

ELECTRONIC SYSTEMS TECHNOLOGY INC
Form 10-Q
April 29, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **March 31, 2015**

OR

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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)

Washington

(State or other jurisdiction of incorporation) (Commission File Number)

000-27793

91-1238077

(IRS Employer Identification No.)

415 N. Quay St. Bldg B1 Kennewick WA

(Address of principal executive offices)

99336

(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 x 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 x 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 April 22, 2015, the number of the Company's shares of common stock par value \$0.001, outstanding was 5,158,667.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

BALANCE SHEETS

	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 545,767	\$ 637,086
Certificates of deposit investments	1,402,625	1,402,625
Accounts receivable	109,163	94,864
Inventories	666,478	719,137
Accrued interest receivable	2,944	3,109
Prepaid insurance	5,011	5,505
Prepaid expenses	22,776	8,919
Deferred income tax asset, current	38,700	49,600
Total current assets	2,793,464	2,920,845
Property and equipment, net of depreciation	96,557	91,907
Deferred income tax asset	34,601	31,301
Total assets	\$ 2,924,622	\$ 3,044,053
LIABILITIES and STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 14,716	\$ 14,573
Accrued liabilities	46,690	43,045
Refundable deposits	80	26,247
Total current liabilities	61,486	83,865
Total liabilities	61,486	83,865
COMMITMENTS and CONTINGENCIES (NOTES 5 & 7)		
Stockholders' equity		
Common stock, \$0.001 par value 50,000,000 shares	5,159	5,159

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authorized 5,158,667 shares issued and outstanding

Additional paid-in capital	1,007,861	1,007,861
Retained earnings	1,850,116	1,947,168
Total stockholders' equity	2,863,136	2,960,188
Total liabilities and stockholders' equity	\$ 2,924,622	\$ 3,044,053

See Notes to Financial Statements

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

	March 31, 2015	Three Months Ended March 31, 2014
PRODUCT SALES, net	\$ 428,026	\$ 448,809
SITE SUPPORT	21,846	51,015
COST OF SALES and SITE SUPPORT	(201,597)	(227,942)
GROSS PROFIT	248,275	271,882
OPERATING EXPENSES		
General and administrative	100,700	86,200
Research and development	73,122	58,849
Marketing	138,413	108,240
Customer service	28,248	27,332
Total operating expenses	340,483	280,621
OPERATING LOSS	(92,208)	(8,739)
OTHER INCOME		
Interest income	2,757	2,549
Total other income	2,757	2,549
NET LOSS BEFORE INCOME TAX	(89,451)	(6,190)
Benefit (provision) for income tax	(7,600)	240
NET LOSS	\$ (97,051)	\$ (5,950)
Basic and diluted loss per share	\$ (0.02)	\$ Nil
Weighted average shares used in computing loss per share		
Basic and diluted	5,158,667	5,158,667

See Notes to Financial Statements

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

STATEMENTS OF CASH FLOWS

(Unaudited)

	March 31, 2015	March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (97,051)	\$ (5,950)
Noncash items included in loss:		
Depreciation	8,330	2,531
Deferred income taxes	7,600	500
Share based compensation	-	2,245
Changes in operating assets and liabilities:		
Accounts receivable, net	(14,299)	(126,829)
Inventories	52,659	(94,972)
Accrued interest receivable	165	(915)
Prepaid insurance	-	4,506
Prepaid expenses	(13,363)	10,101
Deposits	-	11,408
Accounts payable	143	945
Refundable deposits	(26,167)	(2,970)
Accrued liabilities	3,644	(9,359)
NET CASH USED IN OPERATING ACTIVITIES	(78,339)	(208,759)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Certificates of deposit redeemed	-	5,000
Purchase of equipment	(12,980)	(10,870)
NET CASH USED IN INVESTING ACTIVITIES	(12,980)	(5,870)
NET DECREASE IN CASH AND CASH EQUIVALENTS		
	(91,319)	(214,629)
Cash and cash equivalents at beginning of period	637,086	896,581
Cash and cash equivalents at end of period	\$ 545,767	\$ 681,952
Cash and cash equivalents:		
Cash	\$ 227,890	\$ 50,158
Cash equivalents	317,877	631,794
Total cash and cash equivalents	\$ 545,767	\$ 681,952

See Notes to Financial Statements

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

NOTES TO FINANCIAL STATEMENTS

(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, 2015 and March 31, 2014. 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 principles 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 reformatted 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, 2014 as filed with Securities and Exchange Commission.

The results of operations for the three-month period ended March 31, 2015 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	December 31
	2015	2014
Parts	\$ 232,007	\$ 283,375
Work in progress	247,158	276,853
Finished goods	187,312	158,909
Total inventory	\$ 666,478	\$ 719,137

NOTE 3 - EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share 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 earnings (loss) per share 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. At March 31, 2015 the Company had 295,000 outstanding stock options that could have a dilutive effect on future periods' income. However, diluted earnings per share are not presented because their effect would be antidilutive due to Company's losses.

NOTE 4 - STOCK OPTIONS

As of March 31, 2015, 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. The Board of Directors did not issue stock options during the first quarter ended March 31, 2015. The Board of Directors will consider issuing stock options later in 2015.

The fair value of options granted in 2014 is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in:

	2014
Dividend yield	0.00%
Expected volatility	75%
Risk-free interest rate	0.68%
Expected term (in years)	3
Fair Value per Option Granted	\$0.20

The Company uses historical data to estimate option exercise rates. The option exercise rate for option grants in 2014 was 6.00%. All options vested immediately upon issue.

A summary of option activity during the quarter ended March 31, 2015 is as follows:

	Number Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Life (Years)	Approximate Aggregate Intrinsic Value
Outstanding and Exercisable at December 31, 2014	440,000	\$0.36		
Granted	-	-		
Expired	(145,000)	0.37		
Outstanding and Exercisable at March 31, 2015	295,000	\$0.36	1.67	\$14,750

A summary of option activity during the quarter ended March 31, 2014 is as follows:

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	Number Outstanding	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Life (Years)	Approximate Aggregate Intrinsic Value
Outstanding and Exercisable at December 31, 2013	525,000	\$ 0.38		
Granted	175,000	0.44		
Expired	(185,000)	0.44		
Outstanding and Exercisable at March 31, 2014	515,000	\$ 0.40	2.33	\$ 10,300

NOTE 5 - LEASES

The Company leases its facilities from a port authority for \$5,251 per month for three years, expiring in September 2017, with annua