

ELECTRONIC SYSTEMS TECHNOLOGY INC  
Form 10-Q  
May 16, 2011

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

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended **March 31, 2011**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT  
OF 1934

From \_\_\_\_\_ to \_\_\_\_\_

**ELECTRONIC SYSTEMS TECHNOLOGY, INC.**

(Exact name of registrant as specified in its charter)

<b>Washington</b> (State or other jurisdiction of incorporation)	<b>000-27793</b> (Commission File Number)	<b>91-1238077</b> (IRS Employer Identification No.)
<b>415 N. Quay St. Bldg B1 Kennewick WA</b> (Address of principal executive offices)		<b>99336</b> (Zip Code)

(509) 735-9092

(Registrant's telephone number, including area code)

\_\_\_\_\_  
N/A

(Former name, former address & former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings for the past 90 days. YES  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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

x

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of March 31, 2011, the number of the Company's shares of common stock par value \$0.001, outstanding was 5,158,667.

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**PART I****FINANCIAL INFORMATION****Item 1. Financial Statements.**

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## SELECTED FINANCIAL DATA

(as prepared by Management)

(Unaudited)

Three Months Ended	Mar. 31, 2011	Mar. 31, 2010
Sales	\$ 533,220	\$ 555,029
Other Revenues	\$ 6,881	\$ 3,547
Gross Profit	\$ 315,881	\$ 341,999
Net Income (Loss) Before Taxes	\$ 8,289	\$ 40,072
Net Income (Loss)	\$ 489	\$ 35,372
Earnings (Loss) Per Share Before Taxes		
Basic	\$ 0.00	\$ 0.01
Diluted	\$ 0.00	\$ 0.01
Earnings (Loss) Per Share		
Basic	\$ 0.00	\$ 0.01
Diluted	\$ 0.00	\$ 0.01
Weighted Average Shares Outstanding (Basic)		
Primary	5,158,667	5,158,667
Diluted	5,290,896	5,237,483
Total Assets	\$ 3,259,725	\$ 3,154,084
Long-Term Debt and Capital Lease Obligations	\$ 0	\$ 0
Shareholders' Equity	\$ 3,094,946	\$ 2,995,938

Shareholders' Equity Per Share	\$ 0.60	\$ 0.58
Working Capital	\$ 2,995,833	\$ 2,915,944
Current Ratio	20.5:1	21.9:1
Equity To Total Assets	95 %	95 %

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## BALANCE SHEETS

(as prepared by Management)

(Unaudited)

Mar. 31, 2011

Dec. 31, 2010

## ASSETS

## CURRENT ASSETS

Cash and Cash Equivalents	\$1,326,212	\$1,133,720
Short Term Certificates of Deposit Investments	1,216,000	1,472,000
Accounts Receivable, net of allowance for uncollectibles	124,529	125,004
Inventory	462,775	421,267
Accrued Interest	1,820	1,591
Prepaid Federal Income Taxes	2,800	-
Prepaid Expenses	14,976	27,189
Total Current Assets	3,149,112	3,180,771

PROPERTY & EQUIPMENT net of depreciation	39,338	44,255
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OTHER ASSETS	33,975	4,304
DEFERRED INCOME TAX BENEFIT	37,300	49,400
TOTAL ASSETS	\$3,259,725	\$3,278,730

## LIABILITIES &amp; STOCKHOLDERS' EQUITY

## CURRENT LIABILITIES

Accounts Payable	\$75,177	\$31,651
Refundable Deposits	25,374	-
Accrued Liabilities	52,728	63,306
Federal Income Taxes Payable	-	77,171
Total Current Liabilities	153,279	172,128

DEFERRED INCOME TAXES	11,500	13,000
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## STOCKHOLDERS' EQUITY

Common Stock, \$.001 Par Value 50,000,000 Shares Authorized  
5,158,667 Shares Issued And Outstanding

	5,159	5,159
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Additional Paid-in Capital	999,083	998,228
Retained Earnings	2,090,704	2,090,215
	3,094,946	3,093,602
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$3,259,725</b>	<b>\$3,278,730</b>

See Notes To Financial Statements

## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## STATEMENTS OF OPERATIONS

(as prepared by Management)

