ELECTRONIC SYSTEMS TECHNOLOGY INC
Form 10-K
March 23, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended: December 31, 2011**

o **TRANSITION REPORT PURSUANT TO 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.**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Washington** | **91-1238077** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **415 N. Quay St., Bldg B1, Kennewick, Washington** | **99336** |
| (Address of principal executive offices) | (Zip Code) |

Registrant s telephone number, including area code: **(509) 735-9092**

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| None | N/A |

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

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 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 filing requirements for the past 90 days. Yes þ No o

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | | |
|---|---|---|---|---|
| Large accelerated filer | ¨ | | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | (Do not check if a smaller reporting company) | Smaller reporting company | þ |

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

The aggregate market value of the registrant's common stock held by non-affiliates was $2,725,007 based on the reported last sale price of common stock on June 30, 2011, which was the last business day of the registrant s most recently completed second fiscal quarter. For purposes of this computation, all executive officers and directors were deemed affiliates.

The number of shares outstanding of the registrant's common stock as of March 2, 2012: 5,158,667 shares.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into Parts I, II, III, and IV of this report:  Forms 8-K dated February 11, 2011 and February 10, 2012.



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**ELECTRONIC SYSTEMS TECHNOLOGY INC.**

**FORM 10-K**

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PART I

FORWARD LOOKING STATEMENTS:

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

**Item 1. Business.**

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

The Company was incorporated in the State of Washington in February 1984, and was granted a United States Patent for the Wireless Computer Modem in May 1987, and Canadian patent in October 1988. The Company established a "doing business as" or "DBA" structure, based on the Company's registered trade name of ESTeem Wireless Modems in 2007. During the past three years, the Company has continued product improvements and enhancements to incorporate continuing technological developments, and respond to customer needs and market opportunities.

Development efforts during 2011 were focused on development of ESTeem 210 which is intended to be the next generation of narrow band, licensed ESTeem product, and the ESTeem 195Ea product intended to operate in the 5.8GHz frequency range for high speed network back haul applications. In an effort to maintain and expand its customer base, specifically focusing on the industrial control marketplace, the Company continues efforts to team with major programmable logic controller (PLC) hardware vendors. During 2011, the Company marketed products for use in SCADA, Industrial Automation and Public Safety Communication marketplaces.

## PRODUCTS AND MARKETS

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

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

PRODUCT APPLICATIONS

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

| | |
|---|---|
| Agriculture | Material Handling |
| Airport Lighting | Metals |
| Automotive Manufacturing | Power |
| Enterprise Networking | Public Safety |
| Entertainment | Oil/Gas |
| Factory Floor Networking | Solar Energy |
| Federal (military) | Water/Wastewater |
| Marine | Wind Power |

PRODUCT LINES

**Licensed Narrow Band Products**

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

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

**Unlicensed Ethernet Spread Spectrum Products**

The Company s Ethernet radios are high performance spread spectrum transceivers employing the industry standard, 10baseT, Ethernet connectivity for commercial, industrial and public safety applications operating in the unlicensed 2.4 GHz and 900 MHz frequency spectrum with data transfer rates from 200Kbps to 54 Mbps. Typical installations include data rate critical, point to point, point to multi-point, last-mile bridge data networking and mobile applications for distances of approximately 5 to 7 miles line-of-sight without the use of the digi-repeater option. The high data capability of these products allows them to be used in Video and Voice over Internet Protocol (VoIP) applications.

| **ESTeem Model** | **Type** | **Frequency** (MHz) | **RF Power** (Watts) | **RF Data Rate** (bps) | **LOS Range** (Miles) | **Interface** |
|---|---|---|---|---|---|---|
| 195Eg | Unlicensed | 2400 | 1 | 1-54 M | 5-7 | Ethernet/Serial |
| 195Ed | Unlicensed | 900 | .250 to .630 | 1-54 M | 5-7 | Ethernet and Serial |
| 195Es | Unlicensed | 900 | .125 or 1 | 200K | 10 | Ethernet and Serial |
| WLANC | Unlicensed | 2400 | 0.3 | 1-11 M | 300-3000 ft. | Ethernet |

**Licensed Spread Spectrum Products**

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

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

## ADDITIONAL PRODUCTS AND SERVICES

The Company offers various accessories to support the ESTeem products. Accessories including antennas, power supplies and cable assemblies, are purchased from other manufacturers and resold by EST to support the application of ESTeem modems. The Company provides direct services to customers, such as repair and upgrade of ESTeem products. To assist in the application of ESTeem wireless modems, the Company also offers professional services, site survey testing, system start-up, and custom engineering services.

## RESEARCH AND DEVELOPMENT AND NEW PRODUCTS

The Company s products compete in an environment of rapidly changing technology. This environment results in the necessity of the Company to be continually updating and enhancing existing products, as well as developing new products in order to remain competitive. Research and Development expenditures for new product development and improvements of existing products by the Company for 2011 and 2010 were $268,530 and $264,389, respectively. None of the Company s research and development expenses were paid directly by any of the Company s customers. During 2011, the Company contracted and will continue to contract with companies to provide software development and hardware design engineering expertise when required.

Development efforts during 2011 were focused on development of ESTeem 210 which is intended to be the next generation of narrow band, licensed ESTeem product, and the ESTeem 195Ea product intended to operate in the 5.8GHz frequency range for high speed network back haul applications (e.g. voice and/or data transmission from a cellular site to a switch). Both of the products are expected to be brought to market during 2012. The Company plans continued research and development expenditures for development and improvement projects, as they are deemed necessary.

## MARKETING, CUSTOMERS AND SUPPORT

The majority of the Company s products sold during 2011 were through the reselling efforts of non-exclusive, non-stocking distributors and resellers of the Company s products, with the remainder of the Company s sales distributed directly from the Company s facility through direct sales to end-users of the ESTeem products. Customers generally place orders on an "as needed basis". Shipping of products is generally completed 1 to 15 working days after receipt of a customer order, with the exception of ongoing, scheduled projects, and custom designed equipment for specific customer applications. As of December 31, 2011, the Company had a sales order backlog of $82,000.

During 2011, the Company continued advertising in trade publications specifically targeted at users of control, instrumentation, and automation systems, as well as domestic public safety entities. The Company s advertising targeted potential users of Programmable Logic Controllers (PLCs). There are approximately twenty major PLC manufacturers worldwide. The Company has maintained active attendance at tradeshows targeted toward the customers and markets in which it sells products. During 2011, the Company employed sales managers concentrating marketing efforts in both domestic and Latin American industrial automation, and public safety communication markets. Due to continued reductions in MDC product sales to public safety entities, the Company reduced marketing efforts for MDC market late in 2011 by releasing the sales manager focusing on that market. During 2012, the Company intends to continue targeting domestic and foreign industrial automation markets. The Company maintains an internet web site to provide access to product and technical information for both present and potential customers of the Company s products. Due to the highly variable configuration possibilities of the Company s products, as well as existing reseller relationships, the Company has not implemented an electronic commerce internet website. The Company provides technical support and service for ESTeem products through phone support, field technicians and internet sources. The Company believes high quality customer support is necessary and vital to its business. To maintain a high level of customer support the Company has in the past, and will continue in the future, to make investments and expenditures in support of its customer service programs.

During the year ended December 31, 2011, sales to Industrial Controls, a reseller of the company s products in Peru, comprised 11% of the total sales revenues. No other sales to any single customer comprised 10% or more of total sales revenues. See Management s Discussion and Analysis of Financial Condition and Results of Operations , and Financial Statements .



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## COMPETITION

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

| Major Market | Major Competitors |
|---|---|
| Industrial Automation | Data-Linc, Freewave, GE/Microwave Data Systems, Prosoft and Cal Amp. |
| Computer networking, inter and intra building, and remote internet access. | Cisco, Digital Wireless, Dlink, Linksys, P-Com and Proxim |
| Mobile Data Computer systems for public safety applications | Cal Amp, IP Mobilenet, GE/Microwave Data Systems, Motorola, Trango Broadband, and various cellular service providers using 2G/3G architectures. |

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

## PATENTS, TRADEMARKS, AND PROPRIETARY INFORMATION

EST was granted a United States patent in 1987 for a "Wireless Computer Modem". In 1988, EST was granted a Canadian patent for a "Wireless Computer Modem". Both patents had lives of 17 years and have expired. The Company s rights to the ESTeem Wireless Modem trademark, in uninterrupted use by the Company since 1985, were renewed in 2005. To protect the Company against unauthorized disclosure of proprietary information belonging to the Company, all employees, dealers, distributors, original equipment manufacturers, sales representatives and other persons having access to confidential information regarding Company products or technology are bound by non-disclosure agreements.

On September 15, 2009, Wi-LAN, Inc, an Ontario, Canada Company (TSX: WIN)( Wi-LAN ) notified the Company of alleged patent infringement. On November 17, 2009, we entered into a Licensing Agreement with Wi-LAN. Subject to confidentiality provisions, the agreement requires us to pay royalties and in return we are granted certain licensing rights and liability releases. The allegations by Wi-LAN relate to amendments to Institute of Electrical and Electronics Engineers (IEEE) standard 802.11 wireless architecture, adopted in 1997. Approximately half of the Company s current products are subject to the alleged patent infringements from Wi-LAN. The cost of the licensing agreement to the Company is considered by Management to be insignificant.

## GOVERNMENT REGULATION

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

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

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

## SOURCE OF SUPPLY AND MANUFACTURING

The Company purchases certain components necessary for the production of the ESTeem products from sole suppliers. Components including those manufactured by Hitachi, Motorola Corporation, Doodle Laboratories, Mitsubishi, Murata Corporation, Rakon, Toko America Inc. and Triquint, as purchased through a number of distributors, supply key components for the Company s products. The components provided by these and other companies could be replaced or substituted by other products, if it became necessary to do so. If this action occurred, a material interruption of production and material cost expenditures could take place during the process of locating and qualifying replacement components.

Approximately 15% of the Company s inventory at December 31, 2011 consisted of parts having lead times ranging from 12 to 30 weeks. Some parts are maintained at high levels to assure availability to meet production requirements, and accordingly, account for a significant portion of the Company s inventory value. Based on past experience with component availability, distributor relationships, and inventory levels, the Company does not foresee shortages of materials used in production. However, developments in the electronic component marketplace, involving components used by the Company which are also used in cellular phones, personal technology devices and other technology devices, have the potential of creating negative availability and delivery issues for components used by the Company. The Company has been able to procure parts on a timely basis as of the date of this report, however procurement cannot be guaranteed in the future. If shortages were to occur, material interruption of production and product delivery to customers could occur.

For assembly and some engineering assistance services for the Company s products, the Company contracts with Manufacturing Services, Inc., in Kennewick, Washington, using materials provided by the Company. By contracting with Manufacturing Services, Inc., the Company is able to avoid staff fluctuations associated with operating its own manufacturing operation. The President of Manufacturing Services, Michael Brown, as well as the former President of Manufacturing Services, Melvin H. Brown, are both Directors of the Company. Management believes the costs for services provided by Manufacturing Services, Inc., are comparable with other manufacturing service companies in the Company s geographical region. See Management s Discussion and Analysis of Financial Condition and Results of Operations , and Financial Statements .

## REPORTS TO SECURITY HOLDERS

The Registrant does not issue annual or quarterly reports to security holders other than the annual Form 10-K and quarterly Forms 10-Q as electronically filed with the SEC. Electronically filed reports may be accessed at www.sec.gov or via the Company s website at www.esteem.com. We make available on our website such reports as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. However, the information found on our website is not a part of this or any other report filed by the Company with the SEC. Interested parties also may read and copy any material filed with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information may be obtained on the operation of the Public Reference Room by calling the SEC at 1(800) SEC-0330.

EMPLOYEES

As of December 31, 2011, the Company employed a staff of 13 persons on a full time basis, 3 in sales/marketing, 3 in technical support, 6 in engineering/manufacturing, and 1 in finance and administration. The Company s operations are dependent upon key members of its engineering and management personnel. In the event services of these key individuals were lost to the Company, adverse effects on the Company s operations may be realized.

**Item 1A. Risk Factors.**

**We have been impacted by the fragile economic environment in the United States.** We experienced a sales revenue decrease during 2011 which we believe was caused by the continuing fragile economic conditions in the United States impacting our domestic product sales. This decrease in sales revenues resulted in a net loss during 2011. If we continue to be effected by stagnate economic conditions, we may continue to experience decreased product sales and we may incur net losses in the future, which would negatively impact ability to generate cash flow for our operations.

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

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

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

**Our success depends on our ability to retain key management personnel**. The success of our Company depends in large part on our ability to attract and retain highly qualified management, administrative, manufacturing, sales, and research and development personnel. Due to the specialized nature of our business, it may be difficult to locate and hire qualified personnel. Our success is significantly dependent on the performance and continued service of key members of Management, such as Chief Executive Officer, Tom Kirchner, Vice President of Engineering, D. Brent Strecker and certain other key employees. If the services of any members of Management become unavailable for any reason, our business and prospects could be adversely affected. Although we have been successful in retaining highly capable and qualified management in the past, there can be no assurance that we will be able to do so in the future.

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

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

**We have material weaknesses in our internal controls which may result in us not being able to prevent or detect a material misstatement of our financial statements, which could harm our business and result in regulatory scrutiny.** Pursuant to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 ( Section 404 ), Management conducted an assessment of the effectiveness of our internal controls over financial reporting for the year ending December 31, 2011. We determined that there continues to be material weakness affecting our internal control over financial reporting and, as a result of that weakness, our disclosure controls and procedures were not effective as of December 31, 2011. We have not maintained effective controls to ensure appropriate segregation of duties due to our limited number of employees in finance and administration. The same employee is responsible for the initiating and recording of transactions, thereby creating segregation of duties weaknesses. Due to this weakness and absence of sufficient mitigating controls, we determined that this control deficiency resulted in a more than remote likelihood that material misstatement or lack of disclosure within the annual or interim financial statements will not be prevented or detected. Avenues for mitigating our internal control weaknesses have been evaluated, but mitigating controls have been deemed to be impractical and prohibitively costly due to the size of our organization at the current time. The material weakness in our internal controls may subject us to regulatory scrutiny with undetermined consequences.

**The market for our common stock is limited and our shareholders may have difficulty reselling their shares when desired or at attractive market prices**. Our stock price and our listing may make it more difficult for our shareholders to resell shares when desired or at attractive prices. Our Company stock trades on the over-the-counter market and is listed on OTCQB tier of the OTC Markets bulletin board. Our common stock has continued to trade in low volumes and at low prices. Some investors view low-priced stocks as unduly speculative and therefore not appropriate candidates for investment. Many institutional investors have internal policies prohibiting the purchase or maintenance of positions in low-priced stocks.

**Item 1B. Unresolved Staff Comments.**

None.



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**Item 2. Properties.**

EST does not own any real property, plants, mines, or any other materially important physical properties. The Company's administrative offices, inventory and laboratories are located in leased facilities at 415 N. Quay Street, Bldg B1, Kennewick, Washington. The Company leases approximately 8,600 square feet of office and laboratory space by a lease agreement with the Port of Kennewick in Kennewick, Washington. As of December 31, 2011, the total monthly lease cost, including tax, is $4,764. The lease covers a period of three years, expiring September 2014.

The Company also owns miscellaneous assets, such as computer equipment, laboratory equipment, and furnishings. The Company does not have any real estate holdings or investments in real estate. The Company maintains insurance in such amounts and covering such losses, contingencies and occurrences that the Company deems adequate to protect its property. Insurance coverage includes a comprehensive liability policy covering legal liability for bodily injury or death of persons, and for property owned by, or under the control of the Company, as well as damage to the property of others. The Company maintains key man life insurance protecting the Company in the event of the death of the Company s President. The Company also maintains fidelity insurance which provides coverage to the Company in the event of employee dishonesty.

**Item 3. Legal Proceedings.**

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

**Item 4. Mine Safety Disclosures.**

Not Applicable

PART II

**Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

There is no established market for trading the common stock of the Company. The common stock is not regularly quoted in the automated quotation system of a registered securities system or association. The common stock of the Company is traded on the over-the-counter market and is listed on OTCQB tier of the OTC Markets bulletin board under the symbol of "ELST". The following table sets forth the high and low sale prices of the Company s common stock for the quarterly period indicated for the last two (2) fiscal years.

| | Sale Price | |
|---|---|---|
| | High | Low |
| 2011 | | |
| First Quarter | $0.59 | $0.43 |
| Second Quarter | 0.69 | 0.48 |
| Third Quarter | 0.60 | 0.47 |
| Fourth Quarter | 0.48 | 0.37 |
| | | |
| 2010 | | |
| First Quarter | $0.55 | $0.36 |
| Second Quarter | 0.55 | 0.40 |
| Third Quarter | 0.70 | 0.37 |
| Fourth Quarter | 0.60 | 0.37 |

The above data was compiled from information obtained from the OTC Bulletin Board quotation service.

The number of holders of record of common stock of the Registrant as of March 2, 2012 was 391 persons/entities with an unknown number of additional shareholders who hold shares through brokerage firms.

