ETC The Voice of the Network®

Electronic Tele-Communications, Inc.
2017 Annual Report

(This page intentionally left blank.)

A Letter to our Shareholders

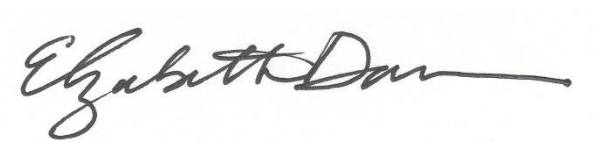
Following the unexpectedly good 2016, 2017 was much more low-key of a year.

Equipment sales lagged expectations throughout the year. ETC has long produced high-quality, sophisticated, and reliable products. It is a testament to the quality of our products that there are still many older ETC systems installed that are still functioning after 20-plus years of service. This reliability, though, makes for an unpredictable market for upgrades, replacements, and enhancements. We continue to work with existing users of our equipment as well as maintain a presence to replace the products of older competitors, that have left the market.

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.

We remain committed to providing high-quality products and services to our customers and to maintaining our position in the niche markets of telephone voice announcements.

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 4, 2018. Annual meeting materials will be available March 20, 2018 to Shareholders of Record on March 5, 2018. 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 with one vote for each share of Class A or Class B stock that they own.



Elizabeth Danner - President & COO
March 5, 2018

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 cost-reductions measures that were enacted during the third quarter of 2015 combined with continued management of costs allowed ETC to remain profitable in 2017. While there was a profit in 2017, we continue to monitor sales levels and operations to determine if additional adjustments will be necessary to enhance cash flow and allow ETC to 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 Net Sales		Percent Change Increase (Decrease) 2017 vs. 2016
	2017	2016	
Net sales	100.0%	100.0%	(38.5)%
Cost of products sold	44.1	43.9	(38.2)
Gross profit	55.9	56.1	(38.8)
General and administrative expenses	22.1	14.9	(8.7)
Marketing and selling expenses	6.6	7.3	(44.7)
Research and development expenses	17.0	11.0	(5.1)
Other income (expense)	(3.3)	(2.1)	(2.0)
Earnings before income taxes	6.9	20.8	(79.6)
Income tax expense (benefit)	--	--	--
Net income	6.9	20.8	(79.6)

Revenues
Net sales were $587,845 in 2017 and $956,306 in 2016, a decrease of 38.5% between years. The 2017 net sales consisted of equipment sales of $49,794 or 8% of net sales, and revenues from operating leases, sales-type leases, and services of $538,051, or 92% of net sales. 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 decrease in sales in 2017 from 2016 was due to decreased equipment sales and a reduction in service revenues.

The majority of 2017 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 55.9% of net sales in 2017, compared to 56.1% of net sales in 2016. The decrease in 2017 gross profit was due to lower equipment sales over which to spread fixed manufacturing costs and reduced overhead costs.

Operating Expenses
Total operating expenses in 2017 were $268,735 or 45.7% of net sales, compared to $317,778 or 33.2% of net sales in 2016. Continuation of the cost-reduction measures enacted during 2015 are reflected in lower operating expenses.

Other Income and Expense
Net other expense in 2017 was $19,270, compared to $19,667 in 2016. The decrease is due to reduced outstanding debts.

Income Taxes
Income tax expense was $0 in 2017 and 2016.

Net Earnings and Earnings Per Share
Net earnings in 2017 were $40,549, compared to $199,254 in 2016. Continued cost management was the primary reasons for remaining profitable. The decrease in net earnings was due to the decrease in net sales, specifically equipment sales.

LIQUIDITY AND CAPITAL RESOURCES

Working capital (deficit) was ($402,824) as of December 31, 2017, compared to ($383,798) as of December 31, 2016. The increase in working capital deficit in 2017 was primarily due to lower current assets, primarily cash and inventories, compared to current liabilities, primarily the revolving line of credit and unpaid rent.

