

Electronic Tele-Communications, Inc.
2022 Annual Report



A Letter to Our Shareholders

2022 presented many challenges for ETC as we continued to see our recurring revenue slide. Unfortunately, despite late-year equipment sales, there was once again a net loss for the year.

It is a testament to the high quality of our products that many older ETC systems that are installed are still functioning decades after being placed into service. We continue to work with existing users of our equipment as well as maintain a presence as a replacement for competitors' older products.

ETC's Time Weather and Temperature (TWT) announcement services continue to be provided to customers throughout the United States. 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 maintain 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 5, 2023. Annual meeting materials will be available on March 22, 2023 to shareholders of record on March 8, 2023. 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_information.html. 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 & CEO
March 8, 2023

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

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

2022 continued to be a difficult year. Like many other business, ETC struggled to keep expenses down in the face of increased costs. Customers continued to re-evaluate the services they wished to provide to their communities in an effort to maintain their business structure. With this in mind, ETC was unable to be profitable and showed a loss for 2022. We will continue to operate under reduced-spending measures and monitor operations to determine if additional adjustments will be needed to return to profitability and enhance cash flows in the future.

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) 2022 vs. 2021
	2022	2021	2021
Net sales	100.0%	100.0%	(4.1)%
Cost of products sold	59.0	49.8	13.5
Gross profit	41.0	50.2	(21.7)
General and administrative expenses	28.3	28.6	(5.2)
Marketing and selling expenses	8.1	7.4	4.9
Research and development expenses	3.2	22.6	(86.5)
Other income (expense)	(3.8)	(2.5)	43.0
Earnings before income taxes	(2.4)	(11.0)	(79.4)
Income tax expense (benefit)	--	--	--
Net income	(2.4)	(11.0)	(79.4)

Revenues

Net sales were \$355,269 in 2022 and \$370,641 in 2021, a decrease of 4.1% between years. The 2022 revenues from operating leases, sales-type leases, and services were \$306,829, or 86.4% of net sales. Equipment sales accounted for \$48,440, or 13.6% of net sales. The 2021 revenues from operating leases, sales-type leases, and services were \$365,541, or 99% of net sales. Equipment sales accounted for \$5,100 of net sales in 2021, or 1% of net sales. The decrease in sales in 2022 from 2021 was due to a decrease in service revenues.

As newer units replace older time weather temperature systems that are leased by other customers, lease revenues generally decrease. It is anticipated that lease revenue will continue to decrease and 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.

Gross Profit

Gross profit was 41.0% of net sales in 2022, compared to 50.2% of net sales in 2021. Gross profit decreased due to additional purchases made for the equipment sales.

Operating Expenses

Total operating expenses were \$140,868 in 2022, or 39.6% of net sales, compared to \$217,376 in 2021, or 58.6% of net sales. The decrease in operating expenses is due to lower personal costs along with continuing cost-savings measures.

Other Income and Expense

Net other expense in 2022 was \$13,464, compared to \$9,415 in 2021. The increase as compared to the prior year is due to higher interest rates and a slight increase in unpaid rent.

Income Taxes

Income tax expense was \$0 in 2022 and 2021.

Net Loss and Loss Per Share

The net loss in 2022 was \$8,375 or \$0.00 per share, compared to a net loss in 2021 of \$40,707, or \$0.02 per share. The net loss in 2022 was due to customers not renewing service contracts.

LIQUIDITY AND CAPITAL RESOURCES

Working capital (deficit) was (\$298,741) as of December 31, 2022, compared to (\$255,027) as of December 31, 2021. The increase in working capital deficit in 2022 was due to lower current assets, primarily inventory, compared to current liabilities, primarily related to accounts payable and deferred revenue.

Accounts receivable were \$48,630 in 2022 and \$23,003 in 2021. Accounts receivable increased between 2022 and 2021, due to the timing of customer receipts and end of the year equipment sales in 2022. Inventories decreased from \$120,315 in 2021 to \$100,372. Net investment in sales-type leases was \$661 and \$3,447 at December 31, 2022 and 2021, respectively. Accounts payable increased from \$18,079 in 2021 to \$31,995 in 2022 due to outstanding payments owed to vendors. Deferred compensation was \$10,436 and \$20,907 at December 31, 2022 and 2021, 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, 2022 and 2021, the Company had borrowings of \$30,000 against this revolving credit facility. Additionally, the Company has unpaid rent due to the same entity totaling \$246,000 and \$231,000 as of December 31, 2022 and 2021, respectively. In 2020, the Company entered into a lease with the affiliate which included a rent credit of \$362,000 that was accrued and will be amortized over the remaining term of the 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 the rent 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. Future minimum lease payments, excluding the rent credit described above, as of December 31, 2022, for the facility are as follows:

2023	\$	54,000
2024		54,000
2025		54,000
Total	\$	<u>216,000</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.

