SUTRON CORP
Form 10-K
March 31, 2015

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

FORM 10-K

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

For the fiscal year ended: December 31, 2014

Commission file number: 0-12227

SUTRON CORPORATION
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	54-1006352 (I.R.S. Employer Identification No.)

22400 Davis Drive, Sterling Virginia 20164
(Address of principal executive offices)

(703) 406-2800
(Registrants telephone number, including area code)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing price of $4.97 as reported by the NASDAQ Stock Market, Inc. for the Registrant's Common Stock as of June 30, 2014, was $18,796,470.

As of March 20, 2015, there were 5,084,134 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrants' Definitive Proxy Statement for the 2015 Annual Meeting of Shareholders, which will be filed within 120 days after the end of the year covered by this Form 10-K, are incorporated in Part III as set forth herein.

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NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Form 10-K includes forward-looking statements regarding our expected future financial position, results of operations, cash flows, financing plans, business strategy, products and services, competitive positions, growth opportunities, risks, plans and objectives of management for future operations. Statements that include words such as "anticipate," "if," "believe," "plan," "estimate," "expect," "intend," "may," "should" and other similar expressions are forward-looking statements. All forward-looking statements involve risks, uncertainties and contingencies which may cause actual results, performance, or achievements to differ materially from anticipated results, performance, or achievements. Factors that may cause actual results to differ materially from those in the forward-looking statements include those discussed under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report. All forward-looking statements speak only to events as of the date on which the statements are made. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section. We undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date on which the statement is made.

PART I

Item 1 Business

Sutron Corporation (the "Company") was incorporated on December 30, 1975, under the General Laws of the Commonwealth of Virginia. Our headquarters is located at 22400 Davis Drive, Sterling, Virginia 20164, and the telephone number at that location is (703) 406-2800. The Company has several branch offices located throughout the United States and a branch office in India. We maintain a web address at www.sutron.com. The information contained on our website is not incorporated by reference into this Form 10-K and shall not be considered a part of this Form 10-K.

The Company is a leading provider of real-time data collection and control products, systems and applications software and professional services in the hydrological, meteorological, air quality and oceanic monitoring markets. We design, manufacture, market and sell products, systems, and software as well as provide services that enable government and commercial entities to monitor and collect hydrological, meteorological, air quality 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, emissions monitoring, for the supply of critical aviation information and for other environmental applications. We provide real-time data collection and control products consisting primarily of dataloggers, satellite transmitters/loggers, water level and meteorological sensors and tide monitoring systems. We provide turnkey integrated systems for hydrological, meteorological, air quality and oceanic networks and related services consisting of installation, training and maintenance of hydrological, meteorological and air quality networks. We provide both systems and applications software that is used to provide data necessary for the management of vital resources. Our customers include a diversified base of federal, state, local and foreign governments, engineering firms, universities, hydropower companies and aviation firms.

We operate principally in two industry segments. We provide to our customers standard products which consist of hydrological, meteorological, oceanic monitoring and control and air quality products that are sold off-the-shelf. Our Hydromet Products Division and our Sabio Division are responsible for the manufacturing of all standard products. We also provide customized systems and solutions consisting of hydrological, meteorological and oceanic monitoring systems that are comprised of standard products and non-standard items, systems and applications software and services, including installation, training, and maintenance. We have various profit centers consisting of our Integrated Systems Division, Sutron India operations and MeteoStar Division that provide our systems, software and services.

The Hydromet Products Division manufactures dataloggers, satellite transmitters/loggers, water level and meteorological sensors and tides monitoring systems. Dataloggers collect sensor data and transmit the data to central facilities primarily by satellite radio but also by cell phone, fiber optics or microwave. Our sensors collect hydrological and meteorological data and include a tipping bucket rain gauge, a barometric pressure sensor, a temperature sensor and differing types of water level sensors including shaft encoders, bubbler systems, submersible sensors and radar sensors. Our dataloggers can interact with sensors from other companies. We have long-standing relationships with suppliers of sensors for wind speed and wind direction, water quality, humidity and solar radiation. The principal products that are manufactured by the Hydromet Products Division are described below.

Xpert and XLite Dataloggers

The Xpert and XLite dataloggers are the core of a wide-range of remote monitoring and control systems. The Xpert is highly modular and can be leveraged to handle multiple applications. It is designed specifically to support a variety of portable and permanent monitoring and control applications and systems including automatic weather stations, agrimet stations, synoptic weather stations, automatic weather observation stations, tide stations, hydromet stations, water level and water quality stations, rainfall stations, gate control stations, irrigation and water distribution control stations, stream gauging stations, dam safety stations and flood forecasting, monitoring, control and warning systems.

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SatLink2 Transmitter/Logger

The SatLink2 is a high data rate satellite transmitter/logger that incorporates GPS and functions as a logger. Our standard unit includes a built-in logger, SDI-12 interface, dedicated tipping bucket input, 4 analog inputs and a powerful mathematical equation editor. The V2 version meets the latest specifications being adopted by the National Environmental Satellite, Data and Information Services (NESDIS). Starting in May 2012, all users of the Geostationary Operational Environmental Satellite (GOES) satellite are required over a 10 year period to upgrade all their transmitters to comply with the V2 specifications. The SatLink2 transmitter operates on the GOES system. NESDIS operates two U.S. Government environmental satellites on this system.

Stage Discharge Recorder

The Stage Discharge Recorder is an optical encoder fused with logger technology from our Satlink2 Transmitter/Logger. Using proven float-tape-counterweight technology, the Stage Discharge Recorder is a “plug compatible” replacement for strip chart recorders or punched-tape recorders. The Stage Discharge Recorder saves data in flash memory. This means that there are no backup batteries for the memory. The Stage Discharge Recorder incorporates standard flume and weir equations and can compute and log discharge totals and display discharge as well as flume/weir stage. A built-in event log keeps track of when anyone views or downloads data or makes changes to the setup. The Stage Discharge Recorder will run up to one year on an industrial alkaline battery.

Accubar Gauge Pressure Sensor

The Accubar Gauge Pressure sensor is used in water level monitoring systems and is a highly accurate solid state pressure transducer capable of measuring air/dry gas pressures from 0 to 22 psi with a maximum pressure of 35 psi. It is housed in an aluminum case and with its low power consumption and low maintenance requirements, it is ideal for remote monitoring applications.

AccuBubble Self-Contained Bubbler System

The AccuBubble Self-Contained Bubbler is a mercury-free and nitrogen-free bubbler apparatus designed for low maintenance water level measuring. Using the Sutron Accubar Pressure Sensor as the control and sensing element makes the AccuBubble a very stable and highly accurate water level measuring device. The AccuBubble uses power conservation techniques to minimize current consumption. The bubbler purges the orifice line prior to each measurement. This eliminates the need for a constant bubble rate, which has been known to consume excessive power. In addition, the purging sequence prevents debris build up in the orifice line. The AccuBubble uses an oil-less, non-lubricated piston and cylinder compressor. This type of compressor is designed to give consistent air delivery without the use of a diaphragm that can rupture over time.

Tides and Ports Systems

The National Ocean Survey (NOS), part of the National Oceanic and Atmospheric Administration (NOAA), has the responsibility to measure accurately tide levels around the perimeter of the United States. NOS seeks to ensure that measurements are the most accurate possible by using the best water level instruments available. Tide stations are based on the Xpert data logger and the SatLink2. We have enhanced the capabilities of tides systems by adding Storm Surge/Tsunami software. This software provides added capability to tides stations to detect and provide tsunami warnings.

The Main Tide Station is designed to detect a vast array of events. Sutron's Xpert Logger is a Windows device programmable to monitor multiple parameters including traditional NOS methods such as sudden water level drops and seismic sensors, or both at one time. It supports a wide variety of water level monitoring and weather instruments. The Main Tide Station provides pre-programmed support for NOS-required tidal data processing. The Main Tide Station also supports GOES satellite and a wide variety of other telemetry methods including cell and marine phones. The tides station provides built-in surge protection.

The Integrated Systems Division provides system integration services consisting of design, integration, installation and commissioning of customer-specific hydrological, meteorological and oceanic monitoring and control systems. We are an Iridium Value Added Reseller which enhances our communication options to our customers. Systems include software applications based on our XConnect database software and our Ilex Tempest database software. Our database software capability allows us to provide turnkey hydrological and meteorological systems to a variety of users. Projects may range in size from one station to hundreds of stations. Projects usually require design, equipment integration, software application development, installation, training and commissioning. Projects can range in duration from several weeks to several years depending on the scope and complexity of the system. In 2013, we combined our previous Ilex Division with our Integrated Systems Division.

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Automatic Weather Observation Systems ("AWOS") are integrated and installed by the Integrated Services Division. Typically, an AWOS includes a sensor suite to measure wind direction and speed, temperature, relative humidity, precipitation, and barometric pressure as well as cloud height and horizontal visibility/runway visibility. Sensors are connected to an Xpert datalogger, which processes the data, stores it in a relational database and transmits real-time weather parameters to all designated users, regardless of location. The system produces weather reports for aviation and meteorological use, virtually automatically and without need of human intervention.

Sutron India Operations consist of a Branch Office that was established in 2004. In 2005, we established Sutron HydroMet Systems Private Limited, a wholly owned subsidiary, in order to bid on domestic India tenders. Our India Operations procures local goods for projects, performs systems integration, installation, commissioning and equipment maintenance. Our India Operations maintains over 260 remote automatic real-time hydromet monitoring stations in India under contracts with the Central Water Commission ("CWC").

The Company acquired IPS MeteoStar (“MeteoStar”) on May 24, 2012. Our MeteoStar Division is a leader in the environmental analysis, display and integration/distribution systems market for the meteorological, aviation, and hydrology community. MeteoStar provides its Leading Environmental Analysis and Display System (“LEADS®”) product set as the foundation for its solutions. LEADS® is an advanced set of scalable tools specializing in weather, water and environmental monitoring solutions. MeteoStar’s products are used in a variety of markets to provide real-time weather situational awareness, forecasting solutions for decision support and emergency responders, and environmental air quality data collection/EPA reporting systems. MeteoStar’s customer base includes applications for aviation, hydrology, meteorology, transportation, power/energy, research and the military.

The Company acquired Sabio Instruments LLC (“Sabio”) on March 6, 2013. Our Sabio Division currently manufactures and sells calibration units that maintain and service air quality monitoring sensors. Sabio has an international customer base that is loyal to the Sabio brand. Sabio also has intellectual capital giving it capabilities to develop air quality sensors that will allow the Company to further market complete air quality systems to Sabio’s existing customers and attract new customers in what the Company believes is a growing domestic and international market increasingly interested in monitoring air quality. Domestically, core Sabio customers and targets are primarily made up of state governments and agencies focused on monitoring air quality in their respective geography. Internationally, core Sabio customers and targets are primarily made up of foreign governments and distributors that market to foreign governments.

Sales and Marketing

We market our products and services domestically and internationally. Domestic sales are conducted by our internal sales staff that consists of five salaried sales personnel who are directly engaged in direct sales activities. The sales staff is assisted by four other employees in marketing and sales support functions. Internationally, we have five employees with global responsibilities and who work closely with our international sales network that consists of 35 resellers and agents in Canada, Latin and South America, Europe, Africa, Asia and Australia.

Competition

We compete in the hydrological, meteorological, air quality and oceanic monitoring markets and are aware of both domestic and foreign competitors who offer products, systems, software and services of their own as well as companies that are systems integrators who primarily offer real-time networks from components manufactured by others. We are aware of numerous firms, ranging in size, that offer competitive dataloggers, high data rate satellite transmitters, sensors and other instruments and software.

Several of these companies have financial, research and development, marketing, management and technical resources substantially greater than ours. We may also be at a competitive disadvantage because we purchase certain sensors and other equipment components, as well as computer hardware and peripheral equipment, from manufacturers who are or may become competitors with respect to one or more of our products.

With respect to our professional engineering and technical services, we are in competition with numerous diverse engineering and consulting firms, many of which have larger staffs and facilities, and are better known, have greater financial resources, and have more experience. As to hydrological services, we are aware that many firms offer maintenance services; some of these companies have larger staffs, are better equipped, and have greater financial, marketing and management resources. Price, features, product quality, promptness of delivery, customer service and performance are believed to be the primary competitive factors with respect to all of our products, software and services.

