SUTRON CORP
Form 10QSB
November 14, 2007

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

FORM 10-QSB

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

For the quarterly period ended September 30, 2007

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 |X| No |_|

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

There were 4,515,632 outstanding shares of the issuer's only class of common equity, Common Stock, $0.01 par value, on September 30, 2007.

Transitional Small Business Disclosure Format (check one): Yes [_] No [X]

SUTRON CORPORATION
FORM 10-QSB QUARTERLY REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 2007

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUTRON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	SEPTEMBER 30, 2007	DECEMBER 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,583,293	$ 1,539,032
Restricted cash and cash equivalents	57,251	138,233
Accounts receivable	6,371,583	6,835,751
Inventory	4,517,455	3,402,017
Prepaid items and other assets	619,180	530,720
Deferred income taxes	314,000	333,000
Total current assets	14,462,762	12,778,753
PROPERTY AND EQUIPMENT, AT COST	3,449,411	3,361,159
Less: Accumulated depreciation and amortization	(2,909,691)	(2,740,941)
Property and equipment, net	539,720	620,218
OTHER ASSETS	102,024	50,576
TOTAL ASSETS	$15,104,506	$13,449,547

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,764,201	$ 1,398,285
Accrued payroll	257,911	317,974
Other accrued expenses	1,165,225	1,506,950
Notes payable - current	41,209	50,722
Total current liabilities	3,228,546	3,273,931
LONG-TERM LIABILITIES		
Notes payable, net of current maturities	6,232	37,678
Deferred income taxes	101,000	129,000
TOTAL LONG-TERM LIABILITIES	107,232	166,678
TOTAL LIABILITIES	3,335,778	3,440,609
STOCKHOLDERS' EQUITY		
Common stock	45,157	44,946
Additional paid-in capital	2,697,141	2,559,281
Retained earnings	9,069,590	7,417,878
Accumulated other comprehensive (loss) income	(43,160)	(13,167)
TOTAL STOCKHOLDERS' EQUITY	11,768,728	10,008,938
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$15,104,506	$13,449,547

See accompanying notes.

SUTRON CORPORTION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2007	2006
NET SALES AND REVENUES	$6,607,220	$4,783,365
Cost of sales and revenues	3,516,248	3,271,071
GROSS PROFIT	3,090,972	1,512,294
Operating expenses:		
Selling, general and administrative expenses	806,463	668,572
Research and development expenses	355,842	286,497
Total operating expenses	1,162,305	955,069
OPERATING INCOME	1,928,667	557,225
Interest income (expense), net	24,668	26,466

INCOME BEFORE INCOME TAXES	1,953,335	583,691
Income tax expense (benefit)	735,000	213,000
NET INCOME	$1,218,335	$ 370,691
NET INCOME PER SHARE:		
Basic income per share	$ .27	$ .09
Diluted income per share	$ .24	$ .07

See accompanying notes.

SUTRON CORPORTION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 2007	2006
NET SALES AND REVENUES	$13,971,836	$13,280,647
Cost of sales and revenues	8,095,655	8,287,681
GROSS PROFIT	5,876,181	4,992,966
Operating expenses:		
Selling, general and administrative expenses	2,423,581	2,168,943
Research and development expenses	940,704	1,018,226
Total operating expenses	3,364,285	3,187,169
OPERATING INCOME	2,511,896	1,805,797
Interest income (expense), net	73,816	52,065
INCOME BEFORE INCOME TAXES	2,585,712	1,857,862
Income taxes	934,000	619,000
NET INCOME	$ 1,651,712	$ 1,238,862
NET INCOME PER SHARE:		
Basic income per share	$ .37	$ .29
Diluted income per share	$ .33	$ .25

See accompanying notes.

