

ELECTRONIC SYSTEMS TECHNOLOGY INC
Form 10KSB
March 26, 2008

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2007**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES ACT OF 1934

For the transition period _____ to _____

Commission file number **000-27793**

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

(Name of small business issuer 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)

Issuer's telephone number

99336

(Zip Code)

(509) 735-9092

Edgar Filing: ELECTRONIC SYSTEMS TECHNOLOGY INC - Form 10KSB

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common

Check whether the issuer (1) filed all reports required by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulations S-B is met contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. Not applicable

State issuer's revenues for its most recent fiscal year. \$3,085,510

On February 29, 2008 the aggregate market value, based on the asked price, of the voting stock held by nonaffiliates of the registrant was \$3,841,727.

The number of shares outstanding of the registrant's common stock as of February 29, 2008: 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: Form 8-K dated June 1, 2007. Forms 8-K dated February 16, 2007 and February 22, 2008.

Transitional Small Business Disclosure Format: Yes No

PART I

ITEM 1. FORWARD LOOKING STATEMENTS:

When used in this Annual Report and the documents incorporated herein by reference, the terms anticipates , believes , expects and similar expressions are intended to identify in certain circumstances, forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected, including the risks described in this Annual Report. Given these uncertainties, readers are cautioned not to place undue reliance on such statements. The Company also undertakes no obligation to update those forward-looking statements.

RISK FACTORS

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

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

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

Our success depends on our ability to retain key management personnel. The success of our Company depends in large part on our ability to attract and retain highly qualified management, administrative, manufacturing, sales, and research and development personnel. Due to the specialized nature of our business, it may be difficult to locate and

hire qualified personnel. Our success is significantly dependent on the performance and continued service of key members of Management, such as Chief Executive Officer, Tom Kirchner, Vice President of Engineering, D. Brent Strecker and certain other key employees. If the services of any members of Management become unavailable for any reason, our business and prospects could be adversely affected. Although we have been successful in retaining highly capable and qualified management in the past, there can be no assurance that we will be able to do so in the future.

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

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

We have material weaknesses in our internal controls which may result in us not being able to prevent or detect a material misstatement of our financial statements, which could harm our business and result in regulatory scrutiny. Pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404), Management conducted an assessment of the effectiveness of our internal controls over financial reporting for the year ending December 31, 2007. We determined that there was a material weakness affecting our internal control over financial reporting and, as a result of that weakness, our disclosure controls and procedures were not effective as of December 31, 2007. We have not maintained effective controls to ensure appropriate segregation of duties due to our limited number of employees in

finance and administration, with the same employee being responsible for the initiating and recording of transactions, thereby creating segregation of duties weaknesses. Due to this weakness and absence of sufficient other mitigating controls, we determined that this control deficiency resulted in more than a remote likelihood that a material misstatement or lack of disclosure within the annual or interim financial statements will not be prevented or detected.

Avenues for mitigating our internal control weaknesses are being evaluated, but mitigating controls are impractical and prohibitively costly due to the size of our organization. The material weakness in our internal controls may subject us to regulatory scrutiny with undetermined consequences.

The market for our common stock is limited, and as such our shareholders may have difficulty reselling their shares when desired or at attractive market prices. Our stock price and our listing may make it more difficult for our shareholders to resell shares when desired or at attractive prices. Our Company stock trades on the Over the Counter Bulletin Board (OTC Bulletin Board). Our common stock has continued to trade in low volumes and at low prices. Some investors view low-priced stocks as unduly speculative and therefore not appropriate candidates for investment. Many institutional investors have internal policies prohibiting the purchase or maintenance of positions in low-priced stocks.

BUSINESS

Electronic Systems Technology, Inc. (EST or the Company) specializes in the manufacturing and development of wireless modem products. The Company uses manufacturing, marketing, and research and development efforts to produce and market the Company s line of ESTeem (tm) Wireless Modem products and accessories. The Company offers products, which provide innovative communication solutions for applications not served or underutilized by conventional communication systems. The Company s products are offered in the process automation markets in commercial, industrial, and government arenas both domestically and internationally, as well as domestic markets for public safety communications infrastructure. The Company s products are marketed through direct sales, sales representatives, and resellers.

