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SUTRON CORP
Form 10-Q
August 14, 2008

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

FORM 10-Q

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

For the quarterly period ended June 30, 2008

COMMISSION FILE NUMBER: 0-12227

SUTRON CORPORATION

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

VIRGINIA

54-1006352

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification Number)

21300 RIDGETOP CIRCLE, STERLING, VIRGINIA 20166

(Address of principal executive offices)

703-406-2800

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

Large accelerated filer

Accelerated Filer

Non-accelerated filer

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 4,555,632 outstanding shares of the issuer's only class of common

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equity, Common Stock, \$0.01 par value, on August 13, 2008.

Transitional Small Business Disclosure Format (check one): Yes Yes No

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SUTRON CORPORATION
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED JUNE 30, 2008

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUTRON CORPORATION

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CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | JUNE 30, 2008 | DECEMBER 31, 2007 |
|--|------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,633,235 | \$ 5,299,904 |
| Restricted cash and cash equivalents | 998,715 | 134,241 |
| Accounts receivable, net | 3,847,923 | 3,614,532 |
| Inventory | 4,243,773 | 4,114,014 |
| Prepaid items and other assets | 914,493 | 477,754 |
| Deferred income taxes | 327,000 | 312,000 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 13,965,139 | 13,952,445 |
| PROPERTY AND EQUIPMENT, AT COST | | |
| Accumulated depreciation and amortization | (1,952,406) | (1,845,486) |
| | ----- | ----- |
| Property and equipment, net | 483,865 | 579,282 |
| OTHER ASSETS | | |
| | 85,535 | 99,308 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 14,534,539 | \$ 14,631,035 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 896,213 | \$ 823,114 |
| Accrued payroll | 97,330 | 285,829 |
| Other accrued expenses | 593,890 | 995,123 |
| Notes payable - current | 11,053 | 38,381 |
| Billings in excess of costs and estimated earnings | 230,203 | 246,448 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 1,828,689 | 2,388,895 |
| LONG-TERM LIABILITIES | | |
| Notes payable, net of current maturities | 2,073 | 2,075 |
| Deferred income taxes | 61,000 | 84,000 |
| | ----- | ----- |
| TOTAL LONG-TERM LIABILITIES | 63,073 | 86,075 |
| | ----- | ----- |
| TOTAL LIABILITIES | 1,891,762 | 2,474,970 |
| | ----- | ----- |
| STOCKHOLDERS' EQUITY | | |
| Common stock | 45,557 | 45,257 |
| Additional paid-in capital | 2,741,362 | 2,694,416 |
| Retained earnings | 9,990,611 | 9,484,811 |
| Accumulated other comprehensive loss | (134,753) | (68,419) |
| | ----- | ----- |
| TOTAL STOCKHOLDERS' EQUITY | 12,642,777 | 12,156,065 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 14,534,539 | \$ 14,631,035 |
| | ===== | ===== |

See accompanying notes.

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SUTRON CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | THREE MONTHS ENDED JUNE 30, | |
|--|-----------------------------|--------------|
| | 2008 | 2007 |
| Net sales and revenues | \$ 4,025,016 | \$ 4,217,871 |
| Cost of sales and revenues | 2,685,418 | 2,572,703 |
| Gross profit | 1,339,598 | 1,645,168 |
| Operating expenses: | | |
| Selling, general and administrative expenses | 723,335 | 776,005 |
| Research and development expenses | 285,487 | 291,509 |
| Total operating expenses | 1,008,822 | 1,067,514 |
| Operating income | 330,776 | 577,654 |
| Interest income (expense), net | 26,107 | 26,752 |
| Income before income taxes | 356,883 | 604,406 |
| Income tax expense (benefit) | 98,000 | 210,000 |
| Net income | \$ 258,883 | \$ 394,406 |
| Net income per share: | | |
| Basic income per share | \$.06 | \$.09 |
| Diluted income per share | \$.05 | \$.08 |

See accompanying notes.

