SUTRON CORP
Form 10-Q
November 14, 2008

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

FORM 10-Q

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

For the quarterly period ended September 30, 2008

COMMISSION FILE NUMBER: 0-12227

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

VIRGINIA	54-1006352
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

21300 RIDGETOP CIRCLE, STERLING, VIRGINIA 20166
(Address of principal executive offices)

703-406-2800
(Registrant's telephone number)

SECURITIES REGISTERED UNDER SECTION 12(G) OF THE ACT:
COMMON STOCK, $.01 PAR VALUE

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

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

Large accelerated filer	[_]	Accelerated Filer	[_]
Non-accelerated filer	[_]	Smaller reporting company	[X]

Indicate by check mark whether the registrant is a shell company (as defined in

Rule 12b-2 of the Exchange Act). Yes [_] No [X]

There were 4,570,632 outstanding shares of the registrant's only class of common equity, Common Stock, $0.01 par value, on November 13, 2008.

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUTRON CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	SEPTEMBER 30, 2008	DECEMBER 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,106,823	$ 5,299,904
Restricted cash and cash equivalents	1,069,483	134,241
Accounts receivable, net	3,694,392	3,614,532
Inventory	3,711,353	4,114,014
Prepaid items and other assets	898,244	477,754
Deferred income taxes	307,000	312,000
TOTAL CURRENT ASSETS	14,787,295	13,952,445
PROPERTY AND EQUIPMENT, AT COST	2,458,339	2,424,768
Accumulated depreciation and amortization	(2,005,866)	(1,845,486)
Property and equipment, net	452,473	579,282
OTHER ASSETS	83,591	99,308
TOTAL ASSETS	$ 15,323,359	$ 14,631,035
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,316,854	$ 823,114
Accrued payroll	193,641	285,829
Other accrued expenses	632,925	995,123
Notes payable - current	8,592	38,381
Billings in excess of costs and estimated earnings	251,709	246,448
TOTAL CURRENT LIABILITIES	2,403,721	2,388,895
LONG-TERM LIABILITIES		
Notes payable, net of current maturities	--	2,075
Deferred income taxes	51,000	84,000
TOTAL LONG-TERM LIABILITIES	51,000	86,075
TOTAL LIABILITIES	2,454,721	2,474,970
STOCKHOLDERS' EQUITY		
Common stock	45,707	45,257
Additional paid-in capital	2,764,119	2,694,416
Retained earnings	10,177,478	9,484,811
Accumulated other comprehensive loss	(118,666)	(68,419)
TOTAL STOCKHOLDERS' EQUITY	12,868,638	12,156,065

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,323,359	$ 14,631,035

See accompanying notes.

SUTRON CORPORTION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2008	2007
Net sales and revenues	$ 4,395,775	$ 6,607,220
Cost of sales and revenues	2,856,044	3,498,248
Gross profit	1,539,731	3,108,972
Operating expenses:		
Selling, general and administrative expenses	892,955	824,463
Research and development expenses	332,133	355,842
Total operating expenses	1,225,088	1,180,305
Operating income	314,643	1,928,667
Interest income (expense), net	22,224	24,668
Income before income taxes	336,867	1,953,335
Income tax expense (benefit)	150,000	735,000
Net income	$ 186,867	$ 1,218,335
Net income per share:		
Basic income per share	$ .04	$ .27
Diluted income per share	$ .04	$ .24

See accompanying notes.

SUTRON CORPORTION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 2008	2007
Net sales and revenues	$ 12,239,838	$ 13,971,836
Cost of sales and revenues	7,865,910	8,041,655
Gross profit	4,373,928	5,930,181
Operating expenses:		
Selling, general and administrative expenses	2,497,538	2,477,581
Research and development expenses	908,376	940,704
Total operating expenses	3,405,914	3,418,285
Operating income	968,014	2,511,896
Interest income (expense), net	88,653	73,816
Income before income taxes	1,056,667	2,585,712
Income taxes	364,000	934,000
Net income	$ 692,667	$ 1,651,712
Net income per share:		
Basic income per share	$ .15	$ .37
Diluted income per share	$ .14	$ .33

See accompanying notes.