Our independent stock transfer agent is Computershare Investor Services located at 350 Indiana Street, Suite 800, Golden CO 80401.

Electronic Systems Technology Inc. paid a non-cumulative cash distribution on July 15, 2011, equivalent to $0.01 per outstanding share. Dividends undertaken by the Company are solely at the discretion of the Board of Directors.

The Company does not maintain any form of Equity Compensation Plan.

**Item 6. Selected Financial Data.**

Not Applicable

**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.**

**Management s discussion and analysis is provided as supplement to, and is intended to be read in conjunction with the Company s audited financial statements and the accompanying integral notes ( Notes ) thereto. The following statements may be forward-looking in nature and actual results may differ materially.**

RESULTS OF OPERATIONS

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

FISCAL YEAR 2011 vs. FISCAL YEAR 2010

GROSS REVENUES: Total revenues for the fiscal year 2011 were $1,805,571 reflecting a decrease of 19% from $2,241,655 in gross revenues for fiscal year 2010. The decrease in total revenues is the result of decreased domestic product sales during 2011. Product sales decreased to $1,791,741 in 2011, as compared to 2010 sales of $2,228,798, reflecting a decrease of 20%. Management believes the decrease in sales revenues is the result of decreased product sales for the Company s domestic sales segments, specifically MDC applications and industrial automation. Management believes the decreased domestic product sales revenues during 2011 are the result of the tenuous economic recovery in the United States significantly impacting capital expenditures for projects involving the Company s products having been delayed or cancelled. Management believes the Company s MDC product sales have been negatively impacted by lack of federal funding for projects involving the Company s products and competition from cellular telephone based technology alternatives. Management expects minimal MDC sales revenues during 2012 and therefore intends to have reduced marketing efforts for that specific market moving forward. Due to the continued reduction in MDC product sales, the Company released the sales manager focusing on that market late in 2011. The Company intends to continue targeting the domestic and foreign industrial control markets. Management remains committed to pursuing existing marketing strategies, however cannot guarantee sustained sales revenues during 2012 in the continued tenuous economic environment that exists in the United States.

Interest revenues during 2011 decreased to $9,664 from 2010 levels of $12,857 due to decreased rates of return received on the Company s investments.

OPERATING SEGMENTS

Segment information is prepared on the same basis that the Company s Management reviews financial information for operational decision-making purposes. The Company s operating segment information is contained in Financial Statements, Notes to Financial Statements, Note 12 Segment Reporting .

Domestic Revenues

The Company s domestic operations represent 62% of the Company s total sales 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 $1,105,701 for the year ended 2011, compared to $1,678,803 for the year ended 2010, reflecting a decrease of 34%. Management believes the decrease in domestic segment product sales revenues during 2011 is the result of decreased product sales for the Company s domestic sales segments, specifically MDC applications and industrial automation. Management believes the decreased domestic product sales revenues during 2011 are the result of the tenuous economic recovery in the United States significantly impacting capital expenditures for projects involving the Company s products having been delayed or cancelled. Management believes the Company s MDC product sales have been negatively impacted by lack of federal funding for projects involving the Company s products and competition from cellular telephone based technology alternatives. Due to the continued reduction in MDC product sales, the Company released the sales manager focusing on that market late in 2011. Management expects minimal MDC sales revenues during 2012 and therefore intends to have reduced marketing efforts for that specific market moving forward.

The majority of the Company's domestic product sales for 2011 were used in industrial automation applications. An example of an industrial automation application is a municipal water treatment operation, which employs the ESTeem modem to transmit industrial control information to and from control room areas via a wireless communications infrastructure. It is the opinion of Management that industrial automation applications will continue to provide the largest portion of the Company's revenues in the foreseeable future.

Domestic segment operating loss was $177,422 for 2011 as compared with a segment operating income of $278,572 for 2010 due to decreased sales revenues during 2011.

Foreign Revenues

The Company s foreign operating segment represents 38% of the Company s total sales revenues. The foreign operating segment is based wholly in the United States and maintains no assets outside of the United States. The foreign operating segment sells ESTeem modem products, accessories and service primarily through foreign resellers, as well as directly to end customers of the Company s products located outside the United States.

During 2011, the Company had $686,040 in foreign export sales, amounting to 38% of sales revenues for the year, compared with foreign export sales of $549,995 for 2010, reflecting an increase of 25%. Management believes the increase in foreign segment product sales revenues during 2011 is the result of increased reseller activities in the industrial automation markets in Peru, Mexico and Colombia when compared with 2010. Products purchased by foreign customers were used primarily in industrial automation applications. For 2011 sales to Industrial Controls, a reseller of the company s products in Peru, comprised 11% of the Company s total sales revenues. Management believes the majority of foreign export sales are the results of the Company s Latin American sales staff, EST foreign reseller activity, and the Company s internet website presence.

Operating income for the foreign segment increased to $269,458 for 2011 as compared with $232,331 for 2010 due to increased segment operating sales revenues during 2011 when compared with 2010.

Unallocated Corporate

Unallocated corporate expenses relate to functions, such as accounting, corporate management and administration that support but are not attributable to the Company s domestic or foreign operating segments, including salaries, wages and other expenses related to the performance of these support functions. Unallocated corporate expenses decreased to $279,489 during 2011, compared with $323,880 for 2010, and represented expense to total net revenue percentage of 15% and 14% for 2011 and 2010, respectively.

As of December 31, 2011, the Company had sales backlog of $82,000. The Company s customers generally place orders on an "as needed basis". Shipment of the Company s products is generally completed within 1 to 15 working days after receipt of customer orders, with the exception of ongoing, scheduled projects, and custom designed equipment for specific customer applications.

COST OF SALES: Cost of Sales, as a percentage of gross sales, was 45% and 39% respectively, for 2011 and 2010. Cost of Sales variances are the result of differences in the product mix sold and occurrences of obsolete inventory expense, as well as differences in the price discounting structure for the mix of products sold during the period.

INVENTORY: The Company's year-end inventory values for 2011 and 2010 were as follows:

| | 2011 | 2010 |
|---|---|---|

| | | |
|---|---|---|
| Parts | $228,012 | $180,059 |
| Work in progress | 74,992 | 64,884 |
| Finished goods | 168,310 | 176,324 |
| TOTAL | $471,314 | $421,267 |

The Company's objective is to maintain inventory levels as low as possible to provide maximum cash liquidity, while at the same time meet production and delivery requirements. Approximately 15% of the Company s inventory at December 31, 2011 consisted of parts having lead times ranging from 12 to 30 weeks. Some parts are maintained at high levels to assure availability to meet production requirements, and accordingly, account for a significant portion of the Company s inventory value. Based on past experience with component availability, distributor relationships, and inventory levels, the Company does not foresee shortages of materials used in production. However, developments in the electronic component marketplace, involving components used by the Company which are also used in cellular phones, pagers and other personal technology devices, have the potential of creating negative availability and delivery issues for components used by the Company. The Company has been able to procure parts on a timely basis as of the date of this report, however procurement cannot be guaranteed in the future. If shortages were to occur, material interruption of production and product delivery to customers could occur. Inventory levels increased between December 31, 2010 and December 31, 2011, due to decreased product sales by the Company during that period.

OPERATING EXPENSES: Operating expenses increased to $1,195,051 in 2011, from 2010 levels of $1,185,031 primarily due to increased salaries and engineering expertise related expenses during 2011. Material changes in expenses are comprised of the following components: Bad debt expense decreased to $7,718 due to higher than normal bad debt expense from amounts not paid by the Company s customer Schwager Davis, experienced during 2010. Depreciation expense decreased during 2011 to $21,956 from 2010 levels of $32,365 due to the Company s decreased depreciable assets and decreased capital purchases. Professional services increased to $160,213 from 2010 levels of $137,745 due to increased spending on subcontracted engineering expertise 2011. Salaries, benefits and related taxes increased to $1,081,308 in 2011, from 2010 levels of $1,044,198, due to the Company ending salary reduction measures that were implemented during 2010. Travel expenses decreased to $81,868 for 2011, compared to $85,136 for 2010, due to slightly reduced sales and customer support related activities when compared with 2010. Materials and Supplies expense increased during 2011 to $19,355 from 2010 levels of $14,277 due to increased research and development related projects during 2011.

FISCAL YEAR 2010 vs. FISCAL YEAR 2009

GROSS REVENUES: Total revenues for the fiscal year 2010 were $2,241,655 reflecting an 18% increase from $1,892,000 in gross revenues for fiscal year 2009. The increase in total revenues is the result of increased product sales during 2010. Product sales increased to $2,228,798 in 2010, as compared to 2009 sales of $1,867,076, reflecting an increase of 19%. Management believes the increase in sales revenues is the result of increased sales of products in all of the Company s market segments, including domestic and foreign industrial automation, federal and MDC applications. Management believes the increased product sales revenues during 2010 are a direct result of the tenuous economic recovery in the United States and worldwide which has resulted in an increased level of capital expenditure for projects involving the Company s products. The Company intends to continue targeting existing markets of industrial controls and MDC applications, and continued sales manager activities for coverage and exposure in the domestic industrial automation market. Management remains committed to implementing existing marketing strategies, however sustaining sales revenues during 2011 in an environment of fragile economic recovery cannot be guaranteed.

Interest revenues during 2010 decreased to $12,857 from 2009 levels of $24,369 due to decreased rates of return received on the Company s investments.

OPERATING SEGMENTS

Domestic Revenues

The Company s domestic operations represent 75% of the Company s total sales 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 $1,678,803 for the year ended 2010, compared to $1,397,253 for the year ended 2009, reflecting an increase of 20%. Management believes the increase in domestic segment product sales revenues during 2010 is the result of the tenuous economic recovery in the United States which has resulted in an increased level of capital expenditure for projects involving the Company s products. The majority of the Company's domestic product sales for 2010 were used in industrial automation applications. An example of an industrial automation application is a municipal water treatment operation, which employs the ESTeem modem to transmit industrial control information to and from control room areas via a wireless communications infrastructure. It is the opinion of Management that industrial automation applications will continue to provide the largest portion of the Company's revenues in the foreseeable future.

The Company s domestic sales included sales of the Company s products for MDC systems to public entities, which accounted for 5% of the Company s domestic sales during 2010. Management believes the weak MDCS sales during 2010 are the result of continued reductions in government funding for projects involving the Company s products. An example of an MDC system for a public entity is a local area network (LAN), between police department computer dispatch centers and individual police vehicles. Management believes funding of MDC projects on local, state and federal levels cannot be guaranteed and therefore MDC projects involving the Company s products become very difficult to predict.

Domestic segment operating income was $278,572 for 2010 as compared with a segment operating income of $81,762 for 2009 due to increased sales revenues and improved segment profit margins during 2010 when compared with 2009.

Foreign Revenues

The Company s foreign operating segment represents 25% of the Company s total sales revenues. The foreign operating segment is based wholly in the United States and maintains no assets outside of the United States. The foreign operating segment sells ESTeem modem products, accessories and service primarily through foreign resellers, as well as directly to end customers of the Company s products located outside the United States.

During 2010, the Company had $549,995 in foreign export sales, amounting to 25% of sales revenues for the year, compared with foreign export sales of $469,823 for 2009, reflecting an increase of 17%. Management believes the increase in foreign segment product sales revenues during 2010 is the result of the tenuous worldwide economic recovery which has resulted in an increased level of capital expenditure for projects involving the Company s products, specifically industrial automation projects in Colombia and mining applications in Chile and Peru. Products purchased by foreign customers were used primarily in industrial automation applications. Management believes the majority of foreign export sales are the results of the Company s Latin American sales staff, EST foreign reseller activity, and the Company s internet website presence.

Operating income for the foreign segment increased to $232,331 for 2010 as compared with $191,485 for 2009 due to increased segment operating sales revenues during 2010 when compared with 2009.

Unallocated Corporate

Unallocated corporate expenses relate to functions, such as accounting, corporate management and administration that support but are not attributable to the Company s domestic or foreign operating segments, including salaries, wages and other expenses related to the performance of these support functions. Unallocated corporate expenses increased to $323,880 during 2010, compared with $250,648 for 2009, and represented expense to total net revenue percentage of 14% and 13% for 2010 and 2009, respectively.

OPERATING EXPENSES: Operating expenses increased to $1,185,031 in 2010, from 2009 levels of $1,092,019 primarily due increased bad debt expense, professional services and salaries expenses during 2010. Material changes in expenses are comprised of the following components: Bad debt expense increased to $46,742 due to the creation of a bad debt reserve for amounts owed to the Company by Schwager Davis. Schwager Davis notified the Company prior to year end that they had issues with a project using the Company s products and payment would be delayed until the issues were resolved. Depreciation expense decreased during 2010 to $32,365 from 2009 levels of $40,142 due to the Company s decreased depreciable assets and decreased capital purchases. Professional services increased to $137,745 from 2009 levels of $113,239 due to increased spending on subcontracted engineering expertise and audit costs by the Company during 2010. Salaries, benefits and related taxes increased to $1,044,198 in 2010, from 2009 levels of $1,030,520, due to the Company recording a bonus payable based on 2010 results for December 31, 2010. Trade show expenses increased to $44,529 for 2010 compared to $37,485 in 2009 due to increased attendance of trade shows during 2010. Travel expenses increased to $85,136 for 2010, compared to $65,898 for 2009, due to increased sales and customer support related activities when compared with 2009. Based on improved sales revenues and profitability during 2010, the Company intends to cautiously discontinue wage reductions that had been implemented during 2009 and 2010, which may result in increased operating expenses during 2011.

LIQUIDITY AND CAPITAL RESOURCES

The Company s revenues and expenses resulted in a net loss of $129,990 for 2011, decreased from a net income of $129,452 for 2010. The decrease in profitability is the result of decreased sales revenues and increased operating expenses when compared with 2010. At December 31, 2011, the Company's working capital was $2,813,213 compared with $3,008,643 at December 31, 2010. The Company s operations rely solely on the income generated from sales. The Company's major capital resource requirements are payment of employee salaries and benefits and maintaining inventory levels adequate for production. Extended availability for components critical for production of the Company s products, ranging from 12 to 30 weeks, require the Company to maintain high inventory levels. It is Management s opinion that the Company s working capital as of December 31, 2011 is adequate for expected resource requirements for the next twelve months.

The Company's current asset to current liability ratio at December 31, 2011 was 29.1:1 compared to 18.5:1 at December 31, 2010. The increased in current asset ratio is the result of the Company having no federal income tax liability for year-end 2011 when compared with year-end 2010. The Company's cash resources at December 31, 2011, including cash and cash equivalent liquid assets, were $1,227,490, compared to cash resources of $1,133,720 at year-end 2010. The increase in cash and cash equivalent liquid assets is the result of timing differences in certificate of deposit maturities and receivable collection cycles when compared with year-end 2010. The Company s cash and cash equivalent assets are held in checking and money market investment accounts.

The Company's accounts receivable, adjusted for allowance for uncollectible accounts, at December 31, 2011, were $104,166, compared to $125,004 at year-end 2010. Management believes that all Company accounts receivable as of December 31, 2011 are collectible.

The Company believes the level of risk associated with customer receipts on export sales is minimal. Foreign shipments are made only after payment has been received or on Net 30 day credit terms to established foreign companies with which the Company has distributor relationships. Foreign orders are generally filled as soon as they are received therefore; foreign exchange rate fluctuations do not impact the Company.

Inventory levels as of December 31, 2011, were $471,314, reflecting an increase from December 31, 2010 levels of $421,267. The increase in inventory between December 31, 2010 and December 31, 2011, is due to decreased product sales by the Company during 2011.

The Company had capital expenditures of $32,059 during 2011 primarily for manufacturing related instrumentation. The Company intends on investing in additional capital equipment as deemed necessary to support development and manufacture of current and future products. As of December 31, 2011, the Company's current liabilities decreased to $100,114, from 2010 year-end levels of $172,128. The decrease in current liabilities is the result of the Company s decreased federal income tax liability when compared with a federal income tax liability of $77,171 for year-end 2010. As of December 31, 2011, the Company had a refundable deposits liability of $49,303 for pending foreign customer shipments.

The Company had no off balance sheet arrangements for the year ended December 31, 2011.

Inflation had minimal adverse effect on the Company s operations during 2011. Minimal adverse effect is anticipated during 2012.

**FORWARD LOOKING STATEMENTS: The above discussion may contain forward-looking statements that involve a number of risks and uncertainties. These factors are more fully described in the Risk Factors section of Item 1A of this Annual Report on Form 10-K. 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, rapid advances in competing technologies and risk factors that are listed in the Company s reports filed with the Securities and Exchange Commission.**

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Not Applicable.



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**Item 8. Financial Statements and Supplementary Data.**

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

FINANCIAL STATEMENTS

AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

TABLE OF CONTENTS

**Moe O Shaughnessy & Associates, P.S.**

Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of

Electronic Systems Technology, Inc.