Accounts receivable decreased between 2017 and 2016, primary due to the timing of customer payments and end of the year equipment sales. Accounts receivable were $28,931 in 2017 and $29,407 in 2016. Inventories increased from $121,825 in 2016 to $136,565 in 2017. Net investment in sales-type leases was $8,852 and $5,462 at December 31, 2017 and 2016, respectively. Most new systems were sold versus leased to the customer in 2017. Accounts payable decreased from $11,734 in 2016 to $9,176 in 2017 primarily due to timing differences. Deferred compensation was $9,827 and $12,366 at December 31, 2017 and 2016, 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, 2017 and 2016, the Company had borrowings of $33,000 and $36,000, respectively, against this revolving credit facility. Additionally, the Company has unpaid rent due to the same entity totaling $400,000 and $392,000 as of December 31, 2017 and 2016, 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 financing will be available or 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, 2017, for the facility are as follows:

2018	$	96,000
2019		96,000
2020		96,000
Total	$	288,000

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.

As of December 31, 2017, ETC does not have any contractual obligations for purchases of materials from vendors used in the manufacture of our products for 2018 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 $848,000 as of December 31, 2017 and $1,617,000 as of December 31, 2016, 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 2017 or 2016 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 2017 or 2016 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, 2017, 2016, and 2015 - Unaudited

	2017	2016	2015
NET SALES (Note 14)	**$ 587,845**	$ 956,306	$ 837,845
COST OF PRODUCTS SOLD	**259,291**	419,607	446,864
GROSS PROFIT	**328,554**	536,699	390,981
OPERATING EXPENSES:			
General and administrative	**130,042**	142,452	276,041
Marketing and selling	**38,633**	69,843	150,595
Research and development	**100,060**	105,483	225,118
	268,735	317,778	651,754
EARNINGS (LOSS) FROM OPERATIONS	**59,819**	218,921	(260,773)
OTHER INCOME (EXPENSE):			
Interest expense	**(19,281)**	(19,672)	(29,349)
Interest and dividend income	**11**	5	6
EARNINGS (LOSS) BEFORE INCOME TAXES	**40,549**	199,254	(290,116)
Income tax expense (benefit) (Note 7)	**-**	-	-
NET EARNINGS (LOSS)	**$ 40,549**	$ 199,254	$ (290,116)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE (Note 12):			
Class A common	**$ 0.02**	$ 0.08	$ (0.12)
Class B common	**$ 0.02**	$ 0.08	$ (0.12)

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

Balance Sheets
As of December 31, 2017 and 2016 - Unaudited

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 76,430**	$ 132,116
Trade accounts receivable, less allowance for doubtful accounts of $10,000 in 2017 and $12,000 in 2016	**28,931**	29,407
Inventories (Note 2)	**136,565**	121,825
Current portion of net investment in sales-type leases (Note 3)	**3,316**	5,139
Prepaid expenses and other current assets	**6,806**	9,414
Total current assets	**252,048**	297,901
PROPERTY AND EQUIPMENT (Note 4)	**4,502**	10,140
NET INVESTMENT IN SALES-TYPE LEASES (Note 3)	**5,536**	323
Total Assets	**$ 262,086**	$ 308,364
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Revolving credit facility and unpaid rent - related party (Note 8)	**$ 433,000**	$ 428,000
Accounts payable	**9,176**	11,734
Accrued expenses (Note 6)	**118,976**	137,220
Income taxes payable	**5,411**	6,409
Deferred revenue and customer deposits	**28,309**	38,336
Current portion of deferred rent credit (Note 5)	**60,000**	60,000
Total current liabilities	**654,872**	681,699
DEFERRED RENT CREDIT (Note 5)	**120,000**	180,000
Total liabilities	**774,872**	861,699
COMMITMENTS (Note 5)		
STOCKHOLDERS' DEFICIT (Notes 11 and 12):		
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 $.01, issued and outstanding 499,998 shares	**5,000**	5,000
Additional paid-in capital	**3,335,647**	3,335,647
Retained earnings (deficit)	**(3,873,524)**	(3,914,073)
Total stockholders' deficit	**(512,786)**	(553,335)
Total Liabilities and Stockholders' Deficit	**$ 262,086**	$ 308,364

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

Statements of Cash Flows
Years Ended December 31, 2017, 2016, and 2015 - Unaudited

