

SUTRON CORP  
Form 10-Q  
May 17, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

IXI Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2010  
Commission file number: 0-12227

SUTRON CORPORATION

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(Name of small business issuer as specified in its charter)

VIRGINIA  
(State or other jurisdiction  
of incorporation or organization)

54-1006352  
(I.R.S. Employer  
Identification Number)

22400 Davis Drive, Sterling, Virginia 20164

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(Address of principal executive offices)

703-406-2800

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(Issuer's telephone number)

Securities registered under Section 12(g) of the Act: Common Stock, \$.01 par value

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

There were 4,570,632 outstanding shares of the issuer's only class of common equity, Common Stock, \$0.01 par value, on May 17, 2010.

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SUTRON CORPORATION  
FORM 10-Q QUARTERLY REPORT  
FOR THE QUARTER ENDED MARCH 31, 2010

TABLE OF CONTENTS

|          |  |    |
|----------|--|----|
| Part I   | Financial Information  |    |
| Item 1.  | Financial Statements   | 2  |
|          | Consolidated Balance Sheet as of March 31, 2010 and December 31, 2009                    | 3  |
|          | Consolidated Statements of Operations for the Three Months Ended March 31, 2010 and 2009 | 4  |
|          | Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2010 and 2009 | 5  |
|          | Notes to Consolidated Financial Statements   | 6  |
| Item 2.  | Management's Discussion and Analysis of Financial Condition and Results of Operations    | 9  |
| Item 3.  | Quantitative and Qualitative Disclosures About Market Risk                               | 13 |
| Item 4T. | Controls and Procedures  | 13 |
| Part II  | Other Information  |    |
| Item 1.  | Legal Proceedings  | 13 |
| Item 6.  | Exhibits   | 13 |
|          | Signatures   | 14 |

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

We recommend that you read the unaudited consolidated financial statements included herein in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on April 15, 2010. The consolidated financial statements contained therein included restatements of previously reported financial statements and related disclosures for the years ended December 31, 2008, 2007 and 2006, as well as the quarterly financial statements for the periods ended March 31, 2006 through September 30, 2009. All financial information contained herein related to such prior restated quarterly periods are "as restated".

## SUTRON CORPORATION

## CONSOLIDATED BALANCE SHEETS

|  | (Unaudited)<br>March 31,<br>2010 | (Audited)<br>December 31,<br>2009 |
|--|----------------------------------|-----------------------------------|
| <b>ASSETS</b>                                      |                                  |                                   |
| Current Assets:                                    |                                  |                                   |
| Cash and cash equivalents                          | \$6,381,609                      | \$4,666,983                       |
| Restricted cash and cash equivalents               | 1,641,806                        | 1,032,517                         |
| Accounts receivable, net                           | 5,520,973                        | 7,468,327                         |
| Inventory  | 3,236,240                        | 3,088,782                         |
| Prepaid items and other assets                     | 673,832                          | 206,338                           |
| Income taxes receivable                            | —                                | 70,695                            |
| Deferred income taxes                              | 435,000                          | 412,000                           |
| Total Current Assets                               | 17,889,460                       | 16,945,642                        |
| Property and Equipment, Net                        | 1,850,360                        | 1,884,876                         |
| Other Assets                                       |                                  |                                   |
| Goodwill   | 570,150                          | 570,150                           |
| Other Assets                                       | 119,523                          | 127,529                           |
| Total Assets                                       | \$20,429,493                     | \$19,528,197                      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>        |                                  |                                   |
| Current Liabilities:                               |                                  |                                   |
| Accounts payable                                   | \$1,234,683                      | \$1,064,425                       |
| Accrued payroll                                    | 483,624                          | 479,507                           |
| Other accrued expenses                             | 1,464,169                        | 1,470,477                         |
| Billings in excess of costs and estimated earnings | 392,591                          | —                                 |
| Total Current Liabilities                          | 3,575,067                        | 3,014,409                         |
| Long-Term Liabilities                              |                                  |                                   |
| Deferred rent                                      | 1,300,405                        | 1,335,176                         |
| Deferred income taxes                              | 132,000                          | 148,000                           |
| Total Long-term Liabilities                        | 1,432,405                        | 1,483,176                         |
| Total Liabilities                                  | 5,007,472                        | 4,497,585                         |
| Stockholders' Equity                               |                                  |                                   |
| Common stock                                       | 45,707                           | 45,707                            |
| Additional paid-in capital                         | 3,654,115                        | 3,635,659                         |
| Retained earnings                                  | 11,756,228                       | 11,422,485                        |
| Accumulated other comprehensive loss               | (34,029)                         | (73,239)                          |
| Total Stockholders' Equity                         | 15,422,021                       | 15,030,612                        |
| Total Liabilities and Stockholders' Equity         | \$20,429,493                     | \$19,528,197                      |

See accompanying notes.

