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SUTRON CORP
Form 10KSB
March 30, 2004

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

FORM 10 KSB

Annual Report Pursuant To Section 13 Or 15(D)
Of The Securities Exchange Act Of 1934
For the fiscal year ended: December 31, 2003
Commission file number: 0-12227

Sutron Corporation
(Exact name of registrant as specified in its charter.)

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

21300 Ridgetop Circle, Sterling Virginia 20166
(Address of principal executive offices) (Zip Code)

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

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 [X] No []

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB. []

Issuer's revenues for its most recent fiscal year were \$11,015,689.

The aggregate market value of the voting stock held by non-affiliates as of March 22, 2004 was approximately \$2,177,000 based on the fair market value of such stock.

The number of shares outstanding of the issuer's Common Stock, \$.01 par value, as of March 22, 2004 was 4,289,551.

Documents Incorporated by Reference
Portions of the registrants definitive proxy statement dated April 14, 2004 are incorporated in Part III as set forth herein.

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SUTRON CORPORATION
FORM 10-KSB ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2003

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PART I

ITEM 1 - BUSINESS

General

Sutron Corporation (the Company) was incorporated on December 30, 1975 under the General Laws of the Commonwealth of Virginia. The Company designs, manufactures and markets products and solutions that enable government and commercial entities to monitor and collect hydrological and meteorological data for the management of critical water resources, for early warning of potentially disastrous floods or storms and for the optimization of hydropower plants.

The Company's headquarters is located at 21300 Ridgetop Circle, Sterling, Virginia 20166, and the Company's

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telephone number at that location is (703) 406-2800. The Company maintains a worldwide web address at www.sutron.com. The Company makes available free of charge through the Investors section of the Company's website at www.verso.com the annual, quarterly and current reports, and amendments thereto, which the Company files with, or furnishes to, the SEC. Such reports and amendments are available on the Company's website as soon as reasonably practical after the Company has filed such reports with, or furnished such reports to, the SEC.

Sutron is focused on providing real-time solutions and services to our customers in three areas of the hydrological and meteorological markets. First, we provide real time data dataloggers, satellite transmitters and sensors. Second, we provide turnkey integrated systems for hydrological and meteorological networks and airport weather systems. Third, we provide services consisting of installation, maintenance of hydrological and meteorological systems, and other related engineering services. The Company's customers include a diversified base of federal, state, local and foreign governments, engineering companies, universities, and hydropower companies.

The Company's ongoing, strategic business units consist of the Company's Hydromet Products Division, the Integrated Systems Division, the Hydrological Services Division and the Airport Weather Systems division. Each unit includes a range of products and services designed to meet the specific needs of a particular customer segment.

Hydromet Products Division

The Hydromet Products Division manufactures data loggers, satellite transmitters and sensors. Sutron's data loggers collect sensor data and transmit the data to central facilities primarily by satellite radio but also by telephone, fiber optics or microwave. Sutron's sensors support the collection of hydrological and meteorological data and include a tipping bucket rain gauge, a barometric pressure sensor, a temperature sensor, and several water level sensors. The Company's equipment is compatible with sensors from other companies. Sutron has long-standing relationships with suppliers for wind speed and wind direction, water quality, humidity and solar radiation sensors. The Company received an ISO 9001 certification on March 12, 1999 and an ISO 9001:2000 certification on August 13, 2003. The principal products that are manufactured by the Hydromet Products Division are described below.

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8210 Data Logger

The 8210 Data Logger/Transmitter is a simple-to-operate, low-cost data collection platform which supports a wide variety of telemetry applications. The 8210 is environmentally hardened, capable of operating from -40 C to 60 C, making it ideal for remote locations. As a data recorder, the 8210 will store over 65,000 readings in battery backed

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memory. The 8210 supports a wide variety of communications, including radio, satellite, and telephone. The Telephone/Voice Synthesis option allows communications over standard telephone circuits using either a synthesized voice message or a modem connected to a computer terminal.

Xpert and XLite Dataloggers

The Xpert Datalogger/controller is the Companys next generation datalogger. It is built upon a Microsoft CE operating system, has a 486 processor, C++ programming and standard 2 MB memory that is expandable to over 1 gigabyte. It enables the Company to enter closely related environmental markets such as tides and weather monitoring. The XLite, a derived product based on the Xpert, does not have a display but is similarly capable. The XLite was released at the end of 2001.