Kennewick, WA

We have audited the accompanying balance sheets of Electronic Systems Technology, Inc., dba ESTeem Wireless Modems, as of December 31, 2011 and 2010, and the related statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electronic Systems Technology, Inc., as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

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

/s/ Moe O Shaughnessy & Associates, P.S.

Spokane, Washington

February 23, 2012

427 W. Sinto Avenue, Ste. 200, Spokane, Washington 99201

Phone (509) 325-4900 Fax (509) 325-9345 E-Mail moaps@moaps.net

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | $ 38,168 | $ 51,867 |
| Money market investment | 1,189,322 | 1,081,853 |
| Certificates of deposit | 1,033,000 | 1,472,000 |
| Accounts receivable, net of allowance for doubtful accounts of $787 and $47,664 | 104,166 | 125,004 |
| Inventory | 471,314 | 421,267 |
| Prepaid insurance | 9,985 | 8,780 |
| Prepaid expenses | 18,126 | 18,409 |
| Accrued interest | 1,583 | 1,591 |
| Federal income tax refund receivable | 47,663 | - |
| Total Current Assets | 2,913,327 | 3,180,771 |
| PROPERTY AND EQUIPMENT NET | 54,358 | 44,255 |
| DEPOSITS | 1,675 | 4,304 |
| DEFERRED INCOME TAX BENEFIT | 54,000 | 49,400 |
| | $ 3,023,360 | $ 3,278,730 |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 16,104 | $ 31,651 |
| Refundable deposits | 49,303 | - |
| Accrued wages and bonus | 4,627 | 22,994 |
| Accrued payroll and other taxes | 2,869 | 7,623 |
| Accrued vacation pay | 27,211 | 32,689 |
| Federal income tax payable | - | 77,171 |
| Total Current Liabilities | 100,114 | 172,128 |
| DEFERRED INCOME TAXES | 7,800 | 13,000 |
| COMMITMENTS AND CONTINGENCIES | - | - |

| | | |
|---|---|---|
| STOCKHOLDERS EQUITY | | |
| Common stock - $.001 par value 50,000,000 shares authorized, 5,158,667 issued and outstanding | 5,159 | 5,159 |
| Additional paid-in capital | 1,001,648 | 998,228 |
| Retained earnings | 1,908,639 | 2,090,215 |
| | 2,915,446 | 3,093,602 |
| | $ 3,023,360 | $ 3,278,730 |

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| SALES NET | $ 1,791,741 | $ 2,228,798 | $ 1,867,076 |
| COST OF SALES | 797,973 | 869,601 | 777,382 |
| GROSS PROFIT | 993,768 | 1,359,197 | 1,089,694 |
| OPERATING EXPENSES | 1,195,051 | 1,185,031 | 1,092,019 |
| OPERATING INCOME (LOSS) | (201,283) | 174,166 | (2,325) |
| OTHER INCOME | | | |
| Interest income | 9,664 | 12,857 | 24,369 |
| Other income (expense) | 4,166 | - | 555 |
| | 13,830 | 12,857 | 24,924 |
| INCOME (LOSS) BEFORE INCOME TAXES | (187,453) | 187,023 | 22,599 |
| PROVISION FOR FEDERAL INCOME TAXES | (57,463) | 57,571 | (1,896) |
| NET INCOME (LOSS) | $ (129,990) | $ 129,452 | $ 24,495 |
| BASIC EARNINGS (LOSS) PER SHARE | $ (0.03) | $ 0.03 | $ 0.00 |
| DILUTED EARNINGS (LOSS) PER SHARE | $ (0.03) | $ 0.02 | $ 0.00 |

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

| | Common Stock | | Paid-In | Retained | |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Earnings | Total |
| BALANCE AT JANUARY 1, 2009 | 5,158,667 | $ 5,159 | $ 990,300 | $ 1,936,268 | $ 2,931,727 |
| COMPREHENSIVE INCOME: | | | | | |
| Net income | - | - | - | 24,495 | 24,495 |
| SHARE-BASED COMPENSATION | - | - | 3,150 | - | 3,150 |
| BALANCE AT DECEMBER 31, 2009 | 5,158,667 | 5,159 | 993,450 | 1,960,763 | 2,959,372 |
| COMPREHENSIVE INCOME: | | | | | |
| Net income | - | - | - | 129,452 | 129,452 |
| SHARE BASED COMPENSATION | - | - | 4,778 | - | 4,778 |
| BALANCE AT DECEMBER 31, 2010 | 5,158,667 | 5,159 | 998,228 | 2,090,215 | 3,093,602 |
| COMPREHENSIVE INCOME: | | | | | |
| Net loss | - | - | - | (129,990) | (129,990) |
| SHARE BASED COMPENSATION | - | - | 3,420 | - | 3,420 |
| CASH DIVIDEND | - | - | - | (51,586) | (51,586) |
| BALANCE AT DECEMBER 31, 2011 | 5,158,667 | $ 5,159 | $ 1,001,648 | $ 1,908,639 | $ 2,915,446 |

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) | $ (129,990) | $ 129,452 | $ 24,495 |
| Noncash expenses included in income: | | | |
| Depreciation | 21,956 | 32,365 | 40,142 |
| Allowance for doubtful accounts | (46,877) | 46,742 | (555) |
| Deferred income taxes | (9,800) | (25,300) | (18,600) |
| Share-based compensation | 3,420 | 4,778 | 3,150 |
| Decrease (increase) in current assets: | | | |
| Accounts receivable, net | 67,715 | (49,753) | 73,991 |
| Inventory | (50,047) | 82,059 | 136,453 |
| Other current assets | (914) | 749 | 10,734 |
| Prepaid federal income taxes | - | 20,896 | 16,704 |
| Federal income taxes receivable | (47,663) | - | 63,842 |
| Increase (decrease) in current liabilities: | | | |
| Accounts payable and other current liabilities | 5,157 | 4,957 | (3,548) |
| Federal income taxes payable | (77,171) | 77,171 | - |
| Net Cash From Operating Activities | (264,214) | 324,116 | 346,808 |
| | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Deposits and long term prepaids | 2,629 | (3,964) | - |
| Purchase of investments and certificates of deposit | (1,802,000) | (1,655,000) | (1,981,000) |
| Proceeds from sales of investments and certificates of deposit | 2,241,000 | 1,555,000 | 2,041,000 |
| Additions to property and equipment | (32,059) | (6,040) | - |
| Net Cash From Investing Activities | 409,570 | (110,004) | 60,000 |
| | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Cash dividend | (51,586) | - | - |
| Net Cash From Financing Activities | (51,586) | - | - |

| | | | |
|---|---|---|---|
| NET INCREASE (DECREASE) IN CASH & EQUIVALENTS | 93,770 | 214,112 | 406,808 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 1,133,720 | 919,608 | 512,800 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 1,227,490 | $ 1,133,720 | $ 919,608 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Cash paid during the year for: | | | |
| Income taxes | $ (77,171) | $ (5,700) | $ (63,842) |
| Cash and cash equivalents: | | | |
| Cash | $ 38,168 | $ 51,867 | $ 19,705 |
| Money market | 1,189,322 | 1,081,853 | 899,903 |
| | $ 1,227,490 | $ 1,133,720 | $ 919,608 |

See Notes to Financial Statements.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

1.

Organization and Summary of Significant Accounting Policies

Business Organization

The Company was incorporated under the laws of the State of Washington on February 10, 1984, primarily to develop, produce, sell and distribute wireless modems that will allow communication between peripherals via radio frequency waves. On November 12, 1984, the Company sold 3,000,000 shares of its unissued common stock to the public at an offering price of $.30 per share, arbitrarily determined by the underwriter.

Effective September 13, 2007, the Company announced their establishment of a doing business as or dba structure, based on the Company s registered trade name of ESTeem (tm) Wireless Modems.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates used in the accompanying financial statements include allowance for uncollectible accounts receivable, inventory obsolescence, useful lives of depreciable assets, and deferred income taxes. Actual results could differ from those estimates.

Concentrations of Credit Risks

Financial instruments that potentially subject the Company to credit risk consists of cash and customer receivables.

The Company places its cash with three major financial institutions.  During the period, the Company had cash balances that were in excess of federally insured limits.

The Company  s customers, to which trade credit terms are extended, consist of United States and local governments and foreign and domestic companies.

Revenue Recognition

The Company recognizes revenue from product sales when the goods are shipped or delivered and title and risk of loss pass to the customer.  Provision for certain sales incentives and discounts to customers are accounted for as reductions in sales in the period the related sales are recorded.  Sales are recorded net of applicable state and local sales tax.  Products sold to foreign customers are shipped after payment is received in U.S. funds, unless an established distributor relationship exists or the customer is a foreign branch of a U.S. company.

Revenues from site support and engineering services are recognized as the Company performs the services.  Amounts billed and collected before the services are performed are included in deferred revenues.  Revenue is recognized based upon proportional performance when the contract contains performance milestones.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

1.

Organization and Summary of Significant Accounting Policies - (Continued)

Revenue Recognition - (Continued)

The Company does not generally sell its products with the right of return. Therefore, returns are reported when they occur.

The Company warrants its products as free of manufacturing defects and provides a refund of the purchase price, repair or replacement of the product for a period of one year from the date of installation by the first user/customer. No allowance for estimated warranty repairs or product returns has been recorded.

Financial Instruments

The Company s financial instruments are cash and cash equivalents, accounts receivable and accounts payable. The recorded values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values based on their short-term nature.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash, certificates of deposit and money market accounts purchased with original maturities of three months or less.

Allowance for Uncollectible Accounts

The Company uses the allowance method to account for uncollectible accounts receivable. Accounts receivable are presented net of an allowance for doubtful accounts of $787 and $47,664 as of December 31, 2011 and 2010, respectively. The Company s policy for writing off past due accounts receivable is based on the amount, time past due, and response received from the subject customer.

Accounts receivable include $66 of amounts due which are over ninety days past due at December 31, 2011.

Inventory

Inventories are stated at lower of direct cost or market. Cost is determined on an average cost basis that approximates the first-in, first-out (FIFO) method. Market is determined based on net realizable value and consideration is given to obsolescence.

Property and Equipment

Property and equipment is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful life of property and equipment for purposes of computing depreciation is three to seven years. The Company periodically reviews its long-lived assets for impairment and, upon indication that the carrying value of such assets may not be recoverable, recognizes an impairment loss by a charge against current operations. The Company normally capitalizes non consumable assets with a cost greater than one thousand dollars.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

1.

Organization and Summary of Significant Accounting Policies - (Continued)

Investments

Certificates of deposit with original maturities ranging from three months to twelve months were purchased for $1,033,000, at December 31, 2011.

Capitalized Software Costs

Capitalized software costs consist of costs to purchase and develop software. The Company capitalizes the costs of creating a software product to be sold, leased or otherwise marketed, for which technological feasibility has been established. Amortization of the software product, on a product-by-product basis, begins on the date the product is available for distribution to customers and continues over the estimated revenue-producing life, not to exceed five years. All software costs were fully amortized at December 31, 2006.

Income Taxes

The provision for income taxes is computed on the pretax income based on the current tax law. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates.

Research and Development

Research and development costs are expensed as incurred. Research and development expenditures for new product development and improvements of existing products by the Company for 2011, 2010, and 2009, were $268,530, $264,389, and $273,389, respectively.

Advertising Costs

Costs incurred for producing and communicating advertising are expensed when incurred. Advertising costs for the years ended December 31, 2011, 2010, and 2009, were $12,021, $15,615, and $14,194, respectively.

Reclassifications

Certain reclassifications have been made to the prior years financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

Share-Based Compensation

FASB ASC 718 requires all share-based payments to employees, including grants of employee stock options, be measured at fair value and expensed in the statement of operations over the service period. See Note 7 for additional information. In addition to the recognition of expense in the financial statements, under FASB ASC 718, any excess tax benefits received upon exercise of options will be presented as a financing activity inflow rather than an adjustment of operating activity as presented in prior years.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

2.

Inventories

Inventories consist of the following:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Parts | $ | 228,012 | $ | 180,059 |
| Work in progress | | 74,992 | | 64,884 |
| Finished goods | | 168,310 | | 176,324 |
| | $ | 471,314 | $ | 421,267 |

3.

Property and Equipment

Property and equipment consist of the following:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Laboratory equipment | $ | 591,077 | $ | 561,742 |
| Furniture and fixtures | | 16,398 | | 16,398 |
| Dies and molds | | 105,353 | | 105,353 |
| | | 712,828 | | 683,493 |
| Accumulated depreciation | | (658,470) | | (639,238) |
| | $ | 54,358 | $ | 44,255 |

4.

Provision for Income Taxes

The Company uses the asset and liability approach in accounting for income taxes.

The provision for federal income taxes consisted of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Current | $ (47,663) | $ 82,871 | $ 16,704 |
| Deferred | (9,800) | (25,300) | (18,600) |
| Provision for federal income taxes | $ (57,463) | $ 57,571 | $ (1,896) |

The components of deferred tax assets and liabilities at December 31 were as follows:

| | 2011 | 2010 |
|---|---|---|
| Deferred tax assets: | | |
| Accrued liabilities | $ 9,300 | $ 11,100 |
| Inventory adjustment | 19,000 | 15,500 |
| Capital loss carryforward | - | 6,600 |
| Allowance for doubtful accounts | 300 | 16,200 |
| Unused tax credits | 25,400 | - |
| Total | $ 54,000 | $ 49,400 |
| | | |
| Deferred tax liabilities: | | |
| Depreciable property | $ 7,800 | $ 13,000 |
| Total | $ 7,800 | $ 13,000 |

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

4.

Provision for Income Taxes (Continued)

The differences between the provision for income taxes and income taxes computed using the U.S. federal income tax rate were as follows:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Amount computed using the statutory rate | $ (47,663) | $ 82,871 | $ 16,704 |
| Decrease in deferred tax (assets) liabilities | (9,800) | (25,300) | (18,600) |
| Provision for federal income taxes | $ (57,463) | $ 57,571 | $ (1,896) |

The Company files federal income tax returns in the United States only. The Company is no longer subject to federal income tax examination by tax authorities for years before 2008. Effective January 1, 2007, the Company adopted the provisions of FASB ASC 740, formerly Accounting for Uncertainty in Income Taxes (FIN48). FASB ASC 740 prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The Company has evaluated all tax positions for open years and has concluded that they have no material unrecognized tax benefits.

The provision for federal income taxes included penalties of $228 for the year ending 2010.

5.

Profit Sharing Salary Deferral 401-K Plan

The Company sponsors a Profit Sharing Plan and Salary Deferral 401-K plan and trust. All employees over the age of twenty-one are eligible. On January 1, 2006, the Company adopted a four percent salary matching provision. The Company contributed $30,404, $27,864 and $29,364 to the plan at December 31, 2011, 2010, and 2009, respectively.

6.

Employee Profit Sharing Bonus Program

The Company makes contributions to the Employees Profit Sharing Bonus Program (a non-qualified plan) based upon ten percent of the first $100,000 of pre-tax net income plus eight percent on pre-tax net income in excess of $100,000. The Company has accrued no contributions for the year 2011.

7.

Share-Based Compensation

The Company grants stock options to individual employees and directors with three years continuous tenure. After termination of employment, stock options may be exercised within ninety days.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

7.

Share-Based Compensation (Continued)

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:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Dividend yield | 0.00% | 0.00% | 6.06% |
| Expected volatility | 74% | 93% | 108% |
| Risk-free interest rate | 1.40% | 1.38% | 1.38% |
| Expected term (in years) | 3 | 3 | 3 |
| Estimated fair value per option granted | $ 0.21 | $ 0.30 | $ 0.18 |

The average risk-free interest rate is based on the three-year U.S. Treasury Bond rate in effect as of the grant date. The expected volatility is determined using a weighted average of weekly historical volatility of the stock price over a period of one year prior to the grant dates. The Company uses historical data to estimate option exercise rates. The option exercise rate for option grants in 2011 was eight percent.

In the years ended December 31, 2011, 2010, and 2009, the Company recognized $3,420, $4,778, and $3,150, respectively, in share-based compensation expense. No non-vested share-based compensation arrangements existed as of December 31, 2011.

A summary of option activity follows:

| | Weighted Average | Weighted Average Remaining |
|---|---|---|

| | Number Outstanding | Exercise Price Per Share | Contractual Term (Years) |
|---|---|---|---|
| Balance at 12/31/08 | 570,000 | $ 0.73 | 1.1 |
| Granted | 195,000 | 0.31 | |
| Exercised | - | - | |
| Canceled | (200,000) | 0.68 | |
| Balance at 12/31/09 | 565,000 | 0.60 | 1.1 |
| Granted | 195,000 | 0.45 | |
| Exercised | - | - | |
| Canceled | (175,000) | 0.68 | |
| Balance at 12/31/10 | 585,000 | 0.52 | 1.1 |
| Granted | 210,000 | 0.44 | |
| Exercised | - | - | |
| Canceled | (205,000) | 0.79 | |
| Balance at 12/31/11 | 590,000 | 0.40 | 1.1 |
| Exercisable at 12/31/11 | 590,000 | 0.40 | 1.1 |

The aggregate intrinsic value of the options outstanding and exercisable at December 31, 2011, was $11,400.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

8.