As of December 31, 2022, ETC does not have any contractual obligations for purchases of materials from vendors used in the manufacture of our products for 2022 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 net realized 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 \$324,000 as of December 31, 2022 and \$369,000 as of December 31, 2021, 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 2022 or 2021 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 2022 or 2021 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 include statements that 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. In addition, forward-looking statements include statements that are in the future tense and statement that include the words "expects", "anticipates", "intends", "approximates", or similar words that reference ETC or its management. Forward-looking statements were developed by management in good faith, but 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 Company's ability to achieve adequate sales levels or sufficient cash flow or cash reserves to support operations, technology changes, backlog changes, status of the global economy, government regulations, sources of supply, expense structure, product mix, developments related to major customers, competition, litigation, continuing impact of the COVID-19 pandemic and other risk factors. Investors are encouraged to consider the risks and uncertainties Company's actual future results to be materially different than those discussed in ETC's forward-looking statements. ETC does not undertake any obligation to update its forward-looking statements.

Statement of Operations
Years Ended December 31, 2022, 2021, and 2020 - Unaudited

	2022	2021	2020
NET SALES (Note 14)	\$ 355,269	\$ 370,641	\$ 400,571
COST OF PRODUCTS SOLD	<u>209,494</u>	184,557	201,286
GROSS PROFIT	145,775	186,084	199,285
OPERATING EXPENSES:			
General and administrative	100,492	106,036	107,972
Marketing and selling	28,878	27,528	30,420
Research and development	11,316	83,812	72,212
	<u>140,686</u>	217,376	210,604
EARNINGS (LOSS) FROM OPERATIONS	5,089	(31,292)	(11,319)
OTHER INCOME (EXPENSE):			
Interest expense	(13,477)	(9,420)	(21,724)
Interest and dividend income	13	5	16
	<u>(13,464)</u>	(9,415)	(21,708)
LOSS BEFORE INCOME TAXES	(8,375)	(40,707)	(33,027)
Income tax expense (benefit) (Note 7)	<u>-</u>	-	-
NET LOSS	<u>\$ (8,375)</u>	<u>\$ (40,707)</u>	<u>\$ (33,027)</u>
BASIC AND DILUTED EARNINGS PER SHARE (Note 12):			
Class A common	<u>\$ -</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
Class B common	<u>\$ -</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>

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

Balance Sheets
As of December 31, 2022 and 2021 - Unaudited

	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 18,128	\$ 21,221
Trade accounts receivable, less allowance for doubtful accounts of \$12,000 in 2022 and \$12,000 in 2021	48,630	23,003
Inventories (Note 2)	100,372	120,315
Current portion of net investment in sales-type leases (Note 3)	661	2,786
Prepaid expenses and other current assets	2,243	2,522
Total current assets	<u>170,034</u>	<u>169,847</u>
PROPERTY AND EQUIPMENT (Note 4)	92	92
NET INVESTMENT IN SALES-TYPE LEASES (Note 3)	-	661
Total Assets	<u>\$ 170,126</u>	<u>\$ 170,600</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Revolving credit facility and unpaid rent - related party (Note 8)	\$ 276,000	\$ 231,000
Accounts payable	31,995	18,079
Accrued expenses (Note 6)	104,080	115,564
Income taxes payable	5,809	6,079
Deferred revenue and customer deposits	14,891	18,152
Current portion of deferred rent credit (Note 5)	36,000	36,000
Total current liabilities	<u>468,775</u>	<u>424,874</u>
DEFERRED RENT CREDIT (Note 5)	<u>254,000</u>	<u>290,000</u>
Total liabilities	<u>722,775</u>	<u>714,874</u>
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)	<u>(3,913,387)</u>	<u>(3,905,012)</u>
Total stockholders' deficit	<u>(552,649)</u>	<u>(544,274)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 170,126</u>	<u>\$ 170,600</u>

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

Statement of Cash Flows
Years Ended December 31, 2022, 2021, and 2020 - Unaudited