(Unaudited)

Three Months Ended	Mar. 31, 2011	Mar. 31, 2010
SALES	\$ 533,220	\$ 555,029
COST OF SALES	217,339	213,030
Gross Profit	315,881	341,999
OPERATING EXPENSES		
Finance/Administration	89,499	83,070
Research & Development	58,362	64,830
Marketing	136,399	131,198
Customer Service	30,213	26,376
Total Operating Expense	314,473	305,474
OPERATING INCOME (LOSS)	1,408	36,525
Other Income (expenses)		
Uncollectible Amounts Recovered	4,166	-
Interest Income	2,715	3,547
Net Other Income (expense)	6,881	3,547
NET INCOME (LOSS) BEFORE TAX	8,289	40,072
Provision For Income Tax	(7,800)	(4,700)
NET INCOME (LOSS)	\$ 489	\$ 35,372
Basic Earnings (Loss) Per Share Before Tax	\$ 0.00	\$ 0.01
Basic Earnings (Loss) Per Share After Tax	\$ 0.00	\$ 0.01
Diluted Earnings (Loss) Per Share Before Tax	\$ 0.00	\$ 0.01
Diluted Earnings (Loss) Per Share After Tax	\$ 0.00	\$ 0.01

See Notes To Financial Statements





## ELECTRONIC SYSTEMS TECHNOLOGY, INC.

## STATEMENTS OF CASH FLOWS

(as prepared by Management)

(Unaudited)

Three Months Ended	Mar. 31, 2011	Mar. 31, 2010
<b>CASH FLOWS PROVIDED (USED) IN OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$ 489	\$ 35,372
Noncash items included in income:		
Depreciation	4,917	7,961
Prepaid Federal Income Taxes	(2,800)	9,300
Accrued Interest	(229)	203
Deferred Income Tax	10,600	(4,600)
Share Based Compensation	855	1,194
<b>DECREASE (INCREASE) IN CURRENT ASSETS:</b>		
Accounts Receivable Net	475	(84,135)
Certificates of Deposit Redeemed (Purchased)	256,000	(2,000)
Inventory	(41,508)	15,904
Prepaid Expenses	12,213	7,955
<b>INCREASE (DECREASE) IN CURRENT LIABILITIES:</b>		
Accounts Payable and Accrued Expenses	32,948	49,246
Refundable Deposits	25,374	--
Accrued Federal Income Taxes	(77,171)	--
	222,163	36,400
<b>CASH FLOWS PROVIDED (USED) IN FINANCING ACTIVITIES:</b>		
Vendor Deposits	(29,671)	(1,335)
	(29,671)	(1,335)
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>192,492</b>	<b>35,065</b>
Cash and Equivalents At Beginning Of Period	1,133,720	919,608
Cash and Equivalents At Ending Of Period	\$ 1,326,212	\$ 954,673

## SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:

Cash Paid Year To Date:

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Interest		--		--
Federal Income Taxes	\$	77,171	\$	--
Cash and Equivalents:				
Cash	\$	53,326	\$	34,255
Money Market Accounts		1,272,886		920,418
	\$	1,326,212	\$	954,673

See Notes To Financial Statements

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

(as prepared by Management)

(Unaudited)

**NOTE 1 - BASIS OF PRESENTATION**

The financial statements of Electronic Systems Technology, Inc. (the "Company"), presented in this Form 10Q are unaudited and reflect, in the opinion of Management, a fair presentation of operations for the three month periods ended March 31, 2011 and March 31, 2010. All adjustments of a normal recurring nature and necessary for a fair presentation of the results for the periods covered have been made. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principals have been condensed or omitted pursuant to the applicable rules and regulations of the Securities and Exchange Commission. In preparation of the financial statements, certain amounts and balances have been restated from previously filed reports to conform to the format of this quarterly presentation. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Form 10K for the year ended December 31, 2010 as filed with Securities and Exchange Commission.

The results of operation for the three-month periods ended March 31, 2011 and March 31, 2010 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

**NOTE 2 - INVENTORIES**

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

	March 31 2011	December 31 2010
Parts	\$208,930	\$180,059
Work in progress	81,212	64,884
Finished goods	172,633	176,324
	\$462,775	\$421,267

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

Basic EPS excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects potential dilution occurring if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The primary weighted average number of common shares outstanding used for calculation of basic and diluted earnings per share for the quarter ended March 31, 2011 was 5,158,667 and 5,290,896, respectively.

