, due to decreased sales and customer support related activities when compared with 2008. Salaries, benefits and related taxes decreased to $1,030,520 in 2009, from 2008 levels of $1,218,655, due to decreased salaries and wages paid by the Company during 2009 when compared with 2008. Due to continued decreased sales revenues during 2009 and uncertainty surrounding the economic recovery in the United States, the Company intends to continue cost reduction measures for 2010.

FISCAL YEAR 2008 vs. FISCAL YEAR 2007

GROSS REVENUES: Total revenues for the fiscal year 2008 were $2,169,592 reflecting a 30% decrease from $3,085,510 gross revenues for fiscal year 2007. The decrease in total revenues is the result of decreased product sales and decreased interest revenues during 2008. Product sales decreased to $2,108,700 in 2008, as compared to 2007 sales of $3,002,521, reflecting a decrease in sales of 30%. Management believes the decrease in sales revenues is the result of decreased sales of products in all of the Company s market segments due to the widespread economic downturn experienced both in the United States and worldwide during 2008 resulting in reduced or eliminated capital investment spending by the Company s customers.

Interest revenues decreased to $59,718 from 2007 levels of $81,272 due to decreased rates of return received on the Company s investments.

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OPERATING SEGMENTS

Segment information is prepared on the same basis that the Company s Management reviews financial information for operational decision-making purposes. The Company s operating segment information is contained in Financial Statements, Notes to Financial Statements, Note 13 Segment Reporting .

Domestic Revenues

The Company s domestic operations represent 72% of the Company s total sales revenues. Domestic operations sell ESTeem mode