SatLink G312-1

The SatLink G312-1 is a high data rate satellite transmitter that transmits at 100, 300 and 1200 baud, incorporates GPS and functions as a logger. The unit was certified by NESDIS in July 2001 for operation on the Geostationary Operational Environment Satellite (GOES) system. NESDIS operates two U.S. Government environmental satellites on this system. All Geostationary Operational Environment Satellite (GOES) customers are mandated by NESDIS to purchase high data rate satellite transmitters and to replace all old 100 baud transmitters within a ten-year period beginning in July 2001. NESDIS made this a requirement in order to increase the amount of data that the two GOES satellites can handle. SatLink is also certified on satellite systems in Europe and Asia and relays data from even the most remote sensors and loggers to everywhere around the globe and works with virtually all dataloggers. SatLink is programmable from any PC using software provided with the unit.

SL2-G312-1

The Company invested heavily in the redesign of the SatLink transmitter beginning in 2002 and continuing in 2003. In January 2004, the SL2-G312-1 Satellite Transmitter (SatLink2) was certified by NESDIS. The SatLink2 is a redesign of the original SatLink transmitter in order to improve our margins and to provide the latest features. We believe that the SatLink2 can beat competing high data rate transmitters in price, features and performance. We believe that the SatLink2 will enable our Company to dominate the 100 bps GOES transmitter replacement program and be more competitive in large national and global systems such as the National Weather Service Cooperative Observer Program (COOP), the World Meteorological Organization Global Climatological Observer System GCOS program and large projects in India and Venezuela.

Accubar Gauge Pressure Sensor

The Accubar Gauge Pressure sensor 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

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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 which can rupture over time. The AccuBubble uses the SDI-12 communications protocol as the control interface. This allows the unit to be configured by any data loggers supporting the SDI-12 standard.

Tides and Ports Systems

The National Ocean Survey (NOS), part of the National Oceanic and Atmospheric Administration (NOAA), has the responsibility to accurately measure tide levels around the perimeter of the United States. NOS ensures that measurements are the most accurate possible by using the best water level instruments available. In 2003 and 2002 our Hydromet Products Division provided state-of-the-art tide stations to the National Ocean Survey valued at \$637,000 and \$471,000. Sutron tide stations are based on our Xpert data logger. Xperts run the powerful Windows CE multi-tasking operating system. Sutron has taken advantage of Windows CE to equip each tide station with software that meets and exceeds all of the NOS requirements.

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Integrated Systems Division

The Integrated Systems Division provides system integration services consisting of the design and development of customer-specific hardware configurations and software applications for hydrological and meteorological monitoring and control systems, the sale of Sutrons real-time database software (XConnect), and long-term software support for XConnect users. This capability allows the Company to provide turnkey hydrological and meteorological systems to a variety of users. Projects range in size from one station to hundreds of stations. Projects usually require design, equipment integration, software application development and installation and training on both hardware and software. Projects can range in duration from a few days to twelve months depending on the scope and complexity of the system.

Hydrological Services Division

The Company provides hydrological services which include provides data interpretation and analysis services, flow modeling (low flow, rainfall runoff, unsteady flow routing, water surface profiles), field studies (time of travel, diffusion, dispersion, calibration of flow control structures, site location), hydrologic studies (water budget, regression analysis, basin inventory studies) and environmental permitting and legal or expert witness.

Airport Weather Systems

The Airport Weather Systems Division was started in July 2003 with the hiring of a division manager with over 20 years experience

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in the Automatic Weather Observation System (AWOS) market. Monitoring of real-time weather data is crucial to flight safety. 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/RVR. Sensors are connected to a Sutron 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 is leveraging its experience with sensors and data collection to enter this market.

Distribution Methods of Products and Services

The Companys products and services are currently sold in the United States by the Companys direct sales force. As of December 31, 2003, the Company employed seven salaried sales and marketing personnel, including four engaged directly in field sales activities, and three in various other marketing and sales support functions. Internationally, the Company utilizes agents to sell its products and services.

