

ELECTRONIC SYSTEMS TECHNOLOGY INC  
Form 10-K  
February 06, 2015

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

**Form 10-K**

- Ⓟ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended: December 31, 2014**
- 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**  
(State or other jurisdiction of incorporation or organization)

**91-1238077**  
(I.R.S. Employer Identification No.)

**415 N. Quay St., Bldg B1, Kennewick, Washington**  
(Address of principal executive offices)

**99336**  
(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

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(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  No

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

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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.

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 | <input type="radio"/> | Accelerated filer         | <input type="radio"/>            |
| Non-accelerated filer   | <input type="radio"/> | Smaller reporting company | <input checked="" type="radio"/> |

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's common stock held by non-affiliates was \$2,424,573 based on the reported last sale price of common stock on June 30, 2014, 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, 2015: 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 14, 2013 and February 27, 2014.

**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 or the Company ) has specialized in the development and manufacturing of radio transceivers (wireless modems) for digital data applications (non-voice) that operate in the United States Federal Communications Commission (FCC) licensed/unlicensed VHF/UHF spread spectrum and narrow band radio communication bands for devices with Serial and Ethernet protocol interfaces. The FCC establishes which bands in the spectrum may be utilized and who may use these regulated communication bands.

The global reliance of wireless communication in the modern world has now become a necessity as most industrial control systems are connected to the internet. The Company uses manufacturing, marketing, and research and development efforts to produce and market the Company s line of ESTeem® Wireless Modem products and accessories. The Company s product offerings 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 infrastructures. 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 2014 were focused primarily on our next generation ESTeem 210 and 195C/M Series radios to provide higher data through put to allow Ethernet hardware interfacing that was not practical in the past on the narrow band licensed frequencies. Our new 195 products will replace our legacy 192 Series narrow band radios that have been in service for over 18 years. The 195C/M which is downward compatible with our existing 192 Series Customer's sites will provide the customer cost savings with its new outdoor pole mounting feature and more competitive costing.

In an effort to maintain and expand its customer base, we have specifically focused primarily on the industrial control marketplace, the Company continues efforts to team with major programmable logic controller (PLC) hardware vendors. During 2014, the Company celebrated its 23rd anniversary of its relationship with Rockwell Automation in their Encompass Program. Rockwell Automation is a major entity in the world wide automation and controls market place. The benefit of the Encompass program 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 wireless modem product lines provide wireless communication links between computers, peripherals, and instrumentation controls using radio frequency waves. The widespread use of computer applications in business, industry and public service has created a dynamic environment of automation and networking, requiring constantly expanding amounts of data transfer. Prior to the invention of the ESTeem modem, the majority of data transfers used telephone/cell phone modems or direct cable connections, both of which have costly side effects of routing wiring over long or short distances. Wired systems have potentially expensive monthly charges for the use of telephone lines, and direct cable connections that can have installation costs as much or more than the cost of the communication system. *In comparison to conventional wired installations "wireless modems" provide, fast, flexible and expandable networking solutions that are a cost effective alternative.* 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 and/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 increased User site data routing flexibility. Secure data communication is provided in the ESTeem products through use of proprietary technology and industry standard techniques.

## 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 Manufacturing | 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 industrial 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. The 195 Series products can be cabinet or direct outside pole mounted.

| ESTeem Model | Type                    | Frequency<br>(MHz) | RF Power<br>(Watts) | RF Data<br>Rate (bps) | LOS Range<br>(Miles) | Interface               |
|--------------|-------------------------|--------------------|---------------------|-----------------------|----------------------|-------------------------|
| 210M         | Narrow Band<br>Licensed | 150 to 174         | 2                   | To 64.8<br>Kbps       | 15                   | Ethernet/RS-232         |
| 195M         | Narrow Band<br>Licensed | 150 to 174         | .5 to 4             | 4.8 to 9.6<br>Kbps    | 15                   | Ethernet/RS-232/422/485 |
| 210C         | Narrow Band<br>Licensed | 450 to 470         | 2                   | To 64.8<br>Kbps       | 15                   | Ethernet/RS-232         |
| 195C         | Narrow Band<br>Licensed | 450 to 470         | .5 to 4             | 4.8 to 9.6<br>Kbps    | 15                   | Ethernet/RS-232/422/485 |
| 195H         | Narrow Band<br>Licensed | 217 to 220         | .5 to 4             | 4.8 to 9.6<br>Kbps    | 15                   | Ethernet/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 and Serial connectivity for industrial applications operating in the unlicensed 900 MHz, 2.4 GHz and 5.8 GHz and frequency spectrums and 4.9 GHz licensed frequency spectrum with data transfer rates from 200Kbps to 54 Mbps depending on model type. 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 also be used in video and Voice over Internet Protocol (VoIP) applications.

| <b>ESTeem Model</b> | <b>Type</b> | <b>Frequency (MHz)</b> | <b>RF Power (Watts) (Pk)</b> | <b>RF Data Rate (bps)</b> | <b>LOS Range (Miles)</b> | <b>Interface</b>    |
|---------------------|-------------|------------------------|------------------------------|---------------------------|--------------------------|---------------------|
| 195Eg               | Unlicensed  | 2400                   | .250 to 1                    | 1-54 M                    | 5-7                      | Ethernet/Serial     |
| 195Ed               | Unlicensed  | 900                    | .250 to 1                    | 1-54 M                    | 5-7                      | Ethernet and Serial |
| 195Es               | Unlicensed  | 900                    | .125 to 1                    | 200K                      | 10                       | Ethernet and Serial |
| 195Ea               | Unlicensed  | 5800                   | .250 to 1                    | 6-54M                     | 5-7                      | Ethernet and Serial |
| WLANC               | Unlicensed  | 2400                   | 0.3                          | 1-11 M                    | 300-3000 ft.             | Ethernet            |

#### **Licensed Spread Spectrum Product**

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.

| <b>ESTeem Model</b> | <b>Type</b> | <b>Frequency (MHz)</b> | <b>RF Power (Watts) (Pk)</b> | <b>RF Data Rate (bps)</b> | <b>LOS Range (Miles)</b> | <b>Interface</b> |
|---------------------|-------------|------------------------|------------------------------|---------------------------|--------------------------|------------------|
| 195Ep               | Licensed    | 4900                   | .250 to 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.

### 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 2014 and 2013 were \$286,375 and \$275,207. None of the Company's research and development expenses were paid directly by any of the Company's customers. During 2014, the Company contracted and will continue to contract with companies to provide software development and hardware design engineering expertise when required.

Development efforts during 2014 were focused primarily on the ESTeem 210C/M and 195C/M Series products in the 450/470 and 150/174 MHz licensed narrow band SCADA frequencies. The Company plans continued research and development expenditures for development and improvement projects, as they are deemed necessary. The 195C/M Series, which is downward compatible for the existing 192 Series sites, was developed for Company's large customer base that is still utilizing the 192 Series product. The Company ceased production of the 192 Series product in 2013 due to the obsolescence of major components, however due to the reliability of the 192 Series, many customers are still utilizing this product. It is the Company's belief that providing a cost effective solution to this customer base is an important part of making EST the vendor of choice for our current customers.

