



Electronic Tele-Communications, Inc.
2016 Annual Report

A Letter to Our Shareholders

After a rough 2015, 2016 was an unexpected bonus. Following on the improvement in orders in the fourth quarter of 2015, 2016 saw equipment sales in our telephone network market as long-deferred projects to upgrade and replace older system on the traditional wired segments were undertaken. The government budget stabilizing saw our government market equipment sales improve. The improved sales combined with the reduced cost structure allowed ETC to remain profitable throughout 2016.

ETC has produced sophisticated, quality and reliable products for over 80 years, and has systems installed and operating throughout North America and the world. Many of these installed systems, both ours and others, are well beyond their expected useful lives having been in service for over 20 years. The age of this equipment, in conjunction with competitors leaving the market, makes it difficult for our customers to maintain the older equipment. These factors create an unpredictable market for upgrades, replacements, and enhancements. Our flagship Emcee ELF System is designed to replace and upgrade these installations.

ETC's Time Weather and Temperature (TWT) announcement services continue to be provided to customers throughout the United States, with calls answered daily. This service is especially important for those individuals who do not have the option or ability or desire to get this information via the internet or other channels. Although impacted by changes in technology and people's habits, whether used as a public service vehicle or as an advertising medium, there is no question that a lot of people listen to ETC time, temperature, and weather announcements every day.

In accordance with the provisions of our Articles of Incorporation, both the Class A and Class B shareholders will vote on the election of directors and on any other business to be conducted at this year's annual meeting on May 5, 2017. Annual meeting materials will be available March 20, 2017 to Shareholders of Record on March 6, 2017. Shareholders can download the annual meeting materials consisting of this annual report, a proxy statement, and proxy voting instructions and materials from ETC's website at http://www.etcia.com/financial_request.asp. Our Registered Transfer Agent will compile the Class A votes and forward the results to ETC's Corporate Secretary to be merged with the Class B votes being compiled by ETC's Corporate Secretary. All shareholders are entitled to vote, one vote for each share of Class A or Class B stock that they own.



Elizabeth Danner - President & COO
March 6, 2017

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis should be read in conjunction with the Financial Statements, Notes to Financial Statements, Five Year Review of Selected Financial Data, and Quarterly Financial Data, all of which appear later in this report.

OVERVIEW

ETC designs, manufactures, markets and sells digital voice information systems and related services to the telecommunications industry and other businesses. Its systems are sold to operating telephone companies, competitive local exchange carriers, wireless carriers, cable companies, leading telecom manufacturers, and other telecom companies to provide them with revenue generating applications and informational services for their networks. In addition, ETC provides time weather temperature systems and related services to telecom customers and other businesses that allow them to advertise and provide informational services to their communities.

Revenues are generated by selling and leasing equipment to customers. In addition, ETC generates revenue by providing services to customers such as installation, repair, maintenance, professional recording of announcements, and weather updates.

The additional cost-reductions measures that were enacted during third quarter of 2015 combined with a significant increase in equipment sales allowed ETC to see a return to profitability in 2016. While there was a profit in 2016, we continue to monitor sales levels and operations to determine if adjustments will be necessary to enhance cash flow and remain profitable.

RESULTS OF OPERATIONS

The following table presents certain items from our Statements of Operations, expressed as percentages of net sales, together with the percentage change in the actual amounts of such items from the prior period.

	Percentage of		Percent Change
	2016	2015	Increase (Decrease) 2016 vs. 2015
Net sales	100.0%	100.0%	14.1%
Cost of products sold	43.9	53.3	(6.1)
Gross profit	56.1	46.7	37.3
General and administrative expenses	14.9	32.9	(48.4)
Marketing and selling expenses	7.3	18.0	(53.6)
Research and development expenses	11.0	26.9	(53.1)
Other income (expense)	(2.1)	(3.5)	(33.0)
Earnings before income taxes	20.8	(34.6)	(168.7)
Income tax expense (benefit)	--	--	--
Net loss	20.8	(34.6)	(168.7)

Revenues

Net sales were \$956,306 in 2016 and \$837,845 in 2015, an increase of 14.1% between years. The 2016 net sales consisted of equipment sales of \$347,478 or 36.3% of net sales, and revenues from operating leases, sales-type leases, and services of \$608,828 or 63.7% of net sales. The 2015 net sales consisted of equipment sales of \$147,264 or 17.6% of net sales, and revenues from operating leases, sales-type leases, and services of \$690,581 or 82.4% of net sales. The increase in sales from 2015 to 2016 was due to an increase in equipment sales, including expected purchases that had been previously deferred by customers.

The majority of 2016 sales of our interactive voice information systems were from existing customers reselling to new installations or customers implementing network maintenance projects. ETC expects our customers to focus their capital spending in broadband expansion before investing in wire line operations, where ETC network equipment has mainly been deployed.

As newer units replace older time weather temperature systems that are leased by other customers, lease revenues decrease. It is anticipated that lease revenue will continue to decrease, but will be replaced in part by revenue from increased services provided with respect to the new time weather temperature systems that replace the leased units.

Product pricing for our equipment remained relatively constant between years. Inflation did not have a material impact on revenues.

Gross Profit

Gross profit was 56.1% of net sales in 2016 compared to 46.7% of net sales in 2015. The increase in 2016 gross profit was due to high equipment sales over which to spread fixed manufacturing costs and reduced overhead costs.