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Customers

During 2003, approximately 45% of the Companys products and services were sold to the Federal Government. Revenues in 2003 among the various agencies were as follows: U.S. Army Corps of Engineers, 9%; Department of the Interior, 28%; Department of Commerce, 7% and various other agencies of the federal government, 1%. The revenues from the Corps of Engineers were spread among some ten (10) separate Districts, and the revenues from the Department of the Interior among two (2) agencies, the U.S. Geological Survey and the Bureau of Reclamation.

The Company also performed on various contracts of foreign origin. Total revenues from foreign customers amounted to approximately 28% of total revenues in 2003, 29% of total revenues in 2002 and 12% in 2001. Sutron actively markets its products and services internationally.

Contracts for products or services with federal, state and local government agencies typically allow for termination at the convenience of the government and for audit and annual negotiation of overhead rates. Upon termination, the Company would be entitled to reimbursement for allowable costs incurred and to a proportionate share of profits or fees earned to the date of termination. Such contracts are also typically dependent upon compliance by the contractor with applicable civil rights, equal employment opportunity, and contract procurement requirements.

The Company at this time has no reason to believe that any material changes will occur in the foreseeable future with respect to federal, state, or local government programs or services with respect to which the Company has been granted its contracts or provides its services. However, due to changes in administration, national

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goals and budgetary restrictions, funding of such programs or services could be altered or abolished. If a substantial cut-back in the level of funding by the applicable government agency were to occur, it would have a material adverse effect on the Company.

Competition

The Company is aware of both domestic and foreign competitors offering complete real-time networks of their own and companies which fabricate real-time networks from components manufactured by themselves and others. The Company is also aware of numerous additional firms, ranging in size from large to small, from general to highly specialized, and from new to well established, offering 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 those of the Company. The Company may also be at a competitive disadvantage because it purchases 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 the Company's products.

The Company, with respect to its professional engineering and technical services, is 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 than the Company. As to its hydrological services, the Company is 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 than the Company.

Price, performance and experience are believed by the Company to be the primary competitive factors with respect to all of its products and services.

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Research and Development

During the three years ended December 31, 2003, 2002, and 2001, Sutron's internally funded research and development costs were \$1,065,558, \$1,480,706 and \$1,434,129 respectively.

The Company invested heavily in the redesign of the SatLink transmitter beginning in 2002 and continuing in 2003. In January 2004, the SL2-G312-1 Satellite Transmitter (SatLink2) was certified by the National Environmental Satellite, Data and Information Service NESDIS. The SatLink2 is a redesign of the original SatLink transmitter in order to improve our margins and to provide the latest features. It is not only a satellite transmitter but also has logging capability which is attractive to customers who have limited logging requirements and therefore avoids the purchase of a separate datalogger.

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In 2002, the company released the logger version of the SatLink and developed tidal monitoring applications based on the Xpert and XLite products that were instrumental in winning orders from the National Ocean Survey for tides systems. The Company released the Xpert and XLite dataloggers in 2001.

In 2002, the Company released XConnect, a base station software application that is compatible with leading database software including Oracle and Microsoft SQL Server. The Company added enhancements to XConnect's reporting features in 2003 incorporating Crystal reports.

Patents, Trademarks, Copyrights and Agreements

Although the Company does not deem patent protection to be of significant importance to its industry, it has and may in the future seek patents for certain of its products, real-time networks, and technology as well as Company software products, real-time networks, and technology. Company software products and innovations may not be patentable but may be subject to automatic but limited copyright protection. The Company has treated its products, real-time networks, technology and software as proprietary and relies on trade secret laws and internal non-disclosure safeguards rather than making their designs and processes generally available to the public by applying for patents. Further, the Company believes 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 Company personnel and their ability to design and develop enhanced and new products, real-time networks and their components.

Raw Materials

The raw materials used by the Company, such as electronic components and fabricated parts, are generally available from a wide variety of sources at competitive prices. The Company does not anticipate that its present or proposed business activities would be substantially adversely affected by the scarcity of any raw materials.

Backlog

The Company's backlog at December 31, 2003 was \$4,350,688 as compared with \$2,784,499 at December 31, 2002. The Company anticipates that 84% of its 2003 year-end backlog will be shipped in 2004.