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Customers

During 2014, approximately 22% of our products and services were sold to the United States Federal Government. Net sales and revenues in 2014 among the various agencies were as follows: Department of the Interior, 13%; Department of Commerce, 4%; Department of Defense, 2% and Other Federal Agencies, 3%. Revenues from the Department of the Interior were derived from sales to the U.S. Geological Survey and the Bureau of Reclamation. Revenues from the Department of Defense were primarily from sales to the U.S. Army Corps of Engineers. Revenues from the Department of Commerce were from sales of tides systems and spares to NOS, the National Weather Service and the National Data Buoy Center. The loss of any significant portion of our sales to any major customer, the loss of a single major customer or budgetary constraints of any one of our major customers could have a material adverse effect on our business and financial results. We also performed on various contracts of foreign origin. Revenues from international customers amounted to approximately 49% of revenues in 2014, 48% of revenues in 2013 and 57% of revenues in 2012.

Research and Development

The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products. Research and development expenses include new product development costs, consisting primarily of salaries, benefits and related costs for personnel associated with research and development activities, fees paid to third parties to develop new products and allocated overhead, which is comprised of rent and other facilities related costs, and depreciation expense generated by general purpose equipment and software.

During the years ended December 31, 2014, 2013 and 2012, we incurred expenses of $3,367,172, $3,438,250, and $3,384,393, respectively, on activities relating to the development of new products and enhancements and improvements of existing products. The slight decrease from 2013 to 2014 is primarily due to engineers devoting more of their time to project work as opposed to research and development efforts during the period.

In 2014, we devoted significant development efforts to several new products we expect to come to market in the next three to nine months. In our Virginia headquarters, we concentrated on supporting our existing product offerings and on developing the next generation upgrade of our flagship product, Satlink. We expect to introduce Satlink 3 to the marketplace in the next three to six months. In our MeteoStar Division, we concentrated our resources and efforts on bringing our LEADS6 software to market and developing an advanced set of scalable tools specializing in weather, water and environmental monitoring solutions. The LEADS6 software is currently available and is being marketed to our customer base. In our Sabio Division, our focus was on the development of new analyzer products we expect to introduce to the marketplace in the next six to nine months.

Patents, Trademarks, Copyrights and Agreements

We may in the future seek patents for certain products, real-time networks, technology and software. We treat our products, real-time networks, technology and software as proprietary and rely on trade secret laws and internal non-disclosure safeguards rather than making our designs and processes generally available to the public by applying for patents. We believe that, because of the rapid pace of technological change in the computer, electronics and telecommunications industries, patent and copyright protection is of less significance than factors such as the knowledge and experience of our personnel and their ability to design and develop enhanced and new products, real-time networks and their components. As a part of our MeteoStar acquisition, we acquired the trademarks and copyrights to the LEADS® software.

Manufacturing

Our manufacturing operations consist of materials planning and procurement, final assembly, product assurance testing, quality control, and packaging and shipping. We currently use several independent manufacturers to provide certain printed circuit boards, chassis and subassemblies. We believe that the efficiency of our manufacturing process to date is largely due to our product architecture and our commitment to manufacturing process design. We have spent significant engineering resources producing customized software to obtain consistent high product quality. Products are tested after the assembly process using internally developed automated product assurance testing procedures. During 2014, we acquired surface mount technology (“SMT”) machinery that will allow us to manufacture our own printed circuit boards in house rather than contracting independent third party manufacturers for this component. We believe the SMT capability will provide for operational advantages by allowing us to control the entire manufacturing process including internal management of the quality of our products and establishing more efficient processes with relation to this production activity resulting in better cost containment and ultimately implementation of cost reduction measures.

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Our products use certain components, such as microprocessors, memory chips and pre-formed enclosures that are acquired or available from one or a limited number of sources. We have generally been able to procure adequate supplies of these components in a timely manner from existing sources. While most components are standard items, certain application-specific integrated circuit chips used in many of our products are customized to our specifications. None of the suppliers of components operate under contract. Additionally, availability of some standard components may be affected by market shortages and allocations. Our inability to obtain a sufficient quantity of components when required or to develop alternative sources at acceptable prices and within a reasonable time could result in delays or reductions in product shipments which could materially affect our operating results in any given period. In addition, as referenced above, we rely heavily on outsourcing subcontractors for production. The inability of such subcontractors to deliver products in a timely fashion or in accordance with our quality standards could materially affect our operating results and business.

We received an ISO 9001 certification on March 12, 1999 and an ISO 9001:2000 certification on August 13, 2003. We continued to be certified during fiscal year 2014.

Government Regulation

We manufacture some of our products and provide some of our services under contracts with the United States government. We manufacture other products under contracts with private third parties who utilize our products to satisfy United States government contracts to which they are a party. Federal acquisition regulations and other federal regulations govern these relationships. Some of these regulations relate specifically to the seller-purchaser relationship with the government (which may exist on our own account, or that of one or more of our clients), such as the bidding and pricing rules. Under regulations of this type, we must observe pricing restrictions, produce and maintain detailed accounting data, and meet various other requirements.

Other regulations relate to the conduct of our business generally, such as regulations and standards established by the Occupational Safety and Health Act or similar state laws and relating to employee health and safety. In particular, government contracts require that we comply with federal laws and regulations, in general, or face civil liability, cancellation or suspension of existing contracts, or ineligibility for future contracts or subcontracts funded in whole or in part with federal funds. In addition, loss of governmental certification (affirming that we are eligible to participate on government contracted work) could cause some of our customers to reduce or cease making purchases from us, which would adversely impact our business.

Foreign Operations

We opened a branch office in New Delhi, India in 2004. We formed a wholly owned subsidiary in India in 2005 in order to bid on domestic India tenders. Our India Operations performs systems integration, civil works construction, systems installation and commissioning and maintenance services. We maintain over 220 remote automatic real-time hydromet monitoring stations in India under contracts with the Central Water Commission.

Employees

As of December 31, 2014, we and our wholly owned subsidiary had a total of 132 employees, of which 129 were full time. We also from time to time employ part-time employees and hire independent contractors. Our employees are not represented by any collective bargaining agreement and we have never experienced a work stoppage. We believe that our employee relations are good.

Backlog

At December 31, 2014, our backlog was approximately $13,158,000 as compared with approximately $12,469,000 at December 31, 2013. We anticipate that approximately 67% of our 2014 year-end backlog will convert to revenue in 2015. An economic downturn and/or budgetary restrictions may result in increased cancellation of orders, which could have a material adverse effect on our ability to convert our backlog into revenues. Other factors that may result in a cancellation of orders include changes, delays or cancellation of government programs, political and economic business events and trade restrictions.

Item 1A – Risk Factors

The following are certain risk factors that could impact our business, financial results and results of operations. Investing in our Common Stock involves risks, including those described below. The risk factors below, among others, should be considered by prospective and current investors in our Common Stock before making or evaluating an investment in our securities. These risk factors could cause actual results and conditions to differ materially from those projected herein.

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Our dependence on government business could adversely affect our operating results

Contracts and purchase orders with agencies of the United States government and various state and local governments represented approximately 22% of our revenues in fiscal year 2014. The success of our business is therefore materially dependent on governmental agencies. Companies engaged in government business, both domestically and internationally, are subject to certain unique risks not shared by the general commercial sector. Among these risks are:

- a competitive procurement process with no guaranty of being awarded contracts;
- dependence on Congressional appropriations and administrative allotment of funds;
- policies and regulations that can be changed at any time by Congress or the Executive branch, or by foreign governments internationally;
- changes in and delays or cancellations of government programs or requirements; and
- some contracts with international, Federal, state and local government agencies require annual funding and may be terminated at the agency's discretion.

A reduction or shift in spending priorities by government agencies could limit or eliminate the continued funding of our existing government contracts. These reductions or shifts in spending, if significant, could have a material adverse effect on our business.

Our dependence on international sales involves significant risk

Sales and services to customers outside the United States accounted for approximately 49%, 48% and 57% of our revenue for fiscal 2014, 2013 and 2012, respectively. Despite our international sales increasing only slightly by1% as a percentage of total revenue, we continue to expect that our non-U.S. sales and services will continue to grow and account for a higher percentage of overall future revenues. International business operations may be adversely affected by many factors, including fluctuations in exchange rates, imposition of government controls, trade restrictions, political, economic and business events and social and cultural differences.

Intense competition can adversely affect our operating results

The hydro-meteorological monitoring equipment and systems market is intensely competitive. Significant competitive factors include price, technical capabilities, quality, automation, reliability, product availability and customer service. We face competition from established and potential new competitors, many of whom have greater financial, engineering, manufacturing and marketing resources than us. New products offered by our competitors could cause a decline in our revenue or a loss of market acceptance of our existing products and services. Increased competitive pressure could also lead to intensified price-based competition. Price-based competition may result in lower prices, adversely affecting our operating results.

The variability of our quarterly operating results can be significant

Our future revenues and operating results may vary significantly from quarter-to-quarter as a result of a number of factors, many of which are outside our control. These factors include the relatively large size of project or tender business, unpredictability in the number and timing of international sales, length of the sales cycle, delays in installations and changes in customer's financial condition or budgets.

Managing costs while planning for growth will be critical

We believe that we must maintain our technical workforce and commit adequate resources to our research and development to develop new products, enhance existing products and serve the needs of our existing and anticipated customer base. Our ability to expand our operations successfully will depend, in large part, upon our ability to attract and retain highly qualified employees. Our ability to manage our planned growth effectively also will require that we continue to (1) improve our operational, management, and financial systems and controls, (2) train, motivate, and manage our employees and (3) have the capacity to increase operating expenses in anticipation that our new products will increase future revenues.

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Technological changes may make our products obsolete or result in decreased prices or increased expenses

Technological changes may make our services or products obsolete. Advances in technology may lead to significant price erosion for products. Our success will depend in part on our ability to develop and offer more advanced products in the future, to anticipate both future demand and the technology to supply that demand, to enhance our current products and services, to provide those products and services at competitive prices on a timely and cost-effective basis and to achieve market acceptance of those products and services. To accomplish these goals, we may be required to incur significant engineering expenses. As new products or services are introduced, we may experience warranty claims or product returns. We may not be able to accomplish these goals correctly or timely enough. If we fail in our efforts, our products and services may become less competitive or obsolete.

We do not rely on patents to protect our products or technology

We do not generally rely on patent protection for our products or technology. Competitors may develop technologies similar to or more advanced than ours. We treat our products, real-time networks, technology and software as proprietary and rely on trade secret laws and internal non-disclosure safeguards rather than making our designs and processes generally available to the public by applying for patents. We cannot assure that our current or future products will not be copied or will not infringe on the patents of others. Moreover, the cost of litigation of any claim or damages resulting from infringement of patents or other intellectual property could adversely affect our business, financial condition and results of operations.

We may incur losses due to foreign currency fluctuations

A portion of our revenue and costs are denominated in other foreign currencies. Consequently, a portion of our revenues, costs and operating margins may be affected by fluctuations in exchange rates between the U.S. dollar and the foreign currencies. We recognized a foreign currency gain of approximately $41,000 in 2014 and foreign currency losses of approximately $97,000 and $12,000 in 2013 and 2012, respectively. Fluctuations between the U.S. dollar and other foreign currencies may have a material adverse effect on our financial results.

Acquisition and integration of new businesses could disrupt our ongoing business, distract management and employees, increase our expenses or adversely affect our business

A portion of our future growth may be accomplished through the acquisition of other businesses. The success of those acquisitions will depend, in part, on our ability to integrate the acquired personnel, operations, products, services and technologies into our organization, to retain and motivate key personnel of the acquired entities and to retain the customers of those entities. We may not be able to identify suitable acquisition opportunities, obtain financing on acceptable terms to bring the acquisition to fruition or to integrate such personnel, operations, products or services effectively. The process of identifying and closing acquisition opportunities and integrating acquisitions into our operations may distract our management and employees, disrupt our ongoing business, increase our expenses and materially and adversely affect our operations. We may also be subject to certain other risks if we acquire other entities, such as the assumption of additional liabilities. We may issue additional equity securities or incur debt to pay for future acquisitions.

We do not have contracts with key suppliers

We have no written contracts with any of our suppliers. Our suppliers may terminate their relationships with us at any time without notice. There can be no assurance that we will be able to find satisfactory replacement suppliers or that new suppliers will not be more expensive than the current suppliers if any of our suppliers were to terminate their relationship with us.

We are highly dependent on key personnel

Our success has depended, and to a large extent will depend, on the continued services our key senior executives, and engineering, marketing, sales, production and other personnel. The loss of these key personnel, who would be difficult to replace, could harm our business and operating results. Competition for management in our industry is intense and we may be unsuccessful in attracting and retaining the executive management and other key personnel that we require. We do have an employment agreement with one key employee.

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If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results, and current and potential shareholders may lose confidence in our financial reporting

We are required by the Sarbanes Oxley Act of 2002 to establish and maintain adequate internal control over financial reporting that provides reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). We are likewise required, on an annual basis, to evaluate the effectiveness of our internal controls and to disclose on a quarterly basis any material changes in those internal controls.