SUTRON CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| SIX MONTHS ENDED JUNE 30, | |
|---------------------------|------|
| 2008 | 2007 |

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| | | |
|--|--------------|--------------|
| Net sales and revenues | \$ 7,844,063 | \$ 7,364,615 |
| Cost of sales and revenues | 5,009,866 | 4,579,407 |
| | ----- | ----- |
| Gross profit | 2,834,197 | 2,785,208 |
| | ----- | ----- |
| Operating expenses: | | |
| Selling, general and administrative expenses | 1,604,583 | 1,617,118 |
| Research and development expenses | 576,243 | 584,861 |
| | ----- | ----- |
| Total operating expenses | 2,180,826 | 2,201,979 |
| | ----- | ----- |
| Operating income | 653,371 | 583,229 |
| Interest income (expense), net | 66,429 | 49,148 |
| | ----- | ----- |
| Income before income taxes | 719,800 | 632,377 |
| Income taxes | 214,000 | 199,000 |
| | ----- | ----- |
| Net income | \$ 505,800 | \$ 433,377 |
| | ===== | ===== |
| Net income per share: | | |
| Basic income per share | \$.11 | \$.10 |
| | ===== | ===== |
| Diluted income per share | \$.10 | \$.09 |
| | ===== | ===== |

See accompanying notes.

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SUTRON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | SIX MONTHS ENDED JUNE 30, | |
|--|---------------------------|------------|
| | 2008 | 2007 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 505,800 | \$ 433,377 |
| Noncash items included in net income: | | |
| Depreciation and amortization | 106,920 | 112,500 |
| Deferred income taxes | (38,000) | -- |
| Stock option compensation | 26,846 | 40,809 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | (233,391) | 2,309,146 |

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| | | |
|--|--------------|-------------|
| Inventory | (129,759) | (1,190,130) |
| Prepaid items and other assets | (422,966) | (200,679) |
| Accounts payable | 73,099 | (392,144) |
| Accrued expenses | (605,977) | (1,214,563) |
| | ----- | ----- |
| Net Cash Provided (Used) by Operating Activities | (717,428) | (101,684) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Restricted cash and cash equivalents | (864,474) | (811,690) |
| Purchase of property and equipment | (11,503) | (41,351) |
| | ----- | ----- |
| Net Cash Provided (Used) by Investing Activities | (875,977) | (853,041) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on notes payable | (27,330) | (28,264) |
| Proceeds from stock options exercised | 20,400 | 78,451 |
| | ----- | ----- |
| Net Cash Provided (Used) by Financing Activities | (6,930) | 50,187 |
| | ----- | ----- |
| Effect of exchange rate changes on cash | (66,334) | (6,247) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,666,669) | (910,785) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 5,299,904 | 1,539,032 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 3,633,235 | \$ 628,247 |
| | ===== | ===== |
| CASH PAID DURING THE PERIOD FOR: | | |
| Interest | \$ -- | \$ 40 |
| | ===== | ===== |

See accompanying notes.

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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 application software. Customers consist of a diversified base of Federal, state, local and foreign government agencies, universities and engineering 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 have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction

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with the financial statements and notes thereto included in the Company's Annual Report filed on Form 10-KSB for the year ended December 31, 2007. The condensed consolidated balance sheet as of December 31, 2007 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.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of condensed 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 condensed 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-KSB for the year ended December 31, 2007 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 13 of the Company's financial statements in its Annual Report on Form 10-KSB for the year ended December 31, 2007 for additional information related to the stock option plans.

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Effective January 1, 2007, the Company adopted SFAS No. 123R ACCOUNTING FOR STOCK BASED COMPENSATION (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS 123R is being applied on the modified prospective transition method and therefore the Company has not restated results for prior periods. The financial statements for the three months and six months ended June 30, 2008, recognize compensation cost for the portion of outstanding awards which have vested during the period. 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. For the three months and six months ended June 30, 2008, total stock-based compensation expense of \$12,228 and \$26,846 was included in operating expenses as compared to stock-based compensation of \$22,424 and \$40,809 for the three months and six months ended June 30, 2007. The weighted average fair value of options granted during the three months and six months ended June 30, 2008 was calculated using the Black-Scholes option pricing model with the following valuation assumptions and weighted average fair value as follows:

| | Periods Ended June 30, 2008 | |
|---------------------------------------|-----------------------------|------------|
| | Three Months | Six Months |
| Weighted average fair value of grants | \$7.50 | \$7.41 |

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| | | |
|-------------------------|-------|--------------|
| Expected volatility | 30% | 30% |
| Dividend yield | 0 | 0 |
| Risk-free interest rate | 3.92% | 3.92 - 5.16% |
| Expected term in years | 10.00 | 10.00 |

The volatility factor is based on the Company's historical stock price fluctuations. The Company has not, and does not intend to, issue dividends; therefore, the dividend yield assumption is 0. The Company applied the risk-free interest rate based on the U.S. Treasury yield in effect at the time of the grant. The expected term of the option is based on the contractual period of the options granted.