Employees

The Company had a total of 57 employees as of December 31, 2003 of which 56 were full time.

ITEM 2 - PROPERTIES

On July 30, 1992, the Company entered into a five and one-half

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year lease, for approximately 17,000 square feet of manufacturing and office space in Sterling, Virginia. The lease commenced on October 23, 1992. This facility allowed the Company to consolidate its manufacturing, systems integration, research and development, and sales and administration departments into one building. An option for an additional five years was exercised in 1997. An option for an additional three years was exercised in November 2002. The lease will expire in March 2006.

In July, 1999, the Company leased additional space of approximately 7,000 square feet in Sterling, Virginia. Two departments, integrated systems and research and development were relocated to the new space during fiscal year 2000 in order to provide increased production and warehouse space at the corporate headquarters. The lease expires in March 2003 and has been renewed for three more years and will expire in March 2006.

The Company entered into a lease agreement in October 2002 for approximately 3800 square feet of office and warehouse space in West Palm Beach, Florida. The four year lease expires in October 2006. The Hydrological Services division will use this space which consists of both office and warehouse space.

The Company entered into a lease agreement for approximately 1500 square feet of office space in Brandon, Florida. The five-year lease, expires in December 2008. The Hydrological Services division will use this space for offices.

The Company believes that its facilities are adequate for its present needs and that its properties are in good condition, well maintained and adequately insured.

ITEM 3 - LEGAL PROCEEDINGS

From time to time, the Company is involved in litigation with customers, vendors, suppliers and others in the ordinary course of business, and a number of such claims may exist at any given time. All such existing proceedings are not expected to have a material adverse impact on the Company's results of operations or financial condition. The Company is a party to the proceedings discussed below.

In 2003, the Company filed a claim with the Advance Tax Court of India seeking a ruling on a decision by the Government of Andhra Pradesh (GoAP) of India to assess a 48% income tax on the Company's contract of approximately \$1,606,000. The GoAP believes that the Company has established a branch office in India and is therefore subject to Indian income tax. Although the Company did file an application for branch office status and received approval to open a branch office, the Company did not complete the registration and approval process with the Government of India and has not opened a branch office in India. The income tax amount that is at issue is approximately \$770,000.

The Advance Tax Court of India will hear the case in April 2004. In the event that the Advance Tax Court rules in the Company's favor, GoAP must immediately remit all amounts due including interest. The Company will not immediately receive the entire amount of \$770,000 due to the system having not completed final acceptance which is anticipated by mid-2004. The balance that the Company would receive immediately would be approximately \$23,000. In the event that the Company does not receive a

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favorable ruling from the Adance Court, the income tax withheld by GoAP would be used as an income tax credit on the Company's 2004 income tax return.

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

No matter was submitted during the fourth quarter of 2003 to a vote of the Companys security holders, either through the solicitation of proxies or otherwise.

PART II

ITEM 5 - MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information

The common stock of Sutron Corporation is quoted over the counter through the NASD Bulletin Board supplied by the National Association of Securities Dealers, Inc. under the symbol STRN, and through the Pink Sheet Service of the National Quotation Bureau, Inc. The following table shows the high and low bid quotations in 2003 and 2002 by quarter as reported by the National Quotation Bureau, Inc. and the National Association of Securities Dealers, Inc. These quotations represent prices between dealers in securities, do not include retail mark-ups, mark-downs, or commissions and do not necessarily represent actual transactions.

MARKET INFORMATION

| | 2003 | | 2002 | |
|----------------|--------|-------|-------|-------|
| | HIGH | LOW | HIGH | LOW |
| First Quarter | \$1.28 | \$.67 | \$.79 | \$.43 |
| Second Quarter | 1.40 | .61 | 1.05 | .58 |
| Third Quarter | 1.35 | .60 | 1.01 | .70 |
| Fourth Quarter | 1.45 | .70 | 1.20 | .55 |

(b) Approximate Number of Equity Shareholders:

Title of Class: Common Stock, \$.01 par value

Approximate Number of Record Holders At March 22, 2004: 695

(c) Dividends:

The Company has never paid a dividend on its common stock and the Board of Directors intends for the foreseeable future to retain all earnings for use in the Companys business.