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SUTRON CORPORTION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 692,667	$ 1,651,712
Noncash items included in net income:		
Depreciation and amortization	160,380	168,750
Deferred income taxes	(28,000)	(9,000)

Stock option compensation	41,503	59,620
Changes in current assets and liabilities:		
Accounts receivable	(79,860)	464,168
Inventory	402,661	(1,115,438)
Prepaid items and other assets	(404,773)	(139,908)
Accounts payable	493,740	365,916
Accrued expenses	(449,125)	(401,788)
Net Cash Provided (Used) by Operating Activities	829,193	1,044,032
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash and cash equivalents	(935,242)	80,982
Purchase of property and equipment	(33,571)	(88,252)
Net Cash Provided (Used) by Investing Activities	(968,813)	(7,270)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(31,864)	(40,959)
Proceeds from stock options exercised	28,650	78,451
Net Cash Provided (Used) by Financing Activities	(3,214)	37,492
Effect of exchange rate changes on cash	(50,247)	(29,993)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(193,081)	1,044,261
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,299,904	1,539,032
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 5,106,823	$ 2,583,293
CASH PAID DURING THE PERIOD FOR:		
Interest	$ --	$ 40

See accompanying notes.

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SUTRON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

The financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report filed on Form 10-KSB for the year ended December 31, 2007. The condensed consolidated balance sheet as of December 31, 2007 was derived from the audited financial statements for the year then ended.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These judgments are difficult as matters that are inherently uncertain directly impact their valuation and accounting. Actual results may vary from management's estimates and assumptions.

Our significant accounting policies are disclosed in our Annual Report on Form 10-KSB for the year ended December 31, 2007 filed with the Securities and Exchange Commission.

STOCK COMPENSATION

Our Amended and Restated 1996, 1997 and 2002 Stock Option Plans (the "Stock Option Plans") provide for the issuance of non-qualified stock options to employees, officers and directors. The plans are administered by the compensation committee of the Board of Directors, which selects persons to receive awards and determines the number of shares subject to each award and the terms, conditions, performance measures and other provisions of the award. See Note 13 of our financial statements in our Annual Report on Form 10-KSB for the year ended December 31, 2007 for additional information related to the stock option plans.

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Effective January 1, 2007, we adopted SFAS No. 123R ACCOUNTING FOR STOCK BASED COMPENSATION (SFAS 123R), which requires companies to measure and recognize compensation expense for all stock-based payments at fair value. SFAS 123R is being applied on the modified prospective transition method and therefore we have not restated results for prior periods. The financial statements for the three months and nine months ended September 30, 2008, recognize compensation cost for the portion of outstanding awards that have vested during the period. We recognize stock-based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. For the three months and nine months ended September 30, 2008, total stock-based compensation expense of $14,656 and $41,503 was included in operating expenses as compared to stock-based compensation of $18,811 and $59,620 for the three months and nine months ended September 30, 2007.

The weighted average fair value of options granted during the three months and nine months ended September 30, 2008 was calculated using the Black-Scholes option-pricing model with the following valuation assumptions and weighted average fair value as follows:

	Periods Ended September 30, 2008	
	Three Months	Nine Months
Weighted average fair value of grants	--	$7.41
Expected volatility	--	30%
Dividend yield	--	0
Risk-free interest rate	--	3.92 - 5.16%
Expected term in years	--	10.00

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

3. STOCK OPTIONS

We have granted stock options under the Stock Option Plans to key employees and directors for valuable services provided to the Company. Under the 1996 Plan, we authorized 260,000 shares, 259,000 of which have been granted. As of December 31, 2004, we authorized 60,000 shares and 400,000 shares under the 1997 and 2002 Stock Option Plans, respectively, all of which have been granted. During 2005, the 2002 Stock Option Plan was amended to authorize 650,000 shares, 509,333 of which have been granted. In addition, all three plans were amended in 2005 to allow Directors to participate in the plan, and to provide that vesting schedules will be determined by the Board at the time each individual option is granted.