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	**$ 40,549**	$ 199,254	$ (290,116)
Adjustments to reconcile net loss to			
net cash provided by (used in) operating activities:			
Depreciation and amortization	**5,638**	6,532	6,751
Gain from sale of property, plant and equipment	**-**	-	(11,302)
Changes in operating assets and liabilities:			
Accounts receivable	**476**	29,404	(6,487)
Inventories	**(14,740)**	19,681	43,260
Net investment in sales-type leases	**(3,390)**	15,827	5,022
Prepaid expenses and other current assets	**2,608**	(322)	751
Accounts payable and accrued expenses	**(20,802)**	(95,107)	52,276
Deferred rent	**(60,000)**	(60,000)	(32,982)
Income taxes payable	**(998)**	(900)	1,522
Unpaid rent - related party	**8,000**	8,000	144,000
Deferred revenue and customer deposits	**(10,027)**	2,571	(17,087)
Total adjustments	**(93,235)**	(74,314)	185,724
Net cash provided by (used in) operating activities	**(52,686)**	124,940	(104,392)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings (payments) on revolving credit facility, net	**(3,000)**	(13,000)	49,000
Net cash used in financing activities	**(3,000)**	(13,000)	49,000
Net decrease in cash and cash equivalents	**(55,686)**	111,940	(55,392)
Cash and cash equivalents at beginning of year	**132,116**	20,176	75,568
Cash and cash equivalents at end of year	**$ 76,430**	$ 132,116	$ 20,176
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	**$ 998**	$ 900	$ 1,522
Cash paid for interest expense	**19,300**	18,507	30,086
Noncash investing and financing activities:			
Rent credits received	**-**	300,000	-

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

Statement of Stockholders' Deficit
Years Ended December 31, 2017, 2016, and 2015 - Unaudited

	Common Stock (Note 11)						
	Class A		Class B		Additional	Retained	Total Stock-
	Number of Shares	Amount	Number of Shares	Amount	Paid-in Capital	Earnings (Deficit)	holders' Deficit
Balances at January 1, 2015	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)
Net earnings	**-**	**-**	**-**	**-**	**-**	**40,549**	**40,549**
Balances at December 31, 2017	**2,009,149**	**20,091**	**499,998**	**5,000**	**3,335,647**	**$ (3,873,524)**	**$ (512,786)**

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

Notes to the Financial Statements
Years Ended December 31, 2017, 2016, and 2015

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 2017, 2016, or 2015.

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, 2017 and 2016.

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 92%, 64%, and 82% of total revenue in 2017, 2016, and 2015, 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 $531, $513, and $1,193, in 2017, 2016, and 2015, respectively. Costs incurred for shipping and handling were $2,429, $2,112, and $723, in 2017, 2016, and 2015, 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 19, 2018 which is the date the financial statements were issued.

2. INVENTORIES

Inventories consisted of the following at December 31:

	2017	2016
Raw materials and supplies	**$ 76,454**	$ 77,581
Work-in-process and finished goods	**21,577**	28,512
Maintenance and demo parts	**59,114**	47,020
Reserve for obsolescence	**(20,580)**	(31,288)
Total Inventories	**$ 136,565**	$ 121,825

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 2020.

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

	2017	2016
Total minimum lease payments to be received	$ **10,830**	$ 5,940
Unearned revenue	**(1,978)**	(478)
Allowance for doubtful accounts	**-**	-
Net investment in sales-type leases	**$ 8,852**	$ 5,462

Future minimum lease payments to be received under these agreements at December 31, 2017 are as follows:

Year	Rental Payments
2018	$ 4,530
2019	4,200
2020	2,100
Total minimum lease payments	$ 10,830

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2017	2016
Equipment and furniture	$ **1,474,046**	$ 1,554,711
Accumulated depreciation	**(1,469,544)**	(1,544,571)
Net property and equipment	**$ 4,502**	$ 10,140

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 a gain of $11,302 was 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 $180,000 remained at December 31, 2017. 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 2017 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 2017.

Total rent expense for 2017, 2016, and 2015 was $35,000, $36,000, and $111,018.