	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (8,375)	\$ (40,707)	\$ (33,027)
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Changes in operating assets and liabilities:			
Accounts receivable	(25,627)	(14,022)	16,398
Inventories	19,943	1,127	(3,898)
Net investment in sales-type leases	2,786	3,851	2,326
Prepaid expenses and other current assets	279	1,077	(530)
Accounts payable and accrued expenses	2,432	27,205	(5,852)
Deferred rent	(36,000)	326,000	(60,000)
Income taxes payable	(270)	4	(234)
Unpaid rent - related party	45,000	49,000	58,000
Deferred revenue and customer deposits	(3,261)	(5,504)	(5,441)
Total adjustments	5,282	388,738	769
Net cash from operating activities	<u>(3,093)</u>	<u>348,031</u>	<u>(32,258)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on revolving credit facility, net	-	(362,000)	-
Net cash from financing activities	<u>-</u>	<u>(362,000)</u>	<u>-</u>
Net change in cash and cash equivalents	(3,093)	(13,969)	(32,258)
Cash and cash equivalents at beginning of year	21,221	35,190	67,448
Cash and cash equivalents at end of year	<u>\$ 18,128</u>	<u>\$ 21,221</u>	<u>\$ 35,190</u>
Supplemental disclosures of cash flow information:			
Cash paid for income taxes	\$ 270	\$ 4	\$ 234
Cash paid for interest expense	14,227	9,415	21,708

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

Statement of Stockholders' Deficit
Years Ended December 31, 2022, 2021, and 2020 - Unaudited

	Common Stock (Note 11)				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, 2020	2,009,149	20,091	499,998	5,000	3,335,647	(3,831,278)	(470,540)
Net loss	-	-	-	-	-	(33,027)	(33,027)
Balances at December 31, 2020	2,009,149	20,091	499,998	5,000	3,335,647	\$ (3,864,305)	\$ (503,567)
Net loss	-	-	-	-	-	(40,707)	(40,707)
Balances at December 31, 2021	2,009,149	20,091	499,998	5,000	3,335,647	\$ (3,905,012)	\$ (544,274)
Net loss	-	-	-	-	-	(8,375)	(8,375)
Balances at December 31, 2022	2,009,149	20,091	499,998	5,000	3,335,647	\$ (3,913,387)	\$ (552,649)

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

Notes to the Financial Statements

Years Ended December 31, 2022, 2021, and 2020

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 as of December 31, 2022 and 2021, are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

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 2022, 2021, or 2020.

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, 2022 and 2021.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-19 Revenue from Contracts with Customers ("ASC 606"). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures. The new standard supersedes current revenue recognition requirements in FASB Accounting Standards Codification ("ASC") Topic 605 Revenue Recognition and most industry-specific guidance. This framework is intended to result in less complex guidance in application while providing a consistent and comparable methodology for revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the amendments require expanded disclosure to enable users of the financial statements to understand the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

ASU 2014-19 is effective as of January 1, 2019. The Company has not adopted or evaluated the impact of this new standard, but management believes any impact would be immaterial to the financial statements.

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 86%, 99%, and 99% of total revenue in 2022, 2021, and 2020, 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 \$210, \$126, and \$282, in 2022, 2021, and 2020, respectively. Costs incurred for shipping and handling were \$1,366, \$968, and \$1,443, in 2022, 2021, and 2020, 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.

New Accounting Pronouncements

ASU No. 2016-02 Leases (Topic 842) is effective as of January 1, 2022. This ASU requires lessees to record assets and liabilities on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either financing or operating, with the classification affecting the pattern of expense recognition in the statement of operations. The Company has not adopted or evaluated the impact of this new standard.

Subsequent Events

Subsequent events were evaluated through March 22, 2023, which is the date the financial statements were issued.

2. INVENTORIES

Inventories consisted of the following at December 31:

	2022	2021
Raw materials and supplies	\$ 58,570	\$ 62,456
Work-in-process and finished goods	11,245	16,260
Maintenance and demo parts	54,743	70,529
Reserve for obsolescence	(24,186)	(28,930)
Total Inventories	\$ 100,372	\$ 120,315

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 2023.