The Company was incorporated in the State of Washington in February 1984, and was granted a United States Patent for the Wireless Computer Modem in May 1987, and Canadian patent in October 1988. During 2007, the Company established a "doing business as" or "DBA" structure, based on the Company's registered trade name of ESTeem Wireless Modems. The DBA structure provides the Company with additional flexibility in marketing of the Company s products. During the past three years, the Company has continued product improvements and enhancements to incorporate continuing technological developments, and respond to customer needs and market opportunities. Development efforts during 2007 focused on the continued development and refinement of the ESTeem 195Ep Ethernet licensed 4.9 GHz, spread spectrum radio modem, the ESTeem 195Es unlicensed 900 MHz spread spectrum radio modem, and the ESTeem 195Eg Ethernet based radio modem. The Model 195Ep modem is designed for operation in the US Government licensed frequency spectrum for Homeland Security and first responder infrastructures. The ESTeem 195Es modem provides users with both low speed Ethernet and high-speed serial interfaces. The ESTeem 195Es is targeted at the domestic and foreign industrial automation markets and entered production in the last half of 2007. In an effort to maintain and expand its customer base, specifically focusing on the industrial control marketplace, the Company continues efforts to team with all major programmable logic controller (PLC) hardware vendors. During 2007, the Company continued marketing products for use in SCADA, Industrial Automation, Public Safety Communication and Government marketplaces.

PRODUCTS AND MARKETS

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

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

added flexibility. Secure data communication is provided in the ESTeem products through use of proprietary technology and industry standard techniques.

PRODUCT APPLICATIONS

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

Water/Waste Water Processing	Overhead Crane Control
Industrial Automation	Shop Floor Manufacturing
Remote Data Acquisition (SCADA)	Intra-Office/Building Computer Networking
Law Enforcement/Public Safety Communications	Remote Internet Access
Power Utility	Flight Line Maintenance
Oil/Gas Pipeline	Airfield Lighting Control
Material Handling	Ship to Shore Communications

PRODUCT LINES

Licensed Narrow Band Products

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

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

Unlicensed Spread Spectrum Products

The Model 195Es is a low cost unlicensed frequency hopping spread spectrum transceiver for commercial and industrial applications operating in the 900 MHz spectrum. Typical indoor and outdoor applications include point to point and point to multi-point digital data networking for distances to approximately 10 miles line-of-sight without the use of the digi-repeater option.

ESTeem Model	Type	Frequency (MHz)	RF Power (Watts)	RF Data Rate (bps)	LOS Range (Miles)	Interface
195Es	Unlicensed	900	.125 or 1	200K	10	Ethernet and Serial

Licensed Spread Spectrum Products

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

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

Unlicensed Ethernet Spread Spectrum Products

The Company's Ethernet radios are a high performance, direct sequence spread spectrum transceiver employing the industry standard, 10baseT, 802.11b/g Ethernet connectivity for commercial, industrial and public safety applications operating in the unlicensed 2.4 GHz spectrum with data transfer rates from 1 to 54 Mbps. Typical installations include data rate critical, point to point, point to multi-point, last-mile bridge data networking and mobile applications for distances of approximately 5 to 7

miles line-of-sight without the use of the digi-repeater option. The high data capability of these products allows them to be used in Video and Voice over Internet Protocol (VoIP) applications.

ESTeem Model	Type	Frequency (MHz)	RF Power (Watts)	RF Data Rate (bps)	LOS Range (Miles)	Interface
195Eg	Unlicensed	2400	1	1-54 M	5-7	Ethernet/Serial
WLANC	Unlicensed	2400	0.3	1-11 M	300-3000 ft.	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 2007 and 2006 were \$497,280 and \$401,572, respectively. None of the Company's research and development expenses were paid directly by any of the Company's customers. During 2007, the Company contracted and will continue to contract, with independent, nonaffiliated, engineering companies specializing in software development and hardware design, when such expertise is required.

