ELECTRONIC SYSTEMS TECHNOLOGY INC
Form 10QSB
November 13, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to _______

Commission File Number:	000-27793

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

(A Washington Corporation)

I.R.S. Employer Identification no.	91-1238077

415 N. Quay St., Building B1
Kennewick WA 99336
(509) 735-9092

Check whether the issuer (1) has filed all reports required to be filed 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 [X] No [ ]

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

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: As of September 30, 2006: 5,153,667 shares of common $0.001 par value.

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X].

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

(as prepared by Management)
(Unaudited)

SELECTED FINANCIAL DATA

Nine Months Ended	September 30, 2006	September 30, 2005
Sales	$ 1,764,334	$ 1,780,378
Other Revenues	35,072	27,393
Gross Profit	1,014,106	954,104
Net Income (Loss) Before Taxes	101,487	139,823
Net Income (Loss) After Taxes	62,979	86,193
Earnings (Loss) Per Share Before Taxes		
Basic	$ 0.02	$ 0.03
Diluted	0.02	0.03
Earnings (Loss) Per Share After Taxes		
Basic	$ 0.01	$ 0.02
Diluted	0.01	0.02
Weighted Average Shares Outstanding		
Primary	5,152,733	5,148,667
Diluted	5,169,484	5,227,891

Total Assets	$ 3,015,468	$ 2,978,294
Long-Term Debt and Capital Lease Obligations	$ 0	$ 0
Shareholders' Equity	$ 2,795,587	$ 2,735,351
Shareholders' Equity Per Share	$ 0.54	$ 0.53
Working Capital	$ 2,648,987	$ 2,540,385
Current Ratio	16.3:1	15.5:1
Equity To Total Assets	93%	92%

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ELECTRONIC SYSTEMS TECHNOLOGY, INC.
BALANCE SHEETS

(as prepared by Management)
(Unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,755,243	$ 651,265
Short Term Certificates of Deposit Investments	180,000	449,613
Available for Sale Marketable Securities	--	921,029

Accounts Receivable, Net of Allowance for Uncollectibles	230,581	222,982
Inventory	608,096	485,257
Accrued Interest	1,549	2,758
Prepaid Expenses	47,099	31,985
Total Current Assets	2,822,568	2,764,889
PROPERTY & EQUIPMENT, Net of Depreciation	166,822	184,025
OTHER ASSETS	10,978	25,067
Deferred Income Tax Benefit	15,100	20,600
TOTAL ASSETS	$ 3,015,468	$ 2,994,581
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	83,959	41,377
Refundable Deposits	--	72
Accrued Liabilities	34,849	54,109
Federal Income Taxes Payable	54,773	80,579
Total Current Liabilities	173,581	176,137
Deferred Income Taxes	46,300	59,300
STOCKHOLDERS' EQUITY Common Stock, $.001 Par Value 50,000,000 Shares Authorized 5,153,667 Shares Issued And Outstanding	5,154	5,149
Additional Paid-in Capital	974,163	966,184
Retained Earnings	1,816,270	1,804,828
Accumulated Other Comprehensive Gain (Loss)	--	(17,017)

2,795,587		2,759,144
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,015,468	$ 2,994,581

(See "Notes to Financial Statements")

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ELECTRONIC SYSTEMS TECHNOLOGY, INC.
STATEMENTS OF OPERATIONS

(as prepared by Management)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
SALES	$ 635,531	$ 650,195	$ 1,764,334	$ 1,780,378
COST OF SALES	253,710	277,890	750,228	826,274
Gross Profit	381,821	372,305	1,014,106	954,104
OPERATING EXPENSES				
Finance/Administration	49,362	43,044	193,840	181,743
Research & Development	100,381	66,934	276,911	203,285
Marketing	107,649	129,057	358,437	363,823
Customer Service	30,577	22,324	93,991	78,552
Total Operating Expense	287,969	261,359	923,179	827,403
OPERATING INCOME (LOSS)	93,852	110,946	90,927	126,701
Other Income (Expenses)				
Interest/Investment Income	12,137	11,259	31,915	27,393