Shares under all of the plans may be granted at not less than 100 percent of the fair market value at the grant date. All options have a ten-year term from the date of grant. Prior to the 2005 amendments, options vested ratably over five years on each anniversary date the option was granted. We elected to accelerate vesting of all outstanding options as of December 31, 2005, as permitted under the plans. Cancelled or expired options are able to be reissued.

The following table summarizes stock option activity under the Stock Option Plans for the nine months ended September 30, 2008:

	Number of Shares	Weighted Avg. Exercise Price	Number of Options Exercisable
Balance - December 31, 2007	583,252	$1.65	583,252
Granted	16,000	7.41	
Exercised	45,000	.64	
Canceled	10,000	7.63	
Balance - September 30, 2008	544,252	$1.80	544,252

4. EARNINGS PER SHARE

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Net income	$ 186,867	$ 1,218,335
Shares used in calculation of income per share:		
Basic	4,556,447	4,515,632
Effect of dilutive options	408,831	554,367
Diluted	4,965,278	5,069,999
Net income per share:		
Basic	$ .04	$ .27
Diluted	$ .04	$ .24

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net income	$ 692,667	$ 1,651,712
Shares used in calculation of income per share:		
Basic	4,542,793	4,509,864
Effect of dilutive options	435,948	554,367
Diluted	4,978,741	5,064,231
Net income per share:		
Basic	$ .15	$ .37
Diluted	$ .14	$ .33

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

STATEMENTS MADE IN THIS QUARTERLY REPORT ON FORM 10-Q, INCLUDING WITHOUT LIMITATION THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATIONS, OTHER THAN STATEMENTS OF HISTORICAL INFORMATION, ARE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THESE FORWARD-LOOKING STATEMENTS MAY SOMETIMES BE IDENTIFIED BY SUCH WORDS AS "MAY," "WILL," "EXPECT," "ANTICIPATE," "BELIEVE," "ESTIMATE" AND "CONTINUE" OR SIMILAR WORDS. WE BELIEVE THAT IT IS IMPORTANT TO COMMUNICATE OUR FUTURE EXPECTATIONS TO INVESTORS. HOWEVER, THESE FORWARD-LOOKING STATEMENTS INVOLVE MANY RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE INDICATED IN SUCH FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS. WE ARE UNDER NO DUTY TO UPDATE ANY OF THE FORWARD-LOOKING STATEMENTS AFTER THE DATE OF THIS REPORT ON QUARTERLY FORM 10-Q TO CONFORM THESE STATEMENTS TO ACTUAL RESULTS.

OVERVIEW

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

Our key products are the SatLink2 Transmitter/Logger, Xpert/XLite datalogger, Accububble Self-Contained Bubbler, Accubar Pressure Sensor, Tides Systems and XConnect Systems Software. These are the essential components of most systems and are provided to customers as off-the-shelf equipment or as part of a custom system. The SatLink2 is a key product because it functions as a transmitter and logger. Because of its transmitter/logger functionality, it is a cost-effective solution for small systems that do not require a significant number of sensors or communications options. The Xpert and XLite are more powerful dataloggers that have more logging capability and more communications options than the SatLink2. Our Tides Systems are used by the National Ocean Survey in their network of approximately 225 stations in operation in the United States and its territories.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of financial condition and results of operations are based upon the condensed financial statements, which have been prepared in accordance with generally accepted accounting principles as recognized in the United States of America. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, the valuation of inventory, and valuation of deferred tax assets and liabilities, useful lives of intangible assets, warranty obligations and accruals. We base our estimates on historical experience and on various other assumptions that management believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. For a complete description of accounting policies, see Note 1 to our financial statements included in our Form 10-KSB for the year ended December 31, 2007. There were no significant changes in critical accounting estimates.