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. Under the 1996 Plan, the Company authorized 260,000 shares, 259,000 of which have been granted. As of December 31, 2004, the Company authorized 60,000 shares and 400,000 shares under the 1997 and 2002 Stock Option Plans, respectively, all of which have been granted. During 2005, the 2002 Stock Option Plan was amended to authorize 650,000 shares, 509,333 of which have been granted. In addition, all three plans were amended in 2005 to allow Directors to participate in the plan, and to provide that vesting schedules will be determined by the Board at the time each individual option is 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. Prior to the 2005 amendments, options vested ratably over five years on each anniversary date the option was granted. The Company elected to accelerate vesting of all outstanding options as of December 31, 2005, as permitted under the plans. 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 June 30, 2008:

| | Number of Shares | Weighted Avg. Exercise Price | Number of Options Exercisable |
|-----------------------------|---------------------|---------------------------------|-------------------------------------|
| Balance - December 31, 2007 | 583,252 | \$1.65 | 583,252 |
| Granted | 16,000 | 7.41 | ===== |
| Exercised | 30,000 | .68 | |
| Canceled | 10,000 | 7.63 | |
| Balance - June 30, 2008 | 559,252 | \$1.76 | 559,252 |

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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 June 30, | |
|------------|-----------------------------|------------|
| | 2008 | 2007 |
| Net income | \$ 258,883 | \$ 394,406 |

Shares used in calculation of income per share:

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| | | |
|----------------------------|-----------|-----------|
| Basic | 4,546,676 | 4,513,005 |
| Effect of dilutive options | 425,375 | 550,530 |
| | ===== | ===== |
| Diluted | 4,972,051 | 5,063,535 |
| | ===== | ===== |
| Net income per share: | | |
| Basic | \$.06 | \$.09 |
| | ===== | ===== |
| Diluted | \$.05 | \$.08 |
| | ===== | ===== |

| | Six Months Ended June 30, | |
|---|---------------------------|------------|
| | 2008 | 2007 |
| | ----- | ----- |
| Net income | \$ 505,800 | \$ 433,377 |
| | ===== | ===== |
| Shares used in calculation of income per share: | | |
| Basic | 4,539,168 | 4,506,932 |
| Effect of dilutive options | 434,206 | 554,264 |
| | ===== | ===== |
| Diluted | 4,973,374 | 5,061,196 |
| | ===== | ===== |
| Net income per share: | | |
| Basic | \$.11 | \$.10 |
| | ===== | ===== |
| Diluted | \$.10 | \$.09 |
| | ===== | ===== |

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. 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 REPORT ON QUARTERLY FORM 10-Q TO CONFORM THESE STATEMENTS TO ACTUAL RESULTS.

OVERVIEW

Our primary focus is to provide real-time systems solutions, including equipment and software, and services to our customers in the areas of hydrological monitoring and control, meteorological monitoring including airport weather systems, oceanic monitoring and hydrological services. We design, manufacture and market these products and services to a diversified customer base consisting of federal, state, local and foreign governments, universities and engineering 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, Xpert/XLite datalogger, Accububble Self-Contained Bubbler, Accubar Pressure Sensor, Tides Systems 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. Because of its logger/transmitter functionality, it is a cost-effective solution for small systems that do not require a significant number of sensors or communications options. The Xpert and XLite are more powerful dataloggers that have more logging capability and more communications options than the SatLink2. Our Tides Systems are used by the National Ocean Survey in their network of approximately 225 stations in operation in the United States and its territories.

We anticipate that we will experience significant quarterly fluctuations in our sales and revenues which is not a fiscal year 2008 issue but historically reflective of our business. Operating results will depend upon the product mix and upon the timing of project awards. International sales, which totaled 40% of revenues for fiscal year 2007, continue to constitute a significant portion of our revenues. We are aware of many significant international opportunities and 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 the governmental approval process. We are committed to expanding our airport weather systems although we are relatively new in this market and compete against established firms with more experience. We are also committed to growing our hydrological services business, however, our primary customer in Florida has expanded the pool of qualified contractors on all major contracts. We therefore might receive lower contract amounts in 2008 due to the expanded list of qualified contractors. 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 2008 as compared to 2007.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of financial condition and results of operations are based upon the condensed 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 1 to our financial statements included in the Company's Form 10-KSB for the year ended December 31, 2007. There were no significant changes in critical accounting estimates

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:

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| | Three Months Ended June 30, | |
|--|--------------------------------|--------|
| | 2008 | 2007 |
| Net sales and revenues | 100.0% | 100.0% |
| Cost of sales and revenues | 66.7 | 61.0 |
| Gross profit | 33.3 | 39.0 |
| Selling, general and administrative expenses | 18.0 | 18.4 |
| Research and Development expenses | 7.1 | 6.9 |
| Operating income | 8.2 | 13.7 |
| Interest income | .6 | .6 |
| Income before income taxes | 8.8 | 14.3 |
| Income taxes (benefit) | 2.4 | 5.0 |
| Net income | 6.4% | 9.3 |

THREE MONTHS ENDED JUNE 30, 2008 COMPARED TO THREE MONTHS ENDED JUNE 30, 2007

NET SALES AND REVENUES

Consolidated revenues for the three months ended June 30, 2008 decreased 5% to \$4,025,016 from \$4,217,871 in 2007 due to decreased domestic revenues. Net sales and revenues are broken down between the Company's operating divisions or profit centers which include the HydroMet Products Division, the Integrated Services Division which includes Special Projects, the Hydrological Services Division, Airport Weather Systems Division and Sutron India Operations.

The HydroMet Products Division, which is responsible for sales of standard products, had net sales and revenue of \$2,260,159 as compared to \$2,248,410 in 2007. Integrated Systems net sales and revenues increased 28% to \$1,223,639 from \$955,239 in 2007 primarily due to increased contract revenue from the Company's project with the Afghanistan Ministry of Energy and Water to provide 174 hydrological monitoring stations. Net sales and revenues from Hydrological Services decreased 14% to \$486,266 from \$568,437 in 2007 due a decrease in project work orders from the South Florida Water Management District. Airport Weather Systems did not have sales and revenue in the second quarter of 2008 as compared to \$75,425 in 2007. Sutron India Operations net sales and revenue decreased to \$54,952 in 2008 from \$370,360 in 2007 due to decreased project revenues as a contract with the Central Water Commission of India for the installation of 168 Hydro-Met stations and 12 Modeling Centers has been installed and commissioned and is now in its warranty period.

Overall domestic revenues decreased 13% to \$2,892,415 in the second quarter of 2008 versus \$3,316,025 in 2007 due to decreased sales of standard products and to decreased Integrated Systems and Hydrological Services project activity. International revenues increased 25% to \$1,132,601 in 2008 versus \$901,846 in 2007 due to increased sales of standard products and to increased revenue from our contract with the Ministry of Energy and Water in Afghanistan.

Customer orders or bookings in the second quarter of 2008 were \$2,389,000 as compared to \$12,742,000 in the second quarter of 2007.

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COST OF SALES AND REVENUES

Cost of sales as a percentage of revenues was 66.7% for the quarter ended June 30, 2008 as compared to 61.0% for the quarter ended June 30, 2007. The increase in cost of sales was primarily due to lower margins on projects in 2008 as compared to 2007.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased to \$723,335 for the quarter ended June 30, 2008 from \$776,005 for the quarter ended June 30, 2007. Selling, general and administrative expenses as a percentage of revenues decreased to 18% for the quarter ended June 30, 2008 from 18.4%. The decrease is primarily due to lower legal fees relating to our lawsuit against our former Vice President to recover revenue that we believe was improperly diverted.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses decreased to \$285,487 for the quarter ended June 30, 2008 from \$291,509 for the quarter ended June 30, 2007. Our product development continues to focus on enhancements to our current principal products including our Satlink2 satellite transmitter/logger, our Xpert and XLite dataloggers and our sensors including our radar water level sensor. These are the primary components of hydrometeorological and oceanic monitoring systems. We also began production of the Company's first datalogger under \$1,000, the Monitor. We expect the Monitor to assist the Company is winning new projects due to its functionality and low cost.

INTEREST INCOME AND EXPENSE, NET

Due to the Company's cash position, the Company did not use its line of credit during the second quarter of 2008. The Company had interest income for the quarter ended June 30, 2008 of \$26,107 as compared to interest income of \$26,752 for the quarter ended June 30, 2007.

INCOME TAXES

Income tax expense for the quarter ended June 30, 2008 was \$98,000 as compared to income taxes of \$210,000 for the quarter ended June 30, 2007. The provisions for income taxes represent an effective income tax rate of 27% in 2008 and 35% in 2007. The lower effective tax rate in 2008 is due to the exercise of non-qualified stock options that were fully vested prior to 2006 resulting in tax deductible compensation.