### MARKETING, CUSTOMERS AND SUPPORT

The majority of the Company's products sold during 2014 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, 2014, the Company had a sales order backlog of \$30,463.

During 2014, 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 at tradeshow targeted toward the customers and markets in which it sells products. During 2014, the Company employed sales managers and product support personal to concentrate marketing efforts in both domestic and Latin American industrial automation markets.

During 2015, 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 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, 2014, 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 and Cal Amp.  |
| Computer networking, inter and intra building, and remote internet access. | Cisco, Digital Wireless, Dlink, Linksys, P-Com and Proxim   |
| Mobile Data Computer systems for public safety applications                | Cal Amp, IP Mobilenet, GE/Microwave Data Systems, Motorola, Trango Broadband, and various cellular service providers using 2G/3G architectures. |

Management believes the ESTeem products compete favorably in the market because of licensed and unlicensed frequency choices, performance, price, and adaptability of the products to a wide range of applications. The Company's major limitation in competing with other manufacturers is its limited marketing budget, which currently limits the Company's nationwide advertising and sales force presence.

## PATENTS, TRADEMARKS, AND PROPRIETARY INFORMATION

EST was granted a United States patent in 1987 for a "Wireless Computer Modem". In 1988, EST was granted a Canadian patent for a "Wireless Computer Modem". Both patents had lives of 17 years and have expired. The Company's rights to the ESTeem Wireless Modem trademark, in uninterrupted use by the Company since 1985, were renewed in 2014. To protect the Company against unauthorized disclosure of proprietary information belonging to the Company, all employees, dealers, distributors, original equipment manufacturers, sales representatives and other persons having access to confidential information regarding Company products or technology are bound by non-disclosure agreements.

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

#### GOVERNMENT REGULATION

For operation in the United States, the ESTeem Radio products 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 195Ea, 195Eg, 195Es and 195Ed products operate in the nonlicensed, 900 MHz, 2.4GHz, and 5.8 GHz spread spectrum frequency bands, respectively, which do not require licenses for users of those products.

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

## SOURCE OF SUPPLY AND MANUFACTURING

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

Approximately 10% of the Company's inventory at December 31, 2014 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 Manufacturing Services, Inc., in Kennewick, Washington, for assembly and some engineering assistance services for the Company's products. Materials are 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 a former Director, as well as the former President of Manufacturing Services, Melvin H. Brown, is a Director of the Company. Management believes the costs for services provided by Manufacturing Services, Inc., are comparable with other manufacturing service companies in the Company's geographical region. See Management's Discussion and Analysis of Financial Condition and Results of Operations, and Financial Statements.

### *Access to Company Information*

The Registrant does not issue annual or quarterly reports to security holders other than the annual Form 10-K and quarterly Forms 10-Q as electronically filed with the SEC. Electronically filed reports may be accessed at [www.sec.gov](http://www.sec.gov) or via the Company's website at [www.esteem.com](http://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, 2014, the Company employed a staff of 13 persons on a full time basis, 4 in sales/marketing, 2 in technical support, 6 in engineering/manufacturing, and 1 in finance and administration, as well as 2 part time employees in engineering/manufacturing. There were no significant changes to key personnel in 2014. 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, T. L. Kirchner, 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, 2014. 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, 2014. 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, 2014, the total monthly lease cost, including tax, is \$5,251. The lease covers a period of three years, expiring September 2017.

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

**Item 3. Legal Proceedings.**

No proceedings are identified which involve a claim for damages, exclusive of interest and costs that exceed 10% of the current assets of 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    |
| 2014           |           |        |
| First Quarter  | \$0.45    | \$0.26 |
| Second Quarter | 0.53      | 0.39   |
| Third Quarter  | 0.58      | 0.46   |
| Fourth Quarter | 0.57      | 0.40   |
| 2013           |           |        |
| First Quarter  | \$0.37    | \$0.25 |
| Second Quarter | 0.40      | 0.28   |
| Third Quarter  | 0.41      | 0.34   |
| Fourth Quarter | 0.50      | 0.31   |

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 \$0.46 on January 14, 2015.

The number of holders of record of common stock of the Registrant as of January 14, 2015 was 363 persons/entities with an unknown number of additional shareholders who hold shares through brokerage firms.

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

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

**Item 6. Selected Financial Data.**

We are a smaller reporting company as defined by Regulation S-K and as such, is 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 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 2014 vs. FISCAL YEAR 2013

**GROSS REVENUES:** Total revenues, including interest income, for the fiscal year 2014 were \$1,877,937 reflecting a decrease of 15% from \$2,198,416 in gross revenues for fiscal year 2013. During the year ended December 31, 2014, no one customer's sales accounted for more than 10% of the total sales revenues. The decrease in total revenues is the result of decreased domestic product sales during 2013. Product sales decreased to \$1,867,420 in 2014, as compared to 2013 sales of \$2,190,258, reflecting a decrease of 15%. Management believes the decrease in sales revenues is the result of decreased product sales for the Company's domestic sales segments, specifically industrial automation. Management believes the decreased foreign product sales revenues during 2014 are the result of the fragile global economic conditions significantly impacting capital expenditures for projects involving the Company's products having been delayed or cancelled. The Company intends to continue targeting the domestic and foreign industrial control markets. Management remains committed to pursuing existing marketing strategies, however cannot guarantee sustained sales revenues during 2015 in the continued fragile economic conditions that exist globally.

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

## 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 12 Segment Reporting .



## Domestic Revenues

The Company's domestic operations represent 84% 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 \$1,571,995 for the year ended 2014, compared to \$1,767,522 for the year ended 2013, reflecting a decrease of 11%. Management believes the decrease in domestic segment product sales revenues during 2014 is the result of decreased demand in industrial automation. In 2013 there were two large orders that were not repeated, one to a Defense contractor, and the other to an oil production related customer.

The majority of the Company's domestic product sales for 2014 were used 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.

Domestic segment operating loss was \$240,212 for 2014 as compared with a segment operating profit of \$15,756 for 2013 due to decreased sales revenues during 2014.

## Foreign Revenues

The Company's foreign operating segment represents 16% 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 2014, the Company had \$295,425 in foreign export sales, amounting to 16% of sales revenues for the year, compared with foreign export sales of \$422,736 for 2013, reflecting a decrease of 30%. Management believes the decrease in foreign segment product sales revenues during 2014 is the result of the fragile global economic conditions and a strong U.S. Dollar. 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 decreased to \$86,302 for 2014 as compared with \$92,441 for 2013 due to decreased segment operating sales revenues during 2014 when compared with 2013.

As of December 31, 2014, the Company had sales backlog of \$30,463. The Company's customers generally place orders on an "as needed basis". Shipment of the Company's products is generally completed within 1 to 15 working days after receipt of customer orders, with the exception of ongoing, scheduled projects, and custom designed equipment for specific customer applications.