Realized Loss on Marketable Securities	(16,385)	--	(19,343)	(7,140)
Management Fee, Marketable Securities	(647)	(2,344)	(5,075)	(6,999)
Uncollectible Amounts Recovered	--	--	3,157	--
Loss on Asset Disposal	(94)	--	(94)	(132)
Net Other Income (Expense)	(4,989)	8,915	10,560	13,122
INCOME (LOSS) BEFORE TAX	88,863	119,861	101,487	139,823
Provision For Income Tax	(35,139)	(38,914)	(38,508)	(53,630)
NET INCOME (LOSS)	$ 53,724	$ 80,947	$ 62,979	$ 86,193
Basic Earnings (Loss) Per Share Before Tax	$ 0.02	$ 0.02	$ 0.02	$ 0.03
Basic Earnings (Loss) Per Share After Tax	$ 0.01	$ 0.02	$ 0.01	$ 0.02
Diluted Earnings (Loss) Per Share Before Tax	$ 0.02	$ 0.02	$ 0.02	$ 0.03
Diluted Earnings (Loss) Per Share After Tax	$ 0.01	$ 0.02	$ 0.01	$ 0.02

(See "Notes to Financial Statements")

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STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(as prepared by Management)
(Unaudited)

	Three Months Ended	Nine Months Ended

	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
NET INCOME (LOSS)	$ 53,724	$ 80,947	$ 62,979	$ 86,193
OTHER COMPREHENSIVE GAIN (LOSS):				
Unrealized gain (loss) on securities arising during period (net of tax effect)	--	(2,080)	--	(2,829)
COMPREHENSIVE INCOME (LOSS)	$ 53,724	$ 78,867	$ 62,979	$ 83,364

(See "Notes To Financial Statements")

ELECTRONIC SYSTEMS TECHNOLOGY, INC.
STATEMENTS OF CASH FLOWS

(as prepared by Management)
(Unaudited)

Nine Months Ended	September 30, 2006	September 30, 2005
CASH FLOWS PROVIDED (USED) IN OPERATING ACTIVITIES:		
Net Income (Loss)	$62,979	$86,193
Noncash items included in income:		
Depreciation	44,145	53,178
Amortization	1,090	2,138
Loss on Disposition of Assets	94	132
Loss on Marketable Securities	19,343	7,140
Provision for Federal Income Taxes	(8,765)	(969)

Deferred Income Tax	(7,500)	(5,600)
Accrued Interest	1,209	(4,065)
Shared Based Compensation	5,984	--
DECREASE (INCREASE) IN CURRENT ASSETS:		
Accounts Receivable Net	(7,599)	(54,886)
Certificates of Deposit Redeemed (Purchased)	270,000	(720,000)
Marketable Securities Investments Purchased	(402,000)	--
Marketable Securities Investments Sold	1,329,081	685,028
Inventory	(122,839)	17,887
Prepaid Software and Network Services	12,999	(18,104)
Prepaid Expenses	(15,114)	(13,511)
DECREASE (INCREASE) IN LONG TERM ASSETS:		
Prepaid Software and Network Services	--	(27,884)
INCREASE (DECREASE) IN CURRENT LIABILITIES:		
Accounts Payable and Accrued Expenses	23,322	(59,428)
Refundable Deposits	(72)	4,037
Accrued Federal Income Taxes	(25,806)	20,999
	1,180,551	(27,715)
CASH FLOWS PROVIDED (USED) IN INVESTING ACTIVITIES:		
Deposits Applied to Property and Equipment	--	--
	(27,036)	(17,050)

Additions To Property And Equipment		
	(27,036)	(17,050)
CASH FLOWS PROVIDED (USED) IN FINANCING ACTIVITIES:		
Stock Options Exercised	2,000	--
Cash Distribution Paid to Shareholders	(51,537)	(51,487)
	(49,537)	(51,487)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,103,978	(96,252)
Cash And Cash Equivalents At Beginning Of Period	651,265	488,480
Cash And Cash Equivalents At Ending of Period	$ 1,755,243	$ 392,228

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Cash Paid Year To Date:		
Interest	$ 0	$ 0
Federal Income Taxes	$ 80,579	$ 39,201

Cash And Cash Equivalents:		
Cash	$ 31,091	$ 9,194
Money Market Accounts	1,724,152	383,034
	$ 1,755,243	$ 392,228

(See "Notes to Financial Statements)

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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 10QSB are unaudited and reflect, in the opinion of Management, a fair presentation of operations for the three and nine month periods ended September 30, 2006 and September 30, 2005. Certain information and footnote disclosures 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. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Form 10KSB for the year ended December 31, 2005 as filed with Securities and Exchange Commission.