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ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements, which reflect the current views of the Company with respect to future events that could have an effect on its future financial performance. These statements may include such words as "expects," "believes," "estimates," and similar expressions. These forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from historical results or those currently anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements.

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

| | | Percentage of Revenues | | |
|---|------|------------------------|--------|--------|
| | | 2003 | 2002 | 2001 |
| Revenues | | 100.0% | 100.0% | 100.0% |
| Cost of sales | 69.5 | | 66.2 | 62.8 |
| Gross profit | 30.5 | | 33.8 | 37.2 |
| Selling, general and administrative expenses | 20.1 | | 21.8 | 22.7 |
| Research and Development expenses | 9.7 | | 14.5 | 14.0 |
| Operating income | | .7 | (2.5) | .5 |
| Interest expense | | .3 | .5 | .6 |
| Income before income taxes | .4 | | (3.0) | (.1) |
| Income taxes (benefit) | (.5) | (1.9) | (.7) | |
| Net income | | .9% | (1.1)% | .6% |

Fiscal 2003 Compared to Fiscal 2002

Results of Operations

The Company's revenues in 2003 increased 8% to \$11 million from \$10.2 million in 2002. The Company derives its revenues from the sale of standard products consisting primarily of dataloggers, SatLink transmitters and sensors, systems and software that are done on a project specific basis, hydrological and engineering services and airport weather systems.

Revenues from sales to domestic customers increased in 2003 to \$7.9 million from \$7.25 million in 2002, an increase of 8.7%. Standard products sales increased slightly to \$5.65 million in 2003 from \$5.6 million in 2002. Revenues from integrated systems and software were down \$256 thousand to \$1.3 million from \$1.56 million. Revenues for hydrological services increased to \$992 thousand from \$110 thousand in 2002 due to the expansion of operations in Florida and winning five major multi-year contracts in 2002 and 2003 with the South Florida Water Management District.

Revenues from international sales increased slightly to \$3.1 million in 2003 from \$2.95 million in 2002. Standard products decreased to \$944 thousand in 2003 from \$1.3 million in 2002 due to decreased sales from China. Revenues from integrated systems and software were up \$400 thousand to \$2.0 million from

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\$1.6 million due to several large projects including a \$499 thousand project to provide a rainfall measuring system to the government of Morocco, a \$730 thousand World Meteorological project to provide airport meteorological systems to 13 small island states in the Caribbean and a \$446 thousand standard product order from a hydropower company in Venezuela. The Company sold its first airport weather system in 2003 and realized revenue of \$71,000.

The Companys largest customer in 2003 and 2002 was the Department of the Interior, the principal agencies being the US Geological Survey and the Bureau of Reclamation, which accounted for 28% and 26% of revenues. Commercial and international revenues represented 55% of revenues in 2003 versus 48% in 2002.

Gross Profit

Gross profit for 2003 decreased 2.7% to \$3.36 million from \$3.45 million in 2002. Gross margin as a percentage of revenues for 2002 decreased to 30.5% as compared to 33.8% in 2002. Increased sales of SatLink transmitters caused a decrease in the Companys margins. The Companys new SatLink transmitter, the SL2-G312-1, was certified in January 2004 and will significantly improve future margins due to fewer parts and improved manufacturability. The Companys margins were also impacted by three projects that were awarded in 2002. Two projects were with the Government of Andhra Pradesh of India and one project was with the Meteorological Service of Mexico. All three projects were bid very competitively. The company completed the Mexico project in 2003. The Government of Andhra Pradesh projects are near completion. The Company anticipates that these projects will be completed in mid 2004. The Companys gross margin is dependent on product and system costs, product mix and overhead expenses, all of which fluctuate from year to year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were level at \$2.2 million in 2003 and 2002. Selling, general and administrative expenses as a percentage of revenues decreased to 20.8% in 2003 from 21.8% in 2002 due primarily to the increase in sales.

Research and Development Expenses

Research and development expenses decreased 28% to \$1.06 million in 2003 from \$1.48 million in 2002. Research and development expenses as a percentage of revenues decreased to 9.7% in 2003 from 14.5% in 2002. The primary reason for the decrease was the completion of Xconnect systems software. Upon its completion in late 2002, the Company transferred several software engineers into direct departments in order to provide customers with systems and application development services.