## SUTRON CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|  | Three Months Ended March 31, |                    |
|--|------------------------------|--------------------|
|  | 2010                         | 2009<br>(Restated) |
| Net sales and revenues                       | \$4,899,840                  | \$3,575,031        |
| Cost of sales and revenues                   | 2,988,329                    | 2,230,909          |
| Gross profit                                 | 1,911,511                    | 1,344,122          |
| Operating expenses:                          |                              |                    |
| Selling, general and administrative expenses | 989,957                      | 1,036,372          |
| Research and development expenses            | 415,796                      | 359,089            |
| Total operating expenses                     | 1,405,753                    | 1,395,461          |
| Operating income (loss)                      | 505,758                      | (51,339 )          |
| Interest and other income, net               | 12,985                       | 172,493            |
| Income before income taxes                   | 518,743                      | 121,154            |
| Income tax expense                           | 185,000                      | 53,000             |
| Net income                                   | \$333,743                    | \$68,154           |
| Net income per share:                        |                              |                    |
| Basic income per share                       | \$0.07                       | \$0.01             |
| Diluted income per share                     | \$0.07                       | \$0.01             |

See accompanying notes.

## SUTRON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|  | Three Months Ended March 31, |                    |
|--|------------------------------|--------------------|
|  | 2010                         | 2009<br>(Restated) |
| Cash Flows from Operating Activities:                |                              |                    |
| Net income   | \$333,743                    | \$68,154           |
| Noncash items included in net income:                |                              |                    |
| Depreciation and amortization                        | 74,801                       | 45,000             |
| Deferred income taxes                                | (39,000 )                    | (13,000 )          |
| Stock option compensation                            | 18,456                       | 75,247             |
| Gain on disposal of property                         | —                            | (3,210 )           |
| Changes in current assets and liabilities:           |                              |                    |
| Accounts receivable                                  | 1,947,354                    | 379,863            |
| Inventory  | (147,458 )                   | 269,177            |
| Prepaid items and other assets                       | (459,487 )                   | 40,920             |
| Income taxes receivable                              | 70,695                       | (34,666 )          |
| Accounts payable                                     | 170,258                      | (464,966 )         |
| Accrued expenses                                     | (2,192 )                     | (63,205 )          |
| Billings in excess of costs and estimated earnings   | 392,591                      | (27,782 )          |
| Deferred Rent  | (34,771 )                    | —                  |
| Net Cash Provided by Operating Activities            | 2,324,990                    | 271,532            |
| Cash Flows from Investing Activities:                |                              |                    |
| Restricted cash and cash equivalents                 | (609,289 )                   | (145,128 )         |
| Purchase of property and equipment                   | (40,285 )                    | (114,373 )         |
| Proceeds from sales of property and equipment        | —                            | 3,210              |
| Net Cash Used by Investing Activities                | (649,574 )                   | (256,291 )         |
| Cash Flows from Financing Activities:                |                              |                    |
| Payments on notes payable                            | —                            | (2,765 )           |
| Net Cash Used by Financing Activities                | —                            | (2,765 )           |
| Effect of exchange rate changes on cash              | 39,210                       | (14,872 )          |
| Net increase (decrease) in cash and cash equivalents | 1,714,626                    | (2,396 )           |
| Cash and cash equivalents at beginning of period     | 4,666,983                    | 3,705,475          |
| Cash and cash equivalents at end of period           | \$6,381,609                  | \$3,703,079        |

See accompanying notes.