**COST OF SALES:** Cost of Sales, as a percentage of net sales, was 42.1% and 42.0% respectively, for 2014 and 2013. 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 2014 and 2013 were as follows:

|                  | 2014             | 2013             |
|------------------|------------------|------------------|
| Parts            | \$283,375        | \$217,567        |
| Work in progress | 276,853          | 83,620           |
| Finished goods   | 158,909          | 324,505          |
| <b>TOTAL</b>     | <b>\$719,137</b> | <b>\$625,692</b> |

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

**OPERATING EXPENSES:** Operating expenses increased to \$1,181,225 in 2014, from 2013 levels of \$1,118,421 primarily due to increased wages and benefits during 2014. Material changes in expenses are comprised of the following components: Wages and benefits by \$66,144 and \$21,018 respectively. Depreciation expense increased

during 2014 to \$17,824 from 2013 levels of \$13,540 due to the Company's increased capital purchases. Professional services decreased to \$120,332 from 2013 levels of \$144,528 due to decreased spending on type acceptance related fees in 2014. Advertising expenses decreased to \$16,091 for 2014, compared to \$17,055 for 2013, Materials and Supplies expense increased during 2014 to \$34,443 from 2013 levels of \$18,898 due to increased research and development related projects during 2014.

#### FISCAL YEAR 2013 vs. FISCAL YEAR 2012

**GROSS REVENUES:** Total revenues, including interest income, for the fiscal year 2013 were \$2,198,416 reflecting an increase of 4% from \$2,121,236 in gross revenues for fiscal year 2012. During the year ended December 31, 2013, one customer's sales accounted for 20.1% of the total sales revenues. No other sales to any single customer comprised 10% or more of total sales revenues. The increase in total revenues is the result of increased domestic product sales during 2013. Product sales increased to \$2,190,258 in 2013, as compared to 2012 sales of \$2,113,816, reflecting an increase of 4%. Management believes the increase in sales revenues is the result of increased product sales for the Company's domestic sales segments, specifically industrial automation. Management believes the decreased foreign product sales revenues during 2013 are the result of the fragile global economic conditions significantly impacting capital expenditures for projects involving the Company's products having been delayed or cancelled. The Company intends to continue targeting the domestic and foreign industrial control markets. Management remains committed to pursuing existing marketing strategies, however cannot guarantee sustained sales revenues during 2014 in the continued fragile economic conditions that exist globally.

Interest revenues during 2013 increased to \$8,159 from 2012 level of \$7,420 due to increased 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 12 Segment Reporting .

### Domestic Revenues

The Company's domestic operations represent 81% 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 increased to \$1,767,522 for the year ended 2013, compared to \$1,648,899 for the year ended 2012, reflecting an increase of 7%. Management believes the increase in domestic segment product sales revenues during 2013 is the result of increased product sales for the Company's domestic sales segments, specifically in industrial automation. Management believes the increased domestic product sales revenues during 2013 are the result of the improving economic conditions in the United States.

The majority of the Company's domestic product sales for 2013 were used 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.

Domestic segment operating profit was \$282,276 for 2013 as compared with a segment operating profit of \$202,853 for 2012 due to increased sales revenues and expense management during 2013.

### Foreign Revenues

The Company's foreign operating segment represents 19% 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 2013, the Company had \$422,736 in foreign export sales, amounting to 19% of sales revenues for the year, compared with foreign export sales of \$464,917 for 2012, reflecting a decrease of 9%. Management believes the decrease in foreign segment product sales revenues during 2013 is the result of the fragile global economic conditions.

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 decreased to \$92,441 for 2013 as compared with \$124,402 for 2012 due to decreased segment operating sales revenues during 2013 when compared with 2012.

As of December 31, 2013, the Company had sales backlog of \$13,213. The Company's customers generally place orders on an "as needed basis". Shipment of the Company's products is generally completed within 1 to 15 working days after receipt of customer orders, with the exception of ongoing, scheduled projects, and custom designed equipment for specific customer applications.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's revenues and expenses resulted in a net loss of \$101,790 for 2014, decreased from a net profit of \$116,197 for 2013. The decrease in profitability is the result of decreased sales revenues, increased operating expenses when compared with 2013. At December 31, 2014, the Company's working capital was \$2,836,980 compared with \$3,019,759 at December 31, 2013. 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, 2014 is adequate for expected resource requirements for the next twelve months.

The Company's current asset to current liability ratio at December 31, 2014 was 34.8:1 compared to 48.2:1 at December 31, 2013. The decrease in current asset ratio is the result of the Company having increased Accounts Payable and Customer Deposits for year-end 2014 when compared with year-end 2013. The Company's cash resources at December 31, 2014, including cash and cash equivalent liquid assets, were \$637,086, compared to cash resources of \$896,580 at year-end 2013. The decrease in cash and cash equivalent liquid assets is the result increased inventory and capital purchases when compared with year-end 2013. The Company's cash and cash equivalent assets are held in checking and money market investment accounts.

The Company's accounts receivable, adjusted for allowance for uncollectible accounts, at December 31, 2014, were \$94,864, compared to \$72,783 at year-end 2013. Management believes that all Company accounts receivable as of December 31, 2014 are collectible and has reduced the reserve for uncollectible account to \$0.

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, 2014, were \$719,137, reflecting an increase from December 31, 2013 levels of \$625,692. The increase in inventory between December 31, 2014 and December 31, 2013, is due to the addition of new products during 2014.

The Company had capital expenditures of \$78,360 during 2014 primarily for software/network upgrades and a manufacturing die. The Company intends on investing in additional capital equipment as deemed necessary to support development and manufacture of current and future products.

As of December 31, 2014, the Company's current liabilities increased to \$83,865, from 2013 year-end levels of \$63,911. The increase in current liabilities is primarily the result of a deposit made for an order by a foreign customer of \$26,247 at year-end 2014 compared with \$4,910 for year-end 2013.

The Company had no off balance sheet arrangements for the year ended December 31, 2014.

Inflation had minimal adverse effect on the Company's operations during 2014. Minimal adverse effect is anticipated during 2015.

**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, 2014 AND 2013







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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Stockholders**

**Electronic Systems Technology, Inc.**

We have audited the accompanying balance sheets of Electronic Systems Technology, Inc. ( the Company ) as of December 31, 2014 and 2013, and the related statements of income, change in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Systems Technology, Inc. as of December 31, 2014 and 2013, 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.

The supplemental schedule of operating expenses for the years ended December 31, 2014 and 2013 ( the supplemental schedule of operating expenses ) has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental schedule of operating expenses is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental schedule of operating expenses 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 schedule of operating expenses. In our opinion, the supplemental schedule of operating expenses is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ DeCoria, Maichel & Teague, PS

Spokane, Washington

February 6, 2015

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## DBA ESTEEM WIRELESS MODEMS

## BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

2014

2013

ASSETS

## CURRENT ASSETS

|                                      |    |           |    |           |
|--------------------------------------|----|-----------|----|-----------|
| Cash                                 | \$ | 44,591    | \$ | 133,129   |
| Money market investment              |    | 592,495   |    | 763,451   |
| Certificates of deposit              |    | 1,402,625 |    | 1,414,000 |
| Accounts receivable                  |    | 94,864    |    | 72,783    |
| Inventories                          |    | 719,137   |    | 625,692   |
| Prepaid insurance                    |    | 5,505     |    | 11,389    |
| Other prepaid expenses               |    | 6,198     |    | 24,298    |
| Federal income tax refund receivable |    | 2,721     |    | -         |
| Accrued interest receivable          |    | 3,109     |    | 2,947     |
| Deferred income tax asset, current   |    | 49,600    |    | 35,981    |

|                      |  |           |  |           |
|----------------------|--|-----------|--|-----------|
| Total Current Assets |  | 2,920,845 |  | 3,083,670 |
|----------------------|--|-----------|--|-----------|

|                            |  |        |  |        |
|----------------------------|--|--------|--|--------|
| PROPERTY AND EQUIPMENT NET |  | 91,907 |  | 31,372 |
|----------------------------|--|--------|--|--------|

|                 |  |   |  |        |
|-----------------|--|---|--|--------|
| VENDOR DEPOSITS |  | - |  | 13,083 |
|-----------------|--|---|--|--------|

|                           |  |        |  |     |
|---------------------------|--|--------|--|-----|
| DEFERRED INCOME TAX ASSET |  | 34,801 |  | 619 |
|---------------------------|--|--------|--|-----|

|              |    |           |    |           |
|--------------|----|-----------|----|-----------|
| TOTAL ASSETS | \$ | 3,047,553 | \$ | 3,128,744 |
|--------------|----|-----------|----|-----------|

LIABILITIES AND STOCKHOLDERS EQUITY

## CURRENT LIABILITIES

|                            |    |        |    |        |
|----------------------------|----|--------|----|--------|
| Accounts payable           | \$ | 14,573 | \$ | 8,669  |
| Refundable deposits        |    | 26,247 |    | 4,910  |
| Accrued wages and bonus    |    | 5,554  |    | 15,149 |
| Accrued vacation pay       |    | 29,644 |    | 24,249 |
| Other accrued liabilities  |    | 7,847  |    | 7,234  |
| Federal income tax payable |    | -      |    | 3,700  |

|                           |  |        |  |        |
|---------------------------|--|--------|--|--------|
| Total Current Liabilities |  | 83,865 |  | 63,911 |
|---------------------------|--|--------|--|--------|

|  |              |              |
|--|--------------|--------------|
| DEFERRED INCOME TAX LIABILITY  | 3,500        | 5,100        |
| TOTAL LIABILITIES  | 87,365       | 69,011       |
| COMMITMENTS AND CONTINGENCIES<br>(NOTES 8 & 10)  |              |              |
| <u>STOCKHOLDERS EQUITY</u>   |              |              |
| Common stock - \$.001 par value 50,000,000<br>shares authorized, 5,158,667 shares issued and<br>outstanding at December 31, 2014 and 2013,<br>respectively | 5,159        | 5,159        |
| Additional paid-in capital   | 1,007,861    | 1,005,616    |
| Retained earnings  | 1,947,168    | 2,048,958    |
| TOTAL STOCKHOLDERS EQUITY  | 2,960,188    | 3,059,733    |
| TOTAL LIABILITIES AND STOCKHOLDERS<br>EQUITY   | \$ 3,047,553 | \$ 3,128,744 |

See Notes to Financial Statements.

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## DBA ESTEEM WIRELESS MODEMS

## STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

|                                   | 2014         | 2013         |
|-----------------------------------|--------------|--------------|
| SALES NET                         | \$ 1,867,420 | \$ 2,190,258 |
| COST OF SALES                     | 850,624      | 971,798      |
| GROSS PROFIT                      | 1,016,796    | 1,218,460    |
| OPERATING EXPENSES                | 1,181,225    | 1,118,421    |
| OPERATING INCOME (LOSS)           | (164,429)    | 100,038      |
| OTHER INCOME                      |              |              |
| Interest income                   | 10,517       | 8,158        |
| TOTAL OTHER INCOME                | 10,517       | 8,158        |
| INCOME (LOSS) BEFORE INCOME TAXES | (153,912)    | 108,197      |
| FEDERAL INCOME TAX BENEFIT        | 52,122       | 8,000        |
| NET INCOME (LOSS) AFTER TAXES     | \$ (101,790) | \$ 116,197   |
| BASIC EARNINGS (LOSS) PER SHARE   | \$ (0.02)    | \$ 0.02      |
| DILUTED EARNINGS (LOSS) PER SHARE | \$ (0.02)    | \$ 0.02      |
| OUTSTANDING BASIC                 |              |              |
| WEIGHTED AVERAGE SHARES           | 5,158,667    | 5,158,667    |
| OUTSTANDING DILUTED               |              |              |
| WEIGHTED AVERAGE SHARES           | 5,158,667    | 5,180,227    |



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, 2014 AND 2013

|                                 | Common Stock<br>Shares | Stock<br>Amount | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Total        |
|---------------------------------|------------------------|-----------------|----------------------------------|----------------------|--------------|
| BALANCE AT<br>DECEMBER 31, 2012 | 5,158,667              | \$ 5,159        | \$ 1,003,903                     | \$ 1,932,761         | \$ 2,941,823 |
| Net income                      | -                      | -               | -                                | 116,197              | 116,197      |
| Share-based<br>compensation     | -                      | -               | 1,713                            | -                    | 1,713        |
| BALANCE AT<br>DECEMBER 31, 2013 | 5,158,667              | 5,159           | 1,005,616                        | 2,048,958            | 3,059,733    |
| Net loss                        | -                      | -               | -                                | (101,790)            | (101,790)    |
| Share-based<br>compensation     | -                      | -               | 2,245                            | -                    | 2,245        |
| BALANCE AT<br>DECEMBER 31, 2014 | 5,158,667              | \$ 5,159        | \$ 1,007,861                     | \$ 1,947,168         | \$ 2,960,188 |

See Notes to Financial Statements.



## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## DBA ESTEEM WIRELESS MODEMS

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

|   | 2014             | 2013           |
|---|------------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                |                  |                |
| Net income (loss)   | \$ (101,790)     | \$ 116,197     |
| Noncash expenses included in income (loss) :                |                  |                |
| Depreciation and amortization                               | 17,824           | 13,540         |
| Deferred income taxes                                       | (49,401)         | (11,700)       |
| Share-based compensation                                    | 2,245            | 1,713          |
| Decrease (increase) in operating assets:                    |                  |                |
| Accounts receivable   | (22,081)         | 122,699        |
| Inventories   | (93,445)         | (123,736)      |
| Prepaid expenses  | 23,984           | 3,454          |
| Accrued interest receivable                                 | (161)            | (1,246)        |
| Vendor deposits   | 13,083           | (11,408)       |
| Federal income tax refund receivable                        | (2,721)          | -              |
| Increase (decrease) in operating liabilities:               |                  |                |
| Accounts payable  | 5,905            | 2,393          |
| Accrued wages, bonus and vacation                           | (4,200)          | 9,435          |
| Other accrued liabilities                                   | 613              |                |
| Refundable deposits   | 21,337           | 2,681          |
| Federal income tax payable                                  | (3,700)          | 3,700          |
| Net Cash From Operating Activities                          | (192,508)        | 127,722        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                |                  |                |
| Purchase of certificates of deposit                         | (1,602,626)      | (1,522,000)    |
| Proceeds from maturities of certificates of deposit         | 1,614,000        | 1,475,000      |
| Additions to property and equipment                         | (78,360)         | (2,639)        |
| Net Cash From Investing Activities                          | (66,986)         | (49,639)       |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>(259,494)</b> | <b>78,083</b>  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>       | <b>896,580</b>   | <b>818,497</b> |

|  |    |         |    |         |
|--|----|---------|----|---------|
| CASH AND CASH EQUIVALENTS AT END OF YEAR           | \$ | 637,086 | \$ | 896,580 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: |    |         |    |         |
| Cash paid during the year for:                     |    |         |    |         |
| Income taxes                                       | \$ | 2,721   | \$ | -       |
| Cash and cash equivalents:                         |    |         |    |         |
| Cash   | \$ | 44,591  | \$ | 133,129 |
| Money market investments                           |    | 592,495 |    | 763,451 |
| Total cash and cash equivalents                    | \$ | 637,086 | \$ | 896,580 |

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

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. On November 12, 1984, the Company sold 3,000,000 shares of its unissued common stock to the public at an offering price of \$.30 per share, as arbitrarily determined by the underwriter.