As described in Item 9A — Controls and Procedures elsewhere in this Annual Report on Form 10-K, we identified two material weaknesses in our internal control over financial reporting with regard to over-recording costs of goods sold and properly identifying estimated costs to complete used in contract revenue calculations. Given these material weaknesses, management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2014.

We have taken actions to remediate and improve our internal controls over financial reporting. We have enhanced checklists and procedures to assure necessary procedures are timely performed, including manual entries such as reversing the costs the Company's accounting system records for costed repair orders as well as identifying all estimated costs associated with revenue calculations performed on contracts placed on the estimate to complete method of accounting. The elements of our remediation plan can only be accomplished over time. Any failure to maintain such internal controls could adversely impact our ability to report our financial results on a timely and accurate basis. If our financial statements are not accurate, investors may not have a complete understanding of our operations or may lose confidence in our reported financial information. This could result in a material adverse effect on our business or have a negative effect on the trading price of our Common Stock.

Item 1B – Unresolved Staff Comments

Not applicable

Item 2 – Properties

Our corporate headquarters are located at 22400 Davis Drive, Sterling, Virginia where we occupy 31,190 feet of space under a lease that expires in 2019. We also lease space in various locations throughout the United States and India for sales and other personnel. If we require additional space, we believe that we would be able to obtain such space on commercially reasonable terms.

Item 3 – Legal Proceedings

There are currently no legal claims that, in the opinion of management have a material effect on our financial statements.

Item 4 – Mine Safety Disclosures

Not applicable

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PART II

Item 5 – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock

Our Common Stock trades on the Nasdaq Capital Market (formerly the Nasdaq SmallCap Market) under the symbol “STRN”. On March 20, 2015, there were approximately 680 stockholders of record. The table below sets forth the high and low sales prices for the periods shown.

Fiscal year ended December 31, 2014	High	Low
First Quarter	$ 5.98	$ 4.81
Second Quarter	$ 5.65	$ 4.50
Third Quarter	$ 5.60	$ 4.81
Fourth Quarter	$ 5.20	$ 4.50

Fiscal year ended December 31, 2013	High	Low
First Quarter	$ 6.10	$ 5.00
Second Quarter	$ 6.10	$ 5.14
Third Quarter	$ 5.83	$ 4.85
Fourth Quarter	$ 5.40	$ 4.25

We have never declared or paid a dividend on our Common Stock.

The Company has established equity compensation plans to attract, motivate and reward performance of employees, officers and directors. Currently, there are three stock option plans under which options and other equity incentives can be issued: the 1996 and 2002 Amended and Restated Stock Plans that were not approved by stockholders and the 2010 Equity Incentive Plan that was approved by stockholders.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in this table’s first column)
Equity compensation plans approved by security holders	236,000	$ 4.67	226,750
Equity compensation plans not approved by security holders	103,726	$ 6.68	97,941
Total	339,726	$ 5.47	324,691

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Item 6 – Selected Financial Data

The following table sets forth consolidated financial data with respect to Sutron Corporation for the five-year period ended December 31, 2014. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes included elsewhere in this Form 10-K.

	(In thousands, except earnings per share data) Years Ended December 31,				
	2014	2013	2012	2011	2010
Income Statement Data					
Revenues	$ 26,243	$ 27,208	$ 25,230	$ 20,222	$ 22,975
Operating income	314	1,221	1,357	2,129	4,417
Net Income	485	796	1,143	1,521	2,987
Basic earnings per share	.10	.16	.24	.33	.65
Diluted earnings per share	.09	.16	.23	.31	.60
Shares used in computing basic per share data	5,084	5,053	4,803	4,620	4,573
Shares used in computing diluted per share data	5,140	5,109	4,889	4,921	4,995
Balance Sheet Data					
Cash	$ 8,683	$ 9,133	$ 8,387	$ 9,498	$ 9,505
Working capital	16,902	16,858	16,592	18,973	17,086
Total assets	28,352	28,143	26,871	24,083	22,987
Long-term debt, including current portion	-	-	-	-	-
Stockholders' equity	23,476	23,019	22,126	19,975	18,139
Cash dividends declared	-	-	-	-	-

Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our "Note Concerning Forward-Looking Statements," "Item 1 – Business," "Item 1A - Risk Factors," "Item 6 – Selected Financial Data" and Consolidated Financi Statements, the notes to those statements and other financial information contained elsewhere in this Annual Report on Form 10-K.

We have restated herein our consolidated interim financial statements for the three, six and nine month periods ended March 31, 2014, June 30, 2014 and September 30, 2014, respectively, to correct errors in such consolidated interim financial statements relating to overstating costs of goods sold amounts related to the Company's service department. For more information regarding the restatement, please see Note 2 to the financial statements included in Item 8 of Part II to this Annual Report on Form 10-K.

Background and 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, meteorological, air quality and oceanic monitoring. We design, manufacture, market and sell these products and services to a diversified customer base consisting of federal, state, local and foreign governments, engineering firms, universities, hydropower companies and aviation firms. Our products, systems, software and services enable these entities to monitor and collect hydrological, meteorological, air quality and oceanic data for the management of critical water resources, early warning of potentially disastrous floods, storms or tsunamis, the optimization of hydropower plants, monitoring and management of air quality and the supply of critical aviation information.

Our key products are the SatLink2 Transmitter/Logger, the Xpert/XLite dataloggers, the Accububble Self-Contained Bubbler, the Accubar Pressure Sensor, Air Quality calibrators and Tempest, XConnect and LEADS 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, XConnect and LEADS systems software allow us to provide turnkey systems solutions to our customers.

We are beginning fiscal year 2015 with a backlog of approximately $13,158,000 as compared to beginning fiscal year 2014 with a backlog of approximately $12,469,000. We estimate that approximately 67% of our December 31, 2014 backlog will convert to revenue in 2015. We anticipate that we will continue to experience significant quarterly fluctuations in our sales and revenues in 2015 as our business is highly project driven and subject to governmental approval and funding processes. Operating results will depend upon the product mix and upon the timing and execution of project awards.

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International revenue, which comprised 49% of total revenues for 2014, are a significant portion of our revenues. International revenues have increased slightly by 1% as a percentage of sales from 48% in 2013. The anticipated growth in our international sales was not fully realized primarily due to the Company's inability to secure key large projects. The Company did secure a number of projects, but the real driver of significant growth in our international efforts is dependent on winning large projects. While the Company's international sales remained relatively consistent year-over-year, the Company believes our international sales as a percentage of our total business will continue to rise in the near future due to stronger international partnerships and expanded international sales opportunities. International sales are however difficult to forecast because they are frequently delayed due to the different governmental procurement and approval processes. Our domestic business is highly dependent upon government business which generally requires competitive tenders and is subject to budgetary constraints. Contracts and purchase orders with Federal, state and local government agencies represented approximately 22% of our 2014 revenues compared to 31% of our 2013 revenues.

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 2015 sales and marketing expenses to be consistent with 2014 due to planned spending on those activities. We expect our 2015 research and development costs to be lower than our 2014 levels as we expect more of our engineers to be working on project work as opposed to development related activities, particularly in our MeteoStar Division. We expect our 2015 general and administrative expenses to decrease as compared to 2014 due to planned implementation of new policies and procedures across Sutron's larger business platforms.

Critical Accounting Estimates

The discussion and analysis of financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate, on an on-going basis, our estimates and judgments as they pertain to our financial information present herein. Our estimates are based on historical experience and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of the consolidated financial statements.

· Revenue recognition;

· Allowance for doubtful accounts;

· Allowances for excess and obsolete inventories;

· Accounting for warranty obligations;

· Goodwill impairment;

· Accounting and valuation of stock option compensation:

· Contingencies and litigation;

- Accounting for income taxes; and
- Acquisition accounting.

Revenue Recognition – Revenue for our products, consisting of both equipment and software, is recognized upon shipment, delivery, installation or customer acceptance of the product, as agreed in the customer order or contract. We do sell our software products without the related equipment although software products are integral to systems. Our typical system requires no significant production, modification or customization of the software or hardware. For complex systems, revenue is deferred until customer acceptance. We do provide customer discounts and do allow for product returns. We do not do consignment sales or bill and hold. Revenue reflects reductions due to discounts and product returns. Product returns have historically been insignificant in amount.

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Our sales arrangements for systems often include services in addition to equipment and software. These services could include equipment integration, software customization, installation, maintenance, training, and customer support. For sales arrangements that include bundled hardware, software and services, we account for any undelivered service offering as a separate element of a multiple-element arrangement. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately. Revenue for these services is typically recognized ratably over the period benefited or when the services are complete.

We use the percentage of completion method for recognizing revenue and profits when we perform on fixed price contracts that extend over a number of quarters. Under the percentage of completion method, revenue and profits are recorded as costs are incurred based on estimates of total sales value and costs at completion where total profit can be estimated with reasonable accuracy and ultimate realization is reasonably assured. Profit estimates are revised periodically based upon changes and facts, and any losses on contracts are recognized immediately. Contracts may contain provisions to earn incentive and award fees if targets are achieved. Incentive and award fees that can be reasonably estimated are recorded over the performance period of the contract. Incentive and award fees that cannot be reasonably estimated are recorded when awarded. We recognize revenue from time-and-materials contracts to the extent of billable rates, times hours delivered, plus direct materials costs incurred. Some of the contracts include provisions to withhold a portion of the contract value as retainage. Our policy is to take into revenue the full value of the contract, including any retainage, as we perform against the contract.

Allowance for Doubtful Accounts – Accounts receivable arise from the normal course of selling products on credit to customers. An allowance for doubtful accounts has been provided for estimated uncollectable accounts. Accounts receivable balances, historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms and practices are analyzed when evaluating the adequacy of the allowance for doubtful accounts. Individual accounts are charged against the allowance when collection efforts have been exhausted.

Inventory Valuation – Our inventories are stated at the lower of cost or market. We provide allowances on inventories for any material that has become obsolete or may become unsalable based on estimates of future demand and sale price in the market. Judgments with respect to salability and usage of inventories, estimated market value, and recoverability upon sale are complex and subjective. Such assumptions are reviewed periodically and adjustments are made, as necessary, to reflect changed conditions.

Warranty Obligations – We warrant our products for up to two years and warranty costs are based upon management’s best estimate of the amounts necessary to settle future and existing claims on equipment sold as of the balance sheet date. Factors considered include actual past experience of product returns and the related estimated cost of labor and material to make the necessary repairs as well as technological advances and enhanced design and manufacturing processes. If actual future product return rates or the actual costs of material and labor differ from the estimates, adjustments to the accrued warranty liability are made.

Income Taxes – We are taxed as a domestic U.S. corporation under the Internal Revenue Code. Deferred income tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred income tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using currently enacted tax rates in effect for the years in which the differences are expected to reverse. Deferred tax assets are evaluated and a valuation allowance is established if it is more likely than not that all or a portion of the tax asset will not be utilized.

Stock Option Compensation – We measure and recognize compensation expense for all share-based payment awards to employees and directors based on estimated fair values.

For stock options granted during the year ended December 31, 2014, the Company used the Black-Scholes model to estimate the fair value of the options. The Black-Scholes model estimates the per share fair value of an option on its date of grant based on the option's exercise price; the price of the underlying stock on the date of grant; the estimated dividend yield; a "risk-free" interest rate; the estimated option term; and the expected volatility. For the "risk-free" interest rate, the Company uses a United States Treasury Bond due in the number of years equal to the option's expected term. The estimated option term is based upon the contractual term of the option.

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Results of Operations

The following table sets forth, for the periods presented, certain income statement data of the Company expressed as a percentage of revenues:

	Years ended December 31		
	2014	2013	2012
Net sales and revenues	100%	100%	100%
Cost of sales and revenues	60.6	60.4	60.3
Gross profit	39.4	39.6	39.7
Selling, general and administrative expenses	25.3	22.5	20.9
Research and Development expenses	12.9	12.6	13.4
Operating income	1.2	4.5	5.4
Interest income	0.3	0.2	0.3
Income before income taxes	1.5	4.7	5.7
Income taxes	0.3	1.7	1.2
Net income	1.8%	3.0%	4.5%

Fiscal 2014 Compared to Fiscal 2013

Net Sales and Revenues

Revenues for the year ended December 31, 2014 decreased 4% to $26,243,398 from $27,208,304 in 2013. Net sales and revenues are broken down between sales of standard products and sales of systems, software and services. Standard products had a net sales and revenue increase of 2% to $10,748,102 in 2014 from $10,588,226 in 2013. The increase is primarily due to an overall increase in standard product purchases by core customers and a slight increase in our Sabio Division sales year-over-year, largely due to owning Sabio for the full year of 2014 as opposed to owning Sabio for ten months in 2013. Net sales and revenues for systems, software and services decreased 7% to $15,495,296 from $16,620,078 in 2013. While the Company did add a number of new projects throughout 2014, the decrease is primarily due to the Company's inability to secure multiple, new large projects and forecasted projects within our MeteoStar Division that have been delayed to future periods. The Company continues to have a robust pipeline of small, mid and large-sized projects that continue to be pursued.