Earnings Per Share

The following table represents the calculation of net earnings per common share basic and diluted:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net income (loss) | $ (129,990) | $ 129,452 | $ 24,495 |
| Basic earnings per share: | | | |
| Weighted average shares outstanding | 5,158,667 | 5,158,667 | 5,158,667 |
| Diluted earnings per share: | | | |
| Weighted average shares outstanding | 5,158,667 | 5,158,667 | 5,158,667 |
| Incremental shares from assumed conversion of stock options | - | 79,865 | 13,948 |
| Weighted average shares outstanding | 5,158,667 | 5,238,532 | 5,172,615 |
| Net earnings (loss) per common share-basic | $ (0.03) | $ 0.03 | $ 0.00 |
| Net earnings (loss) per common share-diluted | $ (0.03) | $ 0.02 | $ 0.00 |

9.

Leases

The Company leases its facilities from a port authority, under beneficial terms for $4,222 monthly for three years, expiring in September 2014, with annual increases based upon the Consumer Price Index. The lease expense for the years ended December 31, 2011, 2010, and 2009 was $48,990, $46,885 and $44,824, respectively.

Future minimum lease payments required under the above operating lease for the years ending December 31, 2012, 2013, and 2014, amount to $51,185, $53,253, and $41,103, respectively.

10.

Related Party Transactions

For the years ended December 31, 2011, 2010, and 2009, services in the amount of $104,411, $73,672, and $49,716, respectively, were contracted with a manufacturing process company, Manufacturing Services, Inc. The president and past president of Manufacturing Services, Inc., are members of the Board of Directors of Electronic Systems Technology, Inc.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

11.

Commitments and Contingencies

The Company purchases certain key components necessary for the production of its products from a limited number of suppliers. The components provided by the suppliers could be replaced or substituted by other products. It is possible that if this action became necessary, an interruption of production and/or material cost expenditures could take place.

In 2009, the Company entered into a licensing agreement with Wi-LAN, Inc. (a Canadian Company), to pay royalties for certain licensing rights and liability releases. Such amounts were not significant in 2011 through 2009.

The Company has evaluated subsequent events through February 23, 2012, the date the financial statements were available to be issued.

12.

Segment Reporting

Segment information is prepared on the same basis that the Company s management reviews financial information for operational decision making purposes. Electronic Systems Technology, Inc., 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.

Domestic customers represent approximately sixty-two percent of total net revenues. Foreign customers represent approximately thirty-eight percent of total net revenues. One individual customer comprised more than ten percent of sales revenue. Revenues from foreign countries consist primarily of revenues from Canada, Mexico, and South American countries.

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.

DBA ESTEEM WIRELESS MODEMS

NOTES TO FINANCIAL STATEMENTS

12.

Segment Reporting (Continued)

Summary financial information for the two reportable segments is as follows:

| 2011 | Domestic | Foreign | Unallocated Corporate | Total |
|---|---|---|---|---|
| Total sales | $ 1,105,701 | $ 686,040 | $ - | $1,791,741 |
| Total other income | 13,830 | - | - | 13,830 |
| Depreciation | 19,584 | - | 2,372 | 21,956 |
| Earnings (loss) before tax | (177,422) | 269,458 | (279,489) | (187,453) |
| Identifiable assets | 112,944 | 42,547 | 2,867,869 | 3,023,360 |
| Net capital expenditures | 32,059 | - | - | 32,059 |
| 2010 | | | | |
| Total sales | $ 1,678,803 | $ 549,995 | $ - | $ 2,228,798 |
| Total other income | 12,857 | - | - | 12,857 |
| Depreciation | 29,853 | - | 2,512 | 32,365 |
| Earnings (loss) before tax | 278,572 | 232,331 | (323,880) | 187,023 |
| Identifiable assets | 154,367 | 9,712 | 3,114,651 | 3,278,730 |
| Net capital expenditures | 3,845 | - | 2,195 | 6,040 |
| 2009 | | | | |
| Total sales | $ 1,397,253 | $ 469,823 | $ - | $ 1,867,076 |
| Total other income | 24,924 | - | - | 24,924 |
| Depreciation | 37,595 | - | 2,547 | 40,142 |
| Earnings (loss) before tax | 81,762 | 191,485 | (250,648) | 22,599 |
| Identifiable assets | 165,446 | 27,127 | 2,878,299 | 3,070,872 |
| Net capital expenditures | - | - | - | - |

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

SUPPLEMENTAL SCHEDULES

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ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

SUPPLEMENTAL SCHEDULES OF OPERATING EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Advertising | $ 12,021 | $ 15,615 | $ 14,194 |
| Bad debt expense | 7,718 | 46,742 | - |
| Commissions sales | 1,197 | - | 1,841 |
| Dues and subscriptions | 1,201 | 1,364 | 1,444 |
| Depreciation | 21,956 | 32,365 | 40,142 |
| Insurance | 12,532 | 12,438 | 12,475 |
| Materials and supplies | 19,355 | 14,277 | 12,124 |
| Office and administration | 6,062 | 7,042 | 7,603 |
| Printing | 2,827 | 4,161 | 3,591 |
| Professional services | 160,213 | 137,745 | 113,239 |
| Rent and utilities | 62,269 | 60,537 | 58,615 |
| Repair and maintenance | 4,642 | 4,192 | 4,985 |
| Salaries | 850,716 | 823,845 | 811,491 |
| Taxes | 230,592 | 220,353 | 219,029 |
| Telephone | 8,467 | 9,471 | 9,031 |
| Trade shows | 44,469 | 44,529 | 37,485 |
| Travel expenses | 81,868 | 85,136 | 65,898 |
| | 1,528,105 | 1,519,812 | 1,413,187 |
| Expenses allocated to cost of sales | (333,054) | (334,781) | (321,168) |
| | $ 1,195,051 | $ 1,185,031 | $ 1,092,019 |

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

DBA ESTEEM WIRELESS MODEMS

SUPPLEMENTAL SCHEDULES OF SELECTED FINANCIAL DATA

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, 2009, 2008 AND 2007

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Sales net | $ 1,791,741 | $ 2,228,798 | $ 1,867,076 | $ 2,108,700 | $ 3,002,521 |
| Gross profit | 993,768 | 1,359,197 | 1,089,694 | 1,157,605 | 1,847,198 |
| Income (loss) before provision for income taxes | (187,453) | 187,023 | 22,599 | (227,815) | 463,136 |
| Provision for income taxes | (57,463) | 57,571 | (1,896) | (71,628) | 143,814 |
| Net income (loss) | (129,990) | 129,452 | 24,495 | (156,187) | 319,322 |
| Comprehensive income (loss) | (129,990) | 129,452 | 24,495 | (156,187) | 319,322 |
| Net income (loss) per share basic | (0.03) | 0.03 | 0.00 | (0.03) | 0.06 |
| Weighted average number of shares outstanding | 5,158,667 | 5,158,667 | 5,158,667 | 5,157,916 | 5,153,667 |
| Total assets | 3,023,360 | 3,278,730 | 3,070,872 | 3,059,875 | 3,477,208 |
| Stockholders equity | 2,915,446 | 3,093,602 | 2,959,372 | 2,931,727 | 3,179,348 |
| Stockholders equity per share | 0.57 | 0.60 | 0.57 | 0.57 | 0.62 |
| Working capital | 2,813,213 | 3,008,643 | 2,877,352 | 2,828,165 | 3,046,967 |
| Current ratio | 29.1:1 | 18.5:1 | 33.0:1 | 31.2:1 | 13.2:1 |
| Equity to total assets | 96% | 94% | 96% | 96% | 91% |

**Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.**

None

**Item 9A. Controls and Procedures.**

***Conclusions of Management Regarding Effectiveness of Disclosure Controls and Procedures.***

Under the supervision and with the participation of our Management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such terms are defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exhange Act ) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that there was a material weakness affecting our internal control over financial reporting and, as a result of this weakness, our disclosure controls and procedures were not effective as of December 31, 2011.

***Management s Report on Internal Control over Financial Reporting.***

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting for the company. The Company s internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

As of December 31, 2011 Management conducted an assessment of the effectiveness of EST s internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway

Commission. Management, under the supervision and with the participation of the Company s Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2011 and concluded that it is ineffective in assuring that the financial reports of the Company are free from material errors or misstatements. 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.

*Management s Remediation Initiatives*

This Annual Report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only Management s report in this Annual Report.

Management has evaluated and continues to evaluate, avenues for mitigating our internal controls weaknesses, but mitigating controls have been deemed to be impractical and prohibitively costly due to the size of our organization at the current time. Management does not foresee implementing a cost effective method of mitigating our internal control weaknesses in the near term. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or 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. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks.

*Changes in internal control over financial reporting*.

During the quarter ended December 31, 2011, there were no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

**Item 9B. Other Information.**

On February 10, 2012 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, 2012 totaled 220,000 shares under option and have an exercise price of $0.37 per share. The options granted on February 10, 2012 may be exercised any time during the period from February 10, 2012 through February 9, 2015. The Company's Form 8-K dated February 10, 2012, as filed with the Securities and Exchange Commission is included herein by reference.

PART III

**Item 10. Directors, Executive Officers and Corporate Governance.**

IDENTIFICATION OF DIRECTORS:

The following table sets forth the names and ages of all directors of the Company as of December 31, 2011; as well as term in office and principal occupation of each director.

| Name of Director | Term in Office | | Age | Principal Occupation |
|---|---|---|---|---|
| T.L. Kirchner | 06/03/11 | 06/03/14 | 63 | President of the Company |
| Melvin H. Brown | 06/05/09 | 06/05/12 | 81 | Former President of Manufacturing Services, Inc. |
| Michael S. Brown | 06/03/11 | 06/03/14 | 59 | President of Manufacturing Services, Inc. |
| Robert Southworth | 06/05/09 | 06/05/12 | 68 | Patent Attorney, U.S. Dept. of Energy (retired) |
| Jon Correio | 06/05/09 | 06/05/12 | 44 | Vice President of Finance of the Company |
| John L. Schooley | 06/04/10 | 06/04/13 | 72 | Former President of Remtron, Inc. |

Management believes that there are no agreements or understanding between the directors and suppliers or contractors of the Company, except the agreement with Manufacturing Services, Inc. as described elsewhere in this report.

Audit Committee

The Audit Committee of the Board of Directors as of December 31, 2011 is comprised of Robert Southworth (Chairman), Melvin Brown, Michael Brown and John Schooley. Michael Brown and Melvin Brown are considered to be non-independent members of the Audit Committee, however their serving on the Audit Committee was deemed by the Board to be in the best interest of the Company due to Michael Brown and Melvin Brown s experience and familiarity with the Company. The Board of Directors has determined that none of the audit committee members can be classified as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K. The Board of Directors does not contain a member that can be classified as an audit committee financial expert under the referenced definition. The Board of Directors believes that attracting and retaining board members that could be classified as an audit committee financial expert is unlikely due to the high cost of such Director candidates.

The Board of Directors had an Employee/Director Stock Option Committee consisting of Tom Kirchner and Jon Correio. The committee existed for the sole purpose of recommending the recipients and amounts of the Company awarded stock options during 2011.

Compensation Committee

There is no Compensation Committee of the Board of Directors.

Code of Ethics

On June 2, 2005, the Company's Board of Directors adopted a Code of Ethics for the Company.

IDENTIFICATION OF EXECUTIVE OFFICERS

The following table sets forth the names and ages of all executive officers of the Company as of December 31, 2011; all positions by such persons; term of office and the period during which he has served as such; and any arrangement or understanding between him and any other person(s) pursuant to which he was elected as an officer:

| Name of Officer | Age | Position | Term of Office | Period of Service |
|---|---|---|---|---|
| T. L. Kirchner | 63 | President/CEO | 3 Years | 02/10/84- Present |
| Jon Correio | 44 | Vice President, Finance & Administration/Sec/Treas | 3 Years | 02/9/01- Present |

Melvin H. Brown is the father of Michael S. Brown, both of whom are Directors of the Company. Outside of this family relationship, there are no family relationships, whether by blood, marriage, or adoption, between any of the Directors or Executive Officers of the Company.

The following is a brief description of the business experience during the last five years of each director and/or executive officer of the Company.

T.L. KIRCHNER. Mr. Kirchner is founder, President and a Director of the Company. During the last five years Mr. Kirchner devoted 100% of his time to the management of the Company. His primary duties are to oversee the management and marketing functions of the Company. Mr. Kirchner does not serve as a director for any other company registered under the Securities Exchange Act.

MELVIN H. BROWN. Mr. Brown is a Director of the Company. Mr. Brown is the retired owner and President of Manufacturing Services, Inc. Manufacturing Services provides electronic design and manufacturing solutions. Manufacturing Services provides electronic manufacturing and quality control testing services for Electronic Systems Technology. Mr. Brown does not serve as a director for any other company registered under the Securities Exchange Act.

MICHAEL S. BROWN. Mr. Brown is a Director of the Company. He has been with Manufacturing Services, Inc. since 1998 and became President in April 2006. Previously Mr. Brown held management positions with Cadence Design Systems and Wyse Technology. Manufacturing Services provides electronic design and manufacturing solutions. Manufacturing Services provides electronic manufacturing and quality control testing services for Electronic Systems Technology. Mr. Brown does not serve as a director for any other company registered under the Securities Exchange Act.

ROBERT SOUTHWORTH. Mr. Southworth is a Director of the Company. Mr. Southworth is a retired Senior Patent Attorney with the U. S. Department of Energy in Richland, Washington. His primary duties with the Department of Energy were the preparation and prosecution of domestic and foreign patent applications in such fields as nuclear reactors, fuel reprocessing, waste management and energy related fields of solar, wind, and fossil fuels. Mr. Southworth does not serve as a director of any other company that is registered under the Securities Exchange Act

JON CORREIO. Mr. Correio is the Vice President of finance and administration, Secretary/Treasurer and a Director of the Company. During the last five years Mr. Correio has been a full time employee of the Company, whose primary duties are to oversee the finance and administration functions of the Company. Mr. Correio does not serve as a director for any other company registered under the Securities Exchange Act.

JOHN L. SCHOOLEY. Mr. Schooley is a Director of the Company. Mr. Schooley was the former owner and President of Remtron, Inc. in San Diego, California. Remtron, Inc. manufactures advanced radio control and telemetry systems for the industrial marketplace. Mr. Schooley does not serve as director of any other company that is registered under the Securities and Exchange Act.

FAMILY RELATIONSHIPS. Michael S. Brown is the son of Melvin H. Brown.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

During the year ended December 31, 2011, to the knowledge of Management, there was no director, officer, or beneficial owner of more than 10% any class of equity securities of the registrant who failed to file on a timely basis the required disclosure form as required by Section 16(a) of the Securities and Exchange Act of 1934.

INDEMNIFICATION. The Company s By-Laws address indemnification of Directors and Officers. Washington Law provides that Washington corporations may include within their Articles of Incorporation provisions eliminating or limiting the personal liability of their directors and officers in shareholder actions brought to obtain damages for alleged breaches of fiduciary duties, as long as the alleged acts or omissions did not involve intentional misconduct, fraud, a knowing violation of law or payment of dividends in violation of the Washington statutes. Washington law also allows Washington corporations to include in their Articles of Incorporation or Bylaws provisions to the effect that expenses of officers and directors incurred in defending a civil or criminal action must be paid by the corporation as they are incurred, subject to an undertaking on behalf of the officer or director that he or she will repay such expenses if it is ultimately determined by a court of competent jurisdiction that such officer or director is not entitled to be indemnified by the corporation because such officer or director did not act in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation. The Company s Articles of Incorporation provide that a director of officer is not personally liable to the Company or its shareholders for damages for any breach of fiduciary duty as a director or officer, except for liability for (i) acts or omissions which involve intentional misconduct, fraud or a knowing violation of law, or (ii) the payment of distribution in violation of Washington Business Corporation Act.

**Item 11. Executive Compensation.**

The Company s principal executive officer is T.L. Kirchner, President and CEO. The Company s principal financial officer is Jon Correio, Vice President, Finance and Administration.

Information concerning the compensation of the Company s principal executive officer and principal financial officer, as well as any other compensated employees of the Registrant's whose total compensation exceeded $100,000 during 2011 and 2010 is provided in the following Summary Compensation Table:

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary ($) | Bonus ($)(1) | Stock Awards ($) | Option Awards ($)(2) | Non-Equity Incentive Plan Compensation ($) | Change in Pension Value and Non-qualified Deferred Compensation Earnings ($) | All Other Compen-sation ($)(3)(4) | Total ($) |
|---|---|---|---|---|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| T.L. Kirchner, President/CEO | 2011 | $166,000 | - | - | $420 | - | - | $22,862 | $189,282 |
| | 2010 | $144,000 | $6,109 | - | $613 | - | - | $20,012 | $170,734 |
| Jon Correio, Vice President, Finance | 2011 | $75,000 | - | - | $420 | - | - | $17,361 | $92,781 |
| | 2010 | $67,500 | $2,864 | - | $613 | - | - | $16,502 | $87,479 |

(1)

Includes amounts paid under the Non-qualified Employee Profit Sharing Bonus. Bonus calculated for 2010 results paid during 2011.

