

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 **June 30, 2020**

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**

(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)

Securities registered pursuant to Section 12(g) of the Act:

<b>Title of Each Class</b>	<b>Trading Symbol(s)</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, \$0.001 par value	ELST	OTCQB

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer

Non-Accelerated Filer

Accelerated Filer

Small Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 12, 2020, the number of the Company's shares of Common Stock par value \$0.001, outstanding was 4,946,502.

**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

ELECTRONIC SYSTEMS TECHNOLOGY, INC.  
BALANCE SHEETS  
(Unaudited)

	June 30, 2020	December 31, 2019
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 394,875	\$ 274,936
Certificates of deposit	499,999	650,000
Accounts receivable, net	53,402	76,959
Inventories	803,528	822,819
Prepaid expenses	20,395	20,910
Accrued interest receivable	4,590	6,540
Total current assets	1,776,789	1,852,164
Property and equipment, net of depreciation	8,922	12,398
Right to use – Lease, net of amortization (NOTE 6)	13,214	39,641
<b>Total assets</b>	<b>\$ 1,798,925</b>	<b>\$ 1,904,203</b>
<b>LIABILITIES and STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 26,041	\$ 101,548
Refundable deposits	1,060	2,070
Accrued wages and bonus	3,656	-
Accrued vacation pay	19,105	11,165
Lease liability, current (NOTE 6)	13,214	39,641
Other accrued liabilities	6,742	2,485
Total current liabilities	69,818	156,909
Long-term liabilities		
CARES Act loan payable (NOTE 8)	171,712	-
<b>Total liabilities</b>	<b>241,530</b>	<b>156,909</b>
Stockholders' equity		
Common stock, \$0.001 par value 50,000,000 shares authorized 4,946,502 and 4,946,502 shares issued and outstanding respectively	4,947	4,947
Additional paid-in capital	931,441	929,159
Retained earnings	621,007	813,188
Total stockholders' equity	1,557,395	1,747,294
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,798,925</b>	<b>\$ 1,904,203</b>

See Notes to Financial Statements.

**ELECTRONIC SYSTEMS TECHNOLOGY, INC.**  
**STATEMENTS OF OPERATIONS**  
(Unaudited)

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
<b>SALES - NET</b>	\$ 245,497	\$ 395,262	\$ 519,464	\$ 769,428
<b>COST OF SALES</b>	(132,395)	(189,458)	(281,625)	(365,374)
<b>GROSS PROFIT</b>	<u>113,102</u>	<u>205,804</u>	<u>237,839</u>	<u>404,054</u>
<b>Operating Expenses</b>				
General and administrative	69,957	69,188	165,670	162,694
Research and development	50,213	51,478	105,110	116,952
Marketing and sales	86,295	97,224	174,191	197,207
<b>TOTAL OPERATING EXPENSE</b>	<u>206,465</u>	<u>217,890</u>	<u>444,971</u>	<u>476,853</u>
<b>OPERATING INCOME (LOSS)</b>	(93,363)	(12,086)	(207,132)	(72,799)
<b>OTHER INCOME</b>				
Grant income (NOTE 8)	9,000	-	9,000	-
Interest income	2,488	5,867	5,951	11,755
<b>TOTAL OTHER INCOME</b>	<u>11,488</u>	<u>5,867</u>	<u>14,951</u>	<u>11,755</u>
<b>NET INCOME (LOSS) BEFORE INCOME TAX</b>	(81,875)	(6,219)	(192,181)	(61,044)
Benefit (provision) for income tax	-	-	-	-
<b>NET INCOME (LOSS)</b>	<u>\$ (81,875)</u>	<u>\$ (6,219)</u>	<u>\$ (192,181)</u>	<u>\$ (61,044)</u>
Basic and diluted earnings per share	<u>(\$0.02)</u>	<u>(\$0.00)</u>	<u>(\$0.04)</u>	<u>(\$0.01)</u>
Basic and diluted weighted average shares used in computing income (loss) per share:	<u>4,946,502</u>	<u>4,946,502</u>	<u>4,946,502</u>	<u>4,949,754</u>