**NOTE 4 - STOCK OPTIONS**

As of March 31, 2011, the Company had outstanding stock options, which have been granted periodically to individual employees and directors with no less than three years of continuous tenure with the Company. On February 11, 2011, additional stock options to purchase shares of the Company's common stock were granted to individual employees and directors with no less than three years continuous tenure. The options granted on February 11, 2011 totaled 210,000 shares under option and have an exercise price of \$0.44 per share.

The options granted on February 11, 2011 may be exercised any time during the period from February 11, 2011 through February 10, 2014. The Company's Form 8-K filed February 14, 2011, is incorporated herein by reference. All outstanding stock options must be exercised within 90 days after termination of employment.

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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:

	2011	2010	2009	2008
Dividend yield	0.00%	0.00%	6.06%	2.35%
Expected volatility	74%	93%	108%	75%
Risk-free interest rate	1.40%	1.38%	1.38%	2.24%
Expected term (in years)	3	3	3	3
Estimated Fair Value per Option Granted	\$0.21	\$0.30	\$0.18	\$0.39

The Company uses historical data to estimate option exercise rates. The option exercise rate for option grants in 2010 through 2005 was 7.61%.

A summary of option activity during the quarter ended March 31, 2011, is as follows:

	Number Outstanding	Weighted-Average Exercise Price Per Share
Outstanding at January 1, 2011	585,000	\$0.52
Granted	210,000	0.44
Exercised	--	--
Canceled	(205,000)	0.81
Outstanding at March 31, 2011	590,000	0.40

For the first quarter of 2011, compensation expense charged against income for stock options was \$855 (\$564 after tax). No non-vested share-based compensation arrangements existed as of March 31, 2011.

**NOTE 5 - RELATED PARTY TRANSACTIONS**

For the quarter ended March 31, 2011, services in the amount of \$23,743 were contracted with Manufacturing Services, Inc., of which the current owner, Michael S. Brown and the former owner, Melvin H. Brown, are both currently members of the Board of Directors of Electronic Systems Technology Inc.

**NOTE 6 - SEGMENT REPORTING**

Segment information is prepared on the same basis that the Company's management reviews financial information for operational decision making purposes. The Company has two reportable segments, domestic and foreign, based on the geographic location of the customers. Both segments sell radio modem 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.

During the quarter March 31, 2011, Domestic customers represented approximately 45% of total net revenues. Foreign customers represented 55% of total net revenues. During the quarter ended March 31, 2011, product sales to ANDESWireless Ltda of Colombia for industrial automation projects comprised 15% of the Company's sales revenues. Product sales to Industrial Controls of Peru for industrial automation projects comprised 14% of the Company's sales revenues for the quarter ended March 31, 2011. Product sales to Jescom Communication Communications International Inc. of California for security network applications in Morocco comprised 11% of the Company's sales revenues for the quarter ended March 31, 2011. Revenues from foreign countries consisted primarily of revenues from Colombia, Peru, Morocco and Canada.

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 distributing facilities. Costs of operating the manufacturing plant, equipment, inventory, and accounts receivable are allocated directly to each segment.

**ELECTRONIC SYSTEMS TECHNOLOGY, INC.**  
**Segment Reporting**

Summary financial information for the two reportable segments for the first quarter of 2011 and 2010 is as follows:

	Unallocated			
	Domestic	Foreign	Corporate	Total
<b><u>Quarter ended March 31, 2011</u></b>				
Total sales	\$241,096	\$292,124	\$ -	\$533,220
Total other income	6,881	-	-	6,881
Earnings (loss) before tax	(59,145)	156,933	(89,499)	8,289
Depreciation/amortization	4,340	-	577	4,917
Identifiable assets	137,295	21,809	3,109,921	3,269,025
Net capital expenditures	-	-	-	-
<b><u>Quarter ended March 31, 2010</u></b>				
Total sales	\$366,270	\$188,759	\$ -	\$555,029
Total other income	3,547	-	-	3,547
Earnings (loss) before tax	25,901	97,241	(83,070)	40,072
Deprecation/amortization	7,344	-	617	7,961
Identifiable assets	193,298	12,830	2,947,956	3,154,084
Net capital expenditures	-	-	-	-



**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATION

*Management's discussion and analysis is intended to be read in conjunction with the Company's unaudited financial statements and the integral notes thereto for the quarter ending March 31, 2011. The following statements may be forward looking in nature and actual results may differ materially.*

A.