Development efforts during 2007 focused on the continued development and refinement of the ESTeem 195Ep Ethernet licensed 4.9 GHz, spread spectrum radio modem, the ESTeem 195Es unlicensed 900 MHz spread spectrum radio modem, and the ESTeem 195Eg Ethernet based radio modem. The Model 195Ep modem is designed for operation in the US Government licensed frequency spectrum for Homeland Security and first responder infrastructures. The ESTeem 195Es modem provides users with both low speed Ethernet and high-speed serial interfaces. The ESTeem 195Es is targeted at the domestic and foreign industrial automation markets and entered production in the last half of 2007. The Company plans continued research and development expenditures for development and improvement projects, as they are deemed necessary.

MARKETING, CUSTOMERS AND SUPPORT

The majority of the Company's products sold during 2007 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, 2007, the Company had a backlog of \$35,000 in sales orders.

During 2007, 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-five major PLC manufacturers worldwide. The Company has maintained active attendance of tradeshow targeted toward the customers and markets in which it sells products. During 2007, the Company employed sales managers to concentrate marketing and sales efforts in both domestic and Latin American industrial automation, as well as Mobile Data Computers for public safety communication markets. During 2008, the Company intends to continue strategies targeting existing markets of industrial automation and Mobile Data Computers for public safety networks. The Company maintains an internet web site to provide access to product and technical information for both present and potential customers of the Company's products. Due to the variable configuration possibilities of the Company's products, and existing reseller relationships, the Company has not implemented an electronic commerce internet website. The Company provides technical support and service for ESTeem products through phone support, field technicians and internet sources. The Company believes high quality customer support is necessary and vital to its business. To maintain a high level of customer support the Company has in the past, and will continue in the future, to make investments and expenditures in support of its customer service programs.

During the year ended December 31, 2007, no sales to any single customer comprised 10% or more of total product sales for the year ended December 31, 2007. See Management's Discussion and Analysis of Financial Condition and Results of Operations, and Financial Statements.

COMPETITION

The Company's competition varies according to the market in which the Company's products are competing. All of the markets in which the Company's products are sold are highly competitive. Listed below are the markets in which the Company's products compete in and major competitors in those markets:

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

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

PATENTS, TRADEMARKS, AND PROPRIETARY INFORMATION

EST was granted a United States patent in 1987 for a "Wireless Computer Modem". In 1988, EST was granted a Canadian patent for a "Wireless Computer Modem". Both patents had lives of 17 years and have expired. The Company's rights to the ESTeem Wireless Modem trademark, in uninterrupted use by the Company since 1985, were renewed in 2005. To protect the Company against unauthorized disclosure of proprietary information belonging to the

Company, all employees, dealers, distributors, original equipment manufacturers, sales representatives and other persons having access to confidential information regarding Company products or technology are bound by non-disclosure agreements.

GOVERNMENT REGULATION

For operation in the United States, the ESTeem Radio Modems require Federal Communications Commission (FCC) type acceptance. The FCC type acceptance is granted for devices, which demonstrate operation within mandated and tested performance criteria. All of the Company's products requiring FCC type acceptance have been granted such acceptance. All of the Company's current ESTeem production models have also been granted type acceptance in Canada.

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

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

SOURCE OF SUPPLY AND MANUFACTURING

The Company purchases certain components necessary for the production of the ESTeem products from sole suppliers. Components manufactured by Hitachi, Intersil, Integrated Microelectronics, Motorola Corporation, Mitsubishi, Murata Corporation, Rakon and Toko America Inc. as purchased through a number of distributors, supply key components for the Company's products. The components provided by these companies could be replaced or substituted by other products, if it

became necessary to do so. If this action occurs, a material interruption of production and/or material cost expenditures, for example involved with locating and qualifying replacement components, could take place.

Approximately 10% of the Company's inventory at December 31, 2007 consisted of parts having lead times ranging from 12 to 16 weeks. Some parts are maintained at high levels to assure availability to meet production requirements, and accordingly, account for a significant portion of the Company's inventory value. Based on past experience with component availability, distributor relationships, and inventory levels, the Company does not foresee shortages of materials used in production. However, developments in the electronic component marketplace, involving components used by the Company which are also used in cellular phones, pagers and other personal technology devices, have the potential of creating negative availability and delivery issues for components used by the Company. The Company has been able to procure parts on a timely basis as of the date of this report, however procurement cannot be guaranteed in the future. If shortages were to occur, material interruption of production and product delivery to customers could occur.