Operating Expenses

Total operating expenses in 2016 were \$317,778 or 33.2% of net sales, compared to \$651,754 or 77.8% of net sales in 2015. Cost-reduction measures enacted during 2015 are reflected in lower operating expenses.

Other Income and Expense

Net other expense in 2016 was \$19,672, compared to \$29,349 in 2015. The decrease is due to reduced outstanding debts.

Income Taxes

Income tax expense was \$0 in 2016 and 2015.

Net Earnings and Earnings Per Share

Net earnings in 2016 was \$199,254, compared to a net loss in 2015 of \$290,116. Higher equipment sales coupled with cost reductions were the primary reasons for the increase in net earnings.

LIQUIDITY AND CAPITAL RESOURCES

Working capital (deficit) was (\$383,798) as of December 31, 2016, compared to (\$774,723) at December 31, 2015. The decrease in working capital deficit in 2016 was primarily due to higher current assets, primarily cash, compared to a reduction in the revolving line of credit and unpaid rent.

Accounts receivable decreased between 2016 and 2015, primary due to the timing of customer payments and end of the year equipment sales. Accounts receivable were \$29,407 in 2016 and \$58,811 in 2015. Inventories decreased from \$141,506 in 2015 to \$121,825 in 2016. Net investment in sales-type leases was \$5,462 and \$21,289 at December 31, 2016 and 2015, respectively. Most new systems were sold verses leased to the customer. Accounts payable decreased from \$45,990 in 2015 to \$11,734 in 2016 primarily due to timing differences. Deferred compensation was \$12,366 and \$63,533 at December 31, 2016 and 2015, respectively.

To supplement cash flow, the Company has an agreement with an entity controlled by affiliates of the Company for up to \$200,000 of borrowing availability. As of December 31, 2016 and 2015, the Company had borrowings of \$36,000 and \$49,000, respectively against this revolving credit facility. Additionally, the Company has unpaid rent due to the same entity totaling \$392,000 and \$684,000 as of December 31, 2016 and 2015, respectively. In 2015, The Company entered into a new lease with the affiliate which included a rent credit of \$300,000 that was accrued and will be amortized over the remaining terms of the new lease. The amount of unpaid rent is an ongoing concern to management. Should the Company be unable to meet any demands for repayment of the unpaid rent, the Company's liquidity and capital resources may not be sufficient to both repay and meet the financial requirements for operating the business.

If the Company is able to maintain its sales volume, additional financing in the form of internally generated cash flow and/or third-party financing may be required to finance increases in inventory and accounts receivable. However, there can be no assurance that any or all of these items will be accomplished.

Contractual Obligations

ETC has contractual obligations for operating leases for its facilities in Waukesha, Wisconsin. The lease ends in 2020. Future minimum lease payments, excluding the rent credit described above, as of December 31, 2016, for the facility are as follows:

2017	\$	96,000
2018		96,000
2019		96,000
2020		96,000
<u>Total</u>	<u>\$</u>	<u>384,000</u>

We treat these contractual obligations as normal operating expenses and plan to fund them with internally generated cash flow, including back rent obligations. Our ability to do this will depend on achieving the sales levels necessary to reach cash flow breakeven levels. There are no assurances that this can be accomplished.

ETC does not have any contractual obligations for purchases of materials from vendors used in the manufacture of our products for 2017 or future years.

Critical Accounting Estimates

There are a few areas of our financial statements that require us to use accounting estimates to comply with generally accepted accounting principles. These accounting estimates are made using our best judgment and may vary from actual results. Critical accounting estimates are used in the following areas:

Accounts Receivable -- Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. The estimated allowance for uncollectible accounts is based primarily on a specific analysis of accounts in the receivable portfolio and historical write-off experience. While we believe the allowance to be adequate, if the financial condition of our customers were to change resulting in impairment of their ability to make payments, additional allowances may be required.

Inventory -- Our inventories are valued at the lower of cost or market value. We periodically review inventory quantities on hand and record a provision for excess and/or obsolete inventory based primarily on our estimated forecast of product demand, as well as historical usage. Our industry is characterized by rapid technological change and frequent new product development, both of which could result in an increase in the amount of obsolete inventory quantities on hand. In such a case, there is a possibility that the reserve for excess or obsolete inventory may need to be adjusted in the future. Any significant unanticipated change in demand or technological developments could have a significant impact on the value of our inventory, the reserve required, and our future reported operating results.

Income Taxes -- The preparation of our financial statements requires us to estimate our current tax exposure together with assessing temporary differences between the carrying amounts of various assets and liabilities for financial reporting purposes and income tax purposes. These timing differences result in the recognition of deferred tax assets and liabilities to which we must record a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against the deferred tax assets. We have recorded a full valuation allowance against our deferred tax assets of \$1,617,000 as of December 31, 2016 and \$2,239,000 as of December 31, 2015, due to our uncertainties related to our ability to utilize these assets because of our financial losses in prior years.

In the event actual results differ from our estimates, or we adjust our estimates in future periods, we may need to adjust our valuation allowance, which would materially impact our financial position and results of operations. If we are profitable in future years, our net operating loss carryforwards, which are our primary deferred tax assets, could be realized and our valuation allowance would be reduced and used to offset future income tax expense.

Independent Accountants

As a part of our efforts to reduce expenses, the Board of Directors has opted to not have the 2016 or 2015 financial statements reviewed by our independent accountants. We consult with our independent accountants regarding accounting matters, however they have not been engaged to report or otherwise express any assurance on our 2016 or 2015 financial statements. All internal accounting procedures and reporting remains unchanged, including the quarterly review by all senior management of the financial disclosures and procedures.