Overall domestic revenues decreased 6% to $13,413,558 in 2014 versus $14,203,677 in 2013. Our MeteoStar and Sabio Divisions had domestic revenues of approximately $3,849,601 in 2014, a decrease of 19% over 2013 domestic revenues of $4,756,572 due in part to timing issues and fewer orders from government customers. International revenues decreased 1% to $12,829,840 in 2014 compared to $13,004,627 in 2013. Our MeteoStar and Sabio Divisions contributed international revenues of approximately $2,790,853 in 2014, an increase of 20% over 2013 international revenues of $2,316,341. The overall increase is primarily due to the customer base of the MeteoStar Division shifting more heavily to international customers and the mix of products and services provided.

Cost of Sales and Revenues

Cost of sales and revenues consists primarily of operational costs associated with our standard products production facilities, the costs associated with the design and development of customized software systems and services that we provide to our customers as well as the costs associated with implementing the system solutions for our customers.

Cost of sales as a percentage of revenues increased 1% in 2014 to 61% from 60% in 2013. Cost of sales for standard products was approximately 57% in 2014 as compared to 58% in 2013. Cost of sales for systems and services was 63% in 2014 as compared to 62% in 2013. The slight differences in the cost of sales of both our standard products as well as our systems and services, was primarily due to the mix of products being sold in 2014 compared to 2013.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consists primarily of salaries, benefits, stock-based compensation, professional fees, rent and other facility related costs, depreciation and amortization of acquired intangible assets. All selling and marketing costs are expensed as incurred.

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Selling, general and administrative expenses were $6,647,788 in 2014 as compared to $6,124,930 in 2013, a 9% increase. Selling, general and administrative expenses as a percentage of revenues increased to 25% in 2014 from 23% in 2013. The increase was attributable to the addition of our Sabio operations for the full year in 2014 compared to only ten months in 2013, increased commission expense associated with expanding our worldwide business, increased travel related costs to support of sales growth initiatives, and additional depreciation recognized on the SMT equipment the Company acquired.

Product Research and Development Expenses

Product research and development expenses decreased to $3,367,172 in 2014 from $3,438,250 in 2013, a 2% decrease. Product research and development expenses as a percentage of revenue remained constant at 13% for both years ended December 31, 2014 and 2013. Research and development efforts are maintained at our Sutron headquarters; as well as, our MeteoStar and Sabio Divisions. In 2014, research and development expenses totaled $1,888,760, $1,213,323 and $265,089 for each Division, respectively. Each of these Divisions is working on new products that the Company believes will be coming to market in the coming three to nine months.

Financing Income, Net

Net interest and other income increased to $83,067 in 2014 as compared to $46,892 in 2013.

Income Taxes

Income tax (benefit) expense for 2014 was $(88,131) compared to $471,984 for 2013. The provision for income taxes for 2014 represents an effective tax rate of approximately 22% compared with 37% for 2013. The decrease in the effective tax rate is primarily attributed to lower pre-tax book income and the impact of the R&D and foreign tax credits generated.

Fiscal 2013 Compared to Fiscal 2012

Net Sales and Revenues

Revenues for the year ended December 31, 2013 increased 8% to $27,208,304 from $25,229,519 in 2012. Net sales and revenues are broken down between sales of standard products and sales of systems, software and services. Standard products had a net sales and revenue increase of 30% to $10,588,226 in 2013 from $8,131,734 in 2012. The increase is primarily due to an overall increase in standard product purchases by core customers as well as the addition of a new air quality product line through the Company's acquisition of Sabio Instruments. Net sales and revenues for systems, software and services decreased 3% to $16,620,078 from $17,097,785 in 2012. While the Company did add a number of new projects throughout 2013, the decrease is primarily due to the Company's inability to secure any new large projects.

Overall domestic revenues increased 31% to $14,203,677 in 2013 versus $10,805,283 in 2012. Our MeteoStar and Sabio Divisions had domestic revenues of approximately $4,756,572 in 2013. International revenues decreased 10% to $13,004,627 in 2013 versus $14,424,236 in 2012. Our MeteoStar and Sabio Divisions contributed international revenues of approximately $2,316,341. The overall decrease is primarily due to the Company's inability to secure any large international projects in 2013.

Cost of Sales and Revenues

Cost of sales as a percentage of revenues was consistent at 60% for both of the 2013 and 2012 years. Cost of sales for standard products was approximately 58% in 2013 as compared to 55% in 2012. The increase in standard product cost of sales as a percentage of revenue is due to the addition of the Sabio line of products which historically have a lower associated margin. Cost of sales for systems and services was 62% in 2013 as compared to 63% in 2012. The decrease in cost of sales as a percentage of revenues for systems and services was primarily due to the mix of products associated with the 2013 projects.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $6,124,930 in 2013 as compared to $5,275,676 in 2012, a 16% increase. Selling, general and administrative expenses as a percentage of revenues increased to 23% in 2013 from 21% in 2012. The increase is primarily attributed to the acquisition of Sabio Instruments during the year and a full year of activity in 2013 for the prior year acquisition of IPS MeteoStar (as opposed to seven months in 2012) including an increase of $375,000 related to legal and other professional fees associated with the Sabio acquisition and our corporate initiatives to strengthen the Company’s policies and procedures. These increases were offset by reductions of approximately $141,000 in our reserve for bad debts, international sales commissions, and warranty expenses, as well as a $40,000 reduction in salary expense due to the departure of the Company’s former Chief Financial Officer.

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Product Research and Development Expenses

Product research and development expenses increased to $3,438,250 in 2013 from $3,384,393 in 2012, a 2% increase. Product research and development expenses as a percentage of revenue were consistently 13% for both of the 2013 and 2012 years. Research and development efforts are maintained at each of our main Sutron, MeteoStar and Sabio Divisions where 2013 research and development expenses totaled $1,978,000, $1,277,000 and $183,000, respectively.

Financing Income, Net

Net interest and other income decreased to $46,892 in 2013 as compared to $74,783 in 2012.

Income Taxes

Income tax expense for 2013 was $471,984 compared to $289,000 for 2012. The provision for income taxes for 2013 represents an effective tax rate of approximately 37% compared with 20% for 2012. The increase in the effective tax rate is primarily attributed to book and tax amortization differences resulting from the Company's amortization of acquisition intangibles and an adjustment to the Company's effective state tax rate to more appropriately reflect the net tax position of the Company's state tax filing obligations.

Off-Balance Sheet Arrangements

The Company is not a party to any off-balance sheet transactions, arrangements or obligations that have, or are reasonably likely to have, a material effect on the Company's financial condition, changes in the financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. The Company provides bid and performance bonds to customers that are secured either by cash or under the Company's credit facility with our bank. If the Company fails to meet its bid or performance requirements, these bonds may be drawn upon by the customer resulting in the bank making payment to the customer in an amount not to exceed the amount of the respective bond.

Liquidity and Capital Resources

Cash and cash equivalents were $7,873,903 at December 31, 2014 compared to $8,283,092 at December 31, 2013. Working capital remained comparable at $16.9 million for both December 31, 2014 and 2013.

We generated net cash from operating activities of $574,204 for the year ended December 31, 2014. Net cash provided by operating activities was $2,178,449 for the year ended December 31, 2013 and $1,506,368 for the year ended December 31, 2012. Our cash flows from operations were impacted by our net income of $484,908 and non-cash items such as depreciation, amortization, stock-based compensation, and deferred taxes of $273,807 and reductions in our inventory levels, prepaid expenses and deferred revenues, offset by an increase in accounts receivables and expense accruals. Net cash provided by operating activities in 2013 was primarily due to a decrease in the income tax receivable and customer payments received in advance. Net cash provided by operating activities in 2012 was primarily due to a decrease in accounts receivable and an increase in accounts payable.

We used cash for investing activities of $830,267 for the year ended December 31, 2014. Net cash used by investing activities was $1,448,288 for the year ended December 31, 2013 and $3,538,736 for the year ended December 31, 2012. Our primary investing activities in 2014 have consisted of purchases of manufacturing equipment to support our production facility. As our customer base and product suite expands, we expect purchases of technical infrastructure equipment to similarly increase. The extent of these investments will be impacted by our ability to expand existing customer relationships, grow our customer base, introduce new business opportunities to the market and increase our international presence. Net cash used by investing activities in 2013 was primarily due to the acquisition of Sabio Instruments. Net cash used by investing activities in 2012 was primarily due to the acquisition of IPS MeteoStar.

We did not engage in any financing activities during 2014. However, we did generate cash of $182 due to the issuance of stock related to the vesting of restricted stock units. We generated $35,530 and $877,293 for the year ended December 31, 2013 and 2012, respectively. In 2013 and 2012, the cash provided was due to the proceeds from the exercise of employee stock options and tax benefits relating to tax deductible employee compensation associated with the exercise of non-qualified stock options.

We have a line of credit facility of $4,000,000 with a commercial bank. The line of credit is collateralized by the assets of the Company. Borrowings under the line of credit may be used towards working capital and the issuance of stand-by letters of credit. We are permitted to borrow based on accounts receivable and inventory according to pre-established criteria. The issuance of letters of credit against the line of credit reduces the borrowing capacity of the facility for working capital purposes. The maturity date of the credit facility is December 20, 2015. Borrowings under the agreement will bear interest payable monthly based on the bank’s prime rate. As of December 31, 2014 and 2013, the Company did not have an outstanding balance under the terms of the line of credit agreement.

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The Company maintains letters of credit to satisfy bid or performance guarantees under certain contracts. As of December 31, 2014 and 2013, the commercial bank had issued stand-by letters of credit on behalf of the Company in the amount of $1,128,000 and $1,663,000, respectively. The amount of borrowing available 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 2014.

Item 7A – Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Rate Risk

Although the majority of our sales, costs of sales and selling costs are transacted in U.S. dollars, a portion of our revenue and costs are denominated in other foreign currencies. Consequently, a portion of our revenues, costs and operating margins may be affected by fluctuations in exchange rates between the U.S. dollar and the foreign currencies. We recognized foreign currency gains of approximately $41,000 in 2014 and losses of approximately $97,000, and $22,000 in 2013, and 2012, respectively. Fluctuations between the U.S. dollar and other foreign currencies may have a material adverse effect on our financial results.

Interest Rate Risk

We currently invest our cash balances, in excess of our current needs, in an interest bearing savings account. We do not invest for the purposes of trading in securities. We do not use derivative financial instruments in our investments.

Item 8 – Financial Statements and Supplementary Data

SUTRON CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Certified Public Accountants
and Consultants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Sutron Corporation and Subsidiary
Sterling, Virginia

We have audited the accompanying consolidated balance sheets of Sutron Corporation and Subsidiary as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sutron Corporation and Subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with U.S. generally accepted accounting principles.

/s/ Yount, Hyde & Barbour, P.C.
Winchester, Virginia
March 31, 2015

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SUTRON CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,873,903	$ 8,283,092
Restricted cash and cash equivalents	809,509	850,279
Accounts receivable, net	4,693,260	4,480,218
Costs in excess of billings	1,500,603	1,383,418
Inventory	4,747,676	4,876,641
Prepaid items and other assets	293,568	446,749
Income taxes receivable	173,537	106,897
Deferred income taxes	1,046,593	664,558
Total Current Assets	21,138,649	21,091,852
Property and Equipment, Net	1,935,760	1,532,144
Other Assets		
Goodwill	4,452,152	4,452,152
Intangibles, net of amortization	722,466	907,495
Deferred tax asset	-	77,357
Other assets	102,514	81,885
Total Assets	$ 28,351,541	$ 28,142,885
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,045,170	$ 1,170,446
Accrued payroll	110,639	468,454
Deferred revenue	1,286,121	686,029
Deferred rent	149,011	139,146
Other accrued expenses	1,520,074	1,520,261
Billings in excess of costs and estimated earnings	125,242	388,687
Total Current Liabilities	4,236,257	4,373,023
Long-Term Liabilities		
Deferred rent	608,568	751,245
Deferred tax liability	30,871	-
Total Liabilities	4,875,696	5,124,268
Stockholders' Equity		
Common stock, $0.01 par value, 12,000,000 shares authorized; 5,084,134 and 5,066,009 issued and outstanding	50,842	50,660
Additional paid-in capital	5,465,723	5,340,277
Retained earnings	18,354,164	17,869,256
Accumulated other comprehensive loss	(394,884)	(241,576)
Total Stockholders' Equity	23,475,845	23,018,617
Total Liabilities and Stockholders' Equity	$ 28,351,541	$ 28,142,885

See accompanying notes to consolidated financial statements.