The results of operation for the three and nine month periods ended September 30, 2006 and September 30, 2005, 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 cost or market with cost determined using the FIFO (first in, first out) method. Inventories consist of the following:

	September 30 2006	December 31 2005
Parts	$272,098	$293,077
Work in progress	90,117	14,518
Finished goods	245,881	177,662
	$608,096	$485,257

NOTE 3 EARNINGS (LOSS) PER SHARE

Basic Earnings Per Share (EPS) excludes dilution and is computed by dividing income 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 5,152,733 and 5,148,667 for the nine months ended September 30, 2006 and 2005 respectively. The primary weighted average number of common shares outstanding for the three month period ended September 30, 2006 was 5,153,667.

For the Nine Months Ended September 30, 2006			
	Income (Numerator)	Shares (Denominator)	Per-Share Amount

Basic EPS Income available to common stockholders	$62,979	5,152,733	$0.01
Diluted EPS Income available to common stockholders + assumed conversions	$62,979	5,169,484	$0.01

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NOTE 4 - STOCK OPTIONS

Effective January 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 123R, "Share-Based Payment", (FAS 123R) for its share-based compensation plan. The Company previously accounted for these plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", (APB 25) and related interpretations and disclosure requirements established by FAS 123, "Accounting for Stock-Based Compensation". The Company adopted FAS 123R using the modified prospective method and, accordingly, results for prior periods have not been restated.

As of September 30, 2006, the Company had outstanding stock options that have been granted periodically to individual employees and directors with no less than three years of continuous tenure with the Company. On February 10, 2006, 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 10, 2006 totaled 215,000 shares under option and have an exercise price of $0.68 per share. The options granted on February 10, 2006 may be exercised any time during the period from February 10, 2006 through February 9, 2009. The Company's Form 8-K dated February 10, 2006, as filed with the Securities and Exchange Commission is included 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:

	2006	2005	2004	2003
Dividend yield	1.43%	1.25%	1.15%	3.49%
Expected volatility	49%	63%	65%	73%
Risk-free interest rate	4.67%	3.65%	2.25%	2.04%
Expected term (in years)	3	3	3	3

The Company uses historical data to estimate option exercise rates. The option exercise rate for option grants in 2006 through 2003 was twelve percent.

A summary of option activity during the nine months ended September 30, 2006 is as follows:

	Number Outstanding	Weighted-Average Exercise Price Per Share
Outstanding at January 1, 2006	545,000	$0.68
Granted	215,000	0.68
Exercised	(5,000)	0.40
Canceled	(150,000)	0.40
Outstanding at September 30, 2006	605,000	0.75

For the third quarter of 2006, compensation expense charged against income for stock options was $1,990 ($1,313 after tax). No non-vested share-based compensation arrangements existed as of September 30, 2006.

NOTE 5 - OTHER COMPREHENSIVE INCOME (LOSS)

For the first nine months of 2006, the Company s had no items of other comprehensive income (loss). During the first nine months of 2006 the Company recognized realized losses on marketable securities investments in the amount $19,343 incurred during the restructuring of the Company s short-term investments. During the same period of 2005, the Company s only item of other comprehensive income (loss) was unrealized losses on marketable securities investments, net of tax in the amount $2,829.

NOTE 6 - RELATED PARTY TRANSACTIONS

For the nine-month period ended September 30, 2006 services in the amount of $110,211 were contracted with

Manufacturing Services, Inc., of which the owner/president is a member of the Board of Directors of the Company.

NOTE 7 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, 2006, Domestic customers represented approximately 86% of total net revenues. Foreign customers represented approximately 14% of total net revenues. During the quarter ended September 30, 2006 sales to ADSI and Border States Electric, domestic resellers of the Company s products consisted of 21% and 11% of the Company s sales revenues, respectively. No other sales to a single customer comprised 10% or more of the Company's net revenues for the quarter ended September 30, 2006. Revenues from foreign countries consist primarily of revenues from Canada and South American countries including Mexico.