Forward Looking Information

From time to time, information provided by ETC, statements made by its employees, and information included in its press releases and other public statements which are not historical facts are forward-looking in nature and relate to trends and events that may affect our future financial position and operating results. Forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties including, but not limited to: business conditions in the telecommunications industry, the length and severity of the recent worldwide recession and the timing and strength of a subsequent recovery, the Company's ability to achieve adequate sales levels or sufficient cash flow or cash reserves to support operations, technology changes, backlog, status of the economy, government regulations, sources of supply, expense structure, product mix, major customers, competition, litigation, and other risk factors. Investors are encouraged to consider the risks and uncertainties.

Statement of Operations
Years Ended December 31, 2016, 2015, and 2014 - Unaudited

	2016	2015	2014
NET SALES (Note 15)	\$ 956,306	\$ 837,845	\$ 1,476,748
COST OF PRODUCTS SOLD	<u>419,607</u>	446,864	778,152
GROSS PROFIT	536,699	390,981	698,596
OPERATING EXPENSES:			
General and administrative	142,452	276,041	311,899
Marketing and selling	69,843	150,595	219,018
Research and development	105,483	225,118	241,222
	<u>317,778</u>	651,754	772,139
EARNINGS (LOSS) FROM OPERATIONS	218,921	(260,773)	(73,543)
OTHER INCOME (EXPENSE):			
Interest expense	(19,672)	(29,349)	(23,668)
Interest and dividend income	5	6	76
	<u>199,254</u>	(290,116)	(97,135)
EARNINGS (LOSS) BEFORE INCOME TAXES	199,254	(290,116)	(97,135)
Income tax expense (benefit) (Note 8)	<u>-</u>	-	-
NET EARNINGS (LOSS)	<u>\$ 199,254</u>	<u>\$ (290,116)</u>	<u>\$ (97,135)</u>
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (Notes 14):			
Class A common	<u>\$ 0.08</u>	<u>\$ (0.12)</u>	<u>\$ (0.04)</u>
Class B common	<u>\$ 0.08</u>	<u>\$ (0.12)</u>	<u>\$ (0.04)</u>

The accompanying notes are an integral part of these financial statements.

Balance Sheets
Years Ended December 31, 2016 and 2015 - Unaudited

	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 132,116	\$ 20,176
Trade accounts receivable, less allowance for doubtful accounts of \$12,000 in 2016 and \$12,440 in 2015	29,407	58,811
Inventories (Note 3)	121,825	141,506
Current portion of net investment in sales-type leases (Note 4)	5,139	15,827
Prepaid expenses and other current assets	9,414	9,092
Total current assets	<u>297,901</u>	<u>245,412</u>
PROPERTY AND EQUIPMENT (Note 5)	10,140	16,672
NET INVESTMENT IN SALES-TYPE LEASES (Note 4)	<u>323</u>	<u>5,462</u>
Total Assets	<u>\$ 308,364</u>	<u>\$ 267,546</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Revolving credit facility and unpaid rent - related party (Note 9)	\$ 428,000	\$ 733,000
Accounts payable	11,734	45,990
Accrued expenses (Note 7)	137,220	198,071
Income taxes payable	6,409	7,309
Deferred revenue and customer deposits	38,336	35,765
Current portion of deferred rent credit (Note 6)	60,000	-
Total current liabilities	<u>681,699</u>	<u>1,020,135</u>
DEFERRED RENT CREDIT (Note 6)	<u>180,000</u>	<u>-</u>
Total liabilities	861,699	834,708
COMMITMENTS (Note 6)		
STOCKHOLDERS' DEFICIT (Notes 12 and 13):		
Preferred stock, authorized 5,000,000 shares, none issued	-	-
Class A common stock, authorized 10,000,000 shares, par value \$.01, issued and outstanding 2,009,149 shares	20,091	20,091
Class B common stock, authorized 10,000,000 shares, par value \$.01, issued and outstanding 499,998 shares	5,000	5,000
Additional paid-in capital	3,335,647	3,335,647
Retained earnings (deficit)	<u>(3,914,073)</u>	<u>(4,113,327)</u>
Total stockholders' deficit	<u>(553,335)</u>	<u>(752,589)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 308,364</u>	<u>\$ 267,546</u>

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows
Years Ended December 31, 2016, 2015, and 2014 - Unaudited