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

REPORTS TO SECURITY HOLDERS

The Registrant does not issue annual or quarterly reports to security holders other than the annual Form 10-KSB and quarterly Forms 10-QSB as electronically filed with the SEC. Electronically filed reports may be accessed at www.sec.gov. Interested parties also may read and copy any material filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information may be obtained on the operation of the Public Reference Room by calling the SEC at 1(800) SEC-0330.

EMPLOYEES

As of December 31, 2007, the Company employed a staff of 16 persons on a full time basis, 3 in sales/marketing, 3 in technical support, 9 in engineering/manufacturing, and 1 in finance and administration. The Company's operations are dependent upon key members of its engineering and management personnel. In the event services of these key individuals were lost to the Company, adverse effects on the Company's operations may be realized. The Company employs part-time labor on an as needed basis, usually in engineering/manufacturing. At year-end 2007 the Company employed 3 part-time employees. None of the Company's employees are represented by a labor union and the Company believes it has good relations with its employees.

ITEM 2. PROPERTIES

EST does not own any real property, plants, mines, or any other materially important physical properties. The Company's administrative offices, inventory and laboratories are located in leased facilities at 415 N. Quay Street, Bldg B1, Kennewick, Washington. The Company leases approximately 8,600 square feet of office and laboratory space by a lease agreement with the Port of Kennewick in Kennewick, Washington. As of January 1, 2008, the total monthly lease cost is \$4,070. The lease covers a period of three years, expiring September 2008.

The Company also owns miscellaneous assets, such as computer equipment, laboratory equipment, and furnishings. The Company does not have any real estate holdings, nor investments in real estate. The Company maintains insurance in such amounts and covering such losses, contingencies and occurrences that the Company deems adequate to protect its property. Insurance coverage includes a comprehensive liability policy covering legal liability for bodily injury or death of persons, and for property owned by, or under the control of the Company, as well as damage to the property of others. The Company maintains key man life insurance protecting the Company in the event of the death of the Company President. The Company also maintains fidelity insurance which provides coverage to the Company in the event of employee dishonesty.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company did not submit any matters for shareholder approval during the fourth quarter of the 2007 fiscal year.

PART II

ITEM 5. MARKET INFORMATION FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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 maintained by the Financial Regulatory Authority (FINRA) and is listed on the OTC electronic bulletin board under the symbol of "ELST". The following table illustrates the average high/low price of the Common Stock for the last two (2) fiscal years. The over-the-counter quotations do not reflect inter-dealer prices, retail mark-ups, commissions or actual transactions.

	Bid		Ask	
	High	Low	High	Low
Fiscal year ended December 31, 2007				
First Quarter	0.71	0.64	0.75	0.65
Second Quarter	1.16	0.64	1.20	0.64
Third Quarter	1.07	0.72	1.15	0.70
Fourth Quarter	1.00	0.70	1.03	0.75
Fiscal year ended December 31, 2006				
First Quarter	0.78	0.58	0.85	0.60
Second Quarter	0.75	0.62	0.92	0.60
Third Quarter	0.65	0.57	0.65	0.57
Fourth Quarter	0.65	0.63	0.70	0.63

The above data was compiled from information obtained from the OTC Bulletin Board maintained by FINRA.

The number of record holders of common stock of the Registrant as of January 4, 2008 was 445 persons/entities.

Electronic Systems Technology Inc. paid non-cumulative, cash distributions on July 17, 2006, July 13, 2005, July 14, 2004, July 9, 1999, July 9, 1998, and July 11, 1997, respectively, each equivalent to \$0.01 per outstanding share. The Company also paid non-cumulative cash distributions on July 16, 2003, equivalent to \$0.015 per outstanding share, and July 17, 2007, equivalent to \$0.02 per outstanding share. Dividends undertaken by the Company will be solely at the discretion of the Board of Directors.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis is intended to be read in conjunction the Company's audited financial statements the integral notes thereto. The following statements may be forward-looking in nature and actual results may differ materially.