RESULTS OF OPERATIONS

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

	Three Months Ended September 30,			
	2008	2008	2007	2007
Net sales and revenues	$4,395,775	100.0%	$6,607,220	100.0%
Cost of sales and revenues	2,856,044	65.0	3,498,248	52.9
Gross profit	1,539,731	35.0	3,108,972	47.1
Selling, general and administrative expenses	892,955	20.3	824,463	12.5
Research and development expenses	332,133	7.6	355,842	5.4
Operating income	314,643	7.1	1,928,667	29.2
Interest (income) expense	22,224	.5	24,668	.4
Income before income taxes	336,867	7.6	1,953,335	29.5
Income taxes (benefit)	150,000	3.4	735,000	11.1
Net income	$ 186,867	4.2%	$1,218,335	18.4%

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

NET SALES AND REVENUES

Our net sales and revenues for the three months ended September 30, 2008 decreased 34% to $4,395,775 from $6,607,220 in 2007 due primarily to a decrease in project revenues. Overall domestic revenues decreased 12% to $2,546,070 in the third quarter of 2008 versus $2,903,386 in 2007 while international revenues decreased 50% to $1,849,705 in 2008 versus $3,703,834 in 2007. Record revenues were achieved in the third quarter of 2007 due to shipments of water level monitoring equipment totaling approximately $956,000 to customers in China for the Three Gorges Dam project and shipments totaling approximately $2,223,000 to Washington International Group for to the Iraq Ministry of Water Resources. Net sales and revenues are broken down between our operating divisions or profit centers which include the HydroMet Products Division, the Integrated Services Division which includes Special Projects, the Hydrological Services Division, Airport Weather Systems Division and Sutron India Operations.

The HydroMet Products Division, which is responsible for sales of standard products, had a net sales and revenue decrease of 28% to $2,278,103 from $3,183,025 in 2007. Standard product revenues were lower in 2008 due to prior year project shipments to China for the Three Gorges Dam project. Integrated Systems Division net sales and revenues decreased 38% to $1,604,501 from $2,592,340 in 2007 due primarily to the project shipment of equipment to Washington International Group for the Iraq Ministry of Water Resources in 2007. Net sales and revenues from the Hydrological Services Division decreased 39% to $393,640 from $644,861 in 2007 due to a decrease in project deliveries. Airport Weather Systems Division net sales and revenues were $162,030 for the third quarter of 2008 as compared to $0 in 2007 due to an AWOS shipment to Kenya.

Sutron India Operations had a net sales and revenue decrease to $(42,499) from $186,994 in 2007 due to higher than expected costs to complete for the Central Water Commission (CWC) of India contract that is now in its warranty period.

Customer orders for the third quarter of 2008 were approximately $5,505,000 as compared to approximately $4,886,000 in 2007, a 13% increase.

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COST OF SALES AND REVENUES

Cost of sales as a percentage of revenues was 65% for the quarter ended September 30, 2008 as compared to 52.9% for the quarter ended September 30, 2007. The increase in cost of sales is attributed to changes in the product mix that resulted in lower equipment sales and increased project work. The shipments to China for the Three Gorges Dam project and to Washington International Group for the Iraq Ministry of Water Resources had high content of standard products. In 2008, we had higher costs of sales due to project work with less standard product content. Cost of sales was also impacted by foreign currency losses of approximately $106,000 in the third quarter of 2008 as compared to foreign currency gains of approximately $70,000 in the third quarter of 2007. Cost of sales for both 2008 and 2007 include provisions for inventory obsolescence, physical inventory adjustments and inventory valuation adjustments. We continually pursue product cost reductions through continual review of procurement sourcing, product value engineering and improvements in manufacturing processes.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased to $892,955 in 2008 from $824,463 in 2007, an increase of $68,312 or 8%. We experienced increases in selling costs in India, in Sarbanes Oxley 404 compliance costs and in Board of Director compensation as compared to the same quarter in the prior year.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses decreased to $332,133 in 2008 from $355,842 in 2007, a decrease of $23,709 or 7.5%. Product development expenses decreased in 2008 due to lower costs relating to the development of several new products. Dataloggers and water level sensors are the primary components of hydro-meteorological systems and we are continuously improving these products as well as developing new products in order to maintain and improve our competitive position.

INTEREST INCOME AND EXPENSE, NET

Due to our cash position, we did not use its line of credit during the third quarter of 2008. We had net interest income of $22,224 in 2008 as compared to net interest income of $24,668 in 2007.