Future minimum lease payments, prior to the application of the credit, at December 31, 2017 for the Waukesha facility are as follows:

Year	Rental Payments
2018	$ 96,000
2019	96,000
2020	96,000
Total minimum lease payments	$ 288,000

6. ACCRUED EXPENSES

Accrued expenses consist of the following at December 31:

	2017	2016
Accrued wages and benefits	**$ 38,125**	$ 50,539
Accrued retirement	**9,827**	12,366
Other accrued professional fees	**10,000**	10,000
Product compliance testing	**9,550**	9,550
Product warranty reserve	**10,000**	11,512
State and local sales tax accrual	**4,484**	5,003
Other accrued expenses	**36,989**	38,250
Total accrued expenses	**$ 118,975**	$ 137,220

7. INCOME TAXES

Income tax expense consists of the following:

	2017	2016	2015
Current:			
Federal	**$ -**	$ -	$ -
State	**-**	-	-
Total current	**-**	-	-
Deferred	**25,000**	(10,000)	(14,000)
Benefit (generation) of net operating losses	**(6,000)**	83,000	(126,000)
Expiration of net operating losses	**290,000**	549,000	137,000
Adjustment to the net deferred tax asset			
For the Tax Cuts and Jobs Act	**460,000**	-	-
Change in valuation reserve	**(769,000)**	(622,000)	(25,000)
Income tax expense (benefit)	**$ -**	$ -	$ -

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Act"). The Act amends the Internal Revenue Code to reduce corporate tax rates and modify various tax policies, credits, and deductions. The Act reduces the corporate tax rate from a maximum of 35% to a flat 21% rate, which is effective for the Company beginning January 1, 2018. As a result of the tax rate reduction in the Act, the Company reduced its net deferred tax asset during 2017 by $460,000, but did not recognize additional income tax expense due to the Company's full valuation allowance position.

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 net operating losses and the change in deferred taxes attributed to the Act.

At December 31, 2017, the Company had federal net operating loss carryforwards of approximately $2,786,000 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, 2017, the Company had state operating loss carryforwards of approximately $2,222,000 that expire at various times through 2037. The carryforwards and credits, which expire in various years, are available to offset future federal taxable income and income taxes. The valuation reserve of $848,000 and $1,617,000 at December 31, 2017 and 2016, 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:

	2017	2016
Deferred tax assets:		
Excess of book over tax depreciation	**$ 13,000**	$ 27,000
Net operating loss carryforwards	**718,000**	1,446,000
Inventories	**27,000**	50,000
Allowance for doubtful accounts	**3,000**	5,000
Tax credits	**83,000**	83,000
Accrued charges and other	**4,000**	6,000
Deferred gain	**0**	0
Total deferred tax assets	**848,000**	1,617,000
Net deferred tax asset before valuation reserve	**848,000**	1,617,000
Valuation reserve	**(848,000)**	(1,617,000)
Net deferred tax asset	**$ -**	$ -

The Company has no income tax returns currently under examination by taxing authorities. The Company's tax returns remain open to examination by federal and state taxing authorities in accordance with statutory limitations.

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 (the Wall Street Journal effective rate was 4.5% as of December 31, 2017) 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, 2017 and 2016, the Company had borrowings of $33,000 and $36,000, 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, 2017). 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 by 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 $19,281, $19,672, and $29,349, for the years ending December 31, 2017, 2016, and 2015, respectively.

As of December 31, 2017 and 2016, unpaid rent due to esitec, LLC totaled $400,000 and $392,000, 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 $6,858 in 2017 and $7,362 in 2016. There were no additional discretionary contributions paid in 2017 or 2016.

10. 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.

11. 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 2017, 2016, and 2015. Because no dividends were paid for three years, as of January 1, 2018, holders of Class A common stock are entitled to vote at the Company's 2018 Annual Meeting on an equal basis with holders of its Class B common stock.

12. 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:

	2017	2016	2015
Numerator for basic and diluted earnings per share:			
Net earnings (loss)	**$ 40,549**	$ 199,254	$ (290,116)
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	**$ 0.02**	$ 0.08	$ (0.12)
Class B common:			
Basic and diluted earnings (loss) per share	**$ 0.02**	$ 0.08	$ (0.12)

13. ENTERPRISE INFORMATION

The Company operates as one reportable segment.