RESULTS OF OPERATIONS

GENERAL: The Company specializes in the manufacturing and development of wireless modem products. The Company offers product lines which provide innovative communication solutions for applications not served by existing conventional communication systems. The Company offers product lines in markets for process automation in commercial, industrial and government arenas domestically, as well as internationally, and domestically to public safety entities for mobile data computer terminal (MDC) applications. The Company markets its products through direct sales, sales representatives, and domestic, as well as foreign, resellers. Operations of the Company are sustained solely from revenues received through sales of its products and services.

FISCAL YEAR 2007 vs. FISCAL YEAR 2006

GROSS REVENUES: Total revenues for the fiscal year 2007 were \$3,085,510 reflecting a 16% increase from \$2,666,120 gross revenues for fiscal year 2006. The increase in total revenues is the result of increased product sales and increased interest revenues during 2007. Product sales increased to \$3,002,521 in 2007, as compared to 2006 sales of \$2,617,810, reflecting a sales increase of 15%. Management believes the increase in sales revenues were the result of increases in foreign and domestic sales of products used in Industrial Automation applications. The Company's products being employed in large industrial automation projects in Colombia during 2007 resulted in a significant increase in foreign sales revenues. The Company's domestic sales decreased slightly during 2007 due to the effect of weaker than expected product sales for MDC applications. Management believes the reduced MDC sales were due to reduced funding for projects involving the Company's products, extended procurement cycle for public safety entities, and reduced sales manager activity during the first half of 2007. During 2008, the Company intends to continue targeting existing markets of industrial controls and MDC applications, and continued sales manager activities for increased coverage and exposure in the domestic industrial automation market. Management remains committed to implementing existing marketing strategies, however sustaining or increasing sales revenues for 2008 cannot be guaranteed due to the highly competitive markets in which the Company's products and services are marketed.

Interest revenues increased to \$81,272 from 2006 levels of \$48,310 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 13 Segment Reporting .

Domestic Revenues

The Company's domestic operations represent 70% of the Company's total net 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 \$2,144,647 for the year ended 2007, compared to \$2,149,021 for the year ended 2006. The decrease in domestic revenues is attributable to decreased sales for MDC applications during 2007. Management believes MDCS sales were weaker than expected during 2007 due to reduced funding for projects involving the Company's products, extended procurement cycle for public safety entities, and reduced sales manager activity during the first half of 2007. A majority of the Company's domestic product sales during 2007 were employed in industrial automation applications. An example of an industrial automation application is a municipal water treatment operation, which employs the ESTeem modem to transmit industrial control information to and from control room areas via a wireless communications infrastructure. It is the opinion of Management that industrial automation applications will continue to provide the largest portion of the Company's revenues in the foreseeable future. The Company's domestic industrial automation sales increased during 2007, offsetting weaker than expected sales for MDC applications. Management believes the growth in domestic industrial automation revenues is the result of increased sales manager and reseller activity when compared to 2006.

The Company's domestic sales included sales of the Company's products for MDC systems to public entities, which accounted for 8% of the Company's domestic sales during 2007. Management believes MDCS sales were weaker than expected during 2007 due to reduced funding for projects involving the Company's products, extended procurement cycle for public safety entities, and reduced sales manager activity during the first half of 2007. The Company hired a sales manager focused primarily on the MDCS market place late in the second quarter of 2007. Management believes the activities of this focused sales manager will have positive effects in MDCS revenues. An example of an MDC system for a public entity is a local area network (LAN), between police department computer dispatch centers and individual police vehicles. Management believes funding of MDC projects on local, state and federal levels cannot be guaranteed and therefore MDC projects involving the Company's products become very difficult to predict.

Domestic segment operating income decreased to \$311,594 for 2007 as compared with \$427,513 for 2006 due to increased operating expenses during 2007 when compared with 2006.

Foreign Revenues

The Company's foreign operating segment represents 30% of the Company's total net 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 2007, the Company had \$940,863 in foreign export sales, amounting to 30% of gross revenues for the year, compared with foreign export sales of \$517,099 for 2006, reflecting an increase of 82%. The increase is attributable primarily to increased sales of the Company's products for use in several industrial automation applications in Colombia. Products purchased by foreign customers were used primarily in industrial automation applications. Management believes the majority of foreign export sales are the results of the Company's Latin American sales staff, EST foreign reseller activity, and the Company's internet website presence.