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 2006 and 2005 is as follows:

	Domestic	Foreign	Unallocated Corporate	Total
Three months ended September 30, 2006				
Total net revenues	$559,161	$88,507	$ -	$647,668
Earnings (loss) before tax	125,203	13,022	(49,362)	88,863
Depreciation/amortization	14,893	-	566	15,459
Identifiable assets	974,942	13,704	2,026,822	3,015,468
Net capital expenditures	3,590	-	-	3,590
Three months ended September 30, 2005				
Total net revenues	$481,172	$180,282	$ -	$661,454
Earnings (loss) before tax	90,798	72,107	(43,044)	119,861
Depreciation/amortization	17,787	-	676	18,463
Identifiable assets	827,995	71,243	2,079,056	2,978,294
Net capital expenditures	-	-	-	-

Nine months ended September 30, 2006				
Total net revenues	$1,422,123	$377,283	$ -	$1,799,406
Earnings (loss) before tax	208,732	86,595	(193,840)	101,487
Depreciation/amortization	43,561	-	1,674	45,235
Identifiable assets	974,942	13,704	2,026,822	3,015,468
Net capital expenditures	26,436	-	600	27,036
Nine months ended September 30, 2005				
Total net revenues	$1,512,089	$295,682	$ -	$1,807,771
Earnings (loss) before tax	248,629	72,937	(181,743)	139,823
Depreciation/amortization	53,289	-	2,028	55,317
Identifiable assets	827,995	71,243	2,079,056	2,978,294
Net capital expenditures	17,050	-	-	17,050

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NOTE 8 - CASH DISTRIBUTION

On June 2, 2006, the Company declared a one-time, non-cumulative, cash distribution to shareholders of record as of June 23, 2006, of $0.01 per share of common stock, with a payable date of July 17, 2006. The payment of the cash distribution totaling $51,537 was completed by July 17, 2006. The Company s Form 8-K dated June 2, 2006, as filed with the Securities and Exchange Commission is included herein by reference.

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ITEM II
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATION

Management s discussion and analysis is intended to be read in conjunction with the company s unaudited financial statements and the integral notes thereto for the quarter ending September 30, 2006. The following statements may be forward looking in nature and actual results may differ materially.

A. RESULTS OF OPERATIONS

REVENUES:

Total revenues from the sale of the Company s ESTeem wireless modem systems, accessories, and services decreased to $635,531 for the third quarter of 2006 as compared to $650,195 in the third quarter of 2005, reflecting a decrease of 2% from the previous year s quarter. Gross revenues decreased to $647,668 for the quarter ending September 30, 2006, from $661,454 for the third quarter of 2005, reflecting a decrease of 2% from the previous year. As of September 30, 2006, year to date sales decreased to $1,764,334 as compared to $1,780,378 as of September 30, 2005. Year to date gross revenues decreased to $1,799,406 as of September 30, 2006 compared to $1,807,771 as of September 30, 2005. Management believes the decrease in sales revenue for the third quarter of 2006 is due to decreased foreign export sales, particularly when compared with the same period of 2005 which recorded strong foreign export sales in Colombia, Croatia and Canada. Management remains cautious that 2006 sales revenues may be negatively impacted by competitive and economic factors that led to flat sales revenues during 2005, particularly in the domestic industrial automation marketplace. The Company continues to maintain tradeshow attendance for specifically targeted markets of the Company s products to increase product exposure to both customers and resellers.

The Company's revenues have historically fluctuated from quarter to quarter due to timing factors such as customer order placement and product shipments to customers, as well as 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 in regard to the Company's revenues become difficult to predict.

A percentage breakdown of EST's Domestic and Export Sales, for the third quarter of 2006 and 2005 are as follows:

For the third quarter of		
	2006	2005
Domestic Sales	86%	73%
Export Sales	14%	27%

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 7 Segment Reporting".