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.  
STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended	
	June 30, 2020	June 30, 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (192,181)	\$ (61,044)
Noncash items included in net loss:		
Depreciation	3,476	3,985
Share based compensation	2,282	-
Changes in operating assets and liabilities:		
Accounts receivable, net	23,557	(80,709)
Inventories	19,291	65,974
Accrued interest receivable	1,950	6,495
Prepaid expenses	515	(4,462)
Accounts payable	(75,507)	(14,084)
Refundable deposits	(1,010)	(8,085)
Other accrued liabilities	15,853	8,513
<b>NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES</b>	<b>(201,774)</b>	<b>(83,417)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Certificates of deposit redeemed	450,001	900,000
Certificates of deposit purchased	(300,000)	(900,000)
<b>NET CASH PROVIDED FROM INVESTING ACTIVITIES</b>	<b>150,001</b>	<b>-</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES:</b>		
Repurchase of shares of common stock	-	(14,920)
Proceeds from CARES Act loan payable	171,712	-
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>171,712</b>	<b>(14,920)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>119,939</b>	<b>(98,337)</b>
Cash and cash equivalents at beginning of period	274,936	323,667
Cash and cash equivalents at end of period	<b>\$ 394,875</b>	<b>\$ 225,330</b>

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.  
DBA ESTEEM WIRELESS MODEMS

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount			
<b>Balances, January 1, 2019</b>	4,985,748	\$ 4,986	\$ 944,040	\$ 1,004,145	\$ 1,953,171
Net income (loss)	-	-	-	(54,825)	(54,825)
Common stock repurchased	(39,246)	(39)	(14,881)	-	(14,920)
<b>Balance at March 31, 2019</b>	4,946,502	\$ 4,947	\$ 929,159	\$ 943,320	\$ 1,883,426
Net income (loss)	-	-	-	(6,219)	(6,219)
<b>Balance at June 30, 2019</b>	4,946,502	\$ 4,947	\$ 929,159	\$ 943,101	\$ 1,877,207
<b>Balances, January 1, 2020</b>	4,946,502	\$ 4,947	\$ 929,159	\$ 813,188	\$ 1,747,294
Net income (loss)	-	-	-	(110,306)	(110,306)
Stock based compensation	-	-	2,282	-	2,282
<b>Balance at March 31, 2020</b>	4,946,502	\$ 4,947	\$ 931,441	\$ 702,882	\$ 1,639,270
Net income (loss)	-	-	-	(81,875)	(81,875)
<b>Balance at June 30, 2020</b>	4,946,502	\$ 4,947	\$ 931,441	\$ 621,007	\$ 1,557,395

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.  
NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

**NOTE 1 - BASIS OF PRESENTATION**

The financial statements, including notes, of Electronic Systems Technology, Inc. (the "Company") are representations of the Company's management, which is responsible for their integrity and objectivity. The accompanying unaudited financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, as well as the instructions to Form 10-Q. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of June 30, 2020, and its results of operations, cash flows, and changes in stockholders' equity for the three months and six months ended June 30, 2020 and 2019. The balance sheet at December 31, 2019 was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements. All amounts presented are in U.S. dollars. For further information, refer to the financial statements and footnotes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

The results of operations for the three month and six-month period ended June 30, 2020 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period. The Company estimates that for 2020 the anticipated effective annual federal income tax rate will be 0%.

*Accounting Standards Updates Adopted*

In August 2018, the FASB issued ASU No. 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The update removes, modifies and makes additions to the disclosure requirements on fair value measurements. The update is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this update on January 1, 2020 had no impact on the financial statements.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

**NOTE 2 - INVENTORIES**

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

	June 30, 2020	December 31, 2019
Parts	\$ 117,383	\$ 116,843
Work in progress	398,357	379,987
Finished goods	287,788	325,989
Total inventories	<u>\$ 803,528</u>	<u>822,819</u>

ELECTRONIC SYSTEMS TECHNOLOGY, INC.  
NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

**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 shares of Common Stock 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 June 30, 2020 and 2019, the Company had 180,000 and 120,000 outstanding stock options, respectively, that could have a dilutive effect on future periods' net 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 June 30, 2020, 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 March 13, 2020, the Board of Directors canceled all 120,000 outstanding stock options that were granted on August 7, 2017 and due to expire on August 6, 2020. In addition, the Board of Directors granted 180,000 options to employees. The new options have an exercise price of \$0.40, a term of 5 years, and vested immediately. The fair value of the options was determined using the Black-Scholes model using the following variables: stock price of \$0.40, volatility of 79.27%, expected term of 5 years with a forfeiture rate of 95%, and a discount factor of 0.72%. Share based compensation of \$2,282 was recognized during the six-month period ended June 30, 2020.