Operating income for the foreign segment increased to \$481,822 for 2007 as compared with \$189,327 for 2006 due to increased sales revenues for the segment during 2007.

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, include salaries, wages and other expenses related to the performance of these support functions. Unallocated corporate expenses increased during 2007 to \$330,281 as compared with \$273,826 for 2006, and represented expense to total net revenue percentage of 11% and 10% respectively. The increase during 2007 was the result of increased professional services

expenses, profit sharing bonuses accrued for 2007 profitability and segment related wages, when compared with 2006.

As of December 31, 2007, the Company had a backlog of \$35,000 in sales orders. The Company's customers generally place orders on an "as needed basis". Shipment for the Company's products is generally completed within 1 to 15 working days after receipt of customer orders, with the exception of ongoing, scheduled projects, and custom designed equipment for specific customer applications.

COST OF SALES: Cost of Sales, as a percentage of gross sales, was 38% and 39% respectively, for 2007 and 2006. Cost of Sales variances are the result of the product mix sold, 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 2007 and 2006 were as follows:

	2007	2006
Parts	\$250,701	\$255,793
Work in progress	108,101	108,162
Finished goods	239,399	218,960
TOTAL	\$598,201	\$582,915

The Company's objective is to maintain inventory levels as low as possible to provide maximum cash liquidity, while at the same time, meet production and delivery requirements. Approximately 10% of the Company's inventory at December 31, 2007

consisted of parts having lead times ranging from 12 to 16 weeks. Some parts are maintained at high levels to assure availability to meet production requirements, and accordingly, account for a significant portion of the Company's inventory value. Based on past experience with component availability, distributor relationships, and inventory levels, the Company does not foresee shortages of materials used in production. However, developments in the electronic component marketplace, involving components used by the Company which are also used in cellular phones, pagers and other personal technology devices, have the potential of creating negative availability and delivery issues for components used by the Company. The Company has been able to procure parts on a timely basis as of the date of this report, however procurement cannot be guaranteed in the future. If shortages were to occur, material interruption of production and product delivery to customers could occur. Inventory levels increased between December 31, 2006 and December 31, 2007, due to the Company increasing production and finished goods levels to meet increased sales activity during 2007.

OPERATING EXPENSES: Operating expenses increased to \$1,467,051 in 2007, from 2006 levels of \$1,282,761. Material changes in expenses are comprised of the following components: Advertising expense decreased to \$9,040 from \$17,558 in 2006 due to timing differences in trade publication advertising when compared with 2006. Depreciation expense decreased during 2007 to \$54,433 from 2006 levels of \$59,401 due to the Company's decreased assets when compared with 2006. Supplies and materials expense decreased to \$44,740 for 2007 from 2006 levels of \$49,850 due to decreased research and development related supplies employed in product development during 2007. Professional services expense increased to \$333,603 from 2006 levels of \$191,817 due to significantly increased subcontracted software development and engineering expertise contracted by the Company during 2007, and increased administrative related contracted professional services. Travel expenses increased to \$100,553 for 2007, compared to \$85,145 for 2006, due to increased sales and customer support related activities when compared with 2006. Salaries, benefits and related taxes increased to \$1,186,450 in 2007, from 2006 levels of \$1,012,199, due to wages paid by the Company for additional employees hired during 2007 when compared with 2006.

FISCAL YEAR 2006 vs. FISCAL YEAR 2005

GROSS REVENUES: Total revenues for the fiscal year 2006 were \$2,666,120 reflecting an 8% increase from \$2,460,506 gross revenues for fiscal year 2005. The increase in total revenues is the result of increased interest revenues and a small increase in product sales revenues during 2006. Product sales increased to \$2,617,810 in 2006, as compared to 2005 sales of \$2,417,700, reflecting a sales increase of 8%. Management believes the increase in sales revenues were the result of increases in domestic MDC sales and foreign sales. The growth in MDC sales was due to the completion of a large MDC project using the Company's products in the State of Mississippi during 2006. The Company's products being employed in a large industrial automation project in Colombia during 2006 resulted in increased foreign sales revenues. The Company's domestic industrial automation sales did not experience any growth during 2006. Management believes the lack of growth in domestic industrial automation revenues is the continuation of a pattern seen in 2005 and is the result of continued product and price competition in the industrial automation market.