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

	2022	2021
Total minimum lease payments to be received	\$ 700	\$ 3,880
Unearned revenue	(39)	(434)
Allowance for doubtful accounts	-	-
Net investment in sales-type leases	\$ 661	\$ 3,446

Future minimum lease payments to be received under these agreements at December 31, 2022 are as follows:

Year	Rental Payments
2023	\$ 700
Total minimum lease payments	\$ 700

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2022	2021
Equipment and furniture	\$ 1,270,605	\$ 1,292,809
Accumulated depreciation	(1,270,513)	(1,292,717)
Net property and equipment	\$ 92	\$ 92

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 for the Company's office and manufacturing facility. The leaseback transaction has been accounted for as an operating lease.

The Company leased the facility back from the buyer under a triple net lease which will expire on December 31, 2025. The lease requires monthly payments of \$4,500. The required monthly payments were not subject to an annual increase. The Company was 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 2020, a rent credit of \$362,000 was provided by the lessor to be recognized monthly over the term of the lease. Accordingly, the rent credit of \$362,000 was accrued, of which \$290,000 remained at December 31, 2022. The annual reduction of rent is \$36,000 for five years. The \$3,000 monthly credit results in net monthly rent payments of \$1,500 per month. In 2022 the amortization of the deferred rent credit was \$36,000, which is included as a reduction to general and administrative expenses on the statements of operations for 2022.

Total rent expense for 2022, 2021, and 2020 was \$18,000, \$18,000, and \$36,000.

Future minimum lease payments, prior to the application of the credit, at December 31, 2022, for the Waukesha facility are as follows:

Year	Rental Payments
2023	\$ 54,000
2024	54,000
2025	54,000
Total minimum lease payments	\$ 162,000

6. ACCRUED EXPENSES

Accrued expenses consist of the following at December 31:

	2022	2021
Accrued wages and benefits	\$ 30,376	\$ 33,402
Accrued retirement	10,436	20,907
Other accrued professional fees	11,250	8,850
Product compliance testing	4,750	7,150
Product warranty reserve	5,000	5,000
State and local sales tax accrual	3,423	2,643
Other accrued expenses	38,845	37,612
Total accrued expenses	\$ 104,080	\$ 115,564

7. INCOME TAXES

Income tax expense consists of the following:

	2022	2021	2020
Current:			
Federal	\$ -	\$ -	\$ -
State	-	-	-
Total current	-	-	-
Deferred	(50,000)	18,000	0
Benefit (generation) of net operating losses	(1,000)	(17,000)	(8,000)
Expiration of net operating losses	48,000	123,000	166,000
Adjustment to the net deferred tax asset			
Change in valuation reserve	3,000	(124,000)	(158,000)
Income tax expense (benefit)	\$ -	\$ -	\$ -

At December 31, 2022, the Company had federal net operating loss carryforwards of approximately \$771,000 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, 2022, the Company had state operating loss carryforwards of approximately \$836,000 that expire at various times through 2042. The carryforwards and credits, which expire in various years, are available to offset future federal taxable income and income taxes. The valuation reserve of \$324,000 and \$369,000 at December 31, 2022 and 2021, 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:

	2022	2021
Deferred tax assets:		
Excess of book over tax depreciation	\$ 0	\$ 0
Net operating loss carryforwards	212,000	259,000
Inventories	26,000	24,000
Allowance for doubtful accounts	3,000	3,000
Tax credits	83,000	83,000
Accrued charges and other	0	0
Total deferred tax assets	324,000	369,000
Net deferred tax asset before valuation reserve	324,000	369,000
Valuation reserve	(324,000)	(369,000)
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 7.5% as of December 31, 2022), 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, 2022 and 2021, the Company had borrowings of \$30,000 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 7.5% as of December 31, 2022). 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 \$14,227, \$9,420, and \$21,724, for the years ending December 31, 2022, 2021, and 2020, respectively.

As of December 31, 2022 and 2021, unpaid rent due to esitec, LLC totaled \$246,000 and \$201,000, 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. This matching contribution was suspended for 2022 and 2021. There were no additional discretionary contributions paid in 2022 or 2021.

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 2022, 2021, and 2020. Because no dividends were paid for three years, as of January 1, 2023, holders of Class A common stock are entitled to vote at the Company's 2023 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:

	2022	2021	2020
Numerator for basic and diluted earnings per share:			
Net loss	\$ (8,375)	\$ (40,707)	\$ (33,027)
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 per share:			
Class A common:			
Basic and diluted earnings per share	\$ (0.00)	\$ (0.02)	\$ (0.01)
Class B common:			
Basic and diluted earnings per share	\$ (0.00)	\$ (0.02)	\$ (0.01)

13. ENTERPRISE INFORMATION

The Company operates as one reportable segment.