(2)

Amount represents the dollar amount recognized for financial statement reporting purposes in accordance with ASC 718. Assumptions made in the valuation of stock option awards are disclosed in Note 7 of the Notes to the Consolidated Financial Statements in this Form 10-K.

(3)

All Other Compensation consists of premiums paid for Group Health Insurance, Key Man Insurance, Accrued Vacation Pay and Company paid 401(k) matching amounts.

(4)

Amounts do not reflect proceeds of $0.01 per share cash distribution received by T.L. Kirchner during 2011 totaling $4,035. Receipt of cash distribution was based solely on capacity as a shareholder.

The information specified concerning the stock options of the named executive officers during the fiscal year ended December 31, 2011 is provided in the following Option/SAR Grants in the Last Fiscal Year Table:

OPTION/SAR GRANTS IN LAST FISCAL YEAR

| | | Individual Grants (5) | | |
|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) |
| Name | Number of Securities Underlying Options/SARs Granted # (5) | % of Total Options/SARs Granted to Employees in Fiscal Year | Exercise or base price ($/Share) | Expiration Date |
| T.L. Kirchner | 25,000 | 11.9% | 0.44 | 2/10/2014 |
| Jon Correio | 25,000 | 11.9% | 0.44 | 2/10/2014 |

(5)

This table does not include Stock Options granted previously. Forms 8-K dated 02/19/09 and 02/22/08 respectively, are incorporated herein by reference.

The information specified concerning the stock options of the named executive officers during the fiscal year ended December 31, 2011 is provided in the following Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Options/SAR Values Table:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

| | Option Awards | | | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) | Option Exercised Price ($) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested ($) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) |
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) |
| T.L. Kirchner, | 25,000 | 0 | 0 | $0.44 | 2/10/14 | 0 | 0 | 0 | 0 |
| | 25,000 | 0 | 0 | $0.45 | 2/18/13 | 0 | 0 | 0 | 0 |
| President/ CEO | 25,000 | 0 | 0 | $0.31 | 2/19/12 | 0 | 0 | 0 | 0 |
| Jon Correio, | 25,000 | 0 | 0 | $0.44 | 2/10/14 | 0 | 0 | 0 | 0 |
| | 25,000 | 0 | 0 | $0.45 | 2/18/13 | 0 | 0 | 0 | 0 |
| Vice President, Finance | 25,000 | 0 | 0 | $0.31 | 2/19/12 | 0 | 0 | 0 | 0 |

The Company does not currently have a Long-Term Incentive Plan ( LTIP ).

Compensation to outside directors is limited to reimbursement of out-of-pocket expenses that are incurred in connection with the directors duties associated with the Company's business. Directors with no less than three years continuous tenure are eligible for stock option awards, as governed by the Company stock option plan. There is currently no other compensation arrangements for the Company s directors. (See Security Ownership of Certain Beneficial Owners and Management for Stock Options granted in previous years.) The information specified concerning items of Director Compensation for the fiscal year ended December 31, 2011 is provided in the following Director Compensation Table:

DIRECTOR COMPENSATION

| Name (1) (a) | Fees Earned or Paid in Cash ($) (b) | Stock Awards ($) (c) | Option Awards ($)(2) (d) | Non-Equity Incentive Plan Compensation ($) (e) | Nonqualified Deferred Compensation ($) (f) | All Other Compensation ($)(3) (g) | Total ($) (h) |
|---|---|---|---|---|---|---|---|
| Melvin Brown | $0 | $0 | $420 | $0 | $0 | $0 | $420 |
| Michael Brown | $0 | $0 | $420 | $0 | $0 | $0 | $420 |
| John Schooley | $0 | $0 | $420 | $0 | $0 | $0 | $420 |
| Robert Southworth | $0 | $0 | $420 | $0 | $0 | $551 | $971 |

(1) Compensation information for Tom Kirchner, President and CEO, and Jon Correio, Vice President, Finance & Administration is contained in the Executive Compensation Summary Compensation Table.

(2) Amount represents the dollar amount recognized for financial statement reporting purposes in accordance with ASC 718. Assumptions made in the valuation of stock option awards are disclosed in Note 7 of the Notes to the Consolidated Financial Statements in this Form 10-K.

(3) Amounts represent reimbursement of out-of-pocket expenses related to directors duties associated with the Company's business (ie. travel expenses for attending Company Director s Meetings).

The Company currently does not hold any Employment Contracts or Change of Control Arrangements with any parties.

EXERCISE OF OPTIONS.  There were no Stock Options exercised during the year ended December 31, 2011.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth, as of December 31, 2011, the amount and percentage of the Common Stock of the Company, which according to information supplied by the Company, is beneficially owned by each person who, to the best knowledge of the Company, is the beneficial owner (as defined below) of more than five (5%) of the outstanding common stock.

| Title of Class | Name & Address of Beneficial Owner (1) | Amount & Nature of Beneficial Ownership | Percent of Class |
|---|---|---|---|
| Common | Paul D. Sonkin<br>460 Park Avenue, 12th Floor<br>New York NY 10022 | 1,090,915 | 21.1% |
| Common | EDCO Partners LLP<br>4605 Denice Drive<br>Englewood  CO  80111 | 420,923 | 8.2% |
| Common | T.L. Kirchner<br>415 N. Quay St.<br>Kennewick  WA  99336 | 403,488 (2)(3) | 7.8% |

(1)

Under Rule 13d-3, issued by the Securities and Exchange Commission, a person is, in general, deemed to "Beneficially own" any shares if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares (a) voting power, which includes the power to vote or to direct the voting of those shares and/or (b) investment power, which included the power to dispose, or to direct the disposition of those securities.  The foregoing table gives effect to shares deemed beneficially owned under Rule 13d-3 based on the information supplied to the Company. To the knowledge of the Company, the persons named in the table have sole voting power and investment power with respect to all shares of Common Stock beneficially owned by them.

(2)

The beneficial owner listed above has stock options giving the right to acquire 75,000 shares of Electronic Systems Technology, Inc. Common Stock: Options for 25,000 shares granted February 19, 2009, February 19, 2010 and February 11, 2011, respectively. Forms 8-K, dated February 19, 2009, February 19, 2010 and February 11, 2011, respectively, are incorporated herein by reference.

(3)

Does not include options granted. See footnote (1) above.

SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth, as of February 28, 2012, amount and percentage of the Common Stock of the Company, which according to information supplied by the Company, is beneficially owned by Management, including officers and directors of the Company.

| Title of Class | Name of Beneficial Owner | Amount & Nature of Beneficial Ownership | Percent of Class |
|---|---|---|---|
| Common | T.L. Kirchner (Officer & Director) | 403,488 (1) | 7.8% |
| Common | Robert Southworth (Director) | 0 (1) | 0.0% |
| Common | Melvin H. Brown (Director) | 76,500 (1) | 1.5% |
| Common | Michael S. Brown (Director) | 0 (1) | 0.0% |
| Common | Jon Correio (Officer &Director) | 2,000 (1) | 0.0% |
| Common | John Schooley (Director) | 135,000 (1) | 2.6% |
| Common | D.B. Strecker (VP of Engineering) | 0 (1) | 0.0% |

(1) Does not include stock options. See below.

On various dates, the Company's Board of Directors has approved Stock Option Bonuses for Directors and Employees. The following is a summary of the Stock Option bonuses currently outstanding: Options are exercisable at fixed prices. Options may not be exercised in blocks of less than 5,000 shares. Options not exercised expire three years after approval date or 90 days following termination of employment/board membership, whichever occurs first. In the event of acquisition, merger, recapitalization or similar events of the Company, the optionee will receive equivalent shares if one of the foregoing events occurs or will have a 10-day window in which to exercise the options. Option grants are not transferable or assignable except to the optionee's estate in the event of the optionee's death.

The information below does not include stock options granted in February 2012.

Recipients of Stock Options currently unexpired as of December 31, 2011 were as follows:

| Name | Option Shares | Exercise Price Per Share ($) |
|---|---|---|
| APPROVAL DATE: 2-11-2011 | | |
| Sam Amaral | 5,000 | 0.44 |
| Melvin Brown | 25,000 | 0.44 |
| Michael Brown | 25,000 | 0.44 |
| Alan B. Cook | 5,000 | 0.44 |
| Jon Correio | 25,000 | 0.44 |
| Robert Croft | 5,000 | 0.44 |
| Jessica Danz-Gollinger | 5,000 | 0.44 |
| Tom Kirchner | 25,000 | 0.44 |
| Eric P. Marske | 15,000 | 0.44 |
| Jason Muhlbeier | 5,000 | 0.44 |
| Anthony C. Pfau | 5,000 | 0.44 |
| Gary L. Schmitz | 5,000 | 0.44 |
| John L. Schooley | 25,000 | 0.44 |
| Robert Southworth | 25,000 | 0.44 |
| George Stoltz | 5,000 | 0.44 |
| Dan Tolley | 5,000 | 0.44 |

| Name | Option Shares | Exercise Price Per Share ($) |
|---|---|---|
| APPROVAL DATE: 2-19-2010 | | |
| Sam Amaral | 5,000 | 0.45 |
| Melvin Brown | 25,000 | 0.45 |
| Alan B. Cook | 5,000 | 0.45 |

| | | |
|---|---|---|
| Jon Correio | 25,000 | 0.45 |
| Robert Croft | 5,000 | 0.45 |
| Tom Kirchner | 25,000 | 0.45 |
| Eric P. Marske | 15,000 | 0.45 |
| Anthony C. Pfau | 5,000 | 0.45 |
| Gary L. Schmitz | 5,000 | 0.45 |
| John L. Schooley | 25,000 | 0.45 |
| Robert Southworth | 25,000 | 0.45 |
| George Stoltz | 5,000 | 0.45 |
| David B. Strecker | 15,000 | 0.45 |
| Dan Tolley | 5,000 | 0.45 |

| Name | Option Shares | Exercise Price Per Share ($) |
|---|---|---|
| APPROVAL DATE: 2-19-2009 | | |
| Sam Amaral | 5,000 | 0.31 |
| Melvin Brown | 25,000 | 0.31 |
| Alan B. Cook | 5,000 | 0.31 |
| Jon Correio | 25,000 | 0.31 |
| Robert Croft | 5,000 | 0.31 |
| Tom Kirchner | 25,000 | 0.31 |
| Eric P. Marske | 15,000 | 0.31 |
| Anthony C. Pfau | 5,000 | 0.31 |
| Gary L. Schmitz | 5,000 | 0.31 |
| John L. Schooley | 25,000 | 0.31 |
| Robert Southworth | 25,000 | 0.31 |
| George Stoltz | 5,000 | 0.31 |
| David B. Strecker | 15,000 | 0.31 |
| Dan Tolley | 5,000 | 0.31 |

Stock options must be exercised within 90 days after termination of employment/board membership. During 2011, 205,000 options expired, 210,000 shares were granted and no shares under option were exercised. At December 31, 2011 there were 590,000 shares reserved for future exercise.

Changes in Control. The Board of Directors is aware of no circumstances which may result in a change of control of the Company.

<u>Certain Business Relationships:</u>

There have been no unusual business relationships during the last fiscal year of the Registrant between the Company and affiliates as described in Item 404 (b) (1-6) of Regulation S-K.

<u>Indebtedness of Management:</u>

No Director or executive officer or nominee for Director, or any member of the immediate family of such has been indebted to the Company during the past year.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

TRANSACTIONS WITH MANAGEMENT AND OTHERS

During 2011, the Company contracted for services from Manufacturing Services, Inc. in the amount of $104,411. Manufacturing Services, Inc. is owned and operated by Michael S. Brown. Mr. Brown, and the former owner for Manufacturing Services, Inc, Melvin H. Brown are currently Directors of Electronic Systems Technology, Inc. Management believes the costs for services provided by Manufacturing Services, Inc., are comparable with other manufacturing service companies in the Company s geographical region.

**Item 14. Principal Accountant Fees and Services.**

Audit and Non-Audit Fees

The following table presents fees billed to us during December 31, 2011 and 2010, for professional services provided by Moe O'Shaughnessy & Associates P.S.

| Year Ended | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Audit fees (1) | $35,703 | $41,604 |
| Audit-related fees (2) | - | - |
| Tax fees (3) | 1,650 | 1,650 |
| All other fees (4) | - | - |
| Total Fees | $37,353 | $43,254 |

(1) Audit fees consist of fees billed for professional services provided in connection with the audit of the Company s financial statements and reviews of our quarterly financial statements.

(2) Audit-related fees consist of assurance and related services that include, but are not limited to, internal control reviews, attest services not required by statute or regulation and consultation concerning financial accounting and reporting standards.

(3) Tax fees consist of the aggregate fees billed for professional services for tax compliance, tax advice, and tax planning. These services include preparation of federal income tax returns.

(4) All other fees consist of fees billed for products and services other than the services reported above.

Our Audit Committee reviewed the audit and tax services rendered by Moe O'Shaughnessy & Associates P.S. and concluded that such services were compatible with maintaining the auditors independence. All audit, non-audit, tax services, and other services performed by our independent accountants are pre-approved by our Audit Committee to assure that such services do not impair the auditors independence from us. We do not use Moe O Shaughnessy & Associates P.S. for financial information system design and implementation. These services, which include designing or implementing a system that aggregates source data underlying the financial statements or generates information that is significant to our financial statements, are provided internally. We do not engage Moe O Shaughnessy & Associates P.S. to provide compliance outsourcing services.

# PART IV

**Item 15. Exhibits and Financial Statement Schedules.**

Exhibits filed as part of the Company s 10K report for 2011 are listed below. Certain exhibits have been previously filed with the Securities and Exchange Commission and are incorporated by reference.

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 4 | Instrument defining the rights of security holders including indentures.<br><br>Exhibit II Form S-18 Registration Statement No. 2-92949-S is incorporated herein by reference.<br><br>Form 8A Registration Statement, 000-27793, dated October 25, 1999, is incorporated herein by reference. |
| 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(1) | XBRL Instance Document |
| 101.SCH(1) | XBRL Taxonomy Extension Schema Document |
| 101.CAL(1) | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF(1) | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB(1) | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE(1) | XBRL Taxonomy Extension Presentation Linkbase Document |

(1)

Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Act of 1934 and otherwise are not subject to liability.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ELECTRONIC SYSTEMS TECHNOLOGY, INC.

By: /s/ T. L. KIRCHNER

T.L. Kirchner, Director/President

(Principal Executive Officer)

Date: March 21, 2012

By: /s/ JON CORREIO

Jon Correio, Secretary/Treasurer, Director

and Vice President, Finance

(Principal Executive Officer)

Date: March 21, 2012

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ T.L. KIRCHNER<br>T.L. Kirchner | Director/President | March 21, 2012 |
| /s/ JON CORREIO<br>Jon Correio | Director/Secretary/Treasurer | March 21, 2012 |
| /s/ MELVIN BROWN<br>Melvin H. Brown | Director | March 21, 2012 |
| /s/ MICHAEL BROWN<br>Michael S. Brown | Director | March 21, 2012 |
| /s/ ROBERT SOUTHWORTH<br>Robert Southworth | Director | March 21, 2012 |
| /s/ JOHN SCHOOLEY<br>John L. Schooley | Director | March 21, 2012 |



pt;">

6/28/2013

1,276.03

991.34

1,133.84

7/1/2013

9/30/2013

1,222.72

1,106.05

1,194.10

10/1/2013

12/31/2013

1,302.29

1,147.58

1,302.29

1/2/2014

3/31/2014

1,306.23

1,139.27

1,202.89

4/1/2014

6/30/2014

1,269.04

1,132.76

1,262.56

7/1/2014

9/30/2014

1,346.43

1,228.26

1,326.29

10/1/2014

12/31/2014

1,447.58

1,177.22

1,407.51

1/2/2015

3/31/2015

1,592.25

1,357.98

1,543.11

4/1/2015

6/30/2015

1,679.89

1,528.99

1,630.40

7/1/2015

9/30/2015

1,691.29

1,375.52

1,411.16

10/1/2015

12/31/2015

1,605.94

1,442.74

1,547.30

1/4/2016

3/31/2016

1,509.67

1,196.28

1,347.20

4/1/2016

6/30/2016

1,407.50

1,204.48

1,245.82

7/1/2016

9/30/2016

1,352.67

1,209.88

1,322.78

10/3/2016

12/30/2016

1,552.36

1,301.16

1,518.61

1/3/2017

3/31/2017

1,577.40

1,506.33

1,512.60

4/3/2017*

4/12/2017*

1,517.03

1,479.54

1,479.54

* As of the date of this pricing supplement, available information for the second calendar quarter of 2017 includes data for the period from April 3, 2017 through April 12, 2017. Accordingly, the Quarterly High, Quarterly Low and Quarterly Close data indicated are for this shortened period only and do not reflect complete data for the second calendar quarter of 2017.