In 2003, the Companys product development focus was on the design and certification of the SatLink2 in order to enhance the product and improve margins. The SatLink2 is a high data rate satellite transmitter that transmits at 100, 300 and 1200 baud, incorporates GPS and functions as a logger as well. All GOES satellite customers are mandated by NESDIS to purchase high data rate satellite transmitters and to replace all old 100 baud transmitters within a ten-year period effective July 2001. The Company believes that the SatLink2 will allow it to dominate the replacement market.

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In 2003, the Company continued its development efforts relating to tidal monitoring applications by introducing enhancements to its tides monitoring systems. The tides systems are based on the Xpert and XLite dataloggers and use the SatLink transmitter. The Company won orders totaling \$663 thousand in 2003 and \$450 thousand in 2002 for tides systems. The Company also completed the development of an analog expansion module in 2003.

Other Income (Expense)

Other income and expenses consisted of interest expenses of \$30 thousand in 2003 compared with \$47 thousand in 2002.

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Fiscal 2002 Compared to Fiscal 2001

Results of Operations

The Companys revenues decreased .5% to \$10.2 million from \$10.25 million in 2001.

Revenues from sales to domestic customers decreased in 2002 to \$7.25 million from \$9.05 million in 2001, a decrease of 19.5%. Export sales increased to \$2.95 million in 2002 from \$1.2 million in 2001. The Company was awarded major international projects in India, China and Mexico in 2002. The company also made shipments of approximately \$548,000 to customers in Canada in 2002.

Datalogger/Transmitter product sales decreased 27% to \$3.6 million in 2002 from \$4.95 million in 2001. The decrease was due to weak customer demand as a result of operational problems with the NOAA/NESDIS GOES satellite receiving facility and our customers not being able to obtain satellite station assignments from NESDIS. Systems sales and services increased 39% to \$3.2 million in 2002 from \$2.3 million reflecting the increase in international projects. Sales of sensor and accessory products increased 14% to \$3.3 million from \$2.9 million. Hydrological services revenues were approximately \$100,000 in both years.

The Companys largest customers in each of years 2002 and 2001 was Department of the Interior, the principal agencies being the US Geological Survey and the Bureau of Reclamation, which accounted for 26% and 39% of revenues, respectively. Commercial and international revenues represented 48% of revenues in 2002 versus 44% in 2001.

Gross Profit

Gross profit for 2002 decreased 9% to \$3.45 million from \$3.8 million in 2001. Gross margin as a percentage of revenues for 2002 decreased to 33.8% as compared to 37.2% in 2001. The decrease in gross margin in 2002 is a result of write-offs of obsolete inventory totaling \$180,000 and manufacturing problems relating to the SatLink-G312-1 High Data Rate satellite transmitter. The Company switched suppliers in mid 2002 in order to lower costs and improve efficiency of manufacturing the SatLink-G312-1. The Company began to see improved results in late 2002. The Companys gross margin is dependent on product costs, product mix

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and overhead expenses, all of which fluctuate from year to year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 4% to \$2.2 million in 2002 from \$2.3 million in 2001. Selling, general and administrative expenses as a percentage of revenues decreased to 21.8% in 2002 from 22.7% in 2001 due primarily to a reduction in marketing expenditures and the reduction of one sale position.

Research and Development Expenses

Research and development expenses increased 3% to \$1.48 million in 2002 from \$1.43 million in 2001. Research and development expenses as a percentage of revenues increased to 14.5% in 2002 from 14% in 2001. In 2002, the company released a logger version of the SatLink-G312-1. The SatLink-G312-1 is a high data rate satellite transmitter that transmits at 100, 300 and 1200 baud and uses GPS. The logger version has added the capability to the SatLink unit to function as a logger for certain datalogging applications. Our GOES satellite customers are mandated by NESDIS to purchase high data rate satellite transmitters and to replace all old 100 baud transmitters within a ten-year period effective July 2001.