Major Customers

	2017 Sales	Accounts Receivable as of 12/31/17	2016 Sales	Accounts Receivable as of 12/31/16	2015 Sales	Accounts Receivable as of 12/31/15
Customer A	*	*	8%	58%	4%	*
Customer B	7%	*	16%	*	9%	33%
Customer C	*	*	12%	*	*	*
Customer D	*	*	*	*	4%	27%

* Not a major customer at December 31

14. 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. 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, 2017, the Company had borrowings on this revolving credit facility of $33,000. The Company will continue to monitor its operations to determine if additional cost savings measures need to be implemented to improve cash flow and continue as a going concern.

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

15. 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.

16. 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, 2017 and 2016, the Company accrued $9,827 and $12,366, respectively, of deferred compensation for one employee who retired in 2016.

Five Year Review of Selected Financial Data - Unaudited

For the Years Ended December 31,	**2017**	2016	2015	2014	2013
SUMMARY OF OPERATIONS:					
Net sales	**$ 587,845**	$ 956,306	$ 837,845	$ 1,476,748	$ 1,715,142
Cost of products sold	**259,291**	419,607	446,864	778,152	864,910
Gross profit	**328,554**	536,699	390,981	698,596	850,232
General and administrative	**130,042**	142,452	276,041	311,899	293,562
Marketing and selling	**38,633**	69,843	150,595	219,018	220,482
Research and development	**100,060**	105,483	225,118	241,222	253,864
Other income (expense)	**(19,270)**	(19,667)	(29,343)	(23,592)	65,187
Earnings (loss) before income taxes	**40,549**	199,254	(290,116)	(97,135)	147,511
Income taxes (benefit)	**-**	-	-	-	-
Net earnings (loss)	**$ 40,549**	$ 199,254	$ (290,116)	$ (97,135)	$ 147,511
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 earnings (loss) per share:					
Class A common	**$ 0.02**	$ 0.08	$ (0.12)	$ (0.04)	$ 0.06
Class B common	**$ 0.02**	$ 0.08	$ (0.12)	$ (0.04)	$ 0.06
Shares outstanding at year end	**2,509,147**	2,509,147	2,509,147	2,509,147	2,509,147
Book value per share	**$ (0.20)**	$ (0.22)	$ (0.30)	$ (0.18)	$ (0.15)
Cash dividends paid per Class A share	**$ -**	$ -	$ -	$ -	$ -
OTHER DATA:					
Working capital	**$ (402,824)**	$ (383,798)	$ (774,723)	$ (500,357)	$ (364,347)
Current ratio	**0.4**	0.4	0.2	0.4	0.6
Total assets	**$ 262,086**	$ 308,364	$ 267,546	$ 372,235	$ 551,948
Total long-term obligations	**$ -**	$ -	$ -	$ -	$ -
Stockholders' deficit	**$ (512,786)**	$ (553,335)	$ (752,589)	$ (462,473)	$ (365,338)
After tax return on sales	**6.9%**	20.8%	(34.6%)	(6.6%)	8.6%
Return on equity	**(7.9%)**	(36.0%)	(38.5%)	(21.0%)	(40.4%)

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

Quarterly Financial Data - Unaudited

	2017 Quarters				
	First	**Second**	**Third**	**Fourth**	**Total**
Net sales	**$ 185,200**	**$ 141,813**	**$ 131,079**	**$ 129,753**	**$ 587,845**
Gross profit	**98,832**	**76,656**	**72,078**	**80,988**	**328,554**
Net earnings (loss)	**21,243**	**2,386**	**(2,089)**	**19,009**	**40,549**
Basic and diluted loss per share:					
Class A common	**0.01**	**0.00**	**0.00**	**0.01**	**0.02**
Class B common	**0.01**	**0.00**	**0.00**	**0.01**	**0.02**
Dividends per Class A common share (Note 11)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Stock price for Class A common: *					
High	**0.170**	**0.145**	**0.130**	**0.134**	
Low	**0.110**	**0.130**	**0.126**	**0.120**	

	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 earnings (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 11)	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	

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.

(This page intentionally left blank.)

Annual Meeting of Shareholders
2:00 PM, Friday, May 4, 2018
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 5, 2018 there were approximately 370 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.
1915 MacArthur Road
Waukesha, WI 53188
http://www.etcia.com