SUTRON CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Sutron Corporation (the "Company") was incorporated on December 30, 1975, under the General Laws of the Commonwealth of Virginia. The Company operates from its headquarters located in Sterling, Virginia. The Company has several branch offices located throughout the United States, a branch office in India and a wholly owned subsidiary in India. The Company is a leading provider of real-time data collection and control products, systems software and professional services in the hydrological, meteorological and oceanic monitoring markets. The Company's principal products include data loggers, satellite transmitters/loggers, water level and meteorological sensors, tides systems and system and application software. Customers consist of a diversified base of Federal, state, local and foreign government agencies, universities, engineering firms and hydropower companies.

The financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2009. The consolidated balance sheet as of December 31, 2009 was derived from the audited financial statements for the year then ended.

In the opinion of the Company, all adjustments necessary to present fairly the financial position of the Company and the results of its operations and its cash flows have been included in the accompanying financial statements. The results of operations for interim periods are not necessarily indicative of the expected results for the full year.

We recommend that you read the unaudited consolidated financial statements included herein in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed with the SEC on April 15, 2010. The consolidated financial statements contained therein included restatements of previously reported financial statements and related disclosures for the years ended December 31, 2008, 2007 and 2006, as well as the quarterly financial statements for the periods ended March 31, 2006 through September 30, 2009. All financial information contained herein related to such prior restated periods are "as restated".

2. Significant Accounting Policies

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These judgments are difficult as matters that are inherently uncertain directly impact their valuation and accounting. Actual results may vary from management's estimates and assumptions. The Company's significant accounting policies are disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission.

Stock Compensation

The Company's Amended and Restated 1996, 1997 and 2002 Stock Option Plans (the "Stock Option Plans") provide for the issuance of non-qualified stock options to employees, officers and directors. The plans are administered by the compensation committee of the Board of Directors which selects persons to receive awards and determines the

number of shares subject to each award and the terms, conditions, performance measures and other provisions of the award. See Note 15 of the Company's financial statements in its Annual Report on Form 10-K for the year ended December 31, 2009 for additional information related to the stock option plans.

The Company measures and recognizes compensation expense for all stock-based payments at fair value. The Company recognizes stock-based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. The financial statements for the three months ended March 31, 2010 recognize stock-based compensation costs for the portion of outstanding awards which have vested during the period. For the three months ended March 31, 2010, total stock-based compensation expense of \$18,456 was included in operating expenses as compared to stock-based compensation of \$75,247 for the three months ended March 31, 2009. There were no options granted during the three months ended March 31, 2010.

#### Recent Accounting Standards

The FASB issued ASU No. 2009-13, Revenue Recognition (Topic 605) – Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force. This ASU addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. The ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of ASU No. 2009-13 to have a material impact on its consolidated financial statements.

The FASB issued ASU No. 2009-14, Software (Topic 985) – Certain Revenue Arrangements That Include Software Elements – a consensus of the FASB Emerging Issues Task Force. The amendments in this ASU change the accounting model for revenue arrangements that include both tangible products and software elements. The ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of ASU No. 2009-14 to have a material impact on its consolidated financial statements.

The FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements. This ASU affects all entities that are required to make disclosures about recurring and nonrecurring fair value measurements under FASB ASC Topic 820, originally issued as FASB Statement No. 157, Fair Value Measurements. The ASU requires certain new disclosures and clarifies two existing disclosure requirements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company does not expect the adoption of ASU No. 2010-06 to have a material impact on its consolidated financial statements.

### 3. Stock Options

The Company has granted stock options under the Stock Option Plans to key employees and directors for valuable services provided to the Company. The vesting schedules are determined by the Board of Directors at the time each individual option is granted. Under the 1996 Plan, the Company authorized 260,000 shares, 259,000 of which have been granted. The Company authorized 60,000 shares under the 1997 Plan, all of which have been granted. Under the 2002 Stock Option Plan, the Company authorized 650,000 shares, 561,333 of which have been granted. Shares under all of the plans may be granted at not less than 100 percent of the fair market value at the grant date. All options have a ten-year term from the date of grant. Cancelled or expired options are able to be reissued. The following table summarizes stock option activity under the Stock Option Plans for the three months ended March 31, 2010:

|                             | Number<br>of Shares | Weighted Avg.<br>Exercise Price | Number of<br>Options Exercisable |
|-----------------------------|---------------------|---------------------------------|----------------------------------|
| Balance – December 31, 2009 | 589,252             | \$2.01                          | 553,786                          |
| Granted                     | —                   | —                               |                                  |
| Exercised                   | —                   | —                               |                                  |
| Canceled                    | —                   | —                               |                                  |
| Balance – March 31, 2010    | 589,252             | \$2.01                          | 567,485                          |