**RESULTS OF OPERATIONS**

REVENUES: Total revenues from sales decreased to \$533,220 for the first quarter of 2011 as compared to \$555,029 in the first quarter of 2010, reflecting a decrease of 4%. Gross revenues decreased to \$540,101 for the quarter ending March 31, 2011, from \$558,576 for the same quarter of 2010. Management believes the decrease in sales revenues is due to decreased domestic industrial automation and Mobile Data Computer Systems (MDCS) sales during the first quarter of 2011 when compared with the same quarter of 2010. The decrease in domestic sales revenues was partially offset by increased foreign industrial automation product sales revenues. Management believes the decrease in domestic sales revenues is the result of the continued slow economic recovery in the United States leading to delays or cancellations of projects involving the Company's products.

The Company's revenues have historically fluctuated from quarter to quarter due to timing factors such as product shipments to customers, customer order placement, customer buying trends, and changes in the general economic environment. The procurement process regarding plant and project automation, or project development, which usually surrounds the decision to purchase ESTeem products, can be lengthy. This procurement process may involve bid activities unrelated to the ESTeem products, such as additional systems and subcontract work, as well as capital budget considerations on the part of the customer. Because of the complexity of this procurement process, forecasts with regard to the Company's revenues are difficult to predict.

A percentage breakdown of EST's market segments of Domestic and Foreign Export sales, for the first quarter of 2011 and 2010 are as follows:

For the first quarter of	2011	2010
Domestic Sales	45%	66%

Export Sales	55%	34%
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## OPERATING SEGMENTS

Segment information is prepared on the same basis that the Company's Management reviews financial information for operational decision-making purposes. The Company's operating segment information is contained in Financial Statements, Notes to Financial Statements, Note 6 Segment Reporting .

### Domestic Revenues

The Company's domestic operations represented 45% 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 sales revenues decreased to \$241,096 for the quarter ended March 31, 2011, compared to \$366,270 for the quarter ended March 31, 2010, reflecting a decrease of 34%. Management believes the decrease in domestic sales revenues is the result of the continued slow economic recovery in the United States leading to delays or cancellations of projects involving the Company's products.

The Company's domestic sales for MDCS to public entities were minimal during the first quarter of 2011. In Management's opinion, MDCS sales remain difficult to predict and cannot be assured due to public safety entity purchases being linked to uncertain government funding.

Domestic segment operating loss was \$59,145 for the quarter ended March 31, 2011 as compared with a segment operating income of \$25,901 for the same quarter of 2010, due to decreased sales revenues for the segment during the first quarter of 2011.

#### Foreign Revenues

The Company's foreign operating segment represented 55% of the Company's total net revenues for the quarter ended March 31, 2011. 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 the quarter ended March 31, 2011, the Company had \$292,124 in foreign export sales, or 55% of total net revenues of the Company for the quarter, compared with foreign export sales of \$188,759 or 34% of net revenues for the same quarter of 2010. During the quarter ended March 31, 2011, product sales to ANDESWireless Ltda of Colombia for industrial automation projects comprised 15% of the Company's sales revenues. Product sales to Industrial Controls of Peru for industrial automation projects comprised 14% of the Company's sales revenues for the quarter ended March 31, 2011. Product sales to Jescom Communication Communications International Inc. of California for security network applications in Morocco comprised 11% of the Company's sales revenues for the quarter ended March 31, 2011. The majority of foreign export sales revenues during the first quarter of 2011 were used in industrial automation projects in Colombia, Peru, and Canada. Revenues from foreign countries consisted primarily of revenues from Colombia, Peru, Morocco and Canada. Management believes the increase in foreign sales revenues is due to increased sales for industrial automation projects in Colombia, Peru and Canada during the first quarter of 2011 when compared with the same quarter of 2010. Management believes the majority of foreign export sales are the results of the Company's Latin American sales staff, EST foreign reseller activity, and the Company's internet website presence.