The graph below illustrates the performance of the basket component from April 12, 2007 through April 12, 2017, based on information from Bloomberg. **Past performance of the basket component is not indicative of the future performance of the basket component.**

**Swiss Market Index ( SMI )**

The SMI:

- was first launched with a base level of 1,500 as of June 30, 1988; and

- is sponsored, calculated, published and disseminated by SIX Group Ltd., certain of its subsidiaries, and the Management Committee of the SIX Swiss Exchange (the Exchange ).

The SMI is a price return float-adjusted market capitalization-weighted index of the 20 largest stocks traded on the Swiss Stock Exchange. The Exchange has outsourced the calculation and determination of index constituents as described below, to a specialized third party financial service provider. All matters regarding the SMI that require a decision, including regarding processes outsourced to STOXX, are submitted to the Management Committee. The Management Committee of SIX Swiss Exchange is supported by an Index Commission (advisory board) in all index-related matters, notably in connection with changes to the SMI rules and adjustments, additions and exclusions outside of the established review and acceptance period. The Index Commission meets at least twice annually.

As of March 23, 2017, the top ten constituents by weight in the SMI (and their respective weights) were: Nestle SA (22.98%); Novartis AG (18.59%); Roche Holding AG (16.93%); UBS Group AG (5.34%); ABB Ltd (4.14%); Zurich Insurance Group AG (4.11%); Compagnie Financiere Richemont SA (3.89%); Syngenta AG (3.84%); Credit Suisse Group AG (2.80%) and Swiss Re AG (2.78%). As of December 30, 2016, the ICB industry sectors in the SMI (and their respective weights) were: Health Care (38.20%), Consumer Goods (27.20%), Financials (17.90%), Industrials (10.40%), Basic Materials (5.20%) and Telecommunications (1.20%) (may not sum to 100% due to rounding). Sector designations are determined by the basket component sponsor using criteria it has selected or developed. Index sponsors may use very different standards for determining sector designations. In addition, many companies operate in a number of sectors, but are listed in only one sector and the basis on which that sector is selected may also differ. As a result, sector comparisons between indices with different index sponsors may reflect differences in methodology as well as actual differences in the sector composition of the indices. The above index weighting information was provided by SMI according to our license agreement.

*SMI® Composition and Selection Criteria*

The SMI is comprised of the 20 highest ranked stocks traded on the Exchange that have a free float of 20% or more and that are not investment companies. The equity universe is largely Swiss domestic companies, although in some cases foreign issuers with a primary listing on the Exchange that submit to certain reporting requirements or investment companies that do not hold any shares of any other eligible company and that have a primary listing on the Exchange may be included.

The ranking of each security is determined by a combination of the following criteria:

- average free-float market capitalization (compared to the capitalization of the entire SIX Exchange index family), and

- cumulative on order book turnover (compared to the total turnover of the SIX Exchange index family).

Each of these two factors is assigned a 50% weighting in ranking the stocks eligible for the SMI.

The SMI is reconstituted annually after prior notice of at least two months on the third Friday in September after the close of trading. For companies that were listed during the last 12 months, the cumulated on order book turnover generally excludes the first 5 trading days in the calculation. The reconstitution is based on data from the previous July 1 through June 30. Provisional interim selection (ranking) lists are also published following the end of the third, fourth and first financial quarters.

In order to reduce turnover, an index constituent will not be replaced unless it is ranked below 23 or, if it is ranked 21 or 22, if another share ranks 18 or higher. If a company has primary listings on several exchanges and less than 50% of that company s total turnover is generated on the Exchange, it will not be included in the SMI unless it ranks at least 18 or better on the selection list solely on the basis of its turnover on those exchanges on which it has a primary listing (i.e., without considering its free float).

*Maintenance of the SMI*

*Constituent Changes*. In the case of major market changes as a result of capital events such as mergers or new listings, the Management Committee of SIX Swiss Exchange can decide at the request of the Index Commission that a security should be admitted to the SMI outside the annual review period as long as it clearly fulfills the criteria for inclusion. For the same reasons, a security can also be excluded if the requirements for admission to the SMI are no longer fulfilled. As a general rule, extraordinary acceptances into the SMI take place after a three-month period on a quarterly basis after the close of trading on the third Friday of March, June, September and December (for example, a security listed on or before the 5th trading day prior to the end of November cannot be included until the following March). If a delisting has been confirmed, it will be removed from the SMI at the next upcoming ordinary quarterly adjustment date (March, June, September and December) with a notice period of at least five days. An announced insolvency is deemed to be an extraordinary event and the security will be removed from the SMI with five trading days prior notice if the circumstances permit such notice.

*Number of Shares and Free Float*. The securities included in the SMI are weighted according to their free float. This means that shares deemed to be in firm hands are subtracted from the total market capitalization of that company. The free float is calculated on the basis of outstanding shares. Issued and outstanding equity capital is, as a rule, the total amount of equity capital that has been fully subscribed and wholly or partially paid in and documented in the Commercial Register. Not counting as issued and outstanding equity capital are the approved capital and the conditional capital of a company. The free float is calculated on the basis of listed shares only. If a company offers several different categories of listed participation rights, each is treated separately for the purposes of index calculation.

Shares held deemed to be in firm hands are shareholdings that have been acquired by one person or a group of persons in companies domiciled in Switzerland and which, upon exceeding 5%, have been reported to the Exchange. Shares of persons and groups of persons who are subject to a shareholder agreement which is binding for more than 5% of the listed shares or who, according to publicly known facts, have a long-term interest in a company are also deemed to be in firm hands.

For the calculation of the number of shares in firm hands, the Exchange may also use other sources than the reports submitted to it. In particular, the Exchange may use data gained from issuer surveys that it conducts itself.

In general, shares held by custodian nominees, trustee companies, investment funds, pension funds and investment companies are deemed free-floating regardless of whether a report has been made to the Exchange. The Exchange classifies at its own discretion persons and groups of persons who, because of their area of activity or the absence of important information, cannot be clearly assigned.

The free-float rule applies only to bearer shares and registered shares. Capital issued in the form of participation certificates ( Partizipationsscheine ) and bonus certificates ( Genussscheine ) is taken into full account in calculating the SMI because it does not confer voting rights.

The number of securities in the SMI and the free-float factors are adjusted after the close of trading on four adjustment dates per year, the third Friday of March, June, September and December. Such changes are provisionally pre-announced at least one month before the adjustment date, although the basket component sponsor reserves the right to take account of recent changes up to five trading days before the adjustment date in the actual adjustment.

In order to avoid frequent slight changes to the weighting and to maintain the stability of the SMI, any extraordinary change of the total number of outstanding securities or the free float will only result in an extraordinary adjustment if it exceeds 10% and 5% respectively, occurs from one trading to the next and is in conjunction with a corporate action.

After a takeover, the Exchange may, in exceptional cases, adjust the free float of the company in question upon publication of the end results after a five-day notification period or may exclude the security from the relevant index family. When an insolvency has been announced, an extraordinary adjustment will be made and the affected security will be removed from the SMI after five trading days notice, and a replacement will be determined based on the current selection list.

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The basket component sponsor reserves the right to make an extraordinary adjustment, in exceptional cases, without observing the notification period.

*Calculation of the Index*

The basket component sponsor calculates the SMI using the Laspeyres formula, with a weighted arithmetic mean of a defined number of securities issues. The formula for calculating the index value can be expressed as follows:

$$\text{Swiss Market Index} = \frac{\text{Free Float Market Capitalization of the SMI®}}{\text{Divisor}}$$

The free float market capitalization of the SMI is equal to the sum of the product of the last-paid price, the number of shares, the free float factor and, if a foreign stock is included, the current CHF exchange rate as of the time the index value is being calculated. (As of December 12, 2015, all stocks in the SMI are denominated in Swiss Francs, known as CHF). The index value is calculated in real time and is updated whenever a trade is made in a component stock. Where any component stock price is unavailable on any trading day, the Exchange will use the last reported price for such component stock. Only prices from the Exchange s electronic order book are used in calculating the SMI.

*Divisor Value and Adjustments*

The divisor is a technical number used to calculate the SMI and is adjusted to reflect changes in market capitalization due to corporate events.

Below are common corporate events and their impact on the divisor of the SMI.

| Event | Divisor Change? |
|---|---|
| Regular cash dividend | No |
| Repayments of capital through reduction of a share s par value | No |
| Special dividends, anniversary bonds and other extraordinary payments that, contrary to the company s usual dividend policy, are paid out or declared extraordinary. | Yes |
| Share dividends (company s own shares) | No |
| Share dividend (shares of another company) | Yes |

The basket component sponsor reserves the right to respond to any other corporate events with divisor adjustments or, in extraordinary circumstances, to depart from the provisions set forth above.

**License Agreement**

SIX Swiss Exchange AG ( SIX Swiss Exchange ) and its licensors ( Licensors ) have no relationship to the Bank, other than the licensing of the SMI Index and the related trademarks for use in connection with the notes.

**SIX Swiss Exchange and its Licensors do not:**

- ♦ sponsor, endorse, sell or promote the notes.
- ♦ recommend that any person invest in the notes or any other securities.

- have any responsibility or liability for or make any decisions about the timing, amount or pricing of the notes.

- have any responsibility or liability for the administration, management or marketing of the notes.

- consider the needs of the notes or the owners of the notes in determining, composing or calculating the SMI Index or have any obligation to do so.

**SIX Swiss Exchange and its Licensors give no warranty, and exclude any liability (whether in negligence or otherwise), in connection with the notes or their performance.**

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Specifically,

- SIX Swiss Exchange and its Licensors do not give any warranty, express or implied, and exclude any liability for:

  - The results to be obtained by the notes, the owner of the notes or any other person in connection with the use of the SMI Index and the data included in the SMI Index;

  - The accuracy, timeliness, and completeness of the SMI Index and its data;

  - The merchantability and the fitness for a particular purpose or use of the SMI Index and its data; or

- o The performance of the notes generally.

♦ SIX Swiss Exchange and its Licensors give no warranty and exclude any liability, for any errors, omissions or interruptions in the SMI Index or its data.

♦ Under no circumstances will SIX Swiss Exchange or its Licensors be liable (whether in negligence or otherwise) for any lost profits or indirect, punitive, special or consequential damages or losses, arising as a result of such errors, omissions or interruptions in the SMI Index or its data or generally in relation to the notes, even in circumstances where SIX Swiss Exchange or its Licensors are aware that such loss or damage may occur.

The licensing agreement between The Bank and SIX Swiss Exchange is solely for their benefit and not for the benefit of the owners of the notes or any other third parties.

**Historical High, Low and Closing Levels of the Basket Component**

The level of the basket component has fluctuated in the past and may, in the future, experience significant fluctuations. Any historical upward or downward trend in the level of the basket component during any period shown below is not an indication that the basket component is more or less likely to increase or decrease at any time during the life of your notes.

The following table sets forth the quarterly high and low closing levels for the basket component, based on the daily closing level as reported by Bloomberg without independent verification. The level of the basket component on April 12, 2017 was 8,663.77. Past performance of the basket component is not indicative of the future performance of the basket component.

| Quarter Begin | Quarter End | Quarterly High | Quarterly Low | Quarterly Close |
|---|---|---|---|---|
| 1/3/2011 | 3/31/2011 | 6,717.25 | 6,021.55 | 6,357.55 |
| 4/1/2011 | 6/30/2011 | 6,564.15 | 5,990.82 | 6,187.07 |
| 7/1/2011 | 9/30/2011 | 6,245.78 | 4,791.96 | 5,531.74 |

| Quarter Begin | Quarter End | Quarterly High | Quarterly Low | Quarterly Close |
|---|---|---|---|---|
| 10/3/2011 | 12/30/2011 | 5,936.23 | 5,356.96 | 5,936.23 |
| 1/3/2012 | 3/30/2012 | 6,341.33 | 5,970.49 | 6,235.51 |
| 4/2/2012 | 6/29/2012 | 6,299.38 | 5,713.34 | 6,066.86 |
| 7/2/2012 | 9/28/2012 | 6,613.45 | 6,109.41 | 6,495.88 |
| 10/1/2012 | 12/31/2012 | 6,973.69 | 6,508.66 | 6,822.44 |
| 1/2/2013 | 3/28/2013 | 7,864.39 | 7,020.46 | 7,813.67 |
| 4/1/2013 | 6/28/2013 | 8,407.61 | 7,249.47 | 7,683.04 |
| 7/1/2013 | 9/30/2013 | 8,105.39 | 7,675.29 | 8,022.60 |
| 10/1/2013 | 12/31/2013 | 8,351.38 | 7,755.26 | 8,202.98 |
| 1/2/2014 | 3/31/2014 | 8,532.99 | 8,092.53 | 8,453.82 |
| 4/1/2014 | 6/30/2014 | 8,752.86 | 8,280.53 | 8,554.52 |
| 7/1/2014 | 9/30/2014 | 8,840.17 | 8,274.65 | 8,835.14 |
| 10/1/2014 | 12/31/2014 | 9,212.85 | 8,057.54 | 8,983.37 |
| 1/2/2015 | 3/31/2015 | 9,396.29 | 7,899.59 | 9,128.98 |
| 4/1/2015 | 6/30/2015 | 9,471.46 | 8,780.91 | 8,780.91 |
| 7/1/2015 | 9/30/2015 | 9,526.79 | 8,278.07 | 8,513.41 |
| 10/1/2015 | 12/31/2015 | 9,016.56 | 8,375.31 | 8,818.09 |
| 1/4/2016 | 3/31/2016 | 8,701.46 | 7,496.62 | 7,807.89 |
| 4/1/2016 | 6/30/2016 | 8,292.45 | 7,594.49 | 8,020.15 |
| 7/1/2016 | 9/30/2016 | 8,320.99 | 7,898.21 | 8,139.01 |
| 10/3/2016 | 12/30/2016 | 8,259.45 | 7,593.20 | 8,219.87 |
| 1/3/2017 | 3/31/2017 | 8,704.39 | 8,229.01 | 8,658.89 |
| 4/3/2017* | 4/12/2017* | 8,663.77 | 8,616.68 | 8,663.77 |

* As of the date of this pricing supplement, available information for the second calendar quarter of 2017 includes data for the period from April 3, 2017 through April 12, 2017. Accordingly, the Quarterly High, Quarterly Low and Quarterly Close data indicated are for this shortened period only and do not reflect complete data for the second calendar quarter of 2017.

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The graph below illustrates the performance of the basket component from April 12, 2007 through April 12, 2017, based on information from Bloomberg. **Past performance of the basket component is not indicative of the future performance of the basket component**.

**S&P/ASX 200 ( AS51 )**

The AS51:

- was first launched in 1979 by the Australian Securities Exchange and was acquired and re-launched by its current basket component sponsor on April 3, 2000; and

- is sponsored, calculated, published and disseminated by S&P Dow Jones Indices LLC, a part of McGraw Hill Financial ( S&P ).

The AS51 includes 200 companies and covers approximately 80% of the Australian equity market by float-adjusted market capitalization. As discussed below, the S&P/ASX 200 is not limited solely to companies having their primary operations or headquarters in Australia or to companies having their primary listing on the Australian Securities Exchange (the ASX ). All ordinary and preferred shares (if such preferred shares are not of a fixed income nature) listed on the ASX, including secondary listings, are eligible for the AS51. Hybrid stocks such as convertible stocks, bonds, warrants, preferred stock that provides a guaranteed fixed return and listed investment companies are not eligible for inclusion. Stocks currently under consideration for merger or acquisition are not eligible for inclusion or promotion to the AS51.

As of March 23, 2017, the top 10 component stocks by weight were the following: Commonwealth Bank Australia (9.49%), Westpac Banking Corp. (7.45%), ANZ Banking Group (6.00%), National Australia Bank Ltd. (5.64%), BHP Billiton Ltd.(5.15%), CSL Ltd. (3.70%), Telstra Corp Ltd. (3.57%), Wesfarmers Ltd. (3.26%), Woolworths Ltd. (2.19%) and Macquarie Group Ltd. (1.96%).

As of March 31, 2017 the S&P/ASX 200 Index s top holdings were stocks of companies in the following industry sectors: Financials (38.8%); Materials (15.7%); Real Estate (8.1%); Consumer Staples (7.2%); Health Care (6.9%); Industrials (6.6%); Consumer Discretionary (4.7%); Energy (4.1%); Telecommunication Services (3.9%); Utilities (2.7%) and Information Technology (1.1%). Sector designations are determined by the basket component sponsor using criteria it has selected or developed. Index sponsors may use very different standards for determining sector designations. In addition, many companies operate in a number of sectors, but are listed in only one sector and the basis on which that sector is selected may also differ. As a result, sector comparisons between indices with different index sponsors may reflect differences in methodology as well as actual differences in the sector composition of the indices.

As of March 31, 2017, the countries of domicile included in the AS51 and their relative weights were: Australia (98.8%), United States (0.5%), United Kingdom (0.4%) and New Zealand (0.4%).