INCOME TAXES

Income taxes decreased 80% in 2008 to $150,000 from $735,000 in 2007. Taxes as a percentage of revenue were 3.4% in 2008 as compared to 11.1% in 2007. The provisions for income taxes represent effective tax rates of approximately 44.5% in 2008 and 37.6% in 2007, respectively.

NINE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2007

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

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	Nine Months Ended September 30,			
	2008	2008	2007	20
Net sales and revenues	$ 12,239,838	100.0%	$ 13,971,836	10
Cost of sales and revenues	7,865,910	64.3	8,041,655	5
Gross profit	4,373,928	35.7	5,930,181	4
Selling, general and administrative expenses	2,497,538	20.4	2,477,581	1
Research and Development expenses	908,376	7.4	940,704	
Operating income	968,014	7.9	2,511,896	1
Interest (income) expense	88,653	.7	73,816	
Income before income taxes	1,056,667	8.6	2,585,712	1
Income taxes (benefit)	364,000	3.0	934,000	
Net income	$ 692,667	5.6%	$ 1,651,712	1

NET SALES AND REVENUES

Our net sales and revenues for the nine months ended September 30, 2008 decreased 12% to $12,239,838 from $13,971,836 in 2007. Overall domestic revenues decreased 12% to $7,557,168 in 2008 versus $8,590,425 in 2007 while international revenues decreased 13% to $4,682,670 in 2008 versus $5,381,411 in 2007, primarily due to decreased project work both domestically and internationally. Net sales and revenues are broken down between our operating divisions or profit centers which include the HydroMet Products Division, the Integrated Services Division which includes Special Projects, the Hydrological Services Division, Airport Weather Systems Division and Sutron India Operations.

The HydroMet Products Division had a revenue decrease of 11% to $6,669,084 from $7,481,684 in 2008 due to decreased international shipments. Integrated Systems Division revenues decreased 9.5% to $3,822,842 from $4,222,476 in 2007 due to decreased domestic project revenues. Revenues from the Hydrological Services Division decreased 26% to $1,195,480 from $1,625,059 in 2007 due to decreased project activity. Airport Weather Systems Division revenues increased to $427,541 in 2008 as compared to $75,425 in 2007 due to AWOS project shipments to Vietnam and Kenya. Sutron India Operations had a net sales and revenue decrease of 78% to $124,891 in 2008 from $567,193 in 2007 due to the Central Water Commission (CWC) of India contract being in the warranty period and near completion.

Customer orders or bookings for the first nine months of 2008 were approximately $10,401,000 as compared to approximately $20,689,000 for the first nine months of 2007, a 50% decrease. Our backlog of orders at September 30, 2008 was approximately $8,700,000. The backlog total as of September 30, 2007 was approximately $10,275,000. We anticipate that approximately 40% of our backlog as of September 30, 2008 will be shipped in 2008.

COST OF SALES AND REVENUES

Cost of sales as a percentage of revenues was 64.3% in 2008 as compared to 57.6% in 2007. The increase in cost of sales is attributed to changes in the product mix that resulted in projects with lower standard product content. Projects that do not have high standard product content do not carry as high margins as those consisting primarily of standard products. In 2008, we had higher costs of sales due to project work that had lower standard product content and lower margins. In 2007, the shipments to China for the Three Gorges Dam project and to Washington International Group had high content of standard products and higher margins. Foreign currency losses for the nine months ended September 30, 2008 were approximately $145,000 as compared to a gain of approximately $159,000 in same period of 2007.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased to $2,497,538 in 2008 from $2,477,581in 2007, an increase of $19,957 or 1%. The increase is primarily due to increased sales and marketing activities in India.

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RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses decreased to $908,376 in 2008 from $940,704 in 2007, a decrease of $32,328 or 3%. Our SatLink2 Transmitter/Logger, our Xpert / XLite Dataloggers, our Water Level Sensors and our Tides Systems are the primary components of our hydro-meteorological systems and we are continuously improving these products as well as developing new products in order to maintain and improve our competitive position.