Operating income for the foreign segment increased to \$156,933 for the quarter ended March 31, 2011 as compared with \$97,241 for the same period of 2010 due to increased sales revenues for the quarter ended March 31, 2011.

#### Unallocated Corporate

Unallocated corporate expenses relate to functions, such as accounting, corporate management and administration that support but are not attributable to the Company's domestic or foreign operating segments, including salaries, wages and other expenses related to the performance of these support functions. Unallocated corporate expenses increased during the quarter ended March 31, 2011 to \$89,499 as compared with \$83,070 for the same quarter of 2010. Unallocated corporate expenses represented expense to total sales percentage of 17% and 15% for the first quarter of 2011 and 2010, respectively.

**BACKLOG:**

As of March 31, 2011, the Company had a sales order backlog of \$35,000. The Company's customers generally place orders on an "as needed basis". Shipment for most of the Company's products is generally made within 1 to 15 working days after receipt of customer orders, with the exception of ongoing, scheduled projects, and custom designed equipment.

**COST OF SALES:**

Cost of sales percentages for the first quarters of 2011 and 2010 were 41% and 38% of gross sales respectively. The cost of sales percentage increase in the first quarter of 2011 is the result of the product mix of items sold during the quarter having decreased profit margins when compared with the product mix sold during the same quarter of 2010.

**OPERATING EXPENSES:**

Operating expenses for the first quarter of 2011 increased \$8,999 from first quarter of 2010 levels. The following is a delineation of operating expenses:

	March 31	March 31	Increase
	2011	2010	(Decrease)
Finance/Administration	\$ 89,499	\$ 83,070	\$ 6,429
Research/Development	58,362	64,830	(6,468)
Marketing	136,399	131,198	5,201
Customer Service	30,213	26,376	3,837
Total Operating Expenses	\$ 314,473	305,474	\$ 8,999

**Finance and Administration:** For the first quarter of 2011 Finance and Administration expenses increased \$6,429 to \$89,499, due to increased department related wages when compared with the same quarter of 2010.

**Research and Development:** Research and Development expenses decreased \$6,468 to \$58,362, during the first quarter of 2011, due to decreased department related wages when compared with the same quarter of 2010.

**Marketing:** During the first quarter of 2011, marketing expenses increased \$5,201 to \$136,399 when compared with the same period of 2010, due to increased department related wages during the first quarter of 2011.

**Customer Service:** Customer service expenses increased \$3,837 to \$30,213 during the first quarter of 2011, due to a decreased amount of engineering and customer support services being billed directly to customers.

**INTEREST AND DIVIDEND INCOME:**

The Corporation earned \$2,715 in interest and dividend income during the quarter ending March 31, 2011. Sources of this income were money market accounts and certificates of deposit.

**NET INCOME (LOSS):**

The Company had a net income of \$489 for the first quarter of 2011 compared to a net income of \$35,372 for the same quarter of 2010. The decrease in net income is the result of decreased sales revenues and increased operating expenses the first quarter of 2011.

**B.**

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

The Corporation's current asset to current liabilities ratio at March 31, 2011 was 20.5:1 compared to 18.5:1 at December 31, 2010. The increase in current ratio is due to decreased Federal Income Taxes Payable liability at March 31, 2011 when compared with December 31, 2010.

For the quarter ending March 31, 2011, the Company had cash and cash equivalents of \$1,326,212 as compared to cash and cash equivalent holdings of \$1,133,720 at December 31, 2010. Certificates of Deposit decreased to \$1,216,000 as of March 31, 2011, from \$1,472,000 as of December 31, 2010 due to differences in maturity date cycles compared with year-end 2010.