A summary of option activity during the six-month period ended June 30, 2020 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, 2019	120,000	\$0.40	0.6	Nil
Granted	180,000	\$0.40	5.0	
Canceled	(120,000)	\$0.40	-	
Outstanding and Exercisable at June 30, 2020	180,000	\$0.40	4.7	Nil

ELECTRONIC SYSTEMS TECHNOLOGY, INC.  
NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

**NOTE 5 – REVENUE**

The Company derives revenues from the sales of industrial wireless products and accessories such as antennas, power supplies and cable assemblies. The Company also provides direct site support and engineering services to customers, such as repair and upgrade of its products. The Company's customers, to which trade credit terms are extended, consist of United States and local governments and foreign and domestic companies.

	For the three-month period ending June 30,					
	2020			2019		
	Domestic Sales	Foreign Sales	Total Sales	Domestic Sales	Foreign Sales	Total Sales
Product Sales	\$ 211,164	\$ 33,233	\$ 244,397	\$ 309,479	\$ 57,583	\$ 367,062
Site Support Sales	1,100	-	1,100	28,200	-	28,200
Total Sales	\$ 244,397	\$ 33,233	\$ 245,497	\$ 337,679	\$ 57,583	\$ 395,292

	For the six-month period ending June 30,					
	2020			2019		
	Domestic Sales	Foreign Sales	Total Sales	Domestic Sales	Foreign Sales	Total Sales
Product Sales	\$ 432,139	\$ 65,225	\$ 497,364	\$ 596,894	\$ 139,557	\$ 736,451
Site Support Sales	22,100	-	22,100	32,977	-	32,977
Total Sales	\$ 454,239	\$ 65,225	\$ 591,464	\$ 629,871	\$ 139,557	\$ 769,428

For the three-month period ended June 30, 2020, sales to three customers represented more than 10% of total revenue, three customers represented more than 10% of total revenue for the same period in 2019.

	2020 Sales	2020 % of Total Sales	2019 Sales	2019 % of Total Sales
Domestic customer A	\$ 28,384	12%	\$ 40,362	10%
Domestic customer B	\$ 27,802	11%	\$ 39,569	10%
Domestic customer C	\$ 24,473	10%	\$ 37,725	10%

For the six-month period ended June 30, 2020, sales to one customer represented more than 10% of total revenue, two customers represented more than 10% of total revenue for the same period in 2019.

	2020 Sales	2020 % of Total Sales	2019 Sales	2019 % of Total Sales
Domestic customer A	57,702	11%	122,503	16%
Domestic customer B	-	-	79,950	10%

As of June 30, 2020 and 2019, the Company had a sales order backlog of \$4,118 and \$3,307, respectively.



ELECTRONIC SYSTEMS TECHNOLOGY, INC.  
NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

**NOTE 6 - LEASES**

The Company leases its facilities from a port authority for \$5,639 per month for three years, expiring in September 2020, with annual increases based upon the Consumer Price Index. The original lease was effective October 1, 2014 and contained a three-year renewal option and a provision for an annual increase of 2% per year, plus Leasehold Tax of 12.84%. On September 5, 2017, the Company exercised the three-year option. The first year of this option was not subject to the 2% increase. The current lease does not contain the option to extend the lease. However, the Company believes that a new lease agreement will be signed prior to the expiration of the current lease. At June 30, 2020, the remaining lease term is .25 years

For the three month and six-month periods ended June 30, 2020 and 2019, lease expenses of \$16,918 and \$16,627, and \$33,836 and \$33,254 respectively, are included in the following expense classifications on the statement of operations:

	For the three-month period ending June 30,					
	2020			2019		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Base rent pursuant to lease agreement	\$ 2,998	\$ 11,995	\$ 14,993	\$ 2,947	\$ 11,788	\$ 14,735
Variable lease costs	385	1,540	1,925	378	1,514	1,892
Total lease costs	\$ 3,383	\$ 13,535	\$ 16,918	\$ 3,325	\$ 13,302	\$ 16,627

	For the six-month period ending June 30,					
	2020			2019		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Base rent pursuant to lease agreement	\$ 5,996	\$ 23,990	\$ 29,986	\$ 5,894	\$ 23,576	\$ 29,470
Variable lease costs	770	3,080	3,850	756	3,028	3,784
Total lease costs	\$ 6,766	\$ 20,070	\$ 33,836	\$ 6,650	\$ 26,604	\$ 33,254

As of June 30, 2020, total future lease payments are as follows:

From July 1, 2020 to October 1, 2020	\$ 14,994
Less imputed interest	(1,780)
Net lease liability	13,214
Current portion	13,214
Long-term portion	\$ -

ELECTRONIC SYSTEMS TECHNOLOGY, INC.  
NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

**NOTE 7 – STOCK REPURCHASE**

On January 13, 2016, the Company’s Board of Directors approved a resolution authorizing the repurchase of up to \$100,000 of the Company’s Common Stock at the price of \$0.38 per share. The Company’s share repurchase program does not obligate it to acquire any specific number of shares. On March 2, 2016, the Company’s Board of Director approved a resolution authorizing the repurchase of an additional \$150,000 of the Company’s Common Stock at the price of \$0.38 per share. Under the program (the “Stock Repurchase Plan”), shares may be repurchased in open market transactions, complying with Rule 10b5-1 and Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Shares repurchased are retired. During the six-month period ended June 30, 2020, no shares were repurchased; 39,246 shares for \$14,920 were repurchased in the six-month period ended June 30, 2019. Since inception of the Stock Repurchase Plan, the Company has repurchased 212,165 shares for a total of \$80,622 through June 30, 2020 and \$169,378 of the original \$250,000 approved by the board remains.

On April 23, 2020 repurchases were suspended indefinitely.

**NOTE 8 – CARES ACT LOANS PAYABLE**

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (the “CARES Act”) Act was signed into United States law.

In April 2020, the Company received a loan of \$171,712 pursuant to the Paycheck Protection Program (the “PPP”) under Division A, Title I, Section 1102 and 1106 of the CARES Act. The loan, which was in the form of a promissory note, as amended, dated April 13, 2020 issued by the Company (the “Note”); the Note matures on April 13, 2022 and bears interest at a rate of 1% per annum, payable monthly commencing on August 13, 2021. The Note may be prepaid by the Company at any time prior to maturity with no prepayment penalties. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. Qualifying expenses include payroll costs, costs used to continue group health care benefits, mortgage payments, rent, and utilities. The Company intends to use the entire loan amount for qualifying expenses, but there is no guarantee that the loan will be forgiven.

During the three months ended June 30, 2020, the Company received \$9,000 under Division A, Title I, Section 1110 of the CARES Act. The Company is not required to pay this amount back and thus recognized \$9,000 as government grant income during the period.

## 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 ended June 30, 2020. The following statements may be forward looking in nature and actual results may differ materially.*

#### A. RESULTS OF OPERATIONS

As a result of COVID-19, and governmental responses thereto, are experiencing some negative impacts to our business, primarily as a result of reductions in staffing by our customers, and their customers, which is lengthening our normal sales cycles. Many of our customers are also restricting visits from vendors. All of our planned trade shows and sales presentations have been canceled or postponed as a result of the risks associated with face to face meetings. We have utilized various platforms to provide current customers and potential customers with presentations about our products and services. We have also experienced some delays in our supply chain but none of these COVID-19 related disruptions, to the supply chain, has been significant at this point.

REVENUES: Total revenues from sales decreased to \$245,497 for the second quarter of 2020 as compared to \$395,262 in the second quarter of 2019, reflecting a decrease of 38%. Management believes the decrease in sales revenues is due to the impact of the COVID-19 stay at home orders when compared with the same quarter of 2019. Year to date total revenues from sales decreased to \$519,464 in 2020 as compared to \$769,428 in 2019, reflecting a decrease of 32.5%. Management believes the decrease in sales revenues is due to the impact of the COVID-19 stay at home orders when compared with the same period of 2019.