SUTRON CORPORTION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,651,712	$ 1,238,862
Noncash items included in net income:		
Depreciation and amortization	168,750	180,000
Stock option compensation	59,620	21,316
Deferred income taxes	(9,000)	(29,000)
Changes in current assets and liabilities:		
Accounts receivable	464,168	(2,256,029)
Inventory	(1,115,438)	(879,441)
Prepaid items and other assets	(139,908)	227,438
Accounts payable	365,916	451,653
Accrued expenses	(401,788)	486,561
Net Cash Provided (Used) by Operating Activities	1,044,032	(558,640)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash and cash equivalents	80,982	106,817
Purchase of property and equipment	(88,252)	(117,843)
Net Cash Provided (Used) by Investing Activities	(7,270)	(11,026)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(40,959)	(38,082)
Proceeds from stock options exercised	78,451	16,570
Net Cash Provided (Used) by Financing Activities	37,492	(21,512)
Effect of exchange rate changes on cash	(29,993)	3,168
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,044,261	(588,010)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,539,032	1,861,627
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,583,293	$ 1,273,617
CASH PAID DURING THE PERIOD FOR:		
Interest	$ 40	$ 2,210
Income taxes paid (received)	$ 479,963	$ 474,566

See accompanying notes

SUTRON CORPORATION
NOTES TO FINANCIAL STATEMENTS

(UNAUDITED)

SEPTEMBER 30, 2007

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 sales 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 systems 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 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, 2006. The condensed consolidated balance sheet as of December 31, 2006 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, 2006 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, 2006 for additional information related to the stock option plans.

Effective January 1, 2006, 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 nine months ended September 30, 2007 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 and nine months ended September 30, 2007, total stock-based compensation expense of $18,811 and $59,620 was included in operating expenses as compared to stock-based compensation of $11,006 and $21,316 for the three and nine months ended September 30, 2006. The weighted average fair value of options granted during the three months and nine months ended September 30, 2007 was calculated using the Black-Scholes option pricing model with the following valuation assumptions and weighted average fair value as follows:

	Periods Ended September 30, 2007	
	Three Months	Nine Months
Weighted average fair value of grants	$7.60	$7.06
Expected volatility	30%	30%
Dividend yield	0	0
Risk-free interest rate	5.16%	4.50%
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, 503,333 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 nine months ended September 30, 2007:

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	Number of Shares	Weighted Avg. Exercise Price	Number of Options Exercisable
Balance - December 31, 2006	554,333	$1.13	554,333
Granted	65,000	7.06	
Exercised	21,081	3.72	
Canceled	5,000	7.60	
Balance - September 30, 2007	593,252	$1.51	593,252

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 September 30, 2007	2006
Net income	$1,218,335	$370,691
Shares used in calculation of income per share:		
Basic	4,515,632	4,319,551
Effect of dilutive options	554,367	654,925
Diluted	5,069,999	4,974,476
Net income per share:		
Basic	$.27	$.09
Diluted	$.24	$.07

	Nine Months Ended September 30, 2007	2006
Net income	$1,651,712	$1,238,862
Shares used in calculation of income per share:		
Basic	4,509,864	4,309,002
Effect of dilutive options	554,367	654,925
Diluted	5,064,231	4,963,927
Net income per share:		
Basic	$.37	$.29
Diluted	$.33	$.25

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

STATEMENTS MADE IN THIS REPORT ON FORM 10-QSB, 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 FORM 10-QSB 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 monitoring and control, meteorological monitoring including airport weather systems 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 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 dataloggers, 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. It is a price-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 significantly more logging capability and communications options than the SatLink2. Our Tides Systems are the only National Ocean Survey approved tides monitoring system in the United States.

We are a project driven company and our operating results vary significantly by quarter. We anticipate that we will continue to experience significant quarterly fluctuations in our revenues due to the timing of significant project awards that are difficult to project. Operating results will depend not only upon the timing of project awards but also upon the mix of products and services. International sales constitute a significant portion of our revenues, but are difficult to project. We are aware of many significant international opportunities. We expect international revenues to grow as a percentage of our total business. We expect our sales and marketing, research and development and general and administrative expenses to increase moderately in 2007 as compared to 2006.