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 (tm) 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 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

Financial instruments that potentially subject the Company to credit risk consist of cash, money market investments, certificates of deposit, and accounts receivables.

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.

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.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

**1.**

**Organization and Summary of Significant Accounting Policies - (Continued)**

Revenue Recognition - (Continued)

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.

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 expected to be immaterial based on the Company's historical warranty experience.

Financial Instruments

The Company's financial instruments are cash, money market investments, and certificates of deposit. The recorded values of cash, cash equivalents 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 investments 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, 2014 and 2013, 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.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

1.

**Organization and Summary of Significant Accounting Policies - (Continued)**

Property and Equipment

Property and equipment is carried at cost. 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. 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. 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.

Certificates of Deposit

Certificates of deposit with original maturities ranging from three months to twelve months were \$1,402,625 and \$1,414,000 at December 31, 2014 and 2013 respectively.

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 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.

### 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 2014 and 2013 were \$286,375 and \$275,207, 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, 2014 and 2013 were \$16,091 and \$17,055, respectively.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

**1.**

**Organization and Summary of Significant Accounting Policies - (Continued)**

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 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 440,000 and 525,000 stock options outstanding as of December 31, 2014 and 2013, respectively. As of December 31, 2014, 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.

As of December 31, 2013, 175,000 of the outstanding stock options had a dilutive effect on the calculation of the diluted weighted average number of shares outstanding. The diluted weighted average number of shares outstanding did not have a material effect on EPS at December 31, 2013.

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 as

presented in prior years.

### Fair Value Measurements

ASC 820 "Fair Value Measurements and Disclosures" ("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.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

**1.**

**Organization and Summary of Significant Accounting Policies - (Continued)**

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, 2014 and 2013 the Company has no assets or liabilities subject to fair value adjustments on a recurring basis.

**2.**

**Inventories**

Inventories consist of the following:

|                  | 2014       | 2013       |
|------------------|------------|------------|
| Parts            | \$ 283,375 | \$ 217,567 |
| Work in progress | 276,853    | 83,620     |
| Finished goods   | 158,909    | 324,505    |
|                  | \$ 719,137 | \$ 625,692 |

**3.**

**Property and Equipment**

Property and equipment consist of the following:

|   | 2014       | 2013       |
|---|------------|------------|
| Laboratory equipment                      | \$ 615,088 | \$ 596,681 |
| Software purchased                        | 35,028     | -          |
| Furniture and fixtures                    | 16,531     | 16,745     |
| Dies and molds                            | 128,676    | 105,353    |
|   | 795,323    | 718,779    |
| Accumulated depreciation and amortization | (703,416)  | (687,407)  |
|   | \$ 91,907  | \$ 31,372  |

**4.**

**Income Taxes**

The Company uses the liability method in accounting for income taxes.

The provision (benefit) for federal income taxes consisted of:

|  | 2014        | 2013       |
|--|-------------|------------|
| Current                                      | \$ (2,721)  | \$ 3,700   |
| Deferred                                     | (49,401)    | (11,700)   |
| Provision (benefit) for federal income taxes | \$ (52,122) | \$ (8,000) |

At December 31, 2014, the Company had approximately \$43,000 of income tax credits available to reduce income taxes in future periods. The credits expire from 2031-2034.

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## DBA ESTEEM WIRELESS MODEMS

## NOTES TO FINANCIAL STATEMENTS

## 4.

**Income Taxes (Continued)**

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

|                                     | 2014      | 2013      |
|-------------------------------------|-----------|-----------|
| Deferred tax assets:                |           |           |
| Current:                            |           |           |
| Accrued liabilities                 | \$ 8,776  | \$ 9,337  |
| Inventories                         | 40,824    | 26,644    |
| Total current deferred tax assets   | 49,600    | 35,981    |
| Long-term                           |           |           |
| Income tax credits                  | 33,399    | -         |
| Other                               | 1,402     | 619       |
| Total long-term deferred tax assets | 34,801    | 619       |
| Total deferred tax assets           | \$ 84,401 | \$ 36,600 |
| Deferred tax liabilities:           |           |           |
| Depreciable property                | \$ 3,500  | \$ 5,100  |
| Total                               | \$ 3,500  | \$ 5,100  |

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

|  | 2014        | 2013       |
|--|-------------|------------|
| Amount computed using the statutory rate     | \$ (53,870) | \$ 37,869  |
| Non-deductible permanent differences         | 1,748       | 2,458      |
| Income tax credits                           | -           | (35,843)   |
| Effect of graduated rates                    | -           | (12,484)   |
| Provision (benefit) for federal income taxes | \$ (52,122) | \$ (8,000) |



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 2011. 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 \$30,742 and \$27,072 to the plan for the years ended December 31, 2014 and 2013 respectively.

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## DBA ESTEEM WIRELESS MODEMS

## NOTES TO FINANCIAL STATEMENTS

**6.****Employee Profit Sharing Bonus Program**

The Company makes discretionary contributions to the Employees Profit Sharing Bonus Program (a non-qualified plan) based upon ten percent of the first \$100,000 of pre-tax net income plus eight percent of pre-tax net income in excess of \$100,000. There was no accrual recorded for 2014. The Company accrued \$11,582 for the year ended December 31, 2013.

**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.

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

|   | 2014    | 2013    |
|---|---------|---------|
| Dividend yield                          | 0.00%   | 0.00%   |
| Expected volatility                     | 75%     | 73%     |
| Risk-free interest rate                 | 0.68%   | 0.38%   |
| Option exercise rate                    | 6.4%    | 6.6%    |
| Expected term (in years)                | 3       | 3       |
| Estimated fair value per option granted | \$ 0.20 | \$ 0.15 |

The average risk-free interest rate is 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 of one year prior to the grant dates. The Company uses historical data to estimate option exercise rates.

In the years ended December 31, 2014 and 2013, the Company recognized \$2,245 and \$1,713 respectively, in share-based compensation expense. No non-vested share-based compensation arrangements existed as of December 31, 2014 and 2013.