Interest revenues increased to \$48,310 from 2005 levels of \$42,806 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 13 Segment Reporting .

Domestic Revenues

The Company's domestic operations represent 81% of the Company's total net 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 \$2,149,021 for the year ended 2006, compared to \$2,001,143 for the year ended 2005, reflecting an increase of 7%. The increase in domestic revenues is attributable to increased sales for MDC applications during 2006. A majority of the Company's domestic product sales during 2006 were employed in industrial automation applications. An example of an industrial automation application is a municipal water treatment operation, which employs the ESTeem modem to transmit industrial control information to and from control room areas via a wireless communications infrastructure. It is the opinion of Management that industrial automation applications will continue to provide the largest portion of the Company's revenues in the foreseeable future. The Company's domestic industrial automation sales did not experience any growth during 2006. Management believes the lack of growth in domestic industrial automation revenues is the continuation of a pattern seen in 2005 and is the result of continued product and price competition in the industrial automation market.

The Company's domestic sales were augmented by sales of the Company's products for MDC systems to public entities, which accounted for 25% of the Company's domestic sales during 2006. The growth in MDC sales was due to the completion of a large MDC project using the Company's products in the State of Mississippi during 2006. An example of an MDC system for a public entity is a local area network (LAN), between police department computer dispatch centers and individual police vehicles. Management believes funding of MDC projects on local, state and federal levels cannot be guaranteed and therefore MDC projects involving the Company's products become very difficult to predict.

Domestic segment operating income increased to \$427,513 for 2006 as compared with \$225,967 for 2005 due to increased profit margin on the products and services sold during 2006 when compared with 2005.

Foreign Revenues

The Company's foreign operating segment represents 19% of the Company's total net 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 2006, the Company had \$517,099 in foreign export sales, amounting to 19% of gross revenues for the year, compared with foreign export sales of \$459,363 for 2005, reflecting an increase of 13%. The increase is attributable to increased sales revenues in Latin America, particularly Colombia where the Company's products were installed in a large industrial automation application. Products purchased by foreign customers were used primarily in industrial automation applications. Management believes the majority of foreign export sales are the results of the Company's Latin American sales staff, EST foreign reseller activity, and the Company's internet website presence.

Operating income for the foreign segment increased to \$189,327 for 2006 as compared with \$169,632 for 2005 due to increased sales revenues for the segment during 2006.

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 2006 to \$273,826 as compared with \$220,842 for 2005, and represented expense to total net revenue percentage of 10% and 9% respectively. The increase during 2006 was the result of increased profit sharing bonuses

accrued for 2006 profitability, recognition of share based compensation, increased state taxes and professional services when compared with 2005.

OPERATING EXPENSES: Operating expenses increased to \$1,282,761 in 2006, from 2005 levels of \$1,140,174. Material changes in expenses are comprised of the following components: Advertising increased to \$17,558 from \$12,679 in 2005 due to timing differences in trade publication advertising when compared with 2005. Sales Commissions decreased to \$4,144 in 2006 due to decreased commissions paid to third parties when compared with 2005. Depreciation expense decreased during 2006 to \$59,401 from 2005 levels of \$71,031 due to the Company's decreased assets when compared with 2005. Supplies and materials expense increased to \$49,850 for 2006 from 2005 levels of \$25,789 due to increased research and development related supplies employed in product development during 2006. Professional services increased to \$191,817 from 2005 levels of \$100,785 due to increased subcontracted software development and engineering expertise employed by the Company during 2006. Rent and Utilities expense increased to \$53,751 during 2006 as compared with \$44,072 during 2005 due to the Company moving to a larger leased facility during the fourth quarter of 2005. Telephone expenses decreased during 2006 to \$12,935 as compared to \$15,161 during 2005 due to a temporary reduction in sales personnel during 2006. Travel expenses decreased to \$85,145 for 2006, compared to \$119,278 for 2005, due to decreased sales and customer support related activities when compared with 2005. Salaries, benefits and related taxes, decreased to \$1,012,199 in 2006, from 2005 levels of \$1,030,027, due to wages paid by the Company decreasing as a result of the Company having a net loss of three employees during 2006 when compared with 2005.