The Company released the Xpert and XLite dataloggers in 2001. These dataloggers use Microsoft CE as the operating system and have enabled the Company to enter closely related environmental markets such as tides and weather monitoring. The XLite, a derived product based on the Xpert, has less I/O capability but is less expensive as well. The Companys development efforts in 2002 were focused primarily on developing tidal monitoring applications based on these products that were instrumental in winning orders in 2002 of approximately \$471,000 from the National Ocean Survey for tides systems.

In 2002, the Company released XConnect, a base station software application that is compatible with leading database software including Oracle and Microsoft SQL Server. The Company anticipates significant revenues in 2003 as customers upgrade their systems software from PC Base II to XConnect.

Other Income (Expense)

Other income and expenses consisted of interest expenses of \$47 thousand in 2002 compared with \$69 thousand in 2001 .

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Liquidity and Capital Resources

The Companys working capital was \$3.4 million at December 31, 2003 compared with \$3.3 million at December 31, 2002. Cash on hand was \$388,612 at December 31, 2003 compared to \$401,740 at December 31, 2002. Of the cash balance on hand at December 31, 2003, \$277,454 was restricted and serves as collateral for international standby letters of credit at the Companys previous bank, M&T.

Net cash used by operating activities was \$527,652 in the year ended December 31, 2003 compared to cash provided by operations of \$845,428

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for the year ended December 31, 2002 and cash provided by operations of \$139,378 for the year ended December 31, 2001.

Net cash used in investing activities was \$155,686 for the year ended December 31, 2003, compared to \$53,566 and \$162,963 for the years ended December 31, 2002 and 2001, and was primarily due to purchases of property and equipment.

Net cash provided by financing activities was \$670,210 in 2003 due borrowings on the line of credit and proceeds from shareholder and term notes. Net cash used by financing activities was \$493,098 for the year ended December 31, 2002 due to payments on the line of credit and on term notes. Cash provided by financing activities was \$123,762 for the year ended December 31, 2001 due to proceeds from a term note.

The Company has a revolving credit facility of \$500,000 with BB&T Bank. The credit facility expires on June 30, 2004. The Company believes that its existing cash resources, cash flow from operations and short-term borrowings on our existing credit line will provide adequate resources for supporting operations during fiscal 2004.

ITEM 7 - FINANCIAL STATEMENTS

The financial statements required by this Item 7 are listed in Item 13(a) (1) and begin at page F-1 of this Report.

ITEM 8 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 8A - CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Based on their evaluation of the Companys disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the Companys chief executive officer and chief financial officer have concluded that the Companys disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company 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 SEC's rules and forms and are operating in an effective manner.

(b) Changes in internal controls. There were no significant changes in the Companys internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation.

PART III

Certain information required by Part III is omitted from this

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report because we intend to file a definitive Proxy Statement pursuant to Regulation 14A no later than 120 days after the end of the fiscal year covered by this report, and certain information to be included therein is incorporated herein by reference.

ITEM 9 - DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The information required by this Item is incorporated by reference to the Proxy Statement under the sections captioned "Election of Directors," "Executive Officers," "Executive Compensation", "Compliance with Section 16(a) of the Securities Exchange Act of 1934", "Code of Ethics", and "Audit Committee and Audit Committee Financial Expert".

ITEM 10 - EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Proxy Statement under the sections captioned "Election of Directors," "Executive Officers," "Executive Compensation" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934."

ITEM 11 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information under the caption "Principal Shareholders," and "Management Ownership of Common Stock" appearing in the Proxy Statement, is incorporated herein by reference.

ITEM 12 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information under the heading "Certain Transactions," appearing in the Proxy Statement, is incorporated herein by reference.

ITEM 13 - EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 8-K

(a) (1) Financial Statements

The following consolidated financial statements of the Company are filed as part of this Annual Report on Form 10-KSB as follows:

| | |
|--|-----|
| Report of Independent Auditors | F-2 |
| Balance Sheets at December 31, 2003 and 2002 | F-3 |
| Statements of Operations for the years ended December 31, 2003, 2002 and 2001 | F-4 |
| Statements of Changes in Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001 | F-5 |
| Statements of Cash Flows for the years ended December 31, 2003 and 2002 | F-6 |
| Notes to Financial Statements | F-7 |

(a) (2) Financial Statement Schedules

Not applicable.