The S&P/ASX 200 Index is intended to provide exposure to the largest 200 eligible securities that are listed on the ASX by float-adjusted market capitalization. Constituent companies for the S&P/ASX 200 Index are chosen based on market capitalization, public float and liquidity. All index-eligible securities that have their primary or secondary listing on the ASX are included in the initial selection of stocks from which the 200 component stocks may be selected.

The float-adjusted market capitalization of companies is determined based on the daily average market capitalization over the last six months. The security s price history over the last six months, the latest available shares on issue and the investable weight factor (the IWF ) are the factors relevant to the calculation of daily average market capitalization. The IWF is a variable that is primarily used to determine the available float of a security for ASX listed securities.

*Number of Shares*

When considering the AS51 eligibility of securities for inclusion or promotion into S&P/ASX indices, the number of index securities under consideration is based upon the latest available ASX quoted securities. For domestic securities (companies incorporated in Australia and traded on the ASX, companies incorporated overseas but exclusively listed on the ASX and companies incorporated overseas and traded on other markets but most of its trading activity is on the ASX), this figure is purely based upon the latest available data from the ASX.

Foreign-domiciled securities may quote the total number of securities on the ASX that is representative of their global equity capital; whereas other foreign-domiciled securities may quote securities on the ASX on a partial basis that represents their Australian equity capital. In order to overcome this inconsistency, S&P will quote the number of index securities that are represented by CHESS Depositary Interests (CDIs) for a foreign entity. When CDIs are not issued, S&P will use the total securities held on the Australian register (CHESS and, where supplied, the issuer sponsored register). This quoted number for a foreign entity is representative of the Australian equity capital, thereby allowing the AS51 to be reflective of the Australian market.

The number of CDIs or shares of a foreign entity quoted on the ASX can experience more volatility than is typically the case for ordinary shares on issue. Therefore, an average number on issue will be applied over a six-month period.

Where CDI information is not supplied to the ASX by the company or the company s share register, estimates for Australian equity capital will be drawn from CHESS data and, ultimately, registry-sourced data.

*IWF*

The IWF represents the float-adjusted portion of a stock s equity capital. Therefore, any strategic holdings that are classified as either corporate, private or government holdings reduce the IWF which, in turn, results in a reduction in the float-adjusted market capital. Shares owned by founders, directors of the company, trusts, venture capitalists and other companies are also excluded. These are also deemed strategic holders, and are considered long-term holders of a stock s equity. Any strategic shareholdings that are greater than 5% of total issued shares are excluded from the relevant float.

The IWF ranges between 0 and 1, is calculated as 1 Sum of the % held by strategic shareholders who possess 5% or more of issued shares, and is an adjustment factor that accounts for the publicly available shares of a company. A company must have a minimum IWF of 0.3 to be eligible for index inclusion.

S&P Dow Jones Indices identifies the following shareholders whose holdings are considered to be control blocks and are subject to float adjustment:

1. Government and government agencies;

2. Controlling and strategic shareholders/partners;

3. Any other entities or individuals which hold more than 5%; excluding insurance companies, securities companies and investment funds;

4. Other restricted portions such as treasury stocks.

*Liquidity Test*

Only stocks that are regularly traded are eligible for inclusion. Eligible stocks are considered for index inclusion based on their stock median liquidity (median daily value traded divided by its average float-adjusted market capitalization for the last six months) relative to the market capitalization weighted average of the stock median liquidities of the 500 constituents of the All Ordinaries index, another member of the S&P/ASX index family.

*Index Maintenance*

S&P rebalances the AS51 constituents quarterly to ensure adequate market capitalization and liquidity based on the previous six months worth of data. The reference date used for the six months worth of trading data is the last Friday of the month prior to the rebalancing. Quarterly review changes take effect after the market closes on the third Friday of March, June, September and December. Eligible stocks are considered for index inclusion based on their float-adjusted market capitalization rank relative to the stated quota of 200 securities. For example, a stock that is currently in the S&P/ASX 300 and is ranked at 175, based on float-adjusted market capitalization, within the universe of eligible securities may be considered for inclusion into the AS51, provided that liquidity hurdles are met.

In order to limit the level of index turnover, eligible securities will only be considered for index inclusion once another stock is excluded due to a sufficiently low rank and/or liquidity, based on the float-adjusted market capitalization. Potential index inclusions and exclusions need to satisfy buffer requirements in terms of the rank of the stock relative to a given index. In order to be added to the AS51, a stock must be ranked 179th or higher, and in order to be deleted from the AS51, a stock must be ranked 221st or lower. The buffers are established to limit the level of index turnover that may take place at each quarterly rebalancing. The buffers serve as guidelines for arriving at any potential constituent changes to the AS51, however, these rules can be by-passed when circumstances warrant.

Between rebalancing dates, an index addition is generally made only if a vacancy is created by an index deletion. Index additions are made according to float-adjusted market capitalization and liquidity. An initial public offering is added to the AS51 only when an appropriate vacancy occurs and is subject to proven liquidity for at least eight weeks. An exception may be made for extraordinary large offerings where sizeable trading volumes justify index inclusion.

Deletions can occur between index rebalancing dates due to acquisitions, mergers and spin-offs or due to suspension or bankruptcies. The decision to remove a stock from the AS51 will be made once there is sufficient evidence that the transaction will be completed. Stocks that are removed due to mergers & acquisitions activity are removed from the AS51 at the cash offer price for cash-only offers. Otherwise the best available price in the market is used.

Share numbers for all index constituents are updated quarterly and are rounded to the nearest thousand. The update to the number of issued shares will be considered if the change is at least 5% of the float adjusted shares or $100 million in value.

Share updates for foreign-domiciled securities will take place annually at the March rebalancing. The update to the number of index shares will only take place when the 6-month average of CDIs or the total securities held in the Australian branch of the issuer sponsored register (where supplied) and in CHESS, as of the March rebalancing, differs from the current index shares by either 5% or a market-cap dollar amount greater than A$100 million. Where CDI information is not supplied to the ASX by the company or the company s share register, estimates for Australian equity capital will be drawn from CHESS data and, ultimately, registry-sourced data.

Intra quarter share changes are implemented at the effective date or as soon as reliable information is available; however, they will only take place in the following circumstances:

Changes in a company s float-adjusted shares of 5% or more due to market-wide shares issuance;

Rights issues, bonus issues and other major corporate actions;

Dividend Reinvestment Plan share issuances of more than A$100 million in value; and

Share issues resulting from index companies merging and major off-market buy-backs.

Share changes due to mergers or acquisitions are implemented when the transaction occurs, even if both of the companies are not in the same index and regardless of the size of the change.

IWFs are reviewed annually as part of the September quarterly review. However, any event that alters the float of a security in excess of 5% will be implemented as soon as practicable by an adjustment to the IWF.

The function of the IWF is also to manage the AS51 weight of foreign-domiciled securities that quote shares on the basis of CDIs. Due to the volatility that is displayed by CDIs, unusually large changes in the number of CDIs on issue could result. Where this is the case, the IWF may be used to limit the effect of unusually large changes in the average number of CDIs (and, thereby, limit the potential to manipulate this figure). Where the Australian Index Committee sees fit to apply the IWF in this manner, the rationale for the decision will be announced to the market. This will be reviewed annually at the March-quarter index rebalancing date.

*Index Calculation*

The AS51 is calculated using a base-weighted aggregate methodology. The value of the AS51 on any day for which an index value is published is determined by a fraction, the numerator of which is the *sum* for all component stocks of the products of the price of each stock in the AS51 *times* the number of shares of such stock included in the AS51 *times* that stock s IWF, and the denominator of which is the divisor, which is described more fully below.

In order to prevent the value of the AS51 from changing due to corporate actions, all corporate actions may require S&P to make an index or divisor adjustment. This helps maintain the value of the AS51 and ensures that the movement of the AS51 does not reflect the corporate actions of the individual companies that comprise the AS51.

The table below summarizes the types of index adjustments and indicates whether the corporate action will require a divisor adjustment:

| **Type of Corporate Action** | **Index Treatment** | **Divisor Required** | **Adjustment** |
|---|---|---|---|
| Cash dividend | None | No | |
| Special Cash Dividend | Price adjustment needed | Yes | |
| Stock dividend and/or split | Shares are multiplied by and price | No | |

| | | |
|---|---|---|
| | is divided by the split factor | |
| Stock dividend from class A shares into existing class B shares, both of which are included in the AS51 | Adjustment for price of A; adjustment for shares in B | Yes |
| Stock dividend of different class, same company and is not included in the AS51 | Price adjustment | Yes |
| Reverse Split | Adjustment for price and shares | No |
| Rights Offering | Adjustment for price and shares | Yes |
| Rights offering for a new line | Adjustment for price | Yes |
| New share issuance | Adjustment for shares | Yes |
| Reduction of capital | Share adjustment | Yes |
| New addition to index | Share adjustment | Yes |
| Deletion from index | Share adjustment | Yes |
| Merger (acquisition by index company for stock) | Share increase | Yes |

A company that is spun-off from an index constituent will be added to the index at a zero price on the ex-date. If the spun-off company is not eligible to be included in the AS51 index based on its float adjusted market capitalization then it will be removed from the AS51 at least after one day of trading regular way. In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, S&P will calculate the closing price of the indices based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported for each security before the exchange closed. If the exchange fails to open due to unforeseen circumstances, S&P treats this closure as a standard market holiday. The AS51 will use the prior day s closing prices and shifts any corporate actions to the following business day. If all exchanges fail to open or in other extreme circumstances, S&P may determine not to publish the AS51 for that day.

S&P reserves the right to recalculate the AS51 under certain limited circumstances. S&P may choose to recalculate and republish an index if it is found to be incorrect or inconsistent within two trading days of the publication of the index level in question for one of the following reasons:

1. Incorrect or revised closing price

2. Missed corporate event

3. Late announcement of a corporate event

4. Incorrect application of corporate action or index methodology

Any other restatement or recalculation of an index is only done under extraordinary circumstances to reduce or avoid possible market impact or disruption as solely determined by the Index Committee.

**License Agreement**

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NEITHER S&P DOW JONES INDICES NOR THIRD PARTY LICENSOR GUARANTEES THE ADEQUACY, ACCURACY, TIMELINESS AND/OR THE COMPLETENESS OF THE S&P/ASX INDEX OR ANY DATA RELATED THERETO OR ANY COMMUNICATION, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATION (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P DOW JONES INDICES AND AUSTRALIAN STOCK EXCHANGE SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS, OR DELAYS THEREIN. S&P DOW JONES INDICES AND AUSTRALIAN STOCK EXCHANGE MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO RESULTS TO BE OBTAINED BY THE BANK, OWNERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE S&P/ASX INDEX OR WITH RESPECT TO ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P DOW JONES INDICES OR AUSTRALIAN STOCK EXCHANGE BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE. THERE ARE NO THIRD PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN S&P DOW JONES INDICES AND THE BANK, OTHER THAN THE LICENSORS OF S&P DOW JONES INDICES.

**Historical High, Low and Closing Levels of the Basket Component**

The level of the basket component has fluctuated in the past and may, in the future, experience significant fluctuations. Any historical upward or downward trend in the level of the basket component during any period shown below is not an indication that the basket component is more or less likely to increase or decrease at any time during the life of your notes.

The following table sets forth the quarterly high and low closing levels for the basket component, based on the daily closing level as reported by Bloomberg without independent verification. The level of the basket component on April 12, 2017 was 5,933.96. Past performance of the basket component is not indicative of the future performance of the basket component.

| **Quarter Begin** | **Quarter End** | **Quarterly High** | **Quarterly Low** | **Quarterly Close** |
|---|---|---|---|---|
| 1/3/2011 | 3/31/2011 | 4,938.40 | 4,528.70 | 4,837.90 |
| 4/1/2011 | 6/30/2011 | 4,971.20 | 4,451.70 | 4,608.00 |
| 7/1/2011 | 9/30/2011 | 4,654.70 | 3,863.90 | 4,008.60 |
| 10/3/2011 | 12/30/2011 | 4,353.30 | 3,872.10 | 4,056.56 |
| 1/3/2012 | 3/30/2012 | 4,343.51 | 4,101.16 | 4,335.24 |
| 4/2/2012 | 6/29/2012 | 4,435.91 | 3,985.02 | 4,094.63 |
| 7/2/2012 | 9/28/2012 | 4,418.36 | 4,067.97 | 4,387.02 |
| 10/1/2012 | 12/31/2012 | 4,671.30 | 4,336.85 | 4,648.95 |
| 1/2/2013 | 3/28/2013 | 5,146.90 | 4,690.25 | 4,966.50 |
| 4/1/2013 | 6/28/2013 | 5,220.99 | 4,655.96 | 4,802.59 |
| 7/1/2013 | 9/30/2013 | 5,307.06 | 4,710.29 | 5,218.88 |
| 10/1/2013 | 12/31/2013 | 5,441.41 | 5,062.52 | 5,352.21 |
| 1/2/2014 | 3/31/2014 | 5,462.31 | 5,070.31 | 5,394.83 |
| 4/1/2014 | 6/30/2014 | 5,536.07 | 5,358.95 | 5,395.75 |
| 7/1/2014 | 9/30/2014 | 5,658.51 | 5,264.22 | 5,292.81 |
| 10/1/2014 | 12/31/2014 | 5,549.13 | 5,152.34 | 5,411.02 |
| 1/2/2015 | 3/31/2015 | 5,975.49 | 5,299.24 | 5,891.51 |
| 4/1/2015 | 6/30/2015 | 5,982.69 | 5,422.49 | 5,459.01 |
| 7/1/2015 | 9/30/2015 | 5,706.71 | 4,918.43 | 5,021.63 |
| 10/1/2015 | 12/31/2015 | 5,351.56 | 4,909.56 | 5,295.90 |
| 1/4/2016 | 3/31/2016 | 5,270.48 | 4,765.35 | 5,082.79 |
| 4/1/2016 | 6/30/2016 | 5,408.02 | 4,924.39 | 5,233.38 |
| 7/1/2016 | 9/30/2016 | 5,587.39 | 5,197.50 | 5,435.92 |
| 10/3/2016 | 12/30/2016 | 5,699.07 | 5,156.56 | 5,665.80 |
| 1/3/2017 | 3/31/2017 | 5,896.23 | 5,610.97 | 5,864.91 |
| 4/3/2017* | 4/12/2017* | 5,933.96 | 5,856.29 | 5,933.96 |

* As of the date of this pricing supplement, available information for the second calendar quarter of 2017 includes data for the period from April 3, 2017 through April 12, 2017. Accordingly, the Quarterly High, Quarterly Low and Quarterly Close data indicated are for this shortened period only and do not reflect complete data for the second calendar quarter of 2017.

The graph below illustrates the performance of the basket component from April 12, 2007 through April 12, 2017, based on information from Bloomberg. ***Past performance of the basket component is not indicative of the future performance of the basket component.***

## SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)

Scotia Capital (USA) Inc. or one of our affiliates will purchase the notes at the principal amount and, as part of the distribution of the notes, will sell the notes to GS&Co. at a discount reflecting commissions of $16.30 per $1,000 principal amount of notes. The commissions per $1,000 principal amount are comprised of $2.50 of fees and $13.80 of selling commission. In accordance with the terms of a distributor accession letter, GS&Co. has been appointed as a distribution agent under the distribution agreement and may purchase notes from the Bank or its affiliates. At the time we issue the notes, we will enter into certain hedging arrangements (which may include call options, put options or other derivatives) with GS&Co. or one of its affiliates.

In addition, Scotia Capital (USA) Inc., GS&Co. and their respective affiliates or agents may use the product prospectus supplement to which this pricing supplement relates in market-making transactions after the initial sale of the notes. While Scotia Capital (USA) Inc. and GS&Co. may make markets in the notes, they are under no obligation to do so and may discontinue any market-making activities at any time without notice. See the sections titled Supplemental Plan of Distribution (Conflicts of Interest) in the accompanying prospectus supplement and accompanying product prospectus supplement.

The price at which you purchase the notes includes costs that the Bank, GS&Co. or their respective affiliates expect to incur and profits that the Bank, GS&Co. or their respective affiliates expect to realize in connection with hedging activities related to the notes, as set forth above. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the notes. As a result, you may experience an immediate and substantial decline in the market value of your notes on the original issue date.

**Conflicts of interest**

Each of Scotia Capital (USA) Inc. and Scotia Capital Inc. is an affiliate of the Bank and, as such, has a conflict of interest in this offering within the meaning of FINRA Rule 5121. In addition, the Bank will receive the gross proceeds from the initial public offering of the notes, thus creating an additional conflict of interest within the meaning of Rule 5121. Consequently, the offering is being conducted in compliance with the provisions of Rule 5121. Neither Scotia Capital (USA) Inc. nor Scotia Capital Inc. is permitted to sell notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Scotia Capital (USA) Inc., GS&Co., and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Scotia Capital (USA) Inc., GS&Co., and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Bank, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, Scotia Capital (USA) Inc., GS&Co., and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Bank. Scotia Capital (USA) Inc., GS&Co., and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Additionally, because the dealer from which you purchase notes is to conduct hedging activities for us in connection with the notes, that dealer may profit in connection with such hedging activities and such profit, if any, will be in addition to the compensation that the dealer receives for the sale of the notes to you. You should be aware that the potential to earn fees in connection with hedging activities may create a further incentive for the dealer to sell the notes to you in addition to the compensation they would receive for the sale of the notes.

