

ELECTRONIC SYSTEMS TECHNOLOGY INC
Form 10-Q
November 12, 2009

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 **September 30, 2009**

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)

Washington
(State or other jurisdiction of incorporation)

000-27793
(Commission File Number)

91-1238077
(IRS Employer
Identification No.)

415 N. Quay St. Bldg B1 Kennewick WA 99336
(Address of principal executive offices) (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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of September 30, 2009, 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.

SELECTED FINANCIAL DATA

(as prepared by Management)

(Unaudited)

Nine Months Ended	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Sales	\$ 1,351,297	\$ 1,667,605
Other Revenues	20,983	48,515
Gross Profit	788,613	946,608
Net Income (Loss) Before Taxes	4,475	(125,554)
Net Income (Loss) After Taxes	8,475	(108,068)
Earnings (Loss) Per Share Before Taxes		
Basic	\$ 0.00	\$ (0.02)
Diluted	0.00	(0.02)
Earnings (Loss) Per Share After Taxes		
Basic	\$ 0.00	\$ (0.02)
Diluted	0.00	(0.02)
Weighted Average Shares Outstanding		
Primary	5,158,667	5,157,660
Diluted	5,160,637	5,185,923
Total Assets	\$ 3,049,721	\$ 3,198,767
Long-Term Debt and Capital Lease Obligations	\$ 0	\$ 0

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Shareholders' Equity	\$	2,942,564	\$	2,977,886
Shareholders' Equity Per Share	\$	0.57	\$	0.58
Working Capital	\$	2,859,109	\$	2,857,346
Current Ratio		35.7:1		16.9:1
Equity To Total Assets		96%		93%

ELECTRONIC SYSTEMS TECHNOLOGY, INC.**BALANCE SHEETS**

(as prepared by Management)

(Unaudited)

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 939,181	\$ 512,800
Short Term Certificates of Deposit Investments	1,245,000	1,432,000
Accounts Receivable, Net of Allowance for Uncollectibles	126,393	195,429
Inventory	546,409	639,779
Accrued Interest	2,619	13,521
Prepaid Federal Income Taxes	31,600	37,600
Federal Income Taxes Receivable	--	63,842
Prepaid Expenses	50,264	26,742
Total Current Assets	2,941,466	2,921,713
PROPERTY & EQUIPMENT, Net of Depreciation	80,615	110,722
OTHER ASSETS	340	340
Deferred Income Tax Benefit	27,300	27,100
TOTAL ASSETS	\$ 3,049,721	\$ 3,059,875
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 37,607	\$ 50,013
Refundable Deposits	1,988	--
Accrued Liabilities	42,762	43,535
Total Current Liabilities	82,357	93,548
Deferred Income Tax Liability	24,800	34,600
STOCKHOLDERS' EQUITY	5,159	5,159
Common Stock, \$.001 Par Value 50,000,000 Shares Authorized		
5,158,667 Shares Issued and Outstanding		

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Additional Paid-in Capital	992,662	990,300
Retained Earnings	1,944,743	1,936,268
	2,942,564	2,931,727
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,049,721	\$ 3,059,875

(See "Notes to Financial Statements")