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SUTRON CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Years Ended December 31, 2014	2013	2012
Net sales and revenues	$ 26,243,398	$ 27,208,304	$ 25,229,519
Cost of sales and revenues	15,914,728	16,424,127	15,212,433
Gross profit	10,328,670	10,784,177	10,017,086
Operating expenses:			
Selling, general and administrative expenses	6,647,788	6,124,930	5,275,676
Research and development expenses	3,367,172	3,438,250	3,384,393
Total operating expenses	10,014,960	9,563,180	8,660,069
Operating income	313,710	1,220,997	1,357,017
Financing income, net	83,067	46,892	74,783
Income before income taxes	396,777	1,267,889	1,431,800
Income tax expense (benefit)	(88,131)	471,984	289,000
Net income	$ 484,908	$ 795,905	$ 1,142,800
Net income per share:			
Basic income per share	$ .10	$ .16	$ .24
Diluted income per share	$ .09	$ .16	$ .23
Comprehensive income (loss):			
Net income	484,908	795,905	1,142,800
Foreign currency translation adjustments	(153,308)	(58,973)	(6,094)
Comprehensive income	$ 331,600	$ 736,932	$ 1,136,706

See accompanying notes to consolidated financial statements.

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SUTRON CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Shares	Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances, December 31, 2011	4,704,632	$ 47,047	$ 4,173,828	$ 15,930,551	$ (176,509)	$ 19,974,917
Net income	-	-	-	1,142,800	-	1,142,800
Foreign currency translation adjustment	-	-	-	-	(6,094)	(6,094)
Amortization of stock based compensation	-	-	137,554	-	-	137,554
Exercise of stock options	335,000	3,350	873,943	-	-	877,293
Balances, December 31, 2012	5,039,632	$ 50,397	$ 5,185,325	$ 17,073,351	$ (182,603)	$ 22,126,470
Net income	-	-	-	795,905	-	795,905
Foreign currency translation adjustment	-	-	-	-	(58,973)	(58,973)
Issuance of stock	19,125	191	-	-	-	191
Amortization of stock based compensation	-	-	119,685	-	-	119,685
Exercise of stock options	7,252	72	35,267	-	-	35,339
Balances, December 31, 2013	5,066,009	$ 50,660	$ 5,340,277	$ 17,869,256	$ (241,576)	$ 23,018,617
Net income	-	-	-	484,908	-	484,908
Foreign currency translation adjustment	-	-	-	-	(153,308)	(153,308)
Issuance of stock	18,125	182	-	-	-	182
Amortization of stock based compensation	-	-	125,446	-	-	125,446
Balances, December 31, 2014	5,084,134	$ 50,842	$ 5,465,723	$ 18,354,164	$ (394,884)	$ 23,475,845

See accompanying notes to consolidated financial statements.

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SUTRON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2014	2013	2012
Cash Flows from Operating Activities:			
Net income	$ 484,908	$ 795,905	$ 1,142,800
Noncash items included in net income:			
Depreciation	455,566	382,996	315,338
Amortization of intangible assets	185,029	176,138	78,367
Provision (recovery) for bad debt	(28,700)	(13,509)	230,485
Stock based compensation	125,446	119,685	137,554
Deferred income taxes	(273,807)	(114,451)	(150,000)
(Gain) on disposal of property	(8,774)	-	-
Tax benefit from stock options exercised	-	(30,408)	(603,993)
Change in current assets and liabilities:			
Accounts receivable	(184,341)	684,432	816,711
Costs in excess of billings	(117,186)	(680,693)	(63,775)
Inventory	128,965	(418,037)	(770,975)
Prepaid items and other assets	153,181	(194,936)	73,823
Income taxes receivable	(66,640)	1,135,220	(214,770)
Accounts payable	(125,276)	(130,471)	501,910
Deferred revenues	600,092	154,632	382,602
Accrued expenses	(358,002)	345,909	(353,875)
Billings in excess of costs and estimated earnings	(263,445)	82,539	105,133
Deferred rent	(132,812)	(116,502)	(120,967)
Net Cash Provided by Operating Activities	574,204	2,178,449	1,506,368
Cash Flows from Investing Activities:			
Restricted cash and cash equivalents	40,770	(39,883)	(50,359)
Purchase of property and equipment	(861,530)	(207,407)	(179,131)
Business acquisition	-	(1,214,330)	(4,241,914)
Certificate of deposit	-	-	924,294
Other assets	(20,629)	13,332	8,374
Proceeds from the sale of property and equipment	11,122	-	-
Net Cash Provided (Used) by Investing Activities	(830,267)	(1,448,288)	(3,538,736)
Cash Flows from Financing Activities:			
Tax benefit from stock options exercised	-	30,408	603,993
Proceeds from stock options exercised	-	4,931	273,300
Proceeds from the issuance of stock	182	191	-
Net Cash Provided by Financing Activities	182	35,530	877,293
Effect of exchange rate changes on cash and cash equivalents	(153,308)	(58,973)	(6,094)
Net increase (decrease) in cash and cash equivalents	(409,189)	706,718	(1,161,169)
Cash and Cash Equivalents, beginning of year	8,283,092	7,576,374	8,737,543
Cash and Cash Equivalents, end of year	$ 7,873,903	$ 8,283,092	$ 7,576,374

See accompanying notes to consolidated financial statements.

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SUTRON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2013, 2012 and 2011

1. ORGANIZATION AND BASIS OF PRESENTATION

Sutron Corporation ("Company") was incorporated on December 30, 1975, under the General Laws of the Commonwealth of Virginia. The Company is a leading provider of real-time data collection and control products, systems and applications software and professional services in the hydrological, meteorological and oceanic monitoring markets. The Company's products include data loggers, satellite transmitters/loggers, sensors and system and applications software. Customers consist of a diversified base of Federal, state, local and foreign government agencies, universities, engineering firms, hydropower companies and aviation companies.

The Company operates from its headquarters located in Sterling, Virginia. The Company has branch offices located throughout the United States and a branch office in India. The Company has established a wholly-owned subsidiary, Sutron HydroMet Systems, Private Limited, which is located in New Delhi, India.

Basis of Presentation

The consolidated financial statements include the accounts of Sutron and its wholly-owned subsidiary, Sutron HydroMet Systems, Private Ltd. All intercompany balances and transactions have been eliminated.

2. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

In its annual review process of its 2014 financial records, the Company's management identified errors relating to over-booking of costs of goods sold amounts related to the Company's service department. The Company's service department repairs products that have been delivered to customers and that subsequently require repair, either under warranty or for a fee. The Company's accounting system has been set up to accumulate the costs associated with the service department in two places, costs of goods sold for costed repair orders and costs accumulated that are recorded when the customer is invoiced for a particular repair order. Historically, to avoid double counting the service department costs, a manual entry has been performed to reverse the costs the system records for costed repair orders. In the 2014 year-end review process, it was discovered that the manual entry to reverse the costs the system records for costed repair orders was not made for the first three quarters of 2014. This overstatement of cost was confined solely to the 2014 quarterly statements. The adjustments to remove these costs from each respective 2014 quarter had no impact on the Company's liquidity or cash position.

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The restatements reflect the recalculation of costs of goods sold for each of the previously issued interim financial statements contained in our Form 10-Q for the three months ended March 31, 2014, the three months ended June 30, 2014, and the three months ended September 30, 2014. The Company's restated Consolidated Balance Sheets as of March 31, 2014, June 30, 2014, and September 30, 2014, respectively, are:

SUTRON CORPORATION
CONSOLIDATED BALANCE SHEETS

	(Unaudited) Restated March 31, 2014	(Unaudited) Restated June 30, 2014	(Unaudited) Restated September 30, 2014
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 8,296,797	$ 7,751,469	$ 7,177,741
Restricted cash and cash equivalents	875,820	856,619	952,968
Accounts receivable, net	5,663,123	6,815,994	5,327,202
Inventory, net	5,276,830	5,532,102	5,278,898
Prepaid items and other assets	685,756	675,586	387,994
Income taxes receivable	77,866	59,078	295,019
Deferred income taxes	1,051,717	967,668	896,787
Total Current Assets	21,927,909	22,658,516	20,316,609
Property and Equipment, Net	1,466,119	1,728,419	1,770,713
Other Assets			
Goodwill	4,452,152	4,452,152	4,452,152
Intangibles, net of amortization	861,238	814,981	768,724
Deferred tax assets	64,075	50,353	49,716
Other Assets	80,427	105,430	103,971
Total Assets	$ 28,851,920	$ 29,809,851	$ 27,461,885
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$ 1,362,497	$ 1,189,988	$ 865,330
Accrued payroll	292,751	537,524	245,104
Deferred rent		143,910	146,438
Deferred revenue	789,573	1,075,592	825,681
Other accrued expenses	2,820,613	3,088,090	1,683,612
Billings in excess of costs and estimated earnings	253,770	329,445	125,200
Total Current Liabilities	5,519,204	6,364,549	3,891,365
Long-Term Liabilities			
Deferred rent	859, 351	682,657	645,612
Deferred income taxes	-	-	-
Total Liabilities	6,378, 555	7,047,206	4,536,977
Stockholders' Equity			
Common stock, 12,000,000 shares authorized; 5,066,009 issued and outstanding	50, 660	50,660	50,660
Additional paid-in capital	5,363,275	5,393,582	5,431,634

Retained earnings	17,329,038	17,583,231	17,733,565
Accumulated other comprehensive loss	(269,608)	(264,828)	(290,951)
Total Stockholders' Equity	22,473,365	22,762,645	22,924,908
Total Liabilities and Stockholders' Equity	$ 28,851,920	$ 29,809,851	$ 27,461,885

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The Company's restated Consolidated Statements of Income and Comprehensive Income for the three months ending March 31, 2014, June 30, 2014, and September 30, 2014, respectively, are:

SUTRON CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	(Unaudited) Restated For the three Months ended March 31, 2014	(Unaudited) Restated For the three Months ended June 30, 2014	(Unaudited) Restated For the three Months ended September 30, 2014
Net sales and revenues	$ 4,899,345	$ 7,615,540	$ 6,558,381
Cost of sales and revenues	3,263,304	4,613,156	3,829,312
Gross profit	1,636,041	3,002,384	2,729,069
Operating expenses:			
Selling, general and administrative expenses	1,659,849	1,924,213	1,660,133
Research and development expenses	868,949	716,167	839,704
Total operating expenses	2,528,798	2,640,380	2,499,837
Operating income	(892,757)	362,004	229,232
Financing income, net	2,873	17,660	17,072
Income before income taxes	(889,884)	379,664	246,304
Income tax expense (benefit)	(349,666)	125,470	95,971
Net income	$ (540,218)	$ 254,194	$ 150,333
Net income per share:			
Basic income per share	$ (.11)	$ .05	$ .03
Diluted income per share	$ (.11)	$ .05	$ .03
Comprehensive income (loss):			
Net income	(540,218)	254,194	150,333
Foreign currency translation adjustments	(28,032)	4,780	(26,123)
Comprehensive income	$ (568,250)	$ 258,974	$ 124,210

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue for the Company's products, consisting of both equipment and software, is recognized upon shipment, delivery, installation or customer acceptance of the product, as agreed in the customer order or contract. Sutron does sell its software products without the related equipment although software products are integral to systems. The Company's typical system requires no significant production, modification or customization of the software or hardware. For complex systems, revenue is deferred until customer acceptance. The Company does provide customer discounts and does allow for product returns. The Company does not do consignment sales or bill and hold arrangements. Revenue reflects reductions due to discounts and product returns. Product returns have historically been insignificant in amount.

The Company's sales arrangements for systems often include services in addition to equipment and software. These services could include equipment integration, software customization, installation, maintenance, training, and customer support. For sales arrangements that include bundled hardware, software and services, Sutron accounts for any undelivered service offering as a separate element of a multiple-element arrangement. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately. Revenue for these services is typically recognized ratably over the period benefited or when the services are complete.