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, 2006. There were no significant changes in critical accounting estimates

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2006

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 September 30,			
	2007	2007	2006	2006
Net sales and revenues	$6,607,220	100.0%	$4,783,365	100.0%
Cost of sales and revenues	3,516,248	53.2	3,271,071	68.4
Gross profit	3,090,972	46.8	1,512,294	31.6
Selling, general and administrative expenses	806,463	12.2	668,572	14.0
Research and development expenses	355,842	5.4	286,497	6.0
Operating income	1,928,667	29.2	557,225	11.6
Interest (income) expense	24,668	.4	26,466	.6
Income before income taxes	1,953,335	29.5	583,691	12.2
Income taxes (benefit)	735,000	11.1	213,000	4.4
Net income	$1,218,335	18.4%	$ 370,691	7.8%

NET SALES AND REVENUES

The Company's net sales and revenues for the three months ended September 30, 2007 increased 38% to $6,607,220 from $4,783,365 in 2006 due to increased international revenues. Overall domestic revenues decreased 19% to $2,903,386 in the third quarter of 2007 versus $3,598,055 in 2006 while international revenues increased 212% to $3,703,834 in 2007 versus $1,185,310 in 2006, primarily due to increased revenue from shipments of water level monitoring equipment totaling approximately $956,000 to customers in China for the Three Gorges Dam project and from shipments of water level, snow, rainfall and water quality monitoring equipment totaling approximately $2,223,000 to Washington International Group for to the Iraq Ministry of Water Resources. 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 a net sales and revenue increase of 40% to $3,183,025 from $2,281,695 in 2006. Standard product revenues were higher in 2007 due to the shipments to China for the Three Gorges Dam project. Integrated Systems Division net sales and revenues increased 60% to $2,592,340 from $1,615,343 in 2006 due primarily to the supply of equipment to Washington International Group for the Iraq Ministry of Water Resources. Net sales and revenues from the Hydrological Services Division increased 39% to $644,861 from $463,254 in 2006 due to an increase in project deliveries. Airport Weather Systems Division net sales and revenues were $0 for the third quarters of both 2007 and 2006. Sutron India Operations had a net sales and revenue decrease of 56% to $186,994 from $423,073 in 2006 due to the Central Water Commission (CWC) of India contract being near completion.

Customer orders for the third quarter of 2007 were approximately $4,886,000 as compared to approximately $6,187,000 in 2006.

COST OF SALES AND REVENUES

Cost of sales as a percentage of revenues was 53.2% for the quarter ended September 30, 2007 as compared to 68.4% for the quarter ended September 30, 2006. The decrease in cost of sales is attributed to changes in the product mix that resulted in higher equipment sales and decreased project work. The shipments to China for the Three Gorges Dam project and to Washington International Group had high

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content of standard products. In 2006, the Company had higher costs of sales due to project work with higher labor content including contracts with the Central Water Commission of India and Prime Controls. Cost of sales for both 2007 and 2006 include provisions for inventory obsolescence, physical inventory adjustments and inventory valuation adjustments. The Company continually pursues product cost reductions through continual review of procurement sourcing, product value engineering and improvements in manufacturing processes.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased to $806,463 in 2007 from $668,572 in 2006, an increase of $137,891 or 21%. The Company experienced increases in selling and marketing activities due to the addition of two new domestic salesmen who were not with the Company in the prior year, in legal costs due to a lawsuit which the Company has filed against its former Vice President of the Hydrological Services Division and another former employee and in letter of credit costs due to a performance bond that was provided to the Afghanistan Ministry of Energy and Water as a performance security on the contract.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased to $355,842 in 2007 from $286,497 in 2006, an increase of $69,345 or 24%. Product development expenses increased in 2007 due to higher costs relating to the development of several new products and the release of the new Radar Level Recorder and Continuous Flow Bubbler. Dataloggers and water level sensors are the primary components of hydro-meteorological systems and we are continuously improving these products as well as developing new products in order to maintain and improve our competitive position.