LIQUIDITY AND CAPITAL RESOURCES

The Company's revenues and expenses resulted in net income of \$319,322 for 2007, increased from net income of \$226,089 for 2006. The increase in net income is the result of increased sales revenues and increased interest income, when compared with 2006. At December 31, 2007, the Company's working capital was \$3,046,967 compared with \$2,824,793 at December 31, 2006. 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 16 weeks, require the Company to maintain high inventory levels. It is Management's opinion that the Company's working capital as of December 31, 2007 is adequate for expected resource requirements for the next twelve months.

The Company's current asset to current liability ratio at December 31, 2007 was 13.2:1 compared to 10.1:1 at December 31, 2006. The increase in current asset ratio is the result of increased certificate of deposit investments and decreased federal income taxes payable at year-end 2007, when compared with 2006.

The Company's cash resources at December 31, 2007, including cash and cash equivalent liquid assets, were \$1,479,985, compared to cash resources of \$1,487,848 at year-end 2006. The Company's cash and cash equivalent assets are held in checking and money market investment accounts.

As of January 1, 2005, the Company entered into a 39-month agreement with Netsuite Inc. to provide the Company's customer relationship management and accounting software and related network infrastructure services. The current portion of the prepaid Netsuite Inc. services as of December 31, 2007, is reflected in prepaid expenses and amounted to \$6,500.

The Company's trade accounts receivable, adjusted for allowance for uncollectible accounts, at December 31, 2007, were \$281,064, compared to \$401,127 at year-end 2006. The decrease is the result of timing differences in sales and collections when compared with unusually strong sales late in December of 2006. Management believes that all of the Company's accounts receivable as of December 31, 2007 are collectible.

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, irrevocable letter of credit terms have been pre-arranged, 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, 2007, were \$598,201, reflecting an increase from December 31, 2006 levels of \$582,915. The increase in inventory between December 31, 2006 and December 31, 2007, is due to the Company increasing production and finished goods levels to meet increased sales activity during 2007.

The Company had capital expenditures during 2007 of \$49,219 primarily for production related test equipment and software, and computer system upgrades. 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, 2007, the Company's current liabilities were \$248,860, decreased from 2006 year-end levels of \$310,351. The decrease was

the result of decreased levels of federal income taxes payable when compared with year-end 2006.

The Company had no off balance sheet arrangements for the year ended December 31, 2007.

Inflation had minimal adverse effect on the Company's operations during 2007. Minimal adverse effect is anticipated during 2008.

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 registrations statements filed with the Securities and Exchange Commission.

ITEM 7. FINANCIAL STATEMENTS

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

FINANCIAL STATEMENTS

AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

TABLE OF CONTENTS

Page

Report of Independent Registered Public Accounting Firm

16

Financial Statements:

Balance Sheets

17-18

Statements of Income

19

Statements of Comprehensive Income

20

Statements of Changes in Stockholders' Equity

21

Statements of Cash Flows

22-23

Notes to Financial Statements

24-33

Supplemental Schedules of Operating Expenses

35

Supplemental Schedules of Selected Financial Data

36

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

Electronic Systems Technology, Inc.

415 N. Quay Building B1

Kennewick, WA 99336

We have audited the accompanying balance sheets of Electronic Systems Technology, Inc., dba ESTeem Wireless Modems, as of December 31, 2007 and 2006, and the related statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007. 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 standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. 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, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of operating expenses and selected financial data are presented for purposes of additional analyses and are not a required part of the basic financial statements. Such supplemental schedules have been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ MOE O SHAUGHNESSY & ASSOCIATES, P.S.

February 29, 2008

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

ASSETS

2007

2006

CURRENT ASSETS

Cash

\$ 35,004

\$ 55,665

Money market investment

1,444,981

1,432,183

Certificates of deposit

900,000

630,000

Accounts receivable, net of

allowance for doubtful accounts

of \$2,126 at 2007 and \$3,059 at

2006

281,064

401,127

Inventory