	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 199,254	\$ (290,116)	\$ (97,135)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,532	6,751	5,785
Gain from sale of property, plant and equipment	-	(11,302)	(11,302)
Changes in operating assets and liabilities:			
Accounts receivable	29,404	(6,487)	(2,219)
Inventories	19,681	43,260	7,748
Net investment in sales-type leases	15,827	5,022	(4,704)
Prepaid expenses and other current assets	(322)	751	(1,135)
Accounts payable and accrued expenses	(95,107)	52,276	(47,680)
Deferred rent	(60,000)	(32,982)	(32,982)
Income taxes payable	(900)	1,522	(1,037)
Unpaid rent - related party	8,000	144,000	8,120
Deferred revenue and customer deposits	2,571	(17,087)	8,360
Total adjustments	<u>(74,314)</u>	<u>185,724</u>	<u>(71,046)</u>
Net cash provided by operating activities	<u>124,940</u>	<u>(104,392)</u>	<u>(168,181)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	-	-	(1,207)
Net cash provided by (used in) investing activities	<u>-</u>	<u>-</u>	<u>(1,207)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings (payments) on revolving credit facility, net	<u>(13,000)</u>	49,000	(6,057)
Net cash used in financing activities	<u>(13,000)</u>	<u>49,000</u>	<u>(6,057)</u>
Net decrease in cash and cash equivalents	111,940	(55,392)	(175,445)
Cash and cash equivalents at beginning of year	<u>20,176</u>	<u>75,568</u>	<u>251,013</u>
Cash and cash equivalents at end of year	<u>\$ 132,116</u>	<u>\$ 20,176</u>	<u>\$ 75,568</u>
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	\$ 900	\$ 1,522	\$ 1,036
Cash paid for interest expense	18,507	30,086	23,699
Noncash investing and financing activities:			
Rent credits received	300,000	-	-

The accompanying notes are an integral part of these financial statements.

Statement of Stockholders' Equity

Years Ended December 31, 2016, 2015, and 2014 - Unaudited

	Common Stock (Note 12)				Additional Paid-in Capital	Retained Earnings (Deficit)	Total Stock- holders' Deficit
	Class A		Class B				
	Number of Shares	Amount	Number of Shares	Amount			
Balances at January 1, 2014	2,009,149	\$ 20,091	499,998	\$ 5,000	\$ 3,335,647	\$ (3,726,076)	\$ (365,338)
Net loss	-	-	-	-	-	(97,135)	(97,135)
Balances at December 31, 2014	2,009,149	20,091	499,998	5,000	3,335,647	(3,823,211)	(462,473)
Net loss	-	-	-	-	-	(290,116)	(290,116)
Balances at December 31, 2015	2,009,149	20,091	499,998	5,000	3,335,647	(4,113,327)	(752,589)
Net earnings	-	-	-	-	-	199,254	199,254
Balances at December 31, 2016	2,009,149	20,091	499,998	5,000	3,335,647	\$ (3,914,073)	\$ (553,335)

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Years Ended December 31, 2016, 2015, and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company designs, manufactures, and markets digital voice information systems and related services. The Company's equipment provides a wide range of audio and computer information and call handling capabilities via telephone networks, computer networks, and the Internet. The Company's digital voice information systems deliver network interoperability and revenue-generating applications. Branding, time and temperature announcements, and weather forecasts are among the applications designed to increase customers' name recognition and market presence. Additionally, revenue-generating applications such as automatic callback, changed number with call completion, repeat dialing, and wake-up/reminder services enable providers to differentiate themselves from their competition. Services include professional recording, turn-key installations, on-site trainings, and 24-hour technical support.

The Company's customers include Regional Bell Operating Companies (RBOCs), Competitive Local Exchange Carriers (CLECs), independent telephone companies, long distance companies, wireless carriers, cable companies, utilities, leading telecommunications manufacturers, and other businesses and organizations.

The Company was incorporated in Wisconsin in 1980. The Company's executive offices, together with manufacturing, engineering, marketing, sales, and technical services are located in Waukesha, Wisconsin.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates and are subject to change in the near term.

Management considers its estimates related to inventory valuation, impairment evaluations for fixed assets, valuation of deferred tax assets, and allowance for doubtful accounts to be significant estimates.

Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Trade Accounts Receivable and Concentration of Credit Risk

Trade accounts receivable are customer obligations due on normal trade terms requiring payment within 30 days from the invoice date. Payments of trade accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of trade accounts receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all accounts receivable balances that exceed 60 days from invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected.

The Company's sales are concentrated primarily in the domestic telecommunications industry. The Company performs periodic credit evaluations of its customers' financial condition and does not require collateral.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. For financial reporting purposes, depreciation is provided using the straight-line method over estimated useful lives of three to five years.

The Company leases certain voice announcement equipment to certain customers for terms of one month to three years with renewal options on a month-to-month basis. All such leases are treated as operating leases. The leased equipment is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the equipment.

Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. Such analyses necessarily involve significant judgment. No impairment was recorded for 2016, 2015, or 2014.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred income taxes related primarily to differences between the bases of certain assets and liabilities for financial statement and income tax purposes. The deferred income tax benefits and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. If full realization is not expected, a deferred income tax valuation allowance will be recorded. Deferred income tax benefits also are recognized for operating losses that are available to offset future taxable income and tax credits that are available to offset future income taxes.

Management evaluated the Company's tax positions and concluded the Company had taken no significant uncertain tax positions that require adjustment to the financial statements. Accordingly, there is no accrual for uncertain income tax positions as of December 31, 2016 and 2015.

Revenue Recognition

The Company sells and leases equipment and related services. Terms of sale are documented on purchase orders and sales agreements. There are no multi-element contracts. Revenue from equipment and software sales is recognized at the time of shipment. Revenue from operating leases of time/weather/temperature equipment is recognized on a monthly basis as the monthly lease amount is billed to the customer. Revenue from services is recognized when the related service is provided. Revenue from the sale of maintenance contracts is deferred and recognized evenly over the term of the contract.

Sales of the Company's Audichron® Z-10 interactive systems are accounted for as sales-type leases. Revenue is recognized upon shipment of these systems to the customer. The difference between the expected minimum payments and the revenue recognized for each agreement is unearned revenue. The unearned revenue is amortized over the term of each agreement using the effective interest method.