ELECTRONIC SYSTEMS TECHNOLOGY, INC.**STATEMENTS OF OPERATIONS**

(as prepared by Management)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	<u>September 30,</u>	<u>September 30,</u>	<u>September 30,</u>	<u>September</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>30,</u>
				<u>2008</u>
SALES	\$ 379,269	\$ 606,559	\$ 1,351,297	\$ 1,667,605
COST OF SALES	166,814	248,024	562,684	720,997
Gross Profit	212,455	358,535	788,613	946,608
OPERATING EXPENSES				
Finance/Administration	53,360	58,146	195,954	229,985
Research & Development	67,139	126,818	202,602	386,826
Marketing	107,786	122,800	333,580	398,759
Customer Service	23,310	30,703	72,985	105,107
Total Operating Expense	251,595	338,467	805,121	1,120,677
OPERATING INCOME (LOSS)	(39,140)	20,068	(16,508)	(174,069)
Other Income (Expenses)				
Interest/Investment Income	3,998	13,295	20,983	47,990
Uncollectible Amounts Recovered	--	--	--	525
Net Other Income (Expense)	3,998	13,295	20,983	48,515
INCOME (LOSS) BEFORE TAX	(35,142)	33,363	4,475	(125,554)
Provision For Income Tax	7,500	(7,914)	4,000	17,486
NET INCOME (LOSS)	\$ (27,642)	\$ 25,449	\$ 8,475	\$(108,068)
Basic Earnings (Loss) Per Share Before Tax				
Basic Earnings (Loss) Per Share Before Tax	(\$ 0.01)	\$ 0.01	\$ 0.00	(\$ 0.02)
Basic Earnings (Loss) Per Share After Tax				
Basic Earnings (Loss) Per Share After Tax	(\$ 0.01)	\$ 0.01	\$ 0.00	(\$ 0.02)
Diluted Earnings (Loss) Per Share Before Tax				
Diluted Earnings (Loss) Per Share Before Tax	(\$ 0.01)	\$ 0.01	\$ 0.00	(\$ 0.02)
Diluted Earnings (Loss) Per Share After Tax				
Diluted Earnings (Loss) Per Share After Tax	(\$ 0.01)	\$ 0.01	\$ 0.00	(\$ 0.02)

(See "Notes to Financial Statements")

ELECTRONIC SYSTEMS TECHNOLOGY, INC.**STATEMENTS OF CASH FLOWS**

(as prepared by Management)

(Unaudited)

Nine Months Ended	<u>September 30.</u> <u>September 30.</u>	
	<u>2009</u>	<u>2008</u>
CASH FLOWS PROVIDED (USED) IN OPERATING ACTIVITIES:		
Net Income (Loss)	\$ 8,475	\$ (108,068)
Noncash items included in income:		
Depreciation	30,107	37,390
Prepaid Federal Income Taxes	6,000	(43,000)
Deferred Income Tax	(10,000)	(12,200)
Accrued Interest	10,902	3,209
Shared Based Compensation	2,362	5,880
DECREASE (INCREASE) IN CURRENT ASSETS:		
Accounts Receivable Net	69,036	137,249
Inventory	93,370	(129,965)
Federal Income Taxes Receivable	63,842	--
Prepaid Expenses	(23,522)	(29,909)
INCREASE (DECREASE) IN CURRENT LIABILITIES:		
Accounts Payable and Accrued Expenses	(13,179)	(108,787)
Refundable Deposits	1,988	52,212
Accrued Federal Income Taxes	--	(12,304)
	239,381	(208,293)
CASH FLOWS PROVIDED (USED) IN INVESTING ACTIVITIES:		
Certificates of Deposit Redeemed (Purchased)	187,000	(40,000)
Additions To Property And Equipment	--	(13,350)
	187,000	(53,350)
CASH FLOWS PROVIDED (USED) IN FINANCING ACTIVITIES:		
Stock Options Exercised	--	3,900
Cash Distribution Paid to Shareholders	--	(103,173)
	--	(99,273)

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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	426,381	(360,916)
Cash And Cash Equivalents At Beginning Of Period	512,800	1,479,985
Cash And Cash Equivalents At Ending of Period	\$ 939,181	\$ 1,119,069

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:

Cash Paid Year To Date:

Interest	\$ 0	\$ 0
Federal Income Taxes	\$ 0	\$ 50,018

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:

Cash And Cash Equivalents:

Cash	\$ 41,622	\$ 57,931
Money Market Accounts	897,559	1,061,138
	\$ 939,181	\$ 1,119,069

(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 and nine month periods ended September 30, 2009 and September 30, 2008. 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, 2008 as filed with Securities and Exchange Commission.

The results of operation for the three and nine month periods ended September 30, 2009 and September 30, 2008, 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:

	September 30 <u>2009</u>	December 31 <u>2008</u>
Parts	\$208,865	\$312,540
Work in progress	79,059	4
Finished goods	258,485	327,235
	\$546,409	\$639,779

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 was 5,158,667 and 5,157,660 for the nine months ended September 30, 2009 and September 30, 2008, respectively. The primary weighted average number of common shares outstanding for the three months ended September 30, 2009 and 2008 was 5,158,667.

NOTE 4 - STOCK OPTIONS

As of September 30, 2009, 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 19, 2009, 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 19, 2009 totaled 195,000 shares under option and have an exercise price of \$0.31 per share.