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.

Although the COVID-19 situation represents a significant disruption to operations in 2020, we have taken steps intended to keep our staff safe. Staff, whose jobs allow, are telecommuting. Those whose jobs require specialized equipment continue to work on site and are keeping safe distances to minimize the potential to contract or spread the virus. We are observing social distancing for those employees that remain on-site. Masks have been provided to all employees to minimize the risk of exposure. Daily monitoring of temperatures as well as adding sanitizers have also been instituted.

A percentage breakdown of the Company's market segments of Domestic and Foreign Export sales for the three and six month periods ended June 30, 2020 and 2019 are as follows:

	Three Months ended June 30, 2020	Three Months ended June 30, 2019	Six Months ended June 30, 2020	Six Months ended June 30, 2019
Domestic Sales	87%	85%	87%	82%
Export Sales	13%	15%	13%	18%

## BACKLOG:

As of June 30, 2020, the Company had a sales order backlog of \$4,118. 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 5 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 second quarters of 2020 and 2019 were 54% and 48% of respective net sales. The cost of sales percentage increase in the second quarter of 2020 is the result of the product mix sold during the same quarter of 2019. Cost of sales percentages for the six month periods ended June 30, 2020 and 2019 were 54% and 47%. The cost of sales percentage increase in the second quarter of 2020 is the result of the product mix sold during the same period of 2019.

## OPERATING EXPENSES:

Operating expenses for the second quarter of 2020 decreased \$11,425 from second quarter of 2019 levels. The following is a delineation of operating expenses:

	Three Months Ended			Six Month Ended		
	June 30, 2020	June 30, 2019	Increase (Decrease)	June 30, 2020	June 30, 2019	Increase (Decrease)
General and administrative	\$ 69,957	\$ 69,188	\$ 769	\$ 165,670	\$ 162,694	\$ 2,976
Research and development	50,213	51,478	(1,265)	105,110	116,952	(11,842)
Marketing and sales	86,295	97,224	(10,929)	174,191	197,207	(23,016)
Total operating expenses	\$ 206,465	\$ 217,890	\$ (11,425)	\$ 444,971	\$ 476,853	\$ (31,882)

**General and administrative:** For the second quarter of 2020, general and administrative expenses increased \$769 to \$69,957, due to increased wages when compared with the same quarter of 2019. For the six-month period, general and administrative expenses increased by \$2,976 to \$165,670, due to increased wages and professional services.

**Research and development:** Research and development expenses decreased \$1,265 to \$50,213 during the second quarter of 2020 due to decreased expenses related to prototype build costs when compared with the same quarter of 2019. For the six-month period, research and development expenses decreased by \$11,842 to \$105,110, due to decreased prototype build costs.

**Marketing and sales:** During the second quarter of 2020, marketing and sales expenses decreased \$10,929 to \$86,295 when compared with the same period of 2019, due to decreased payroll and decreased travel expense related to cancellation of trade shows during the second quarter of 2020. For the six-month period, marketing and sales expenses decreased by \$23,016 to \$174,191, due to decreased travel and trade shows.

## OTHER INCOME:

The Company earned \$2,488 in interest income during the quarter ended June 30, 2020 and \$5,951 for the six-month period. Sources of this income were money market accounts and certificates of deposit. The Company received a government grant under the CARES Act in the amount of \$9,000 for COVID relief.

## **NET LOSS:**

The Company had a net loss of \$81,875 for the second quarter of 2020 compared to a net loss of \$6,219 for the same quarter of 2019. For the six-month period ended June 30, 2020, the Company recorded a net loss of \$192,181 compared with a net loss of \$61,044 for the same period of 2019. The increase in net loss during 2020 is the result of decreased sales revenues and gross income.

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

The Corporation's current asset to current liabilities ratio at June 30, 2020 was 25.4 compared to 11.8 at December 31, 2019. The increase in current ratio is due to the reduction in accounts payable and the current portion of lease liability at June 30, 2020 as compared to December 31, 2019.