INTEREST INCOME AND EXPENSE, NET

Due to the Company's cash position, the Company did not use its line of credit during the third quarter of 2007. The Company had net interest income in 2007 of $24,668 as compared to net interest income of $26,466 in 2006.

INCOME TAXES

Income taxes increased 245% in 2007 to $735,000 from $213,000 in 2006. Taxes as a percentage of revenue were 11.1% in 2007 as compared to 4.4% in 2006. The provisions for income taxes represent effective tax rates of approximately 37.6% in 2007 and 36.5% in 2006, respectively.

NINE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2006

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

	Nine Months Ended September 30,			
	2007	2007	2006	2006
Net sales and revenues	$13,971,836	100.0%	$13,280,647	100.0%
Cost of sales and revenues	8,095,655	57.9	8,287,681	62.4
Gross profit	5,876,181	42.1	4,992,996	37.6
Selling, general and administrative expenses	2,423,581	17.4	2,168,943	16.3
Research and Development expenses	940,704	6.7	1,018,226	7.7
Operating income	2,511,896	18.0	1,805,797	13.6
Interest (income) expense	73,816	.5	52,065	.4
Income before income taxes	2,585,712	18.5	1,857,862	14.0
Income taxes (benefit)	934,000	6.7	619,000	4.7
Net income	$ 1,651,712	11.8%	$ 1,238,862	9.3%

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NET SALES AND REVENUES

The Company's net sales and revenues for the nine months ended September 30, 2007 increased 5% to $13,971,836 from $13,280,647 in 2006. Overall domestic revenues increased 2% to $8,590,425 in 2007 versus $8,396,937 in 2006 while international revenues increased 10% to $5,381,411 in 2007 versus $4,883,710 in 2006. 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 32% to $7,450,797 from $5,647,001 in 2007 due to an increase due to increased domestic shipments of SatLink2 Transmitter/Loggers, Water Level Sensors and Accessories and due to the shipment of water level monitoring stations to China for the Three Gorges Dam project. Integrated Systems Division revenues decreased 3% to $4,222,476 from $4,342,294 in 2006 due to decreased domestic project revenues that were partially offset by higher international project revenues. Revenues from the Hydrological Services Division decreased 12.8% to $1,625,059 from $1,864,540 in 2006 due to decreased project activity. Airport Weather Systems Division revenues decreased to $75,425 in 2007 as compared to $114,985 in 2006. Sutron India Operations had a net sales and revenue decrease of 54% to $598,080 from $1,311,826 in 2006 due to the Central Water Commission (CWC) of India contract being near completion and major contract expenditures being completed in prior periods.

Customer orders or bookings for 2007 were approximately $20,689,000 as compared to approximately $14,389,000 in 2006. The Company's backlog of orders at September 30, 2007 was approximately $10,275,000 which includes the modification of work orders and cancellation of contract funding that was not realized for Hydrological Systems Division contracts issued in prior years that totaled approximately $1,379,000. The backlog total as of September 30, 2006 was approximately $11,948,000. The Company anticipates that approximately 50% of its backlog as of September 30, 2007 will be shipped in 2007.

COST OF SALES AND REVENUES

Cost of sales as a percentage of revenues was 57.9% in 2007 as compared to 62.4% in 2006. The decrease in cost of sales is attributed to changes in the product mix that resulted in higher product sales and decreased project work. Projects do not normally carry as high margins as stand-alone products. The shipments to China for the Three Gorges Dam project and to Washington International Group had high content of standard products. In 2006, the Company had higher costs of sales due to project work with higher labor content including contracts with the Central Water Commission of India and Prime Controls.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased to $2,423,581 in 2007 from $2,168,943 in 2006, an increase of $254,638 or 12%. The Company experienced increases in selling and marketing activities