The Company uses the percentage of completion method for recognizing revenue and profits when it performs on fixed price contracts that extend over a number of quarters. Under the percentage of completion method, revenue and profits are recorded as costs are incurred based on estimates of total sales value and costs at completion where total profit can be estimated with reasonable accuracy and ultimate realization is reasonably assured. Profit estimates are revised periodically based upon changes and facts, and any losses on contracts are recognized immediately. Contracts may contain provisions to earn incentive and award fees if targets are achieved. Incentive and award fees that can be reasonably estimated are recorded over the performance period of the contract. Incentive and award fees that cannot be reasonably estimated are recorded when awarded. The Company recognizes revenue from time-and-materials contracts to the extent of billable rates, times hours delivered, plus direct materials costs incurred. Some of the contracts include provisions to withhold a portion of the contract value as retainage. The Company's policy is to take into revenue the full value of the contract, including any retainage, as it performs against the contract. Contract costs include allocated indirect costs. Anticipated losses on all contracts are recognized as soon as they become known.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash equivalents include time deposits and all highly liquid debt instruments with original maturities of three months or less. Interest paid approximated $3,700, $500 and $900 for the years ended December 31, 2014, 2013 and 2012. Income taxes paid approximated $244,000, $6,000 and $366,000 for the years ended December 31, 2014, 2013 and 2012, respectively. Foreign income tax approximated $19,000, $36,000 and $328,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

Restricted Cash

For the years ended December 31, 2014 and 2013, the Company had submitted bid bonds or performance bonds on both official tenders or awarded contracts. At December 31, 2014 and 2013, cash in the amount of $809,509 and $850,279, respectively, was restricted for bid or performance bonds.

Accounts Receivable

Based on management's evaluation of uncollected accounts receivable at the end of each year, bad debts are provided for utilizing the allowance method. Bad debt expense as the result of prior year recoveries for the years ending December 31, 2014 and 2013 was $(28,700) and $(13,509). Bad debt expense, net of recoveries, for the year ending December 31, 2012 was $230,485.

Inventory

Inventory is stated at the lower of cost or market. Electronic components costs, work in process and finished goods costs consist of materials, labor and overhead and are recorded at a standard cost that approximates the average cost method. The Company provides allowances on inventories for any material that has become obsolete or may become unsellable based on estimates of future demand and sale price in the market.

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Property and Equipment

Property and equipment is recorded at cost and depreciated over their estimated useful lives, ranging from three to ten years, using the straight-line method for financial statement purposes, and the straight-line and accelerated methods for income tax purposes. Expenditures for maintenance, repairs, and improvements that do not materially extend the useful lives of the assets are charged to earnings as incurred. When items of property and equipment are disposed of, the cost of the asset and the related accumulated depreciation are removed from the accounts. Any gain or loss resulting from the removal from service is taken into the current period earnings.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed when a business is acquired. Goodwill is not amortized but is evaluated for potential impairment at least annually by comparing the fair value of a reporting unit to its carrying value including goodwill recorded by the reporting unit. During the year if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, an interim goodwill analysis would be performed. If the carrying value exceeds the fair value, impairment is measured by comparing the implied fair value of the goodwill to its carrying value, and any impairment determined is recorded in the current period.

On an annual basis the Company performs the impairment assessment for goodwill at the reporting unit level. The Company completed its annual impairment analysis during the fourth quarter of each of the years ended December 31, 2014, 2013 and 2012 and determined that there was no impairment of goodwill as of each balance sheet date.

Intangible Assets

Intangible assets are comprised of customer lists, software, and existing product technology with estimated useful lives of seven, five and five years, respectively. Intangible assets are amortized over their estimated lives using the straight-line method.

Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances have indicated that an asset may not be recoverable and are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest charges) is less than the carrying value of the assets, the assets will be written down to the estimated fair value and such loss is recognized in income from continuing operations in the period in which the determination is made. Management determined that no impairment of long-lived assets existed as of December 31, 2014, 2013 and 2012.

Income Taxes

The Company utilizes an asset and liability approach to accounting for income taxes. The objective is to recognize the amount of income taxes payable or refundable in the current year based on the Company’s income tax return and the deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company’s financial statements or tax returns. The asset and liability method accounts for deferred income taxes by applying enacted statutory rates to temporary differences, the difference between financial statement amounts and tax basis of assets and liabilities. The resulting deferred tax liabilities or assets are classified as current or noncurrent based on the classification of the related asset or liability. Deferred income tax liabilities or assets are adjusted to reflect changes in tax laws or rates in the year of enactment.

Management has evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2011.

Capital

The Company has 12,000,000, $.01 par value, shares of authorized Common Stock. There were 5,084,134 and shares issued and outstanding at December 31, 2014 and 5,066,009 shares issued and outstanding at December 31, 2013.

Foreign Currency Translation

Results of operations for the Company's foreign branch office and foreign wholly-owned subsidiary are translated from the designated functional currency to the U.S. dollar using average exchange rates during the period, while assets and liabilities of the foreign branch office are translated at the exchange rate in effect at the reporting date. Resulting gains or losses from translating foreign currency financial statements are included in accumulated other comprehensive loss.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from the estimates that were used.

We believe the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of the consolidated financial statements.

- Revenue recognition;
- Allowance for doubtful accounts;
- Allowances for excess and obsolete inventories;
- Accounting for warranty obligations;
- Goodwill impairment;
- Accounting and valuation of stock option compensation:
- Contingencies and litigation;
- Accounting for income taxes; and
- Acquisition accounting.

Earnings per Share

The Company presents two categories of earnings per share, basic EPS and diluted EPS. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock or resulted in the issuance of Common Stock that then shared in the earnings of the Company.

Stock Compensation Plans

The Company measures and recognizes compensation expense for all share-based payment awards to employees and directors based on estimated fair values. For stock options granted during the year ended December 31, 2014, the Company used the Black-Scholes model to estimate the fair value of the options. The Black-Scholes model estimates the per share fair value of an option on its date of grant based on the option's exercise price; the price of the underlying stock on the date of grant; the estimated dividend yield; a "risk-free" interest rate; the estimated option term; and the expected volatility. For the "risk-free" interest rate, the Company uses a United States Treasury Bond due in the number of years equal to the option's expected term. The estimated option term is based upon the contractual term of the option. To determine expected volatility, the Company analyzes the historical volatility of its stock.

Research and Development

Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other employee related expenses associated with product development. Research and development expenses also include third-party development and programming costs.

Warranty Obligations

We warrant our products for up to two years and warranty costs are based upon management's best estimate of the amounts necessary to settle future and existing claims on equipment sold as of the balance sheet date. Factors considered include actual past experience of product returns and the related estimated cost of labor and material to make the necessary repairs as well as technological advances and enhanced design and manufacturing processes. If actual future product return rates or the actual costs of material and labor differ from the estimates, adjustments to the accrued warranty liability are made.

Recent Accounting Pronouncements

In June 2014, the FASB issued ASU No. 2014-12, “Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period”. The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in “Compensation – Stock Compensation (Topic 718)” should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The Company is currently assessing the impact that ASU 2014-12 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers: Topic 606”. This ASU applies to any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition”, most industry-specific guidance, and some cost guidance included in Subtopic 605-35, “Revenue Recognition—Construction-Type and Production-Type Contracts”. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To be in alignment with the core principle, an entity must apply a five step process including: identification of the contract(s) with a customer, identification of performance obligations in the contract(s), determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue when (or as) the entity satisfies a performance obligation. Additionally, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer have also been amended to be consistent with the guidance on recognition and measurement. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently assessing the impact that ASU 2014-09 will have on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” The amendments in this ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization’s operations and financial results and include disposals of a major geographic area, a major line of business, or a major equity method investment. The new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Additionally, the new guidance requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-08 to have a material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which requires standard presentation of an unrecognized tax benefit when a carryforward related to net operating losses or tax credits exist. This update is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2013. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, consists of the following:

	2014	2013
Trade receivables	$ 4,504,720	$ 4,335,205
Contract retainage	263,540	249,013
Allowance for doubtful accounts	(75,000)	(104,000)
Totals	$ 4,693,260	$ 4,480,218

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5. INVENTORY

Inventory consists of the following at December 31:

		2014		2013
Electronic components	$	2,314,073	$	2,556,827
Work in process		1,844,330		1,936,202
Finished goods		1,237,547		1,109,491
Allowance for obsolete inventory		(648,274)		(725,879)
Totals	$	4,747,676	$	4,876,641

6. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31 is as follows:

		2014		2013
Furniture, fixtures and equipment	$	3,435,734	$	2,581,754
Vehicles		253,176		253,176
Leasehold improvements		1,596,739		1,591,537
Totals	$	5,285,649	$	4,426,467

Accumulated depreciation at December 31 is as follows:

		2014		2013
Furniture, fixtures and equipment	$	2,217,288	$	1,929,301
Vehicles		246,974		242,726
Leasehold improvements		885,627		722,296
Totals	$	3,349,889	$	2,894,323
Property and Equipment, Net	$	1,935,760	$	1,532,144

Depreciation expense totaled $455,566, $382,996 and $315,338 for the years ended December 31, 2014, 2013 and 2012, respectively.

7. GOODWILL AND INTANGIBLES

The change in carrying value of goodwill for the year ended December 31, 2014 is as follows:

Balance as of December 31, 2012	$ 3,768,435
Acquisition of Sabio Instruments	683,717
Balance as of December 31, 2013	$ 4,452,152
Acquisitions and other	-
Balance as of December 31, 2014	$ 4,452,152

The carrying values of the Company's amortizable acquired intangible assets are as follows:

	December 31, 2014		
	Gross Carrying	Accumulated	Net Carrying

	Amount	Amortization	Amount
Customer relationships	829,000	(287,513)	541,487
Acquired technology	333,000	(152,021)	180,979
	$ 1,162,000	$ (439,534)	$ 722,466

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	December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	829,000	(169,084)	659,916
Acquired technology	333,000	(85,421)	247,579
	$ 1,162,000	$ (254,505)	$ 907,495

Amortization expense related to intangible assets was approximately $185,029, $176,138, and $78,367 for the years ended December 31, 2014, 2013, and 2012 respectively.

The weighted average remaining amortization period by major asset class as of December 31, 2014 is as follows:

	(In years)
Acquired technology	2.8
Customer relationships	4.6

The estimated future amortization of acquired intangible assets as of December 31, 2014 is as follows:

2015	$ 185,029
2016	185,029
2017	161,579
2018	123,269
2019	63,515
Thereafter	4,045
	$ 722,466

8. CONTRACTS IN PROGRESS

A summary of contracts in progress at December 31 is as follows:

	2014	2013
Costs incurred to date	$ 6,155,641	$ 6,471,964
Estimated earnings	2,975,509	3,052,272
Revenue recognized to date	9,131,150	9,524,236
Billings to date	(7,755,789)	(8,529,505)
	$ 1,375,361	$ 994,731
Included in the accompanying balance sheets:		
Costs in excess of billings on uncompleted contracts	$ 1,500,603	$ 1,383,418
Billings in excess of costs on uncompleted contracts	(125,242)	(388,687)
	$ 1,375,361	$ 994,731

9. LINE OF CREDIT

The Company has a $4,000,000 line of credit with a commercial bank. Borrowings under the line of credit shall be used towards working capital and the issuance of stand-by letters of credit. The line of credit is collateralized by substantially all of the assets of the Company. The maturity date of the credit facility is December 20, 2015. Borrowings under the agreement will bear interest payable monthly based on the bank's prime rate.

Under the terms of the loan agreement, the Company is required to maintain usual and customary covenants, including, but not limited to a financial covenant with regard to Tangible Net Worth. As of December 31, 2014, the Company was in full compliance with all covenants contained in the agreement and remains so as of the date of this report.

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As of December 31, 2014 and 2013, the Company did not have an outstanding balance under the terms of the line of credit agreement.

The Company maintains letters of credit to satisfy bid or performance guarantees under certain contracts. As of December 31, 2014 and 2013, the commercial bank had issued stand-by letters of credit on behalf of the Company in the amount of $1,128,432 and $1,663,000, respectively. The amount available under the line of credit was reduced by this amount.

10. OTHER ACCRUED EXPENSES

Components of other accrued expenses consist of the following at December 31:

	2014	2013
Accrued vacation pay	$ 582,872	$ 488,446
Accrued warranty costs	207,000	217,000
Customer advance payments	503,655	696,970
Other accruals	226,547	117,845
Totals	$ 1,520,074	$ 1,520,261

11. ACCRUED WARRANTY COSTS

The Company warranties its products for up to two years and estimated warranty costs are based upon management's best estimate of the amounts necessary to settle future and existing claims on equipment sold as of the balance sheet date. Factors considered include actual past experience of product returns and the related estimated cost of labor and material to make the necessary repairs as well as technological advances and enhanced design and manufacturing processes. If actual future product return rates or the actual costs of material and labor differ from the estimates, adjustments to the accrued warranty liability are made. Changes to the product warranty reserve are identified below and represent adjustments to the reserve based on management estimates and other factors as noted above:

Balance as of December 31, 2011	$ 270,000
Reserve adjustment	29,000
Balance as of December 31, 2012	299,000
Reserve adjustment	(82,000)
Balance as of December 31, 2013	217,000
Reserve adjustment	(10,000)
Balance as of December 31, 2014	$ 207,000

12. LEASE OBLIGATIONS

The Company leases its facilities and accounts for those leases as operating leases. For facility leases that contain rent escalations or rent concession provisions, the Company records the total rent payable during the lease term on a straight-line basis over the term of the lease. The Company records the difference between the rent paid and the straight-line rent as a deferred rent liability.