Domestic Revenues

During the quarter ended September 30, 2006, the Company s domestic operations represented 86% 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 $559,161 for the quarter ended September 30, 2006, compared to $481,172 for the quarter ended September 30, 2005, reflecting an increase of 16%. Management believes the increase in domestic sales revenues is the result of strong Mobile Data Computer System (MDCS) sales from the Company s ongoing project with the Mississippi Highway Patrol, delivery for which were accelerated by the customer during the third quarter of 2006. A slight decrease in domestic industrial automation sales

was recorded during the quarter, which Management believes is the result of timing differences in projects involving the Company s products when compared with the same period of 2005.

The Company s domestic sales were augmented by sales of the Company s products for MDCS projects to public entities, which accounted for 35% of the Company s domestic sales during the third quarter of 2006. Management believes MDCS sales will remain strong in the near term, however MDCS sales are difficult to predict and cannot be assured due to public safety entity purchases being linked to uncertain government funding. During the quarter ended September 30, 2006 sales to ADSI and Border States Electric, domestic resellers of the Company s products consisted of 21% and 11% of the Company s sales revenues, respectively. No other sales to a single customer comprised 10% or more of the Company's product sales for the quarter ended September 30, 2006.

Domestic segment operating income increased to $125,203 for the quarter ended September 30, 2006 as compared with a segment operating income of $90,798 for the same quarter of 2005, due to increased sales revenues for the segment during the third quarter of 2006.

For the nine-month period ended September 30, 2006, the Company s domestic operations represented 79% of the Company s total net revenues. Year to date domestic revenues decreased to $1,422,123 as of September 30, 2006, compared to $1,512,089 for the same period of 2005, reflecting a decrease of 6%. Management believes the decrease in domestic sales revenues during the first nine months of 2006 is a continuation of the effect of competitive and economic pressures that effected domestic industrial automation sales during the majority of 2005. The Company s year to date domestic sales were augmented by sales of the Company s products for MDCS to public entities, which accounted for 32% of the Company s domestic sales during the first nine months of 2006.

Year to date domestic segment operating income decreased to $208,732 for the period ended September 30, 2006 as compared with a segment operating income of $248,629 for the same period of 2005. This decrease was due to decreased sales revenues and increased operating expenses and realized losses on investments for the segment when compared with 2005.

Foreign Revenues

The Company s foreign operating segment represented 14% of the Company s total net revenues for the quarter ended September 30, 2006. The foreign operating segment is based wholly in the United States and maintains no assets outside of the United States. The foreign operating segment sells ESTeem modem products, accessories and service primarily through foreign resellers, as well as directly to end customers of the Company s products located outside the United States.

During the quarter ended September 30, 2006, the Company had $88,507 in foreign export sales, amounting to 14% of total net revenues of the Company for the quarter, compared with foreign export sales of $180,282 for the same quarter of 2005, reflecting a decrease of 51%. The decrease is attributable to decreased sales revenues in Colombia, Canada and Croatia, countries that had comparatively strong industrial automation sales during the third quarter of 2005. No foreign sales to a single customer comprised 10% or more of the Company's product sales for the quarter ended September 30, 2006. Products purchased by foreign customers were used primarily in industrial automation applications.

Operating income for the foreign segment decreased to $13,022 for the quarter ended September 30, 2006 as compared with an operating income of $72,107 for the same period of 2005 due to the comparative decrease in sales revenues.

For the nine-month period ended September 30, 2006, the Company had $377,283 in foreign export sales, amounting to 21% of total net revenues of the Company for the period, compared with foreign export sales of $295,682 for the same period of 2005, reflecting an increase of 28%. The foreign export sale increase during the first nine months of 2006 is attributable to sales revenues for a large industrial automation project in Colombia, as well as increased sales in Canada, Mexico and Venezuela, when compared with the same period of 2005. 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.

Year to date foreign segment operating income increased to $86,595 for the period ended September 30, 2006 as compared with a segment operating income of $72,937 for the same period of 2006, due to increased year to date sales revenues for the segment when compared with 2005.

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 the quarter ended September 30, 2006 to $49,362 as compared with $43,044 for the same quarter of 2005, and represented expense to total net revenues percentages of 8% and 7% for the third quarter of 2006 and 2005, respectively.