due to the addition of two new domestic salesmen who were not with the Company in the prior year, in legal costs due to a lawsuit which the Company has filed against its former Vice President of the Hydrological Services Division and a former HSD employee and in letter of credit costs due to a performance bond that was provided to the Afghanistan Ministry of Energy and Water as security on the contract.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses decreased to $940,704 in 2007 from $1,018,226 in 2006, a decrease of $77,522 or 9%. Significant subcontractor expenses were incurred in 2006 relating to the development of our next generation Xpert/XLite Dataloggers which were released to production in the third quarter of 2007. Our SatLink2 Transmitter/Logger, our Xpert/XLite Dataloggers, our Water Level Sensors and our Tides Systems are the primary components of our hydro-meteorological systems and we are continuously improving these products as well as developing new products in order to maintain and improve our competitive position.

INTEREST INCOME AND EXPENSE, NET

Due to the Company's cash position, the Company did not use its line of credit during the nine months ended September 30, 2007 except on one occasion. The Company had net interest income in 2007 of $73,816 as compared to net interest income of $52,065 in 2006.

INCOME TAXES

Income taxes increased 51% in 2007 to $934,000 from $619,000 in 2006 due to the increase in operating income. Taxes as a percentage of revenue were 6.7% in 2007 as compared to 4.7% in 2006. The provisions for income taxes represent effective tax rates of approximately 36.1% in 2007 and 33.3% in 2006, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $2,583,293 at September 30, 2007 compared to $1,539,032 at December 31, 2006. Working capital increased to $11,234,216 at September 30, 2007 compared with $9,504,822 at December 31, 2006.

Net cash provided by operating activities was $1,044,032 for the nine months ended September 30, 2007 as compared to cash used by operating activities of $558,640 for the nine months ended September 30, 2006. The increase is due primarily to the increase in net income and reduction in accounts receivable.

Net cash used by investing activities was $7,270 for the nine months ended September 30, 2007 as compared to cash used by investing activities of $11,026 for the nine months ended September 30, 2006, and was primarily due to a decrease in restricted cash that secured a bank guarantee to the Central Water Commission of India for the delivery of contract equipment.

Net cash provided by financing activities was $37,492 for the nine months ended September 30, 2007 as compared to net cash used by financing activities of $21,512 for the nine months ended September 30, 2006 due to the exercise of employee stock options.

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, 2008 and is secured by substantially all assets of the Company. Borrowings bear interest at the bank's prime rate. During the first nine months of 2007, there was one borrowing on the line of credit.

We frequently bid on and enter into international contracts that require bid and performance bonds. At September 30, 2007 and December 31, 2006, a commercial bank had issued standby letters of credit in the amount of $1,730,618 and $532,300 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 2007. 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. 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 September 30, 2007, the end of the fiscal period covered by this report on Form 10-QSB. 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 quarter ended September 30, 2007 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 is pending before The Monopolies and Restrictive Trade Practices Commission in New Delhi, India. Management believes that the case is unsubstantiated and intends to vigorously defend itself.

On May 22, 2007, we filed a lawsuit in the United States District Court, Alexandria, Virginia Division, against Stephen Tarte, the former Vice President of the Hydrological Services Division, and Patricia Diaz, a former HSD employee for violation of their Conflict of Interest and Non-Competition agreements.

Damages sought in the lawsuit are $3,000,000. We believe that an award from this lawsuit is possible however we are unable to estimate the amount or the ability to collect upon any such award.

ITEM 6. EXHIBITS

31.1 Certification of the President and Chief Executive Officer pursuant to ss.302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer and Treasurer pursuant to ss.302 of the Sarbanes-Oxley Act of 2002.

32 Certification of the President and Chief Executive Officer and Chief Financial Officer and Treasurer 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)

November 13, 2007	/s/ Raul S. McQuivey
Date	Raul S. McQuivey President and Chief Executive Officer (Principal Executive Officer)
November 13, 2007	/s/ Sidney C. Hooper
Date	Sidney C. Hooper Chief Financial Officer and Treasurer (Principal Accounting Officer)