A summary of option activity follows:

|  | Number<br>Outstanding | Weighted<br>Average<br>Exercise<br>Price Per<br>Option | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(Years) |
|--|-----------------------|--|--|
| Balance at December 31, 2012                     | 505,000               | \$ 0.42  | 1.1  |
| Granted  | 175,000               | 0.31   |  |
| Expired  | (155,000)             | 0.48   |  |
| Balance at December 31, 2013                     | 525,000               | 0.38   | 1.1  |
| Granted  | 175,000               | 0.32   |  |
| Expired  | (260,000)             | 0.45   |  |
| Balance at December 31, 2014                     | 440,000               | 0.39   | 2.1  |
| Outstanding and Exercisable at December 31, 2014 | 440,000               | \$ 0.39  | 2.1  |

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

The aggregate intrinsic value of the options outstanding and exercisable at December 31, 2014, was \$0.

**8.**

**Leases**

The Company leases its facilities from a port authority for \$5,251 per month for three years, expiring in September 2017, with annual increases based upon the Consumer Price Index. The lease expense for the years ended December 31, 2014 and 2013 was \$62,133 and \$60,691 respectively.

**9.**

**Related Party Transactions**

For the years ended December 31, 2014 and 2013, services in the amount of \$65,922 and \$116,662 respectively, were contracted with a manufacturing process company, Manufacturing Services, Inc. The past president of Manufacturing Services, Inc., is a member of the Board of Directors of Electronic Systems Technology, Inc.

**10.**

**Commitments and Contingencies**

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

11.

### Segment Reporting

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

Domestic customers represent approximately eighty-one percent of total net revenues. Foreign customers represent approximately nineteen percent of total net revenues. One individual customer comprised more than ten percent of sales revenue. Revenues from foreign countries consist primarily of revenues from Canada, Hungary and Peru.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies, Note 1. Management evaluates performance based on net revenues and operating expenses. Administrative functions such as finance and information systems are centralized. However, where applicable, portions of the administrative function expenses are allocated between the operating segments. The operating segments share the same manufacturing and distribution facilities. Costs of operating the manufacturing plant, equipment, inventory, and accounts receivable are allocated directly to each segment. During the years ended December 31, 2014 and 2013, one customer accounted for 9.7% and 20.1% of the Company's sales revenue, respectively.

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## DBA ESTEEM WIRELESS MODEMS

## NOTES TO FINANCIAL STATEMENTS

**11.****Segment Reporting (Continued)**

Summary financial information for the two reportable segments is as follows:

| 2014                     | Domestic     | Foreign    | Total        |
|--------------------------|--------------|------------|--------------|
| Total sales, net         | \$ 1,571,995 | \$ 295,425 | \$ 1,867,420 |
| Total other income       | 10,517       | -          | 10,517       |
| Depreciation             | 17,824       | -          | 17,824       |
| Income (loss) before tax | (240,215)    | 86,302     | (153,913)    |
| Identifiable assets      | 3,045,753    | 1,800      | 3,047,553    |
| Net capital expenditures | 78,360       | -          | 78,360       |
| 2013                     | Domestic     | Foreign    | Total        |
| Total sales, net         | \$ 1,767,522 | \$ 422,736 | \$ 2,190,258 |
| Total other income       | 8,158        | -          | 8,158        |
| Depreciation             | 13,540       | -          | 13,540       |
| Income before tax        | 15,756       | 92,441     | 108,197      |
| Identifiable assets      | 3,117,484    | 11,260     | 3,128,744    |
| Net capital expenditures | 2,639        | -          | 2,639        |



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, 2014 AND 2013

|                                     | 2014         | 2013         |
|-------------------------------------|--------------|--------------|
| Advertising                         | \$ 16,091    | \$ 17,055    |
| Dues and subscriptions              | 2,545        | 963          |
| Depreciation                        | 17,824       | 13,540       |
| Insurance                           | 15,501       | 12,763       |
| Materials and supplies              | 34,433       | 18,898       |
| Office and administration           | 15,365       | 7,372        |
| Printing                            | 1,565        | 2,312        |
| Professional services               | 120,332      | 144,528      |
| Rent and utilities                  | 70,173       | 64,626       |
| Repair and maintenance              | 9,235        | 4,553        |
| Salaries                            | 905,889      | 839,745      |
| Taxes, licenses & health insurance  | 236,624      | 215,606      |
| Telephone                           | 8,335        | 7,932        |
| Trade shows                         | 38,251       | 40,550       |
| Travel expenses                     | 41,377       | 60,210       |
|                                     | 1,533,540    | 1,450,653    |
| Expenses allocated to cost of sales | (352,315)    | (332,232)    |
| Total Operating Expenses            | \$ 1,181,225 | \$ 1,118,421 |



**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, 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, 2014.

***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, 2014 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, 2014 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, 2014, 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.**

On February 27, 2014 options to purchase 175,000 shares of our common stock were granted to individual employees and directors, subject to certain terms and conditions. The Company's Form 8-K, filed February 27, 2014, is incorporated herein by reference.



## 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, 2014 as well as the term in office and principal occupation of each director.

| Name of Director  | Term in Office |          | Age | Principal Occupation                             |
|-------------------|----------------|----------|-----|--|
| T.L. Kirchner     | 06/06/14       | 06/03/17 | 66  | President of the Company                         |
| Melvin H. Brown   | 06/05/09       | 06/05/15 | 84  | Former President of Manufacturing Services, Inc. |
| Vern Kornelsen    | 06/06/14       | 06/03/17 | 82  | General Partner of EDCO                          |
| Robert Southworth | 06/05/09       | 06/05/15 | 71  | Patent Attorney, U.S. Dept. of Energy (retired)  |
| John L. Schooley  | 06/04/13       | 06/04/16 | 75  | Former President of Remtron, Inc.                |

Management believes that there are no agreements or understanding between the directors and suppliers or contractors of the Company, except the agreement with Manufacturing Services, Inc. as described elsewhere in this report.

Melvin H. Brown is the father of Michael S. Brown, a former Directors of the Company. Outside of this family relationship, there are no family relationships, whether by blood, marriage, or adoption, between any of the Directors or Executive Officers of the Company.

## Audit Committee

The Audit Committee of the Board of Directors as of December 31, 2014 is comprised of Robert Southworth (Chairman), Melvin Brown and John Schooley. Melvin Brown is considered to be non-independent members of the Audit Committee; however, their serving on the Audit Committee was deemed by the Board to be in the best interest of the Company due to Melvin Brown's experience and familiarity with the Company. The Audit Committee met on



one occasion in 2014 and acted by unanimous written consent one time. 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](http://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 Tom Kirchner. The committee existed for the sole purpose of recommending the recipients and amounts of the Company awarded stock options during 2014. 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](http://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, 2013; 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 |
|-----------------|-----|---|-----------------------------------|-------------------|
| T. L. Kirchner  | 66  | President/CEO                               | 3 Years                           | 02/10/84- Present |
| Michael Eller   | 54  | Vice President/Principal Accounting Officer | Elected by the Board of Directors | 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.

**T.L. KIRCHNER.** Mr. Kirchner is founder, 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.

**MELVIN H. BROWN.** Mr. Brown is a Director of the Company. Mr. Brown is the retired owner and President of Manufacturing Services, Inc. Manufacturing Services provides electronic design and manufacturing solutions. Manufacturing Services provides electronic manufacturing and quality control testing services for Electronic Systems Technology. Mr. Brown does not serve as a director for any other company registered under the Securities Exchange Act.

**VERN D. KORNELSEN.** Mr. Kornelsen is the General Partner of EDCO Partners LLP. 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.