Accounts receivable decreased slightly to \$124,529 as of March 31, 2011, from December 31, 2010 levels of \$125,004. The Company recognized uncollectible amounts recovered income of \$4,166 from material recovered from the Schwager Davis project that was deemed uncollectible as of December 31, 2010. The Company does not expect to recover any additional amounts from the Schwager Davis project. Inventory increased to \$462,775 at March 31, 2011 from December 31, 2010 levels of \$421,267 due to increased material purchases by the Company and reduced sales revenues during the first quarter of 2011. The Company's fixed assets, net of depreciation, decreased to \$39,338 as of March 31, 2011 from December 31, 2010 levels of \$44,255, due to depreciation during

the first quarter of 2011 of \$4,917. Prepaid Federal Income Taxes as of March 31, 2011 increased to \$2,800 compared with a Federal Income Taxes Payable liability of \$77,171 at December 31, 2010 due to decreased profitability during the first quarter of 2011, and the Company making the required tax payment during 2011.

Prepaid expenses decreased to \$14,976 as of March 31, 2011 as compared with \$27,189 for December 31, 2010 due to timing differences for prepaid tradeshow expenses and reduced prepaid network expenses when compared with year-end 2010. At the end of the first quarter of 2011 the Company paid deposits to vendors providing long lead time, off-shore inventory in the amount of \$37,663, which is included in Other Assets on the Company's balance sheets.

As of March 31, 2011, the trade accounts payable balance was \$75,177 compared with \$31,651 at December 31, 2010, and reflects amounts owed for purchases of inventory items and contracted services. Accrued liabilities as of March 31, 2011 were \$52,728, compared with \$63,306 at December 31, 2010, and reflect items such as payroll and state tax liabilities and accrued vacation benefits. At March 31, 2011 the Company had refundable deposit liabilities of \$25,374 for amounts paid by customers for sales orders scheduled to ship during April 2011.

In Management's opinion, the Company's cash and cash equivalent reserves, and working capital at March 31, 2011 is sufficient to satisfy requirements for operations, capital expenditures, and other expenditures as may arise during 2011.

***FORWARD LOOKING STATEMENTS: The above discussion may contain forward looking statements that involve a number of risks and uncertainties. In addition to the factors discussed above, among other factors that could cause actual results to differ materially are the following: competitive factors such as rival wireless architectures and price pressures; availability of third party component products at reasonable prices; inventory risks due to shifts in market demand and/or price erosion of purchased components; change in product mix, and risk factors that are listed in the Company's reports and registration statements filed with the Securities and Exchange Commission.***

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There is no established market for trading the common stock of the Company. The market for the Company's common stock is limited, and as such shareholders may have difficulty reselling their shares when desired or at attractive market prices. The Common Stock is not regularly quoted in the automated quotation system of a registered securities system or association. The Common Stock of the Company is traded on the Pink Sheets (OTCQB) under the symbol ELST. The over-the-counter quotations do not reflect inter-dealer prices, retail mark-ups commissions or actual transactions. The Company's common stock has continued to trade in low volumes and at low prices. Some investors view low-priced stocks as unduly speculative and therefore not appropriate candidates for investment. Many institutional investors have internal policies prohibiting the purchase or maintenance of positions in low-priced stocks.

**Item 4. Controls and Procedures.**

As a small, non-accelerated filer company, information required by Item 307 of Regulation S-K is not applicable to Electronic Systems Technology, Inc.

**Item 4. Controls and Procedures.**

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.

An evaluation has been performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and the operation of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) as of March 31, 2011. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have determined that there was a material weakness affecting our internal control over financial reporting and, as a result of that weakness, our disclosure controls and procedures were not effective as of March 31, 2011.

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 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.**

There have been no changes during the quarter ended March 31, 2011 in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.



**PART II OTHER INFORMATION**

**Item 5. Other Information**

The Company filed a Form 8-K dated February 11, 2011 regarding issuance of stock options pursuant to the Company's stock option award program, which is incorporated herein by reference.

**Item 6. Exhibits**

31.1

CEO Certification

31.2

CFO Certification

32.1

CEO Section 906 Certification

32.2

CFO Section 906 Certification

SIGNATURES

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

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

Date: May 11, 2011  
By: /s/ T. L. KIRCHNER  
Name: T.L. Kirchner  
Title: Director/President  
(Principal Executive Officer)

Date: May 11, 2011  
By: /s/ JON CORREIO  
Name: Jon Correio  
Title: Director/Secretary/Treasurer  
(Principal Financial Officer)