Revenue from sales-type leases, operating leases and services was approximately 64%, 82%, and 50% of total revenue in 2016, 2015, and 2014, respectively.

Shipping and Handling

Revenue received from and costs incurred for shipping and handling are reported in cost of products sold. Revenue received from shipping and handling fees were \$513, \$1,193, and \$1,232, in 2016, 2015, and 2014, respectively. Costs incurred for shipping and handling were \$2,112, \$723, and \$2,374, in 2016, 2015, and 2014, respectively.

Research and Development

Research and development costs related to the design and development of new products are expensed as incurred.

Variable Interest Entities

GAAP requires an entity to consolidate a variable interest entity if that enterprise has a variable interest (or combination of variable interests) that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. In addition, GAAP requires an entity that holds significant variable interest in a variable interest entity, but is not the primary beneficiary, to disclose certain information. Currently, the Company leases real estate from an affiliated entity and borrows money under a revolving credit facility from the same affiliated entity. Based on management's review of the affiliated entity and the Company's transactions with it, the Company is not required to consolidate or disclose further information.

Subsequent Events

Subsequent events were evaluated through March 20, 2017 which is the date the financial statements were issued.

2. INVENTORIES

Inventories consisted of the following at December 31:

	2016	2015
Raw materials and supplies	\$ 77,581	\$ 100,982
Work-in-process and finished goods	28,512	18,926
Maintenance and demo parts	47,020	44,080
Reserve for obsolescence	(31,288)	(22,482)
Total Inventories	\$ 121,825	\$ 141,506

The Company has determined that certain inventories are obsolete or are in excess of anticipated future demand. Accordingly, the Company has recorded a reserve for obsolescence as indicated above. The Company will continue to evaluate these inventories and will adjust the reserve as needed in the future. Accordingly, this significant estimate is subject to change in the near term.

3. SALES-TYPE LEASES

The Company engages in sales agreements with customers for Audichron® Z-10 systems that are accounted for as sales-type leases. The agreements have varying length terms expiring in various years through 2018.

Following is a summary of the components of the Company's net investment in sales-type leases at December 31:

	2016	2015
Total minimum lease payments to be received	\$ 5,940	\$ 24,255
Unearned revenue	(478)	(2,965)
Allowance for doubtful accounts	-	-
Net investment in sales-type leases	\$ 5,462	\$ 21,289

Future minimum lease payments to be received under these agreements at December 31, 2015 are as follows:

Year	Rental Payments
2017	\$ 5,610
2018	330
Total minimum lease payments	\$ 5,940

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2016	2015
Equipment and furniture	\$ 1,554,711	\$ 1,565,386
Accumulated depreciation	(1,544,571)	(1,548,714)
Net property and equipment	\$ 10,140	\$ 16,672

5. LEASE COMMITMENTS

On July 18, 2001, the Company entered into a sale leaseback transaction with esitec, LLC, an entity controlled by affiliates of the Company, for the building and associated land located in Waukesha, Wisconsin, the Company's office and manufacturing facility. The leaseback transaction has been accounted for as an operating lease. A gain of \$576,379 was realized on the transaction. The gain has been deferred and amortized to income in proportion to rental payments over the term of the lease. In 2015 and 2014 gains of \$11,302 were recognized.

The Company leased the facility back from the buyer under a triple net lease which currently expires on December 31, 2020. The lease required monthly payments of \$8,000. The required monthly payments have no annual increase. The Company is responsible for its share of operating costs as defined in the agreement.

As a result of the negotiation of the lease for the Waukesha, Wisconsin facility in 2016, a rent credit of \$300,000 was provided by the lessor to be recognized monthly over the term of the lease. Accordingly, a rent credit of \$300,000 was accrued, of which \$240,000 was accrued at December 31, 2016. The annual reduction of rent is

\$60,000 for five years. The \$5,000 monthly credit results in net monthly rent payments of \$3,000 per month. In 2016 the amortization of the deferred rent credit was \$60,000, which is included as a reduction to general and administrative expenses on the statements of operations for 2016.

Total rent expense for 2016, 2015, and 2014 was \$36,000, \$111,018, and \$111,018.

Future minimum lease payments, prior to application of the credit, at December 31, 2016 for the Waukesha facility are as follows:

Year	Rental Payments
2017	\$ 96,000
2018	96,000
2019	96,000
2020	96,000
Total minimum lease payments	\$ 384,000

6. ACCRUED EXPENSES

Accrued expenses consist of the following at December 31:

	2016	2015
Accrued wages and benefits	\$ 50,539	\$ 56,716
Accrued retirement	12,366	63,533
Other accrued professional fees	10,000	10,706
Product compliance testing	9,550	9,550
Product warranty reserve	11,512	10,453
State and local sales tax accrual	5,003	5,664
Other accrued expenses	38,250	41,449
Total accrued expenses	\$ 137,220	\$ 198,071

7. INCOME TAXES

Income tax expense consists of the following:

	2016	2015	2014
Current:			
Federal	\$ -	\$ -	\$ -
State	-	-	-
Total current	-	-	-
Deferred	(10,000)	(14,000)	9,000
Benefit (generation) of net operating losses	83,000	(126,000)	(40,000)
Expiration of net operating losses	549,000	137,000	-
Change in valuation reserve	(622,000)	(25,000)	31,000
Income tax expense (benefit)	\$ -	\$ -	\$ -

Differences between the income tax expense reported and the amount of income tax expense that would result from applying the federal statutory rate to the Company's pretax income is due primarily to the benefit of net operating losses.