Leasehold improvements funded by the landlord incentives or allowances are recorded as leasehold improvement assets and a deferred rent liability which is amortized as a reduction of rent expense over the term of the lease.

The Company is obligated under various non-cancellable operating leases for office facilities. Future minimum lease payments under non-cancellable lease agreements with initial terms of one year or more are as follows:

The following is a schedule of future minimum lease payments by year:

Years ending December 31:		
2015	$	681,180
2016		620,389
2017		595,159
2018		609,906
2019		329,624
Thereafter		73,734
Total	$	2,909,992

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Total rent expense under non-cancellable operating leases was $641,584, $677,917 and $522,965 for the years ended December 31, 2014, 2013 and 2012, respectively.

13. INCOME TAXES

The income tax expense charged to operations for the years ended December 31, were as follows:

	2014	2013	2012
Domestic income tax expense	$ 166,354	$ 550,608	$ 111,000
Foreign income tax expense	19,322	35,827	328,000
Deferred tax benefit	(273,807)	(114,451)	(150,000)
Total income tax expense (benefit)	$ (88,131)	$ 471,984	$ 289,000

Deferred tax amounts, are comprised of the following at December 31:

	2014	2013
Accrued vacation, warranty and compensation	$ 327,175	$ 228,613
Stock compensation additional paid in capital	228,864	203,205
Accounts receivable and inventory allowances	103,621	115,603
Depreciation	-	17,413
R&D Tax Credits	592,336	320,342
Foreign Tax Credits	23,461	-
Deferred tax assets	1,275,457	885,176
Intangibles amortization	(210,663)	(143,261)
Depreciation	(49,072)	-
Deferred tax liabilities	(259,735)	(143,261)
Net deferred tax assets	$ 1,015,722	$ 741,915

The net deferred tax amount mentioned above has been classified on the consolidated balance sheets as of December 31, as follows:

	2014	2013
Current tax assets	$ 1,046,593	$ 664,558
Non-current tax assets	228,865	77,357
Non-current tax liabilities	(259,736)	-
Net deferred tax liabilities	(30,871)	77,357
Net deferred tax assets	$ 1,015,722	$ 741,915

The realization of the deferred tax assets is dependent on future taxable earnings. The Company has not provided for a deferred tax asset valuation allowance due to their current and anticipated future earnings.

Reconciliation of the amount of reported income tax expense and the amount computed by multiplying the applicable statutory Federal income tax rate is as follows:

	2014	2013	2012
Income before income taxes	$ 396,777	$ 1,267,889	$ 1,431,800
Applicable statutory tax rate	34%	34%	34%
Computed "expected" Federal income tax expense	134,904	431,082	487,000
Adjustments to Federal income tax resulting from:			
State income tax expense	6,802	23,104	24,000
Tax credits (benefit) and other	(229,837)	17,798	(222,000)
Income tax expense	$ (88,131)	$ 471,984	$ 289,000

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14. MAJOR CUSTOMERS

Net sales for the years ended December 31, 2014, 2013 and 2012, include sales to the following major customers, together with the receivables due from the major customers:

	Net Sales Year Ended December 31, 2014	2013	2012	% to Total Net Sales Year Ended December 31, 2014	2013	2012
U.S. Government Agencies	$ 5,773,530	$ 5,373,652	$ 5,305,622	22%	20%	21%
Ministry of Energy and Water, Afghanistan	944,563	448,988	2,750,143	3%	2%	11%
	$ 6,718,093	$ 5,822,640	$ 8,055,765	25%	22%	32%

	Accounts Receivable Amount at December 31, 2014	2013	2012	% of Total Accounts Receivable at December 31, 2014	2013	2012
U.S. Government Agencies	$ 781,330	$ 478,826	$ 211,639	13%	8%	4%
Ministry of Energy and Water, Afghanistan	1,115,366	440,935	1,325,693	18%	8%	23%
	$ 1,896,696	$ 919,761	$ 1,537,332	31%	16%	27%

Because of the nature of the Company's business, the major customers may vary between years.

15. STOCK BASED 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 Company's 2010 Equity Incentive Plan provides for the grant of stock options, stock appreciation rights, restricted stock, stock units, unrestricted stock, dividend equivalent rights and cash awards. All plans are administered by the compensation committee of the Board of Directors who select 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.

The Company has granted stock options under the Stock Option Plans to key employees and directors for services provided to the Company. Under the 1996 Plan, the Company authorized 260,000 shares, all 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, 552,059 of which have been granted. The 1996, 1997 and 2002 Plans remain in effect until such time as no shares of Stock remain available for issuance under the Plans and the Company and the person awarded options have no further rights or obligations under the Plans. Under the 2010 Equity Incentive Plan, the Company authorized 500,000 shares, 73,250 of which have been granted as restricted stock units and 200,000 of which have been granted as stock options. The ability to make awards under the 2010 Plan will terminate in May 2020. Stock options under all of the plans may be granted at not less than 100 percent of the fair market value at the grant date. All outstanding options have a ten-year term from the date of grant. Cancelled or expired options can be reissued.

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 or restricted stock unit (RSU) vesting term. There were 200,000 stock options granted during the twelve months ended December 31, 2014 and none issued during the twelve months ended December 31, 2013. There were 9,000 RSU's granted to directors during the twelve months ended December 31, 2014 and 2013. There were 79,500 RSU's granted to key employees and directors during the twelve months ended December 31, 2012. The grants related to key employees in 2012 contained performance measurement targets. A portion of those shares did not qualify for vesting as they failed to meet their goals resulting in 1,000 shares, 13,125 shares and 10,125 shares that did not vest in 2014, 2013 and 2012, respectively. Stock based compensation expense relating to stock option awards and RSU's for the years ended December 31, 2014, 2013 and 2012 was $125,446, $119,685 and $137,554, respectively. These expenses were included in the cost of sales and selling, general and administrative lines of the Consolidated Statements of Operations. Unamortized stock compensation expense as of December 31, 2014 relating to stock options totaled approximately $290,000 and these costs will be expensed over a weighted average period of approximately 4.29 years. Unamortized stock compensation expense as of December 31, 2014 relating to RSU's totaled approximately $60,000 and these costs will be expensed over a weighted average period of approximately 1.97 years.

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For stock options granted during the year ended December 31, 2014, the Company used the Black-Scholes model to estimate the fair value of the options. The Black-Scholes model estimates the per share fair value of an option on its date of grant based on the option's exercise price; the price of the underlying stock on the date of grant; the estimated dividend yield; a "risk-free" interest rate; the estimated option term; and the expected volatility. For the "risk-free" interest rate, the Company uses a United States Treasury Bond due in the number of years equal to the option's expected term. The estimated option term is based upon the contractual term of the option. To determine expected volatility, the Company analyzes the historical volatility of its stock. The valuation assumptions used are shown below:

	2014
Risk free rate	2.54%
Expected volatility	21%
Dividend yield	0%
Expected term in years	10

The following table summarizes stock option activity under the Stock Option Plans for the last three years:

	2014					
	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value
Outstanding at beginning of period	113,726	$	6.66	4.94	$	1,600
Granted	200,000		4.52	-		-
Exercised	-		-	-		
Forfeited or expired	(10,000)		6.47	-		-
Outstanding at end of period	303,726	$	5.26	7.73	$	96,920
Exercisable at end of period	98,726	$	6.36	3.93	$	900
Nonvested at end of period	205,000	$	4.73	9.57	$	96,020

	2013					
	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value
Outstanding at beginning of period	155,978	$	6.45	5.55	$	33,991
Granted	-		-	-		-
Exercised	(7,252)		.68	-		32,489
Forfeited or expired	(35,000)		6.97	-		-
Outstanding at end of period	113,726	$	6.66	4.94	$	1,600
Exercisable at end of period	99,726	$	6.68	4,73	$	1,600
Nonvested at end of period	14,000	$	6.47	6.38	$	-

	2012			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual	Aggregate Intrinsic Value

				Term (Years)		
Outstanding at beginning of period	492,978	$	2.61	2.93	$	1,925,176
Granted	-		-	-		-
Exercised	(335,000)		.82	-		1,493,031
Forfeited or expired	(2,000)		4.45	-		-
Outstanding at end of period	155,978	$	6.45	5.55	$	33,991
Exercisable at end of period	134,978	$	6.45	5.27	$	33,991
Nonvested at end of period	21,000	$	6.47	7.38	$	-

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For RSU's granted during the year ended December 31, 2014 and 2013, fair value was determined based on the market value of the stock on the date of grant and the estimated probability of meeting the certain individual and company goals. The following tables summarize RSU activity under the Equity Incentive Plan for the years ended December 31, 2014 and 2013, respectively:

2014	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding restricted stock units at January 1, 2014	46,125	$ 4.36	1.24	$ 237,083
Granted	9,000	5.00	-	
Forfeited	(1,000)	5.14	-	
Vested	(18,125)	5.66	-	
Outstanding restricted stock units at December 31, 2014	36,000	$ 5.49	1.71	$ 180,004
Restricted stock units expected to vest	25,830	$ 5.43	1.56	$ 129,153

2013	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding restricted stock units at January 1, 2013	69,375	$ 4.21	2.56	$ 350,344
Granted	9,000	5.61	-	50,490
Forfeited	(13,125)	4.21	-	(74,156)
Vested	(19,125)	4.21	-	(96,581)
Outstanding restricted stock units at December 31, 2013	46,125	$ 4.36	1.24	$ 237,083
Restricted stock units expected to vest	34,955	$ 4.41	1.05	$ 179,669

2012	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding restricted stock units at January 1, 2012	-	$ -	-	$ -
Granted	79,500	4.21	-	334,865
Forfeited	(10,125)	4.21	-	51,131
Vested	-	-	-	-
Outstanding restricted stock units at December 31, 2012	69,375	$ 4.21	2.56	$ 350,344
Restricted stock units expected to vest	55,275	$ 4.21	2.56	$ 279,139

When stock options are exercised and restricted stock vests, the difference between the assumed tax benefit and the actual tax benefit must be recognized in the Company’s financial statements. In circumstances in which the actual tax benefit is lower than the estimated tax benefit, that difference is recorded in equity, to the extent there are sufficient accumulated excess tax benefits. At December 31, 2014, our accumulated excess tax benefits are sufficient to absorb any future differences between actual and estimated tax benefits for all of our outstanding option and restricted stock grants. The excess of actual tax deductions over amounts assumed, which are recognized in Stockholders’ Equity, were $0, $30,408 and $603,993 in 2014, 2013 and 2012.

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16. 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.

	Twelve Months Ended December 31, 2014	2013	2012
Net income	$ 484,908	$ 795,905	$ 1,142,800
Shares used in calculation of income per share:			
Basic	5,069,783	5,052,516	4,802,569
Effect of dilutive options	19,384	10,602	17,483
Effect of dilutive restricted shares	36,000	46,125	69,375
Diluted	5,125,167	5,109,243	4,889,427
Net income per share:			
Basic	$ .10	$ .16	$ .24
Diluted	$ .09	$ .16	$ .23

Stock options that could potentially dilute basic EPS in the future were not included in the computation of diluted EPS, because to do so would have been anti-dilutive, were 98,726, 103,726 and 139,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

17. ACQUISITIONS

The Company accounts for acquisitions of businesses under the acquisition method, which requires measurement of all of the assets acquired and liabilities assumed at their acquisition-date fair values. Results from operations are included in the accompanying consolidated statements of operations and comprehensive income from the date of acquisition.

Sabio

On March 5, 2013 the Company completed its acquisition of substantially all of the commercial and operating assets of Sabio Instruments ("Sabio") for the cash amount of $1,214,330. Sabio provides air quality monitoring products including ambient air instrumentation and continuous emission monitoring systems. Acquisition related costs totaled approximately $125,000 and were included in selling, general and administrative expenses in the consolidated statement of operations and comprehensive income as of December 31, 2013.