ROBERT SOUTHWORTH. Mr. Southworth is a Director of the Company. Mr. Southworth is a retired Senior Patent Attorney with the U. S. Department of Energy in Richland, Washington. His primary duties with the Department of Energy were the preparation and prosecution of domestic and foreign patent applications in such fields as nuclear reactors, fuel reprocessing, waste management and energy related fields of solar, wind, and fossil fuels. Mr. Southworth does not serve as a director of any other company that is registered under the Securities Exchange Act

JOHN L. SCHOOLEY. Mr. Schooley is a Director of the Company. Mr. Schooley was the former owner and President of Remtron, Inc. in San Diego, California. Remtron, Inc. manufactures advanced radio control and telemetry systems for the industrial marketplace. Mr. Schooley does not serve as director of any other company that is registered under the Securities and Exchange Act.

MICHAEL W. ELLER. Mr. Eller is the Vice President and Principal Accounting Officer. During the last five years Mr. Eller has been a full time employee of the Company and 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**

Michael S. Brown is the son of Melvin H. Brown.

### **Section 16(A) Beneficial Ownership Reporting Compliance**

During the year ended December 31, 2014, 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 is T.L. Kirchner, President and CEO. The Company's Vice President 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 2014 and 2013 is provided in the following Summary Compensation Table (collectively, the Named Executive Officers or NEOs):

SUMMARY COMPENSATION TABLE

| Name and<br>Principal<br>Position                   | Year | Salary<br>(\$)<br><br>(c) | Bonus<br>(\$)(1)<br><br>(d) | Stock<br>Awards<br>(\$)<br>(e) | Option<br>Awards<br>\$(2)<br>(f) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$)<br>(g) | Change in<br>Pension Value<br>and Non-<br>qualified<br>Deferred<br>Compensation<br>Earnings (\$)<br>(h) | All Other<br>Compen-<br>sation<br>(\$)(3)<br>(i) | Total<br>(\$)<br>(j) |
|---|------|---------------------------|-----------------------------|--------------------------------|----------------------------------|---|---|--|----------------------|
| T.L. Kirchner,<br>President/CEO                     | 2014 | \$160,586                 | \$3,661                     | -                              | \$321                            | -   | -   | \$23,242   | \$187,810            |
|   | 2013 | \$160,000                 | -                           | -                              | \$145                            | -   | -   | \$26,342   | \$186,587            |
| Michael W. Eller<br>Principal<br>Accounting Officer | 2014 | \$85,002                  | \$1,602                     | -                              | N/A                              | -   | -   | \$13,915   | \$100,519            |
|   | 2013 | \$70,000                  | -                           | -                              | N/A                              | -   | -   | \$12,707   | \$82,707             |

(1) Includes amounts paid under the Non-qualified Employee Profit Sharing Bonus. Bonus calculated for 2013 results paid during 2014.

(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 Group Health Insurance, Key Man 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, 2014 is provided in the following Option/SAR Grants in the Last Fiscal Year Table:

| OPTION/SAR GRANTS IN LAST FISCAL YEAR |                      |                        |            |           |                        |                 |
|---------------------------------------|----------------------|------------------------|------------|-----------|------------------------|-----------------|
| (a)                                   | (b)                  |                        | (c)        |           | (d)                    | (e)             |
|                                       | Number of Securities |                        | % of Total |           |                        |                 |
| Name                                  | Underlying           | Options/SARs Granted   |            |           | Exercise or base price | Expiration Date |
|                                       | Options/SARs         | to Employees in Fiscal |            |           |                        |                 |
|                                       | Granted # (5)        | Year                   | (\$/Share) |           |                        |                 |
| T.L. Kirchner                         | 25,000               | 14.3%                  | 0.41       | 2/27/2017 |                        |                 |

(5)

This table does not include Stock Options granted previously.

The information specified concerning the stock options of the named executive officers during the fiscal year ended December 31, 2014 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 |                                 |                                 |  |                             |                        |  |                                 |  |   |
|--|---------------------------------|---------------------------------|--|-----------------------------|------------------------|--|---------------------------------|--|---|
| Name   | Option Awards                   |                                 |  |                             |                        | Stock Awards                                       |                                 |  |   |
|  | Number of Securities Underlying | Number of Securities Underlying | Equity Awards: Number of Securities Underlying | Option Exercised Price (\$) | Option Expiration Date | Number of Shares or Units That Have Not Vested (#) | Market Value of Shares or Units | Equity Awards: Number of Unearned Shares, Units or | Equity Awards: Market or Payout Value of Unearned |
|  |                                 |                                 |  |                             |                        |  |                                 |  |   |

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|                | Unearned<br>Options (#) |     |     |        |         | (\$) | Other<br>Rights<br>That Have<br>Not<br>Vested<br>(#) | Shares,<br>Units or<br>Other<br>Rights<br>That<br>Have Not<br>Vested (\$) |     |
|----------------|-------------------------|-----|-----|--------|---------|------|--|---|-----|
| (a)            | (b)                     | (c) | (d) | (e)    | (f)     | (g)  | (h)  | (i)   | (j) |
| T.L. Kirchner, | 25,000                  | 0   | 0   | \$0.41 | 2/27/17 | 0    | 0  | 0   | 0   |
| President/     | 25,000                  | 0   | 0   | \$0.31 | 2/14/16 | 0    | 0  | 0   | 0   |
| CEO            | 25,000                  | 0   | 0   | \$0.44 | 2/09/15 | 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. Directors with no less than three years continuous tenure are eligible for stock option awards, as governed by the Company stock option plan. 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, 2014 is provided in the following Director Compensation Table:



## DIRECTOR COMPENSATION

| Name              | Fees                   |              |               |  |                                    |                        | Total (\$) |
|-------------------|------------------------|--------------|---------------|--|------------------------------------|------------------------|------------|
|                   | Earned or Paid in Cash | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | Nonqualified Deferred Compensation | All Other Compensation |            |
| (1)               | (\$)                   | (\$)         | (\$)(2)       | (\$)                                   | (\$)                               | (\$)(3)                |            |
| (a)               | (b)                    | (c)          | (d)           | (e)                                    | (f)                                | (g)                    | (h)        |
| Melvin Brown      | \$0                    | \$0          | \$321         | \$0                                    | \$0                                | \$0                    | \$321      |
| Michael Brown     | \$0                    | \$0          | \$321         | \$0                                    | \$0                                | \$0                    | \$321      |
| John Schooley     | \$0                    | \$0          | \$321         | \$0                                    | \$0                                | \$2,211                | \$2,532    |
| Robert Southworth | \$0                    | \$0          | \$321         | \$0                                    | \$0                                | \$352                  | \$673      |
| Vern Kornelsen    | \$0                    | \$0          | \$0           | \$0                                    | \$0                                | \$632                  | \$632      |

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

(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) 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, 2014, 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, 2014, 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   | Amount & Nature of   |                  |
|----------------|---|----------------------|------------------|
|                | Beneficial Owner (1)  | Beneficial Ownership | Percent of Class |
| Common         | EDCO Partners LLP<br>4605 Denice Drive<br>Englewood CO 80111                                      | 1,232,133            | 23.9%            |
| Common         | T.L. Kirchner<br>415 N. Quay St.<br>Kennewick WA 99336  | 403,488 (2)(3)       | 7.8%             |
| Common         | Zeff Capital, LP<br>1601 Broadway, 12 <sup>th</sup> Floor<br>New York NY 10019                    | 373,829              | 7.2%             |
| Common         | Theodore Dienard & Jennifer<br>Quasha-Dienard<br>1345 Avenue of the Americas<br>New York NY 10105 | 288,384              | 5.6%             |



(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.