Year to date unallocated corporate expenses increased for the period ended September 30, 2006 to $193,840 as compared with $181,743 for the same period of 2005, and represented expense to total net revenues percentages of 11% and 10% for the first nine months of 2006 and 2005, respectively.

BACKLOG:

The Company had a backlog of $184,308 at September 30, 2006, which was comprised of orders placed late in September and ongoing MDCS projects. Customers generally place orders on an "as needed basis". Shipment for most of the Company s products is generally made within 1 to 15 working days after receipt of customer orders, with the exception of ongoing, scheduled projects, and custom designed equipment.

COST OF SALES:

Cost of sales percentages of gross sales for the third quarters of 2006 and 2005 were 40% and 43%, respectively. The cost of sales decrease for the third quarter of 2006 is the result the product mix for items sold during the quarter having a more favorable profit margin when compared with the same period of 2005. The cost of sales percentage was also positively effected by increased profit margins on engineering services performed by the Company resulting from a restructuring of customer service engineering compensation late in the first quarter of 2006.

OPERATING EXPENSES:

Operating expenses for the third quarter of 2006 increased $26,610 when compared with the third quarter of 2005. The following is a delineation of operating expenses:

For the quarter ended:	September 30, 2006	September 30, 2005	Increase (Decrease)
Finance/Administration	$ 49,362	$ 43,044	$ 6,318
Research/Development	100,381	66,934	33,447
Marketing	107,649	129,057	(21,408)
Customer Service	30,577	22,324	8,253
Total Operating Expenses	$ 287,969	$ 261,359	$ 26,610

FINANCE AND ADMINISTRATION:

During the third quarter of 2006 Finance and Administration expenses increased to $49,362 when compared with the third quarter of 2005. The increase is the result of the recognition of share based compensation expense, increased professional services required by the Company for government compliance, and increased allocated rent and utility expense when compared with the same quarter of 2005.

RESEARCH AND DEVELOPMENT:

During the third quarter of 2006, Research and Development expenses increased to $100,381, an increase of $33,447 when compared with the third quarter of 2005. The increase is the result of increase subcontracted engineering expertise for development of the ESTeem 195Ep modem, when compared with the same quarter of 2005.

MARKETING:

Marketing expenses decreased $21,408, to $107,649, during the third quarter of 2006 when compared with the third quarter of 2005 due to decreased department related salaries, and timing differences in travel and tradeshow expenses when compared with the same period of 2005.

CUSTOMER SERVICE:

Customer service expenses for the third quarter of 2006 increased $8,253 when compared with the third quarter of 2005. The increase is due to reduced amount of department expenses being billed directly to customer when compared with the same quarter of 2005.

INTEREST AND INVESTMENT INCOME:

The Company earned $12,137 in investment and interest income for the quarter ended September 30, 2006. Sources of this income were money market accounts, certificates of deposit and marketable securities investments.

NET INCOME (LOSS):

The Company recorded a net income of $53,724 for the third quarter of 2006, compared to net income of $80,947 for the third quarter of 2005. The decrease is the result of decreased sales revenues during the third quarter of 2006 when compared with the third quarter of 2005. Year to date, the Company has net income of $62,979 for the nine months ended September 30, 2006, compared with $86,193 for the same period of 2005. The decreased year to date net income is the result of decreased sales revenues and increased operating expenses negatively effecting year to date profitability when compared with the same period of 2005.

B. Financial Condition, Liquidity and Capital Resources

The Corporation's current asset to current liabilities ratio at September 30, 2006 was 16.3:1 compared to 15.7:1 at December 31, 2005. The slight increase in current ratio is due to increased inventory and prepaid expense asset levels as of September 30, 2006 when compared with December 31, 2005 amounts.

For the quarter ending September 30, 2006, the Company had cash and cash equivalent holdings of $1,755,243 as compared to cash and cash equivalent holdings of $651,265 at December 31, 2005. Available for sale marketable securities decreased to $0 compared to $921,029 at December 31, 2005 as a result of restructuring of the Company s investments. The Company had certificates of deposit investments in the amount of $180,000 as of September 30, 2006 as compared to $449,613 as of December 31, 2005 due to restructuring of the Company s short-term investments. During the first nine months of 2006 the Company recognized realized losses on marketable securities investments in the amount $19,343 incurred during the restructuring of the Company s short-term investments. This realized loss offsets certain components of investments held by the Company, which if sold as of December 31, 2005, would have presented a realized loss net of tax, of $17,017.