#### 4. Earnings Per Share

The following table shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of potential dilutive common stock.

|   | Three Months Ended March 31, |           |
|---|------------------------------|-----------|
|   | 2010                         | 2009      |
| Net income                                      | \$333,743                    | \$68,154  |
| Shares used in calculation of income per share: |                              |           |
| Basic   | 4,570,632                    | 4,570,632 |
| Effect of dilutive options                      | 427,157                      | 388,805   |
| Diluted   | 4,997,789                    | 4,959,437 |
| Net income per share:                           |                              |           |
| Basic   | \$.07                        | \$.01     |
| Diluted   | \$.07                        | \$.01     |

#### 5. Comprehensive Income (Loss)

The following table shows the computation of comprehensive loss income:

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2010                         | 2009     |
| Net income                               | \$333,743                    | \$68,154 |
| Other comprehensive income (loss):       |                              |          |
| Foreign currency translation adjustments | 39,210                       | (14,872) |
| Total comprehensive income               | \$372,953                    | \$53,282 |

Other comprehensive income (loss) is primarily comprised of gains and losses on the translation of foreign currency denominated financial statements. Adjustments resulting from these translations are accumulated and reported as a component of other comprehensive income (loss) in stockholders' equity section of the balance sheet.

#### 6. Subsequent Events

Subsequent events have been considered through the date when this Form 10-Q was issued. Based on the evaluation, the Company did not identify any subsequent events that would have required adjustment to or disclosure in the unaudited consolidated financial statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Statements made in this Quarterly Report on Form 10-Q, including without limitation this Management's Discussion and Analysis of Financial Condition and Operations, other than statements of historical information, are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may sometimes be identified by such words as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue" or similar words. We believe that it is important to communicate our future expectations to investors. However, these forward-looking statements involve many risks and uncertainties including those identified in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Our actual results could differ materially from those indicated in such forward-looking statements as a result of certain factors. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results.

### Overview

Our primary focus is to provide real-time systems solutions, including equipment, software, and services to our customers in the areas of hydrological, meteorological and oceanic monitoring. We design, manufacture and market these products and services to a diversified customer base consisting of federal, state, local and foreign governments, universities, engineering firms and hydropower companies. Our products and services enable these entities to monitor and collect hydrological, meteorological and oceanic data for the management of critical water resources, for early warning of potentially disastrous floods, storms or tsunamis, for the optimization of hydropower plants and for providing real-time weather conditions at airports.

Our key products are the SatLink2 Transmitter/Logger, the Xpert/XLite dataloggers, the Accububble Self-Contained Bubbler, the Accubar Pressure Sensor, and Tempest and XConnect systems software. These are the essential components of most systems and are provided to customers as off-the-shelf equipment or as part of a custom system. The SatLink2 is a key product because it functions both as a transmitter and logger. The Xpert and XLite are more powerful dataloggers that have significant more logging capability and communications options than the SatLink2. Our Tempest and XConnect systems software allow us to provide turn-key systems solutions to our customers.

Our Hydrological Services Division provides a variety of services including hydrologic modeling, flood and storm water management, river and stream analysis and equipment integration, installation, commissioning and maintenance. The principal customer of this division has been the South Florida Water Management District (SFWMD) which is a regional agency of the state of Florida that is charged with managing and protecting water resources in a 16 county area.

We are beginning fiscal year 2010 with a backlog of approximately \$11,908,000. We estimate that approximately 80% of our December 31, 2009 backlog will convert to revenue in 2010. We anticipate that we will continue to experience significant quarterly fluctuations in our sales and revenues in 2010. Operating results will depend upon the product mix and upon the timing of project awards.

International sales, which totaled 48% of revenues for 2009, continue to constitute a more significant portion of our revenues. We expect international revenues to grow as a percentage of our total business. International sales are however difficult to forecast and international awards are frequently delayed due to governmental approvals.