At December 31, 2016, the Company had federal net operating loss carryforwards of approximately \$3,500,000 and research and development credits totaling \$66,000 which are subject to federal regulations and limitations and expire at various times through 2032. At December 31, 2016 the Company had state operating loss carryforwards of approximately \$2,630,000 that expire at various times through 2035. The carryforwards and credits, which expire in various years, are available to offset future federal taxable income and income taxes. The valuation reserve of \$1,617,000 and \$2,239,000 at December 31, 2016 and 2015, respectively, was provided because of uncertainty as to whether the net deferred tax asset would be realized, based on the Company's financial results. If the Company is expected to be profitable in future years, the valuation reserve will be reduced and used to offset income tax expense to the extent allowed by law.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31 are as follows:

	2016	2015
Deferred tax assets:		
Excess of book over tax depreciation	\$ 27,000	\$ 25,000
Net operating loss carryforwards	1,446,000	2,071,000
Inventories	50,000	44,000
Allowance for doubtful accounts	5,000	5,000
Tax credits	83,000	83,000
Accrued charges and other	6,000	11,000
Deferred gain	-	-
Total deferred tax assets	1,167,000	2,239,000
Net deferred tax asset before valuation reserve	1,167,000	2,239,000
Valuation reserve	(1,167,000)	(2,239,000)
Net deferred tax asset	\$ -	\$ -

The Company has no income tax returns currently under examination by taxing authorities. The Company is not subject to federal and Wisconsin state examinations for years before tax years 2012 and 2013, respectively.

8. REVOLVING CREDIT FACILITY & UNPAID RENT - RELATED PARTY

On December 23, 2002, the Company signed a revolving credit facility renewal with esitec, LLC, an affiliate. The term of the revolving credit facility ended December 31, 2003, at which time it renewed automatically in consecutive one-year increments, provided that either party may terminate the revolving credit facility upon 45 days written notice. Under the revolving credit facility, the Company can borrow up to a maximum of \$200,000. Interest is payable monthly at a rate of up to prime plus two percentage points as quoted in the Wall Street Journal (effective rate of 4.5% as of December 31, 2016), and any outstanding balances of principal and interest are due at the end of the term. The revolving credit facility is secured by trade accounts receivable. As of December 31, 2016 and 2015, the Company had borrowings of \$36,000 and \$49,000, respectively, under the revolving credit facility.

Under the terms of the lease for the Waukesha, Wisconsin facility, interest is paid monthly on any unpaid rent amounts at a rate of up to prime plus two percentage points as quoted in the Wall Street Journal (effective rate of 4.5% as of December 31, 2016). The lease is secured by trade accounts receivable and business assets. Pursuant to the lease, any and all unpaid rent may be called by esitec, LLC and, should the Company be unable to repay the unpaid rent upon demand, esitec, LLC has the right to foreclose against the trade accounts receivable and business assets of the Company.

Interest paid for unpaid rent and borrowings was \$19,672, \$29,349, and \$23,668, for the years ending December 31, 2016, 2015, and 2014, respectively.

As of December 31, 2016 and 2015, unpaid rent due to esitec, LLC totaled \$392,000 and \$684,000, respectively.

9. PROFIT SHARING PLAN

The Company has a profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code (the "Code") whereby participants may contribute a percentage of compensation, but not in excess of the maximum allowed under the Code. Substantially all employees are eligible to participate. The plan provides for, and the Company expenses, Company matching contributions and additional discretionary contributions determined by the Board of Directors which, in the aggregate, amounted to \$7,362 in 2016 and \$10,833 in 2015. There were no additional discretionary contributions paid in 2016 or 2015.

10. STOCK OPTION PLAN

The Company had a 1999 Nonqualified Stock Option Plan whereby 175,000 shares of Class A common stock were authorized for granting of options to key employees of the Company as determined by the Compensation and Stock Option Committee of the Board of Directors. Options granted could have been vested at the discretion of the Compensation and Stock Option Committee and expired ten years from date of grant. The exercise price was the average of the highest and lowest transaction prices of the stock on the date of grant. Options were cancelled upon termination of employment and that stock became available for future option grants. As of December 31, 2009, the 1999 Nonqualified Stock Option Plan expired with respect to granting of future options, and, accordingly, there are no shares eligible for future grants. All non-expired options were vested as of December 31, 2005. Options outstanding under the 1999 Plan expired in May 2014, and accordingly, as of December 31, 2014, there are no options outstanding.

Transactions with respect to the Company's stock option plans were as follows:

	2014		2015		2016	
	Option Shares	Weighted Average Exercise Price	Option Shares	Weighted Average Exercise Price	Option Shares	Weighted Average Exercise Price
Outstanding at beginning of year	14,000	\$0.40	-	-	-	-
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Forfeited	14,000	0.40	-	-	-	-
Outstanding at end of year	-	-	-	-	-	-
Exercisable at end of year	-	-	-	-	-	-
Weighted average fair value of Options granted during the year	-	-	-	-	-	-

11. CAPITAL STOCK

The Company has two classes of common stock and has also authorized 5,000,000 shares of preferred stock.