The contingency for these items is reflected in the Balance Sheets as Accumulated Other Comprehensive Gain (Loss), and the Statements of Comprehensive Income (Loss), respectively, as of September 30, 2006.

Accounts receivable increased to $230,581 as of September 30, 2006, from December 31, 2005 levels of $222,982. Inventory increased to $608,096 at September 30, 2006, from December 31, 2005 levels of $485,257, due to increased component purchases for current product production and upcoming production of the ESTeem 195Ep modem during the third quarter of 2006. The Company's fixed assets, net of depreciation, decreased to $166,822 as of September 30, 2006, from December 31, 2005 levels of $184,025 due to capital expenditures of $27,036 and being offset by depreciation of $44,145, and loss on asset disposition of $94. Prepaid expenses increased to $47,099 as of September 30, 2006 from December 31, 2005 amounts of $31,985 due to recent renewal of annual insurance policies and increased prepaid tradeshow expenses.

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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 September 30, 2006, is reflected as prepaid software/network services and amounted to $18,876. The noncurrent portion of the prepaid Netsuite Inc. services as of September 30, 2006 is reflected in "other assets" on the Company s balance sheet in the amount of $10,295.

As of September 30, 2006, the Company s trade accounts payable balance was $83,959 as compared with $41,377 at December 31, 2005, and reflects amounts owed for purchases of inventory items and contracted services. Accrued liabilities as of September 30, 2006 were $34,849, compared with $54,109 at December 31, 2005, and reflect items such as accrued vacation benefits, and quarterly payroll and excise tax liabilities.

Federal Income Taxes payable decreased to $54,773 as of September 30, 2006 as a result of the Company s year-to-date profitability and estimated tax liabilities.

It is Management s opinion the Company s cash, cash equivalent reserves, and working capital at September 30, 2006 are sufficient to satisfy requirements for operations, capital expenditures, and other expenditures as may arise in the short term.

FORWARD LOOKING STATEMENTS:

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

Item III.
CONTROLS & PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods.

CEO and CFO CERTIFICATIONS

Appearing immediately following the Signatures section of this Quarterly Report there are two separate forms of "Certifications" of the CEO. The second form of Certification is required in accord with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certification). This section of the Quarterly Report, which you are currently reading is the information concerning the Controls Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS.

Disclosure Controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (Exchange Act), such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Internal Controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principles. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, Our CEO and CFO have concluded that our disclosure controls and procedures were effective at that reasonable assurance level for the period stated.

LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our Disclosure Controls or our Internal Controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CONCLUSION

Accordingly, the CEO and CFO note that, as of the period ended September 30, 2006 covered by this report, there were no significant deficiencies and material weaknesses in our Internal Controls. The effectiveness of these controls are under the continuing review of the Company's CEO, CFO and CAO. In addition, Management has begun its project to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Management anticipates that this effort will also help to more formally document, communicate, and comply with the Company's accounting policies and procedures, as well as to identifying and rectifying any residual disclosure or reporting process control issues that may exist but, at this time, are unknown to management. There were no other changes in our internal controls over financial reporting.

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PART II

OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(b)	Reports on Form 8-K

Form 8-K dated February 10, 2006 is incorporated herein by reference.
Form 8-K dated June 2, 2006 is incorporated herein by reference.

Exhibit Number	Notes to Financial Statements
4.	**Instruments defining the Rights of Security Holders including indentures.**

Form 8-K dated February 10, 2006 is incorporated herein by reference.

11.	**Statement Re: computation of per share earnings.**

Note 3 to Financial Statements

31.1 CEO Certification

31.2 CFO Certification

32 Section 906 Certification

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SIGNATURES

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

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

Date:

November 10, 2006/s/ T. L. KIRCHNER Name: T.L. KirchnerTitle: Director/President(Principal Executive Officer)

Date: November 10, 2006	/s/ JON CORREIO
	Name: Jon Correio
	Title: Vice President, Finance & Administration
	(Principal Financial Officer)

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