Our domestic business is highly dependent upon government business. Contracts and purchase orders with Federal, state and local government agencies represented approximately 45% of our 2009 revenues. Due to economic conditions in 2009, we believe that competition was more price-based and that some projects were delayed due to funding issues. We are closely following the federal economic stimulus plan spending. We believe that we will benefit from increased future spending on water resources projects from our federal and state customers.

We are committed to growing our hydrological services. We hope to sell more standard products through providing hydrological services which was a primary reason for setting up operations in Florida. We added the Ilex Division through our purchase of Ilex Engineering on December 31, 2008 and believe that Ilex will help us compete better in the GOES data collection services market and global satellite market.

We are committed in our ongoing sales, marketing and research and development activities to sustain and grow our sales and revenues from our products and services. We expect our sales and marketing, research and development and general and administrative expenses to increase moderately in 2010 as compared to 2009 due to planned spending on sales and marketing activities and on new products and applications.

#### Critical Accounting Policies and Estimates

The Company's discussion and analysis of financial condition and results of operations are based upon the financial statements, which have been prepared in accordance with generally accepted accounting principles as recognized in the United States of America. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, the valuation of inventory, and valuation of deferred tax assets and liabilities, useful lives of intangible assets, warranty obligations and accruals. We base our estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. For a complete description of accounting policies, see Note 2 to our financial statements included in the Company's Form 10-K for the year ended December 31, 2009. There were no significant changes in critical accounting estimates in the first quarter of 2010.

#### Results of Operations

The following table sets forth for the periods indicated the percentage of total revenues represented by certain items reflected in our statements of operations:

|  | Three Months Ended March 31, |   |       |   |
|--|------------------------------|---|-------|---|
|  | 2010                         |   | 2009  |   |
| Net sales and revenues                       | 100.0                        | % | 100.0 | % |
| Cost of sales and revenues                   | 61.0                         |   | 62.4  |   |
| Gross profit                                 | 39.0                         |   | 37.6  |   |
| Selling, general and administrative expenses | 20.2                         |   | 29.0  |   |
| Research and Development expenses            | 8.5                          |   | 10.0  |   |
| Operating income                             | 10.3                         |   | (1.4  | ) |
| Interest and other income                    | 0.3                          |   | 4.8   |   |
| Income before income taxes                   | 10.6                         |   | 3.4   |   |
| Income taxes (benefit)                       | 3.8                          |   | 1.5   |   |
| Net income                                   | 6.8                          | % | 1.9   | % |



Three months ended March 31, 2010 Compared to Three Months Ended March 31, 2009

#### Net Sales and Revenues

Revenues for the first quarter ended March 31, 2010 increased 37% to \$4,899,840 from \$3,575,031 in 2009. Net sales and revenues are broken down between sales of standard products and sales of systems and services. Standard products had a net sales and revenue increase of 39% to \$2,937,974 from \$2,118,575 in 2009 due primarily to increased shipments of standard products on the Company's contract with UTE Dominion-ADASA for a project in Venezuela and due to increased shipments to federal agencies. Net sales and revenues for systems and services increased 35% to \$1,961,866 from \$1,456,457 in 2009 due primarily to increased shipments of systems on the Company's contract with UTE Dominion-ADASA.

Overall domestic revenues increased 5% to \$2,257,745 in the first quarter of 2010 versus \$2,149,397 in 2009 while international revenues increased 85% to \$2,642,095 in the first quarter of 2010 versus \$1,425,634 in the same period in 2009. Customer orders or bookings in the first quarter of 2010 increased 57% to \$4,277,885 as compared to \$2,732,622 in the first quarter of 2009.

#### Cost of Sales and Revenues

Cost of sales as a percentage of revenues was 61% for the first quarter of 2010 as compared to 62% for the same period in 2009. Standard product cost of sales was approximately 56% in the first quarter of 2010 as compared to 50% in 2009. The increase was primarily due to a change in the product mix. Cost of sales for systems and services was 69% in the first quarter of 2010 as compared to 81% in the first quarter of 2009. The decrease was primarily due to increased project activity and sales volume and higher utilization of personnel.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to \$989,957 for the first quarter of 2010 from \$1,036,372 for the same period in 2009. Selling, general and administrative expenses as a percentage of revenues decreased to 20% for the first quarter of 2010 from 29% for the same period in 2009. The decrease was primarily due to lower agent commissions related to international sales and lower stock option compensation expenses.