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The options granted on February 19, 2009 may be exercised any time during the period from February 19, 2009 through February 19, 2012. The Company's Form 8-K dated February 19, 2009, as filed with the Securities and Exchange Commission is incorporated herein by reference. All outstanding stock options must be exercised within 90 days after termination of employment.

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:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Dividend yield	6.06%	2.35%	1.43%
Expected volatility	108%	75%	39%
Risk-free interest rate	1.38%	2.24%	4.40%
Expected term (in years)	3	3	3
Estimated Fair Value per Option Granted	\$0.18	\$0.39	\$0.21

The Company uses historical data to estimate option exercise rates. The option exercise rate for option grants in 2009 through 2006 was 9%.

A summary of option activity during the nine months ended September 30, 2009 is as follows:

	Number Outstanding	Weighted-Average Exercise Price Per Share
Outstanding at January 1, 2009	570,000	\$0.72
Granted	195,000	0.31
Exercised	--	--
Canceled	(200,000)	0.68
Outstanding at September 30, 2009	565,000	0.60

For the third quarter of 2009, compensation expense charged against income for stock options was \$788 (\$520 after tax). No non-vested share-based compensation arrangements existed as of September 30, 2009.

NOTE 5 - RELATED PARTY TRANSACTIONS

For the nine-month period ended September 30, 2009 services in the amount of \$41,557 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 (requiring an FCC license or license free Ethernet products), related accessories for radio modem products for industrial automation projects, and mobile data computer products. The foreign segment sells the Company's products and services outside the United States.

During the quarter ended September 30, 2009, Domestic customers represented approximately 76% of total sales. Foreign customers represented approximately 24% of total sales. No sales to a single customer comprised 10% or more of the Company's sales revenues for the quarter ended September 30, 2009. Revenues from foreign countries consisted primarily of revenues from Mexico, Canada and Colombia.

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 third quarter of 2009 and 2008 is as follows:

	Unallocated			
	<u>Domestic</u>	<u>Foreign</u>	<u>Corporate</u>	<u>Total</u>
<u>Three months ended September 30, 2009</u>				
Total sales	\$288,509	\$90,760	\$ -	\$379,269
Total other income	3,998	-	-	3,998
Earnings (loss) before tax	(13,314)	31,532	(53,360)	(35,142)
Depreciation	9,399	-	637	10,036
Identifiable assets	625,938	46,863	2,376,920	3,049,721
Net capital expenditures	-	-	-	-
<u>Three months ended September 30, 2008</u>				
Total sales	\$498,939	\$107,620	\$ -	\$606,559
Total other income	13,295	-	-	13,295
Earnings (loss) before tax	49,838	41,671	(58,146)	33,363
Depreciation	11,972	-	690	12,662
Identifiable assets	829,297	17,276	2,352,194	3,198,767
Net capital expenditures	2,496	-	-	2,496
<u>Nine months ended September 30, 2009</u>				
Total sales	\$1,037,679	\$313,618	\$ -	\$1,351,297
Total other income	20,568	415	-	20,983
Earnings (loss) before tax	88,435	111,994	(195,954)	4,475
Depreciation	28,197	-	1,910	30,107
Identifiable assets	625,938	46,863	2,376,920	3,049,721
Net capital expenditures	-	-	-	-
<u>Nine months ended September 30, 2008</u>				
Total sales	\$1,232,562	\$435,043	\$ -	\$1,667,605

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Total other income	48,515	-	-	48,515
Earnings (loss) before tax	(64,348)	168,779	(229,985)	(125,554)
Depreciation	35,359	-	2,031	37,390
Identifiable assets	829,297	17,276	2,352,194	3,198,767
Net capital expenditures	9,852	-	3,498	13,350

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UBS AG Trigger Phoenix

Autocallable Optimization

Securities due on or about April 23, 2020

Amendment No. 1

Dated April 22, 2019 to the

Preliminary Terms Supplement dated April 18, 2019
(To Prospectus Supplement dated November 1, 2018,
Product Supplement dated October 31, 2018 and
Prospectus dated October 31, 2018)

UBS Investment Bank

UBS Financial Services Inc.