The purchase consideration was allocated to assets acquired and liabilities assumed on the basis of their respective fair values on the acquisition date. The Company's allocation of the total purchase price is as follows:

Accounts Receivable	$ 82,853
Inventory	167,099
Prepaid items and other assets	3,267
Property and equipment	9,516
Deferred tax asset	9,000
Accrued expenses	(43,122)
Intangibles	302,000
Goodwill	683,717
Totals	$ 1,214,330

The goodwill recognized in this acquisition was derived from expected benefits from future technology, sales synergies and a knowledgeable and experienced workforce who joined the Company. Goodwill is expected to be tax deductible for income tax purposes.

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MeteoStar

On May 24, 2012, the Company completed its acquisition of IPS MeteoStar ("MeteoStar"), pursuant to an Agreement dated May 1, 2012 for the cash amount of $4,241,914. MeteoStar was a privately held company with offices in Englewood, Colorado and Round Rock, Texas. MeteoStar specializes in software applications for aviation, hydrology, meteorology, transportation, energy, research, and the military and in providing air quality systems. Acquisition related costs totaled $958,000 and were included in selling, general and administrative expenses in the consolidated statement of operations and comprehensive income as of December 31, 2012.

The purchase consideration was allocated to assets acquired and liabilities assumed on the basis of their respective fair values on the acquisition date. The Company's allocation of the total purchase price is as follows:

Property and equipment	$ 309,545
Deferred asset	64,866
Accrued expenses	(190,782)
Intangible assets	860,000
Goodwill	3,198,285
Totals	$ 4,241,914

The goodwill recognized in this acquisition was derived from expected benefits from future technology, sales synergies and a knowledgeable and experienced workforce who joined the Company. Goodwill is expected to be tax deductible for income tax purposes.

18. PROFIT SHARING PLAN

The Company has a 401(k) Profit-Sharing Plan that covers substantially all employees of the Company. The 401(k) provision permits employees to elect to defer a portion of their compensation. The Plan was amended in July 2010 to allow for employer matching of up to 5 percent. The profit-sharing contribution is determined each year by the Board of Directors based on profits. The Company did not make a profit sharing contribution for the years ended December 31, 2014, 2013 and 2012. The employer matching contribution was approximately $416,000, $397,000 and $314,000 for the years ended December 31, 2014, 2013 and 2012, respectively.

19. SEGMENT INFORMATION

The Company operates principally in two industry segments: the manufacturing of standard products consisting of hydrological, meteorological and oceanic monitoring and control products which are sold off-the-shelf and systems that are comprised of standard products and custom items as required by the system specification also including software and services including installation, training, and maintenance of systems. Corporate assets consisted mainly of cash, prepaid expenses, deferred taxes, and income tax receivables. The results of these segments are shown below (in thousands):

	Years Ended Dec. 31	Net Sales	Operating Income (Loss)	Total Assets	Depreciation	Capital Expenditures
Standard Products	2014	$ 10,748	$ 1,163	$ 7,088	$ 92	$ 639
	2013	10,588	1,556	7,036	131	46
	2012	8,132	1,163	6,728	139	9
Systems/Services	2014	15,495	(849)	7,655	364	223

	2013		16,620		(335)		7,598		252		161
	2012		17,098		194		7,266		176		170
Corporate and Unallocated	2014		-		-		13,609		-		-
	2013		-		-		13,509		-		-
	2012		-		-		12,877		-		-
Total Company	2014	$	26,243	$	314	$	28,352	$	456	$	862
	2013		27,208		1,221		28,143		383		207
	2012		25,230		1,357		26,871		315		179

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Export sales were based on countries where the customers were located. Central and South America includes all countries south of the United States. Asia includes customers in Australia, China, India, Korea and New Zealand. Europe and other consists of Europe and Africa. The Middle East was primarily sales to Afghanistan and Iraq. Export sales from the Company's operations at December 31, were as follow (in thousands):

	2014	2013	2012
Central and South America	$ 4,789	$ 3,687	$ 2,278
Asia	2,727	3,525	3,380
Middle East	2,115	1,424	4,336
Canada	1.979	2.278	1.707
Europe and other	1,220	1,468	2,723
	$ 12,830	$ 12,382	$ 14,424

20. SUMMARIZED QUARTERLY UNAUDITED FINANCIAL DATA

	2014			
	Restated Q1	Restated Q2	Restated Q3	Restated Q4
Net sales	$ 4,899,345	$ 7,615,540	$ 6,558,381	$ 7,170,132
Gross profit	1,636,041	3,002,384	2,729,069	2,961,176
Operating income (loss)	(892,757)	362,004	229,232	615,231
Net income (loss)	$ (540,218)	$ 254,194	$ 150,333	$ 620,599
Basic income (loss) per common share	$ (.11)	$ .05	$ .03	$ .12
Diluted income (loss) per common share	$ (.11)	$ .05	$ .03	$ .12

	2013			
	Q1	Q2	Q3	Q4
Net sales	$ 6,455,110	$ 6,343,240	$ 7,124,591	$ 7,285,363
Gross profit	2,646,141	2,356,172	2,877,004	2,904,860
Operating income (loss)	41,999	(87,216)	662,384	603,830
Net income (loss)	$ 30,202	$ (53,170)	$ 486,975	$ 331,898
Basic income (loss) per common share	$ 0.01	$ 0.01	$ 0.10	$ 0.07
Diluted income (loss) per common share	$ 0.01	$ 0.01	$ 0.10	$ 0.06

	2012			
	Q1	Q2	Q3	Q4
Net sales	$ 3,737,181	$ 6,804,168	$ 7,042,056	$ 7,646,114
Gross profit	1,426,592	2,776,502	2,961,935	2,852,056
Operating income	(131,493)	801,325	685,224	1,961
Net income	$ (76,109)	$ 551,670	$ 490,452	$ 176,787
Basic income (loss) per common share	$ (0.02)	$ 0.12	$ 0.10	$ 0.04
Diluted income (loss) per common share	$ (0.02)	$ 0.11	$ 0.10	$ 0.04

Our results for the quarter ended September 30, 2012 were restated to correct for an error in the computation of contract revenue. The error was in the calculation of estimated costs to complete a contract resulting in estimated costs at completion being understated and revenue being overstated. The results were restated to decrease revenue in the amount of $236,943 and decrease net income by $134,943.

Our results for the three, six and nine month periods ended March 31, 2014, June 30, 2014 and September 30, 2014, respectively, were also restated to correct errors in such consolidated interim financial statements relating to overstating costs of goods sold amounts related to the Company's service department. The results were restated to decrease costs of goods sold and increasing net income by $47,258, $48,429, and $32,559 for the three month period ended March 31, 2014, June 30, 2014, and September 30, 2014, respectively. Full details of the restatement can be found in Footnote 2 to the financial statements above.

The sum of the quarterly earnings per share amounts do not equal the amount reported for the full year since per share amounts are computed independently for each quarter and for the full year based on respective weighted-average shares outstanding and other dilutive potential shares.

21. LEGAL CONTINGENCIES

There are currently no legal claims that, in the opinion of management have a material effect on our financial statements.

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Item 9 – Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we carried out an evaluation under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) of the Exchange Act). Disclosure controls and procedures are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2014 because of the material weaknesses described below.

Management's Annual Report on Internal Control over Financial Reporting

The management of our Company is responsible for establishing and maintaining adequate internal control over financial reporting for our Company. Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officer, and affected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, but because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, our management used the criteria set forth in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, our management has determined that as of December 31, 2014, our Company's internal control over financial reporting was not effective because of the following material weaknesses in internal control over financial reporting:

- Procedure for the review of estimated costs to complete used in contract revenue calculations was not adequate to properly identify all estimated costs in a timely manner, and
- Procedure for manually reclassifying double counting of costs of goods sold related to the Company's service department was not adequate to properly reflect the costs associated with repair orders completed by the Company.

As a result of these control weaknesses, management performed additional procedures for year end that were designed to ensure that the impact on the financial statements was minimized, and thus, management believes that the financial statements are accurate in all material respects.

Our results for the three, six and nine month periods ended March 31, 2014, June 30, 2014 and September 30, 2014, respectively, were also restated to correct errors in such consolidated interim financial statements relating to overstating costs of goods sold amounts related to the Company's service department. The details of our restatement can be found at Footnote 2 to these financial statements.

Changes in Internal Control over Financial Reporting

We are committed to continuing to improve our internal control processes and will continue to review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we will identify measures to address these material weaknesses. Our management, with the oversight of the audit committee of our board of directors, will continue to assess and take steps to enhance the overall design and capability of our control environment in the future.

Item 9B – Other Information

None

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PART III

Item 10 – Directors, Executive Officers and Corporate Governance

The Board has adopted a Code of Conduct and Ethics that applies to Sutron's principal executive officer, principal financial officer and all other employees of the Company. This Code of Conduct and Ethics is posted on the Company's website at http://www.sutron.com on the investors' page. Any amendments to the Code of Ethics and waivers of the Code of Ethics for our principal executive, accounting or financial officers will be published on our website.

The remainder of information required for this Item is incorporated by reference from the definitive Proxy Statement to be filed in connection with our 2015 Annual Meeting of Shareholders.

Item 11 – Executive Compensation

The information required for this Item is incorporated by reference from the definitive Proxy Statement to be filed in connection with our 2015 Annual Meeting of Shareholders.

Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required for this Item is incorporated by reference from the definitive Proxy Statement to be filed in connection with our 2015 Annual Meeting of Shareholders.

Item 13 – Certain Relationships and Related Transactions, and Directors Independence

The information required for this Item is incorporated by reference from the definitive Proxy Statement to be filed in connection with our 2015 Annual Meeting of Shareholders.

Item 14 – Principal Accounting Fees and Services

The information required for this Item is incorporated by reference from the definitive Proxy Statement to be filed in connection with our 2015 Annual Meeting of Shareholders.

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PART IV

Item 15 – Exhibits, Financial Statement Schedules

(a)(1 and 2) Financial Statements and Schedules

The financial statements listed in Item 8 in the Index to Consolidated Financial Statements on page 21 are filed as part of this report.

(b) Exhibits

3.1 Articles of Incorporation of the Company, dated December 19, 1995, as amended on September 1, 1983 and May 10, 1995 (incorporated by reference to Exhibit 3.1 of the Company's Form 10-K filed on March 29, 2013)
3.2 By-laws of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on December 5, 2007, File No. 000-12227)
10.1 Asset Purchase Agreement by and among Sutron Corporation, IPS MeteoStar, Inc., Information Processing Systems of California, Inc., Clarence L. Boice and Shirley H. Boice, dated April 30, 2012 (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on May 4, 2012)
10.2 Amended and Restated 2002 Stock Option Plan** (incorporated by reference to Exhibit 10.23 of the Company's Form 10-K filed on March 28, 2012)
10.3 Form of Stock Option Agreement** (incorporated by reference to Exhibit 10.24 of the Company's Form 10-K filed on March 28, 2012)
10.4 2010 Equity Incentive Plan** (incorporated by reference to Appendix A of the Company's Definitive Proxy Statement filed on April 30, 2010)
10.5 Loan Modification Agreement dated September 16, 2011 between Sutron Corporation and Branch Banking and Trust Company of Virginia, a North Carolina Banking Corporation (incorporated by reference to Exhibit 10.25 of the Company's Form 10-K filed on March 28, 2012)
23.1* Consent of Independent Registered Public Accounting Firm
31.1* Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chairman of the Board of Directors, President and Chief Executive Officer
31.2* Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chief Financial Officer and Treasurer
32* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS Instance Document
101.SCH Taxonomy Extension Schema Document
101.CAL Taxonomy Extension Calculation Linkbase Document
101.DEF Taxonomy Extension Definition Linkbase Document
101.LAB Taxonomy Extension Label Linkbase Document
101.PRE Taxonomy Presentation Linkbase Document

* Filed herewith
** Indicates management contract or compensatory plan or arrangement

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sutron Corporation

(Registrant)

/s/ Raul S. McQuivey By: Raul S. McQuivey, Chairman of the Board of Directors, President and Chief Executive Officer	Date: March 31, 2015

In accordance with the Securities Exchange Act, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Raul S. McQuivey By: Raul S. McQuivey, Chairman of the Board of Directors, President and Chief Executive Officer	Date: March 31, 2015
/s/ Leland R. Phipps By: Leland R. Phipps, Director	Date: March 31, 2015
/s/ John F. DePodesta By: John F. DePodesta, Director	Date: March 31, 2015
/s/ Larry C. Linton By: Larry C. Linton, Director	Date: March 31, 2015
/s/ Ashish H. Raval By: Ashish H. Raval, Director and Senior Vice President	Date: March 31, 2015
/s/ Glen E. Goold By: Glen E. Goold, Chief Financial Officer (Principal Financial and Accounting Officer)	Date: March 31, 2015