INTEREST INCOME AND EXPENSE, NET

Due to our cash position, we did not use our line of credit during the nine months ended September 30, 2008. We had net interest income in 2008 of $88,653 as compared to net interest income of $73,816 in 2007.

INCOME TAXES

Income taxes decreased 61% in 2008 to $364,000 from $934,000 in 2007 due to the decrease in operating income. Taxes as a percentage of revenue were 3% in 2008 as compared to 6.7% in 2007. The provisions for income taxes represent effective tax rates of approximately 34.4% in 2008 and 36.1% in 2007, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $5,106,823 at September 30, 2008 compared to $5,299,904 at December 31, 2007. Working capital increased to $12,383,574 at September 30, 2008 compared with $11,563,550 at December 31, 2007.

Net cash provided by operating activities was $829,193 for the nine months ended September 30, 2008 as compared to cash provided by operating activities of $1,044,032 for the nine months ended September 30, 2007. The decrease is primarily due to the decrease in operating income.

Net cash used by investing activities was $968,813 for the nine months ended September 30, 2008 as compared to cash used by investing activities of $7,270 for the nine months ended September 30, 2007. The increase is due to an increase in restricted cash in 2008 related to a performance bond issued to the Ministry of Energy and Water in Afghanistan.

Net cash used by financing activities was $3,214 for the nine months ended September 30, 2008 as compared to net cash provided by financing activities of $37,492 for the nine months ended September 30, 2007. The decrease is due to proceeds from the exercise of employee stock options being down in 2008 as compared to 2007.

We have a revolving credit facility of $3,000,000 with BB&T Bank. We are permitted to borrow based on accounts receivable and inventory according to pre-established criteria. The credit facility expires on August 5, 2009 and is secured by substantially all or our assets. Borrowings bear interest at the bank's prime rate. During the first nine months ended of 2008, there were no borrowings on the line of credit. We frequently bid on and enter into international contracts that require bid and performance bonds. At September 30, 2008 and December 31, 2007, a commercial bank had issued standby letters of credit in the amounts of $1,053,580 and $1,652,818, respectively that served as either bid or performance bonds. The amount available to borrow under the line of credit was reduced by these amounts.

Management believes that our existing cash resources, cash flow from operations and short-term borrowings on the existing credit line will provide adequate resources for supporting operations during fiscal 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

ITEM 4T. CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management (with the participation of our Chief Executive Officer and Chief Financial Officer) evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of September 30, 2008, the end of the fiscal period covered by this report on Form 10-Q. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission ("SEC") rules and forms.

(b) CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during the nine months ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Various legal claims can arise from time to time in the normal course of business, which claims, in the opinion of management, will have no material effect on our financial statements.

ITEM 5. OTHER INFORMATION

On July 31, 2008, the Board of Directors, based on the recommendation of the compensation committee, approved independent director's compensation as follows:

1. Annual Retainer: $10,000
2. Annual Stock Option: 5,000 shares of non-qualified stock that vest over one year from date of election with stock option being dated as of date of election. Option exercise price is closing sales price of a share of stock reported on the NASDAQ in accordance with Sutron Amended and Restated 2002 Stock Plan as filed with SEC
3. Board Meeting Attendance: $1,500 in person and$1,000 by telephone participation
4. Committee Meeting Attendance: $1,500 in person and $1,000 by telephone participation

5. Audit Committee Chair Retainer: $5,000 per year
6. Other Committee Chair Retainer: $3,000 per year
7. Out of pocket expenses: Reimbursed at actual cost relative to performance as members of the Board of Directors

Independent Directors receiving stock options as of their election date of May 14, 2008 are Mr. Andrew Lipman, Mr. Leland Phipps and Mr. Robert Roberts, Jr.

ITEM 6. EXHIBITS

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

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

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

SIGNATURES

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

Sutron Corporation

(Registrant)

November 14, 2008

Date

/s/ Raul S. McQuivey

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

November 14, 2008	/s/ Sidney C. Hooper
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Date	Sidney C. Hooper Chief Financial Officer and Treasurer (Principal Accounting Officer)