**EVENTS OF DEFAULT AND ACCELERATION**

If the notes have become immediately due and payable following an event of default (as defined in the accompanying prospectus) with respect to the notes, the calculation agent will determine the default amount as described below.

***Default Amount***

The default amount for your notes on any day (except as provided in the last sentence under Default Quotation Period below) will be an amount, in the specified currency for the principal of your notes, equal to the cost of having a qualified financial institution, of the kind and selected as described below, expressly assume all our payment and other obligations with respect to your notes as of that day and as if no default or acceleration had occurred, or to undertake other obligations providing substantially equivalent economic value to you with respect to your notes. That cost will equal:

- the lowest amount that a qualified financial institution would charge to effect this assumption or undertaking, plus

- the reasonable expenses, including reasonable attorneys fees, incurred by the trustees of your notes in preparing any documentation necessary for this assumption or undertaking.

During the default quotation period for your notes, described below, the trustees and/or the Bank may request a qualified financial institution to provide a quotation of the amount it would charge to effect this assumption or undertaking. If either party obtains a quotation, it must notify the other party in writing of the quotation. The amount referred to in the first bullet point above will equal the lowest or, if there is only one, the only quotation obtained, and as to which notice is so given, during the default quotation period. With respect to any quotation, however, the party not obtaining the quotation may object, on reasonable and significant grounds, to the assumption or undertaking by the qualified financial institution providing the quotation and notify the other party in writing of those grounds within two business days after the last day of the default quotation period, in which case that quotation will be disregarded in determining the default amount.

***Default Quotation Period***

The default quotation period is the period beginning on the day the default amount first becomes due (the due day ) and ending on the third business day after that day, unless:

- no quotation of the kind referred to above is obtained, or

- every quotation of that kind obtained is objected to within five business days after the due day as described above.

If either of these two events occurs, the default quotation period will continue until the third business day after the first business day on which prompt notice of an objection is given as described above. If that quotation is objected to as described above within five business days after that first business day, however, the default quotation period will continue as described in the prior sentence and this sentence.

***Qualified Financial Institutions***

For the purpose of determining the default amount at any time, a qualified financial institution must be a financial institution organized under the laws of any jurisdiction in the United States of America, Europe or Japan, which at that time has outstanding debt obligations with a stated maturity of one year or less from the date of issue and that is, or whose securities are, rated either:

- A-1 or higher by Standard & Poor s Ratings Services, or any successor, or any other comparable rating then used by that rating agency, or

- P-1 or higher by Moody s Investors Service or any successor, or any other comparable rating then used by that rating agency.

If the notes have become immediately due and payable following an event of default, you will not be entitled to any additional payments with respect to the notes. For more information, see Description of the Debt Securities We May Offer Events of Default beginning on page 27 of the accompanying prospectus.

**TAX REDEMPTION**

The Bank (or its successor) may redeem the notes, in whole but not in part, at a redemption price determined by the calculation agent in a manner reasonably calculated to preserve your and our relative economic position, upon the giving of a notice as described below, if:

- as a result of any change (including any announced prospective change) in or amendment to the laws (or any regulations or rulings promulgated thereunder) of Canada (or the jurisdiction of organization of the successor to the Bank) or of any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings (including a holding by a court of competent jurisdiction), which change or amendment is announced or becomes effective on or after the trade date (or, in the case of a successor to the Bank, after the date of succession), and which in the written opinion to the Bank (or its successor) of legal counsel of recognized standing has resulted or will result (assuming, in the case of any announced prospective change, that such announced change will become effective as of the date specified in such announcement and in the form announced) in the Bank (or its successor) becoming obligated to pay, on the next succeeding date on which a payment is due, additional amounts with respect to the notes; or

- on or after the trade date (or, in the case of a successor to the Bank, after the date of succession), any action has been taken by any taxing authority of, or any decision has been rendered by a court of competent jurisdiction in, Canada (or the jurisdiction of organization of the successor to the Bank) or any political subdivision or taxing authority thereof or therein, including any of those actions specified in the paragraph immediately above, whether or not such action was taken or decision was rendered with respect to the Bank (or its successor), or any change, amendment, application or interpretation shall be officially proposed, which, in any such case, in the written opinion to the Bank (or its successor) of legal counsel of recognized standing, will result (assuming, that such change, amendment or action is applied to the notes by the taxing authority and that, in the case of any announced prospective change, that such announced change will become effective as of the date specified in such announcement and in the form announced) in the Bank (or its successor) becoming obligated to pay, on the next succeeding date on which a payment is due, additional amounts with respect to the notes;

and, in any such case, the Bank (or its successor), in its business judgment, determines that such obligation cannot be avoided by the use of reasonable measures available to it (or its successor).

In the event the Bank elects to redeem the notes pursuant to the provisions set forth in the preceding paragraph, the calculation agent shall determine the redemption price and deliver to the trustees a certificate, signed by an authorized officer, stating that the Bank is entitled to redeem such notes pursuant to their terms in whole only.

The Bank will give notice of intention to redeem such notes to holders of the notes not more than 45 nor less than 30 days prior to the date fixed for redemption specifying, among other things, the date fixed for redemption, and on or promptly after the redemption date, it will give notice of the redemption price.

Other than as described above, the notes are not redeemable prior to their maturity.

**CERTAIN CANADIAN INCOME TAX CONSEQUENCES**

See Supplemental Discussion of Canadian Tax Consequences beginning on page PS-24 of the product prospectus supplement.

**CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

*General.* The following is a general description of certain U.S. federal tax considerations relating to the notes. Prospective purchasers of the notes should consult their tax advisors as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the United States and Canada of acquiring, holding and disposing of the notes and receiving payments under the notes. This summary is based upon the law as in effect on the date of this pricing supplement and is subject to any change in law that may take effect after such date. We urge you to read the more detailed discussion in the Supplemental Discussion of U.S. Federal Income Tax Consequences section beginning on page PS-25 of the product prospectus supplement.

No statutory, judicial or administrative authority directly discusses how the notes should be treated for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of your investment in the notes are uncertain. Accordingly, we urge you to consult your tax advisor as to the tax consequences of your investment in the notes (and of having agreed to the required tax treatment of your notes described below) and as to the application of state, local or other tax laws to your investment in your notes and the possible effects of changes in federal or other tax laws.

*Tax Treatment.* Pursuant to the terms of the notes, the Bank and you agree, in the absence of a statutory, regulatory, administrative or judicial ruling to the contrary, to characterize your notes as pre-paid derivative contracts with respect to the basket. If your notes are so treated, you should generally recognize long-term capital gain or loss if you hold your notes for more than one year (and otherwise, short-term capital gain or loss) upon the sale, exchange, redemption or maturity of your notes in an amount equal to the difference between the amount you receive at such time and the amount you paid for your notes. The deductibility of capital losses is subject to limitations.

In the opinion of our counsel, Cadwalader, Wickersham & Taft LLP, it would be reasonable to treat your notes in the manner described above. However, because there is no authority that specifically addresses the tax treatment of the notes, it is possible that your notes could alternatively be treated for tax purposes as a single contingent payment debt instrument, or pursuant to some other characterization, such that the timing and character of your income from the notes could differ materially from the treatment described above.

*Possible Change in Law*. The IRS released a notice that may affect the taxation of holders of the notes. According to Notice 2008-2, the IRS and the Treasury Department are actively considering whether a holder of an instrument such as the notes should be required to accrue ordinary income on a current basis, and they are seeking taxpayer comments on the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the notes will ultimately be required to accrue income currently and this could be applied on a retroactive basis. The IRS and the Treasury Department are also considering other relevant issues, including whether additional gain or loss from such instruments should be treated as ordinary or capital, whether foreign holders of such instruments should be subject to withholding tax on any deemed income accruals, and whether the special constructive ownership rules of Section 1260 of the Internal Revenue Code of 1986, as amended (the Code ) should be applied to such instruments.

Additionally, in 2007, legislation was introduced in Congress that, if enacted, would have required holders of notes purchased after the bill was enacted to accrue interest income over the term of the notes despite the fact that there will be no interest payments over the term of the notes. It is not possible to predict whether a similar or identical bill will be enacted in the future, or whether any such bill would affect the tax treatment of your notes.

Furthermore, in 2013, the House Ways and Means Committee released in draft form certain proposed legislation relating to financial instruments. If enacted, the effect of this legislation generally would be to require instruments such as the notes to be marked to market on an annual basis with all gains and losses to be treated as ordinary, subject to certain exceptions.

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It is impossible to predict what any such legislation or administrative or regulatory guidance might provide, and whether the effective date of any legislation or guidance will affect notes that were issued before the date that such legislation or guidance is issued. You are urged to consult your tax advisor as to the possibility that any legislative or administrative action may adversely affect the tax treatment of your notes.

*Section 1297.* We will not attempt to ascertain whether any component stock would be treated as a PFIC within the meaning of Section 1297 of the Code. If any such entity were so treated, certain adverse U.S. federal income tax consequences might apply upon the sale, exchange, issuer call, redemption or maturity of a note. You should refer to information filed with the SEC or the equivalent governmental authority by such entities and consult your tax advisor regarding the possible consequences to you if any such entity is or becomes a PFIC.

*Medicare Tax on Net Investment Income.* U.S. holders that are individuals or estates and certain trusts are subject to an additional 3.8% tax on all or a portion of their net investment income, or undistributed net investment income in the case of an estate or trust, which may include any income or gain with respect to the notes, to the extent of their net investment income or undistributed net investment income (as the case may be) that, when added to their other modified adjusted gross income, exceeds $200,000 for an unmarried individual, $250,000 for a married taxpayer filing a joint return (or a surviving spouse), $125,000 for a married individual filing a separate return, or the dollar amount at which the highest tax bracket begins for an estate or trust (which, in 2017, is $12,500). The 3.8% Medicare tax is determined in a different manner than the regular income tax. U.S. holders should consult their advisors with respect to the 3.8% Medicare tax.

*Specified Foreign Financial Assets.* U.S. holders may be subject to reporting obligations with respect to their notes if they do not hold their notes in an account maintained by a financial institution and the aggregate value of their notes and certain other specified foreign financial assets (applying certain attribution rules) exceeds $50,000. Significant penalties can apply if a U.S. holder is required to disclose its notes and fails to do so.

*Treasury Regulations Requiring Disclosure of Reportable Transactions.* Treasury regulations require U.S. taxpayers to report certain transactions ( Reportable Transactions ) on IRS Form 8886. An investment in the notes or a sale of the notes should generally not be treated as a Reportable Transaction under current law, but it is possible that future legislation, regulations or administrative rulings could cause your investment in the notes or a sale of the notes to be treated as a Reportable Transaction. You should consult with your tax advisor regarding any tax filing and reporting obligations that may apply in connection with acquiring, owning and disposing of notes.

*Backup Withholding and Information Reporting.* The proceeds received from a sale, exchange, redemption or maturity of the notes will be subject to information reporting unless you are an exempt recipient and may also be subject to backup withholding at the rate specified in the Code if you fail to provide certain identifying information (such as an accurate taxpayer number, if you are a U.S. holder) or meet certain other conditions.

Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the required information is furnished to the IRS.

*Non-U.S. Holders.* This section applies only if you are a non-U.S. holder. For these purposes, you are a non-U.S. holder if you are the beneficial owner of the notes and are, for U.S. federal income tax purposes:

- a non-resident alien individual;
- a non-U.S. corporation; or
- an estate or trust that, in either case, is not subject to U.S. federal income tax on a net income basis on income or gain from the notes.

If you are a non-U.S. holder, subject to Section 871(m) discussed below, you should generally not be subject to U.S. withholding tax with respect to payments on your notes or to generally applicable information reporting and backup withholding requirements with respect to payments on your notes if you comply with certain certification and identification requirements as to your foreign status including providing us (and/or the applicable withholding agent) a properly executed and fully completed applicable IRS Form W-8. Gain from the sale, exchange, redemption or maturity of the notes or settlement at maturity generally will not be subject to U.S. tax unless such gain is effectively connected with a trade or business conducted by you in the U.S. or unless you are a non-resident alien individual and are present in the United States for 183 days or more during the taxable year of such sale, exchange, redemption or maturity and certain other conditions are satisfied.

*Section 871 (m)*. A 30% withholding tax (which may be reduced by an applicable income tax treaty) is imposed under Section 871(m) of the Code on certain dividend equivalents paid or deemed paid to a non-U.S. holder with respect to a specified equity-linked instrument that references one or more dividend-paying U.S. equity securities or indices containing U.S. equity securities. The withholding tax can apply even if the instrument does not provide for payments that reference dividends. Treasury regulations provide that the withholding tax applies to all dividend equivalents paid or deemed paid on specified equity-linked instruments that have a delta of one ( delta one specified equity-linked instruments ) issued after 2016 and to all dividend equivalents paid or deemed paid on all other specified equity-linked instruments issued after 2017.

Based on our determination that the notes are not delta-one with respect to any U.S. basket component or any stock included in a basket component our counsel is of the opinion that the notes should not be delta one specified equity-linked instruments and thus should not be subject to withholding on dividend equivalents. Our determination is not binding on the IRS, and the IRS may disagree with this determination. Furthermore, the application of Section 871(m) of the Code will depend on our determinations made upon issuance of the notes. If withholding is required, we will not make payments of any additional amounts.

Nevertheless, after issuance, it is possible that your notes could be deemed to be reissued for tax purposes upon the occurrence of certain events affecting the basket component or any stock included in a basket component or your notes, and following such occurrence your notes could be treated as delta one specified equity-linked instruments that are subject to withholding on dividend equivalents. It is also possible that withholding tax or other tax under Section 871(m) of the Code could apply to the notes under these rules if a non-U.S. holder enters, or has entered, into certain other transactions in respect of the basket component or any stock included in a basket component or the notes. A non-U.S. holder that enters, or has entered, into other transactions in respect of the basket component or any stock included in a basket component or the notes should consult its own tax advisor regarding the application of Section 871(m) of the Code to its notes in the context of its other transactions.

**Because of the uncertainty regarding the application of the 30% withholding tax on dividend equivalents to the notes, you are urged to consult your tax advisor regarding the potential application of Section 871(m) of the Code and the 30% withholding tax to an investment in the notes.**

*U.S. Federal Estate Tax Treatment of Non-U.S. Holders.* A note may be subject to U.S. federal estate tax if an individual non-U.S. holder holds the note at the time of his or her death. The gross estate of a non-U.S. holder domiciled outside the U.S. includes only property situated in the U.S. Individual non-U.S. holders should consult their tax advisors regarding the U.S. federal estate tax consequences of holding the notes at death.

*FATCA.* The Foreign Account Tax Compliance Act ( FATCA ) was enacted on March 18, 2010, and imposes a 30% U.S. withholding tax on withholdable payments (i.e., certain U.S.-source payments, including interest (and original issue discount), dividends, other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce U.S.-source interest or dividends) and passthru payments (i.e., certain payments attributable to withholdable payments) made to certain foreign financial institutions (and certain of their affiliates) unless the payee foreign financial institution agrees (or is required), among other things, to disclose the identity of any U.S. individual with an account at the institution (or the relevant affiliate) and to annually report certain information about such account. FATCA also requires withholding agents making withholdable payments to certain foreign entities that do not disclose the name, address, and taxpayer identification number of any substantial U.S. owners (or do not certify that they do not have any substantial U.S. owners) to withhold tax at a rate of 30%. Under certain circumstances, a holder may be eligible for refunds or credits of such taxes.

Pursuant to final and temporary Treasury regulations and other IRS guidance, the withholding and reporting requirements under FATCA will generally apply to certain withholdable payments made on or after July 1, 2014, certain gross proceeds on a sale or disposition occurring after December 31, 2018, and certain foreign passthru payments made after December 31, 2018 (or, if later, the date that final regulations defining the term foreign passthru payment are published). In addition, withholding tax under FATCA would not be imposed on withholdable payments solely because the relevant obligation is treated as giving rise to a dividend equivalent (pursuant to Section 871(m) and the regulations thereunder) where such obligation is executed on or before the date that is six months after the date on which obligations of its type are first treated as giving rise to dividend equivalents. If, however, withholding is required, we (or the applicable paying agent) will not be required to pay additional amounts with respect to the amounts so withheld. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the U.S. governing FATCA may be subject to different rules.

Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions (or if they hold their notes through a non-U.S. entity) under the FATCA rules.

**Both U.S. and non-U.S. holders should consult their tax advisors regarding the U.S. federal income tax consequences of an investment in the notes, as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction (including that of the issuer of any stock included in a basket component and that of the Bank).**