SIX MONTHS ENDED JUNE 30, 2008 COMPARED TO SIX MONTHS ENDED JUNE 30, 2007

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

| | Six Months Ended June 30, | |
|--|------------------------------|--------|
| | 2008 | 2007 |
| Net sales and revenues | 100.0% | 100.0% |
| Cost of sales and revenues | 63.9 | 62.2 |
| Gross profit | 36.1 | 37.8 |
| Selling, general and administrative expenses | 20.5 | 22.0 |

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| | | | |
|-----------------------------------|-------|-------|--|
| Research and Development expenses | 7.3 | 7.9 | |
| | ----- | ----- | |
| Operating income | 8.3 | 7.9 | |
| | ----- | ----- | |
| Interest (income) expense | .9 | .7 | |
| | ----- | ----- | |
| Income before income taxes | 9.2 | 8.6 | |
| Income taxes (benefit) | 2.7 | 2.7 | |
| | ----- | ----- | |
| Net income | 6.5% | 5.9% | |
| | ===== | ===== | |

NET SALES AND REVENUES

The Company's net sales and revenues for the six months ended June 30, 2008 increased 6.5% to \$7,844,063 from \$7,364,615 in 2007. Net sales and revenues are broken down between the Company's operating divisions or profit centers which include the HydroMet Products Division, the Integrated Services Division which includes Special Projects, the Hydrological Services Division, Airport Weather Systems Division and Sutron India Operations.

The HydroMet Products Division had a revenue increase of 2% to \$4,390,980 in 2008 from \$4,298,659 in 2007. Integrated Systems Division revenues increased 36% to \$2,218,340 from \$1,630,136 in 2007 due to increased international project revenues. Revenues from the Hydrological Services Division decreased 18% to \$801,842 in 2008 from \$980,198 in 2007 due to decreased project activity. Airport Weather Systems Division revenues increased to \$265,511 in 2008 as compared to \$75,425 in 2007 as the division shipped four systems to the Southern Airport Authority of Vietnam as compared to one system shipped in 2007 to the Netherlands Antilles. Sutron India Operations had a net sales and revenue decrease of 56% to \$167,390 in 2008 from \$380,197 in 2007 due to the Central Water Commission (CWC) of India contract being near completion.

Overall domestic revenues decreased 12% to \$5,011,098 in 2008 versus \$5,687,038 in 2007 due to decreased sales of standard products and to decreased Integrated Systems and Hydrological Services project activity. International revenues increased 69% to \$2,832,965 in 2008 versus \$1,677,577 in 2007 due to increased sales of standard products and to increased revenue from our contract with the Ministry of Energy and Water in Afghanistan.

Customer orders or bookings for the six months ended June 30, 2008 were approximately \$4,886,000 as compared to approximately \$15,804,000 in the first six months of 2007. The Company's backlog of orders at June 30, 2008 was approximately \$7,737,000 as compared with approximately \$15,708,000 as of June 30, 2007. The Company anticipates that approximately 55% of its backlog as of June 30, 2008 will be shipped in 2008.

COST OF SALES AND REVENUES

Cost of sales as a percentage of revenues was 63.9% in 2008 as compared to 62.2% in 2007. Project and services activity increased in 2008 over project and services activity in 2007. Due to projects normally carrying smaller margins than standard product sales, cost of sales increased in 2008 as compared to 2007. We continue to focus on improving operations and seeking manufacturing efficiencies. Management has focused in particular on improving the operations of its Hydrological Services Division and Sutron India Operations. The Hydrological Services Division has reduced its headcount by two employees and is moving into smaller and less costly office and warehouse space effective

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September 1, 2008. Sutron India Operations has reduced its headcount by 11 employees as a result of the CWC contract being near completion.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$1,604,583 in 2008 as compared to \$1,617,118 in 2007, a decrease of \$12,535 or 1%. Selling, general and administrative expenses as a percentage of revenues decreased to 20.5% for the six months ended June 30, 2008 from 22%.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses decreased to \$576,243 in 2008 from \$584,861 in 2007. Research and development expenses as a percentage of revenues decreased to 7.3% for the six months ended June 30, 2008 from 7.9%. Product development is focused on enhancements to our current principal products including our Satlink2 satellite transmitter/logger, our Xpert and XLite dataloggers and our sensors including our radar water level sensor.

INTEREST INCOME AND EXPENSE, NET

Due to the Company's cash position, the Company did not use its line of credit during the six months ended June 30, 2008. The Company had net interest income in 2008 of \$66,429 as compared to net interest income of \$49,148 in 2007.