#### Research and Development Expenses

Research and development expenses increased to \$415,796 for the first quarter of 2010 from \$359,089 for the same period in 2009. The increase was due to higher product development costs relating to increased product development activity. Our product development continues to focus on enhancements to our current products including our Satlink2 satellite transmitter/logger, our Xpert and XLite dataloggers, our water level sensors and tides systems. These are the primary components of hydro-meteorological and oceanic monitoring systems. We continue to invest in new products that we believe will improve our competitive position.

### Interest and Other Income, Net

Due to our cash position, we did not use our line of credit during the first quarter of 2010. We had interest income for the quarter ended March 31, 2010 of \$12,985 as compared to net interest income of \$19,283 for the quarter ended March 31, 2009. In 2007, we brought a lawsuit against our former Hydrological Services Vice President. We successfully settled the lawsuit in January 2009 in the amount of \$150,000. The settlement provided for the immediate payment of \$60,000. The remaining balance of \$90,000 was secured by a promissory note that requires monthly payments over a five year period including interest at 4%.

### Income Taxes

Income tax expense for the quarter ended March 31, 2010 was \$185,000 as compared to an income tax expense of \$53,000 for the quarter ended March 31, 2009. The provisions for income taxes represent an effective income tax rate of 36% in 2010 and an effective income tax rate of 44% in 2009.

### Liquidity and Capital Resources

Cash and cash equivalents were \$6,381,609 at March 31, 2010 compared to \$4,666,983 at December 31, 2009. Working capital increased to \$14,314,393 at March 31, 2010 compared with \$13,931,233 at December 31, 2009.

Net cash provided by operating activities was \$2,324,990 for the quarter ended March 31, 2010 as compared to net cash provided by operating activities of \$271,532 for the quarter ended March 31, 2009. The increase was due to significant collections on our December 31, 2009 accounts receivable balance during the first quarter of 2010.

Net cash used by investing activities was \$649,574 for the quarter ended March 31, 2010 as compared to net cash used by investing activities of \$256,291 for the quarter ended March 31, 2009. The increase is due to increased restricted cash related to bid and performance bonds.

Net cash used by financing activities was \$0 for the quarter ended March 31, 2010 as compared to net cash used by financing activities of \$2,765 for the quarter ended March 31, 2009. Cash used in 2009 was due to a reduction in the amount of term notes payable.

We have a revolving credit facility of \$3,000,000 with BB&T. We are permitted to borrow based on accounts receivable and inventory according to pre-established criteria. The credit facility expires on August 5, 2010 and is secured by substantially all assets of the Company. Borrowings bear interest at the bank's prime rate. During the first quarter of 2010, there were no borrowings on the line of credit.

We frequently bid on and enter into international contracts that require bid and performance bonds. At March 31, 2010 and December 31, 2009, a commercial bank had issued standby letters of credit in the amount of \$411,000 that served as either a bid or performance bond. The amount available to borrow under the line of credit was reduced by this amount.

Management believes that its existing cash resources, cash flow from operations and short-term borrowings on the existing credit line will provide adequate resources for supporting operations during fiscal 2010. Although there can be no assurance that our revolving credit facility will be renewed, management believes that, if needed, it would be able to find alternative sources of funds on commercially acceptable terms.



Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of the Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The Company's exposure to market risk has not changed materially since December 31, 2009.

Item 4T. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management (with the participation of our Chief Executive Officer and Chief Financial Officer) evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of March 31, 2010, the end of the fiscal period covered by this report on Form 10-Q. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in Internal Controls over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Various legal claims can arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on our financial statements. We have been named in a compensation claim under the Indian Anti-Trust Law that was filed in 2005 and is still pending before The Monopolies and Restrictive Trade Practices Commission in New Delhi, India. We believe that the case is unsubstantiated and do not anticipate any material losses.

Item 6. Exhibits

31.1 Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(a).

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).

32 Certification of the President and Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sutron Corporation  
(Registrant)

May 17, 2010  
Date

By: /s/ Raul S. McQuivey  
Raul S. McQuivey  
President and Chief Executive  
Officer  
(Principal Executive Officer)

May 17, 2010  
Date

By: /s/ Sidney C. Hooper  
Sidney C. Hooper  
Chief Financial Officer and Treasurer  
(Principal Accounting Officer)