At June 30, 2020, the Company had cash and cash equivalents of \$394,875 as compared to cash and cash equivalent of \$274,936 at December 31, 2019, primarily reflecting cash provided in investing and financing activities.

Cash used in operating activities increased by \$118,357 for the six-month period ended June 30, 2020 when compared to the same period in 2019. The increase is attributable to an increase in net loss for the period being \$131,137 greater than the same period in 2019.

Net cash provided from investing was \$150,001 due to the redemption of certificates of deposits maturing during the first half of 2020. Cash provided from financing activities was \$171,712, which were the proceeds of the CARES Act loan received during the six-month period ended June 30, 2020. We believe that the entire loan will be forgiven based on recent amendments to the CARES Act for forgiveness.

In management's opinion, the Company's cash and cash equivalents and other working capital at June 30, 2020 is sufficient to satisfy requirements for operations, capital expenditures, and other expenditures as may arise during 2020.

As a result of COVID-19, and governmental responses thereto, we are experiencing some negative impacts to our business, primarily as a result of reductions in staffing by our customers, and their customers, which is lengthening our normal sales cycles. Many of our customers are also restricting visits from vendors. All of our planned trade shows and sales presentations have been canceled or postponed as a result of the risks associated with face to face meetings. We have utilized various platforms to provide current customers and potential customers with presentations about our products and services. We have also experienced some delays in our supply chain but none of these COVID-19 related disruptions has been significant at this point.

***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.***

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to its stockholders.

### **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. Our common stock, par value \$0.001 per share, is quoted on the OTC Markets Group QB (OTCQB) under the symbol "ELST". The OTCQB is a network of security dealers who buy and sell stock. The dealers are connected by a computer network which provides information on current "bids" and "asks" as well as volume information. The OTCQB is not considered a "national exchange". 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**

An evaluation has been performed under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Accounting 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 June 30, 2020. 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 June 30, 2020.

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.

### **Changes in Internal Control Over Financial Reporting**

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II—OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None.

### **Item 2. Unregistered Sales of Securities**

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not Applicable

### **Item 5. Other Information**

None.

**Item 6. Exhibits**

EXHIBIT NUMBER	DESCRIPTION
31.1	Section 302 Certification, CEO
31.2	Section 302 Certification, CFO
32.1	Section 906 Certification, CEO
32.2	Section 906 Certification, CFO
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document



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.

By: /s/ Michael W. Eller

Date: July 29, 2020

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Name: Michael W. Eller  
Title: President  
(Principal Executive Officer)

By: /s/ Michael W. Eller

Date: July 29, 2020

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Name: Michael W. Eller  
Title: President  
(Principal Accounting Officer)

**Exhibit 31.1**

**CERTIFICATION**

I, Michael Eller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Electronic Systems Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael Eller  
Michael Eller  
President  
(Chief Executive Officer)  
Date: July 29, 2020

A signed original of this written statement has been provided to the registrant and will be retained by the registrant to be furnished to the Securities and Exchange Commission or its staff upon request.

## Exhibit 31.2

### CERTIFICATION

I, Michael Eller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Electronic Systems Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael Eller

Michael Eller

President

Principal Accounting Officer

Date: July 29, 2020

A signed original of this written statement has been provided to the registrant and will be retained by the registrant to be furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1 – CEO Certification

CERTIFICATION

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. 1350)

In connection with the quarterly report of Electronic Systems Technology Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Eller, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Eller  
Michael Eller  
President  
(Chief Executive Officer)  
Date: July 29, 2020

This certification is being furnished to the Securities and Exchange Commission as an exhibit to the Quarterly Report and shall not be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended; and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement has been provided to the Registrant and will be retained by the Registrant to be furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2 – CFO Certification

CERTIFICATION

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. 1350)

In connection with the quarterly report of Electronic Systems Technology Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Eller, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Eller  
Michael Eller  
President  
(Principal Accounting Officer)  
Date: July 29, 2020

This certification is being furnished to the Securities and Exchange Commission as an exhibit to the Quarterly Report and shall not be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.; and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement has been provided to the Registrant and will be retained by the Registrant to be furnished to the Securities and Exchange Commission or its staff upon request.