INCOME TAXES

Income taxes increased 8% in 2008 to \$214,000 from \$199,000 in 2007. The provisions for income taxes represent an effective income tax rate of 30% in 2008 and 31% in 2007.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$3,633,235 at June 30, 2008 compared to \$5,299,904 at December 31, 2007. Working capital increased to \$12,136,450 at June 30, 2008 compared with \$11,563,550 at December 31, 2007.

Net cash used by operating activities was \$717,428 for the six months ended June 30, 2008 as compared to cash used by operating activities of \$101,684 for the six months ended June 30, 2007.

Net cash used by investing activities was \$875,977 for the six months ended June 30, 2008 as compared to cash used by investing activities of \$853,041 for the six months ended June 30, 2007. Restricted cash in 2008 is related to a performance bond issued to the Ministry of Energy and Water in Afghanistan. In 2007, restricted cash was related to a bank guarantee for the Central Water Commission of India.

Net cash used by financing activities was \$6,930 for the six months ended June 30, 2008 as compared to net cash provided by financing activities of \$50,187 for the six months ended June 30, 2007. The decrease is due to employee stock options proceeds being down in 2008 as compared to 2007.

We have a revolving credit facility of \$3,000,000 with BB&T Bank. We are permitted to borrow based on accounts receivable and inventory according to pre-established criteria. The credit facility expires on August 5, 2009 and is secured by substantially all assets of the Company. Borrowings bear interest at the bank's prime rate. During the first six months ended of 2008, there were no borrowings on the line of credit.

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We frequently bid on and enter into international contracts that require bid and performance bonds. At June 30, 2008 and December 31, 2007, a commercial bank had issued standby letters of credit in the

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amounts of \$1,057,080 and \$1,652,818, respectively that served as either bid or performance bonds. The amount available to borrow under the line of credit was reduced by these amounts.

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 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

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 June 30, 2008, 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 control over financial reporting that occurred during the six months ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control 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. Management believes that the case is without foundation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

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On May 14, 2008, an Annual Meeting of Shareholders of Sutron Corporation was held. Directors elected at the meeting were Raul S. McQuivey, Daniel W. Farrell, Robert F. Roberts, Jr., Andrew D. Lipman and Leland R. Phipps. Thompson, Greenspon & Co., P.C. was appointed as independent accountants for 2008. The election of directors and the appointment of the independent accountants were the only matters

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voted upon at the meeting. The number of shares eligible to vote at the meeting was 4,530,632. The results of the voting on these matters are shown below.

1. Election of Directors

| Name | Votes For | Votes Withheld |
|------------------------|-----------|----------------|
| Raul S. McQuivey | 3,870,259 | 255,434 |
| Daniel W. Farrell | 3,871,389 | 254,304 |
| Robert F. Roberts, Jr. | 4,086,700 | 38,993 |
| Andrew D. Lipman | 4,086,700 | 38,993 |
| Leland R. Phipps | 4,086,700 | 38,993 |

2. Appointment of Thompson, Greenspon & Co., P.C. as Independent Accountants.

| For | Against | Abstain |
|-----------|---------|---------|
| 4,114,365 | 2,530 | 8,800 |

ITEM 5. OTHER INFORMATION

On July 19, 2008, Thomas N. Keefer, Ph.D., age 63, resigned as Secretary of Sutron Corporation and as an employee of the Company. He joined the Company in January 1977, as a Project Engineer and served as the Vice President of the Water Resources Division and the Integrated Systems Division from 1981 to 1997. Dr. Keefer served as Vice President of Software Support Services since 1997. He will continue to work for the Company on a part-time basis as a consultant.

On July 31, 2008, the Board approved Mr. Sidney C. Hooper, age 50, as Secretary. Mr. Hooper currently serves as the Company's Chief Financial Officer and Treasurer. Mr. Hooper's bio is contained in the Company's Definitive Proxy Statement as filed on April 15, 2008.

ITEM 6. EXHIBITS

- 10.2 Stock Option Agreement between The Company and Andrew D. Lipman dated May 14, 2008
- 10.3 Stock Option Agreement between The Company and Robert F. Roberts, Jr. dated May 14, 2008
- 10.4 Stock Option Agreement between The Company and Leland R. Phipps dated May 14, 2008
- 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.

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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)

August 14, 2008

Date

/s/ Raul S. McQuivey

Raul S. McQuivey
President and Chief Executive Officer
(Principal Executive Officer)

August 14, 2008

Date

/s/ Sidney C. Hooper

Sidney C. Hooper
Chief Financial Officer and Treasurer
(Principal Accounting Officer)

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