(2)

The T. L.Kirchner listed above has stock options giving the right to acquire 75,000 shares of Electronic Systems Technology, Inc. Common Stock: Options for 25,000 shares granted February 10, 2012, February 14, 2013 and February 28, 2014, respectively.

(3)

Does not include options granted. See footnote (1) above.

#### SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth, as of February 20, 2015, 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   | Title of | Amount & Nature of   | Percent of |
|---|----------|----------------------|------------|
| Beneficial Owner (1)  | Class    | Beneficial Ownership | Class      |
| T.L. Kirchner (Officer & Director)/415 N. Quay St., Bldg B1 Kennewick, WA | Common   | 403,488 (2)          | 7.8%       |
| Melvin H. Brown (Director) )/415 N. Quay St., Bldg B1 Kennewick, WA       | Common   | 76,500 (2)           | 1.5%       |
| John Schooley (Director) )/415 N. Quay St., Bldg B1 Kennewick, WA         | Common   | 135,000 (2)          | 2.6%       |
| Vern Kornelsen (Director) )/415 N. Quay St., Bldg B1 Kennewick, WA        | Common   | 1,232,133            | 23.9%      |
| Robert Southworth (Director) )/415 N. Quay St., Bldg B1 Kennewick, WA     | Common   |                      |            |
| Michael W. Eller (Officer) )/415 N. Quay St., Bldg B1 Kennewick, WA       | Common   |                      |            |

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|                                       |        |           |       |
|---------------------------------------|--------|-----------|-------|
| All Officers and Directors as a group | Common | 1,847,121 | 35.8% |
|---------------------------------------|--------|-----------|-------|

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 three years after approval date or 90 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.

The information below does not include stock options granted in February 2015.

Recipients of Stock Options currently unexpired as of December 31, 2014 were as follows:

| Name                  | Option Shares | Exercise Price |
|-----------------------|---------------|----------------|
|                       |               | Per Share (\$) |
| Grant Date: 2-27-2014 |               |                |
| Sam Amaral            | 5,000         | 0.41           |
| Melvin Brown          | 25,000        | 0.41           |
| Alan B. Cook          | 5,000         | 0.41           |
| Tom Kirchner          | 25,000        | 0.41           |
| Eric P. Marske        | 15,000        | 0.41           |
| Jason Muhlbeier       | 5,000         | 0.41           |
| Anthony C. Pfau       | 5,000         | 0.41           |
| Neil Hellfeldt        | 5,000         | 0.41           |
| John L. Schooley      | 25,000        | 0.41           |
| Robert Southworth     | 25,000        | 0.41           |
| George Stoltz         | 5,000         | 0.41           |
| Dan Tolley            | 5,000         | 0.41           |
| Total                 | 150,000       | 0.41           |

| Name                  | Option Shares | Exercise Price |
|-----------------------|---------------|----------------|
|                       |               | Per Share (\$) |
| Grant Date: 2-10-2013 |               |                |
| Sam Amaral            | 5,000         | 0.37           |
| Melvin Brown          | 25,000        | 0.37           |
| Alan B. Cook          | 5,000         | 0.37           |
| Tom Kirchner          | 25,000        | 0.37           |
| Eric P. Marske        | 15,000        | 0.37           |
| Jason Muhlbeier       | 5,000         | 0.37           |
| Anthony C. Pfau       | 5,000         | 0.37           |
| John L. Schooley      | 25,000        | 0.37           |
| Robert Southworth     | 25,000        | 0.37           |
| George Stoltz         | 5,000         | 0.37           |
| Dan Tolley            | 5,000         | 0.37           |
| Total                 | 145,000       | 0.37           |

| Name                  | Option Shares | Exercise Price |
|-----------------------|---------------|----------------|
|                       |               | Per Share (\$) |
| Grant Date: 2-11-2012 |               |                |
| Sam Amaral            | 5,000         | 0.44           |
| Melvin Brown          | 25,000        | 0.44           |

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|                   |         |      |
|-------------------|---------|------|
| Alan B. Cook      | 5,000   | .044 |
| Tom Kirchner      | 25,000  | .044 |
| Eric P. Marske    | 15,000  | .044 |
| Jason Muhlbeier   | 5,000   | .044 |
| Anthony C. Pfau   | 5,000   | .044 |
| John L. Schooley  | 25,000  | .044 |
| Robert Southworth | 25,000  | .044 |
| George Stoltz     | 5,000   | .044 |
| Dan Tolley        | 5,000   | .044 |
| Total             | 145,000 | .044 |

Stock options must be exercised within 90 days after termination of employment/board membership. During 2014, 260,000 options expired, 175,000 shares were granted and no shares under option were exercised. At December 31, 2014 there were 440,000 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

During 2014, the Company contracted for services from Manufacturing Services, Inc. in the amount of \$65,922. Manufacturing Services, Inc. is owned and operated by Michael S. Brown. Melvin H. Brown is the father of Michael S. Brown, is currently Directors of Electronic Systems Technology, Inc. Management believes the costs for services provided by Manufacturing Services, Inc., are comparable with other manufacturing service companies in the Company's geographical region.

**Item 14. Principal Accounting Fees and Services.**

Audit and Non-Audit Fees



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The following table presents fees billed to us during December 31, 2014 and 2013, for professional services provided by DeCcoria Maichel & Teague.

| Year Ended             | December 31, 2014 | December 31, 2013 |
|------------------------|-------------------|-------------------|
| Audit fees (1)         | \$44,459          | \$43,175          |
| Audit-related fees (2) | -                 | -                 |
| Tax fees (3)           | 3,500             | 2,500             |
| All other fees (4)     | -                 | -                 |
| Total Fees             | \$47,959          | \$45,675          |

(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 DeCcoria 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 DeCcoria 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 DeCcoria 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.

**E X H I B I T**  
**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.

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Form 8A Registration Statement, 000-27793, dated October 25, 1999 \*\*

14 Code of Ethics, as Exhibit 14.3 to Form 10-K, 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/ T. L. KIRCHNER

T.L. Kirchner, Director/President

(Principal Executive Officer)

Date: February 6, 2015

By: /s/ Michael W. Eller

Michael W. Eller, Vice President

(Principal Accounting Officer)

Date: February 6, 2015

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/ T.L. KIRCHNER<br>T.L. Kirchner | Director/President | February 6, 2015 |

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|  |          |                  |
|--|----------|------------------|
| /s/ MELVIN BROWN<br>Melvin H. Brown        | Director | February 6, 2015 |
| /s/ VERN KORNELSEN<br>Vern D. Kornelsen    | Director | February 6, 2015 |
| /s/ ROBERT SOUTHWORTH<br>Robert Southworth | Director | February 6, 2015 |
| /s/ JOHN SCHOOLEY<br>John L. Schooley      | Director | February 6, 2015 |