In the event of liquidation, holders of Class A common stock are entitled to receive, after distribution of amounts due to holders of preferred stock, \$3 per share (subject to adjustments for stock splits, stock dividends or similar events involving Class A common stock) before any distribution to holders of Class B common stock. After the payment of \$3 per share to Class A common stockholders, the Class B common stockholders are entitled to receive \$3 per share. Thereafter, the Class A and Class B common shareholders share equally in any further distributions.

The Company's Board of Directors has the authority and responsibility to determine the rate of dividend, liquidation value, and other preferences of the preferred stock upon issuance. No shares of preferred stock have been issued to date.

12. DIVIDENDS

The holders of Class A common stock, which is non-voting, are entitled to receive a non-cumulative annual cash dividend of \$0.08 per share before any dividends may be paid to the holders of Class B common stock. Thereafter, any additional dividend in a fiscal year must be paid on the two classes of common stock on an equal basis. If the preferential dividend is omitted for three consecutive years, the Class A common stock is entitled to vote in the following year.

No dividends were declared or paid in 2016, 2015, and 2014. Because no dividends were paid for three years, as of January 1, 2017, holders of Class A common stock are entitled to vote at the Company's 2017 Annual Meeting on an equal basis with holders of its Class B common stock.

13. EARNINGS (LOSS) PER SHARE

Earnings (loss) are allocated equally per share to weighted average Class A shares, as adjusted for the dilutive effect of stock options using the treasury stock method, and weighted average Class B shares outstanding during the year. Earnings (loss) per Class A and Class B common share were computed, as shown in the table below, by adding dividends paid per Class A and Class B common share (distributed earnings) to undistributed earnings. The following table sets forth the computation of basic and diluted earnings (loss) per share:

	2016	2015	2014
Numerator for basic and diluted earnings per share:			
Net earnings (loss)	\$ 199,254	\$ (290,116)	\$ (97,135)
Denominator for basic and diluted earnings per share:			
Weighted average shares:			
Class A common	2,009,149	2,009,149	2,009,149
Class B common	499,998	499,998	499,998
Total	2,509,147	2,509,147	2,509,147
Calculation of basic and diluted earnings (loss) per share:			
Class A common:			
Basic and diluted earnings (loss) per share	\$ 0.08	\$ (0.12)	\$ (0.04)
Class B common:			
Basic and diluted earnings (loss) per share	\$ 0.08	\$ (0.12)	\$ (0.04)

14. ENTERPRISE INFORMATION

The Company operates as one reportable segment.

Major Customers

	2016 Sales	Accounts Receivable as of 12/31/16	2015 Sales	Accounts Receivable as of 12/31/15	2014 Sales	Accounts Receivable as of 12/31/14
Customer A	8%	58%	4%	*	*	*
Customer B	16%	*	9%	33%	30%	*
Customer C	12%	*	*	*	8%	37%
Customer D	*	*	4%	27%	*	*

* Not a major customer at December 31

15. COMPANY OPERATIONS

The Company has sustained operating losses in prior years that required the Company to use substantial amounts of working capital to fund its operations. The losses and use of working capital were a result of the significant decrease in sales caused by lower customer demand for the Company's products. The Company's customers have been severely impacted by market shifts, especially in the domestic telecommunications industry, which adversely impacted customers' buying decisions. These factors raise substantial doubt about the Company's ability to continue as a going concern.

To supplement cash flow in the short-term, the Company maintains an agreement with an entity controlled by affiliates of the Company for up to \$200,000 of borrowing availability. As of December 31, 2016, the Company had borrowings on this revolving credit facility of \$36,000. The Company will continue to monitor its operations to determine if additional cost savings measures need to be implemented to improve cash flow.

The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

16. RELATED PARTY TRANSACTIONS

The Company leases its Waukesha facility from an entity controlled by affiliates of the Company. See Note 5 for additional information on this lease. In addition, the Company has a revolving credit facility from the same entity controlled by affiliates of the Company. See Note 8 for additional information on this revolving credit facility and lease payments payable.

17. DEFERRED COMPENSATION PLAN

The Company provides deferred compensation to certain employees upon retirement. The compensation benefit is based on years of service and the employee's base hourly rate. As of December 31, 2016 and 2015, the Company accrued \$12,366 and \$63,533, respectively, of deferred compensation for two employees who retired in 2015 and one who retired in 2016. Both employees who retired in 2015 are board members.