14. COMPANY OPERATIONS

The use of working capital has been a result of the decrease in sales caused by lower customer demand for the Company's products and services. 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 discussed in Note 8 above. As of December 31, 2022, the Company had borrowings on this revolving credit facility of \$30,000. 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, 2022 and 2021, the Company accrued \$10,436 and \$20,907, respectively, of deferred compensation for one employee who retired in 2021.

Five Year Review of Selected Financial Data - Unaudited

For the Years Ended December 31,	2022	2021	2020	2019	2018
SUMMARY OF OPERATIONS:					
Net sales	\$ 355,269	\$ 370,641	\$ 400,571	\$ 527,508	\$ 566,755
Cost of products sold	209,494	184,557	201,286	267,688	259,926
Gross profit	145,775	186,084	199,285	259,820	306,829
General and administrative	100,492	106,036	107,972	111,518	121,572
Marketing and selling	28,878	27,528	30,420	39,227	39,850
Research and development	11,316	83,812	72,212	79,618	92,400
Other expense	(13,464)	(9,415)	(21,708)	(20,748)	(19,470)
Earnings (loss) before income taxes	(8,375)	(40,707)	(33,027)	8,709	33,537
Income taxes (benefit)	-	-	-	-	-
Net earnings (loss)	\$ (8,375)	\$ (40,707)	\$ (33,027)	\$ 8,709	\$ 33,537
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	\$ -	\$ (0.02)	\$ (0.01)	\$ -	\$ 0.01
Class B common	\$ -	\$ (0.02)	\$ (0.01)	\$ -	\$ 0.01
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)	\$ (0.22)	\$ (0.20)	\$ (0.19)	\$ (0.19)
Cash dividends paid per Class A share	\$ -	\$ -	\$ -	\$ -	\$ -
OTHER DATA:					
Working capital	\$ (298,741)	\$ (255,027)	\$ (507,105)	\$ (475,143)	\$ (425,377)
Current ratio	0.4	0.4	0.3	0.3	0.3
Total assets	\$ 170,126	\$ 170,600	\$ 176,602	\$ 223,156	\$ 233,695
Total long-term obligations	\$ -	\$ -	\$ -	\$ -	\$ -
Stockholders' deficit	\$ (552,649)	\$ (544,274)	\$ (503,567)	\$ (470,540)	\$ (479,249)
After tax return on sales	(2.4%)	(11.0%)	(8.2%)	1.7%	5.9%
Return on equity	(1.5%)	(7.5%)	(6.6%)	(1.9%)	(7.0%)

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

Quarterly Financial Data - Unaudited

	2022 Quarters				
	First	Second	Third	Fourth	Total
Net sales	\$ 78,802	\$ 82,676	\$ 75,953	\$ 117,838	\$ 355,269
Gross profit	28,471	26,736	30,362	60,206	145,775
Net earnings (loss)	(12,736)	(12,456)	(9,243)	26,060	(8,375)
Basic and diluted earnings (loss) per share:					
Class A common	(0.005)	(0.005)	(0.004)	0.010	(0.003)
Class B common	(0.005)	(0.005)	(0.004)	0.010	(0.003)
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	0.009	0.020	0.020	0.020	
Low	0.004	0.010	0.015	0.020	

	2021 Quarters				
	First	Second	Third	Fourth	Total
Net sales	\$ 88,127	\$ 95,967	\$ 88,977	\$ 97,570	\$ 370,641
Gross profit	31,706	46,023	36,002	72,353	186,084
Net earnings (loss)	(30,887)	(9,330)	(14,593)	14,103	(40,707)
Basic and diluted earnings (loss) per share:					
Class A common	(0.01)	(0.00)	(0.01)	0.01	(0.02)
Class B common	(0.01)	(0.00)	(0.01)	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	0.090	0.100	0.090	0.015	
Low	0.020	0.031	0.010	0.002	

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, 2023

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 8, 2023 there were approximately 290 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 <https://www.astfinancial.com>

email help@astfinancial.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

Bonita M. Danner, P. E., 1, 2, 3

Elizabeth Danner, 1, 3

Jonathan Danner, 1, 2, 3

Committee Assignments

1 -- Executive & Audit Committee

2 -- Compensation & Nomination Committee

3 -- Facilities Committee

Electronic Tele-Communication, Inc.
1915 MacArthur Road
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