Five Year Review of Selected Financial Data - Unaudited

For the Years Ended December 31,	2016	2015	2014	2013	2012
SUMMARY OF OPERATIONS:					
Net sales	\$ 956,306	\$ 837,845	\$ 1,476,748	\$ 1,715,142	\$ 1,994,943
Cost of products sold	419,607	446,864	778,152	864,910	960,867
Gross profit	536,699	390,981	698,596	850,232	1,034,076
General and administrative	142,452	276,041	311,899	293,562	321,182
Marketing and selling	69,843	150,595	219,018	220,482	235,808
Research and development	105,483	225,118	241,222	253,864	260,567
Other income (expense)	(19,667)	(29,343)	(23,592)	65,187	(28,218)
Earnings (loss) before income taxes	199,254	(290,116)	(97,135)	147,511	188,301
Income taxes (benefit)	-	-	-	-	-
Net earnings (loss)	\$ 199,254	\$ (290,116)	\$ (97,135)	\$ 147,511	\$ 188,301
PER SHARE DATA:					
Weighted average shares outstanding	2,509,147	2,509,147	2,509,147	2,509,147	2,509,147
Basic and diluted loss per share:					
Class A common	\$ 0.08	\$ (0.12)	\$ (0.04)	\$ 0.06	\$ 0.08
Class B common	\$ 0.08	\$ (0.12)	\$ (0.04)	\$ 0.06	\$ 0.08
Shares outstanding at year end	2,509,147	2,509,147	2,509,147	2,509,147	2,509,147
Book value per share	\$ (0.22)	\$ (0.30)	\$ (0.18)	\$ (0.15)	\$ (0.18)
Cash dividends paid per Class A share	\$ -	\$ -	\$ -	\$ -	\$ -
OTHER DATA:					
Working capital	\$ (383,798)	\$ (774,723)	\$ (500,357)	\$ (364,347)	\$ (365,359)
Current ratio	0.4	0.2	0.4	0.6	0.7
Total assets	\$ 308,364	\$ 267,546	\$ 372,235	\$ 551,948	\$ 704,447
Total long-term obligations	\$ -	\$ -	\$ -	\$ -	\$ -
Stockholders' deficit	\$ (553,335)	\$ (752,589)	\$ (462,473)	\$ (365,338)	\$ (445,355)
After tax return on sales	20.8%	(34.6%)	(6.6%)	8.6%	9.4%
Return on equity	(36.0%)	(38.5%)	(21.0%)	(40.4%)	(42.3%)

This data should be considered in conjunction with the accompanying financial statements.

Quarterly Financial Data - Unaudited

	2016 Quarters				
	First	Second	Third	Fourth	Total
Net sales	\$ 329,253	\$ 190,733	\$ 225,388	\$ 210,932	\$ 956,306
Gross profit	184,607	94,359	124,381	133,352	536,699
Net earnings (loss)	92,849	(8,211)	34,733	79,883	199,254
Basic and diluted loss per share:					
Class A common	0.04	0.00	0.01	0.03	0.08
Class B common	0.04	0.00	0.01	0.03	0.08
Dividends per Class A common share (Note 13)	0.00	0.00	0.00	0.00	0.00
Stock price for Class A common: *					
High	0.044	0.100	0.125	0.120	
Low	0.020	0.030	0.050	0.060	

	2015 Quarters				
	First	Second	Third	Fourth	Total
Net sales	\$ 183,110	\$ 239,072	\$ 202,136	\$ 213,527	\$ 837,845
Gross profit	61,894	110,787	94,466	123,834	390,981
Net earnings (loss)	(170,547)	(47,103)	(114,266)	41,800	(290,116)
Basic and diluted earnings (loss) per share:					
Class A common	(0.07)	(0.02)	(0.05)	0.02	(0.12)
Class B common	(0.07)	(0.02)	(0.05)	0.02	(0.12)
Dividends per Class A common share (Note 13)	0.00	0.00	0.00	0.00	0.00
Stock price for Class A common: *					
High	0.065	0.055	0.055	0.030	
Low	0.055	0.055	0.011	0.011	

This data should be considered in conjunction with the accompanying financial statements.

* The stock prices represent the price on the OTC Pink Sheets. The stock prices reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

Annual Meeting of Shareholders

2:00 PM, Friday, May 5, 2017

Electronic Tele-Communications, Inc.

1915 MacArthur Road, Waukesha, WI 53188

Investor Relations

Investor relations inquiries may be made in writing to Investor Relations Department, Electronic Tele-Communications, Inc., 1915 MacArthur Road, Waukesha, WI 53188; by telephone at (262) 542-5600; or via email at investor_relations@etcia.com.

Stock Held in "Street Name"

Electronic Tele-Communications, Inc. maintains a direct mailing list to ensure that shareholders whose stock is held in broker accounts receive shareholder information on a timely basis. Shareholders may add their name to this list by writing or calling our Investor Relations Department.

Stock Listing

Electronic Tele-Communications, Inc. Class A common stock is quoted on the OTC Pink Sheets under the symbol ETCIA.

Shareholders of Record

As of March 6, 2017 there were approximately 375 shareholders of record and beneficial shareholders owning Class A common stock.

Termination of Registration

In September 2004 the Company voluntarily terminated its registration of its Class A common stock under Section 12 of the Securities Exchange Act of 1934. This deregistration terminated the Company's obligation to file public reports with the SEC.

Transfer Agent and Register

For address changes or questions regarding your shares, please contact:

American Stock Transfer and Trust Company
59 Maiden Lane
New York, NY 10038-4502

telephone (800) 937-5449
website <http://www.amstock.com>
email info@amstock.com

Independent Accountants

Wipfli, LLP, 10000 Innovation Drive, Suite 250, Milwaukee, WI 53226

Legal Counsel

Quarles & Brady LLP, 411 East Wisconsin Avenue, Milwaukee, WI 53202

Corporate Officers

Dean W. Danner, P.E., Chairman of the Board and Chief Executive Officer

Elizabeth Danner, President and Chief Operating Officer

Bonita M. Danner, P.E., Vice President and Corporate Secretary

Jonathan Danner, Treasurer

Directors

Dean W. Danner, P.E., 2, 3, 4

Bonita M. Danner, P. E., 1, 3, 4

Joseph A. Voight, Jr., 1, 2

Elizabeth Danner, 3, 4

Jonathan Danner, 1, 2

Committee Assignments

1-- Audit Committee

2 -- Compensation and Stock Option Committee

3 -- Executive Committee

4 -- Facilities Committee

Electronic Tele-Communications, Inc.
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