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(a) (3) Exhibits

| Exhibit No. | Description |
|-------------|---|
| 3(a) | Copy of Articles of Incorporation of Sutron Corporation, received and approved December 30, 1975 (1) |
| 3(b) | Copy of Articles of Amendment to the Articles of Incorporation and Articles of Reduction of Stated Capital of Sutron Corporation received and approved September 7, 1983(1) |
| 3(c) | By-laws of the Registrant(1) |
| 3(d) | Copy of Articles of Amendment to the Articles of Incorporation received and approved June 8, 1995(10) |
| 4(a) | Specimen Shares of Common Stock Certificate(2) |
| 4(b) | Form of Warrant to be issued as part of Unit (2) |
| 4(c) | Amended Form of Warrant issued as part of Unit(3) |
| 4(d) | Incentive Stock Option Plan dated August 31, 1983(1) |
| 4(e) | Stock Bonus Plan dated August 31, 1983(1) |
| 4(f) | Loan and Security Agreement, dated December 11, 1992 between the Company and Crestar Bank (8) |
| 4(g) | 1996 Stock Option Plan (11) |
| 4(h) | 2002 Stock Option Plan (12) |
| 10(a) | Employment Agreement dated as of July 1, 1983 with Kenneth W. Whitt(1) |
| 10(b) | Employment Agreement dated as of July 1, 1983 with Dr. Raul S. McQuivey(1) |
| 10(c) | Employment Agreement dated as of July 1, 1983 with Dr. Thomas N. Keefer(1) |
| 10(d) | Employment Agreement dated as of July 1, 1983 with Duane M. Preble(1) |
| 10(e) | Purchase Agreement dated as of July 1, 1983 with Eric S. Clyde(1) |
| 10(f) | Stock Option Agreement between Registrant and Gerald Calhoun dated July 1, 1983(1) |
| 10(g) | Certified Copy of Resolution of Commissioners of Fairfax County Economic Development Authority, adopted October 12, 1982, approving \$425,000 Industrial revenue bond loan to registrant(1) |
| 10(h) | Certified Copy of Resolution of Commissioners of Fairfax County Economic Development Authority, adopted March 8, 1983, approving \$400,000 industrial revenue bond loan to registrant (1) |
| 10(i) | Certified Copy of Resolution of Board of Supervisors of Fairfax County, adopted March 21, 1983, approving issuance of industrial revenue bonds for purpose of \$400,000 loan to Registrant(1) |
| 10(j) | License agreement dated January 29, 1987, with TSUKASA SOKKEN Co., Ltd. of Japan, to use U.S. Patent No. 3,677,085 (4) |
| 10(k) | License agreement dated November 10, 1986, with S.A. Des Caliberies et Trefileries de Cossonay of Switzerland, to use U.S. Patent No. 4,279,147 and Canada Patent No. 1,120,286 (4) |
| 10(l) | Lease agreement dated September 18, 1987, with Squire Court Limited Partnership to lease building space (9,000 sq. ft.) (4) |
| 10(m) | Copy of termination agreement with Duane Preble dated April 1, 1988 (5) |
| 10(n) | Sale agreement with National Hospital Health System Corporation, dated November 29, 1989, and subsequent amendments dated December 29, 1989, February 28, 1990, |

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- and March 27, 1990, to sell land and building in Herndon, Virginia (6)
- 10(o) Lease agreement dated May 9, 1990 with National Hospital Health System Corporation to lease building space (5545 sq.ft.) (7)
 - 10(p) Stock Option Agreement between Sutron Corporation and Glenn A. Conover dated October 15, 1990 (7)
 - 10(q) Stock Option Agreement between Sutron Corporation and Daniel W. Farrell dated October 15, 1990 (7)
 - 10(r) Lease agreement dated July 30, 1992 with Loudoun Holding Inc. to lease building space (16,794 sq. ft.) (8)
 - 10(s) Stock Option Agreement between Sutron Corporation and Ronald C. Dodson dated December 6, 1993 (9)
 - 10(t) Stock Option Agreement between Sutron Corporation and Raul S. McQuivey dated November 1, 1996 (11)
 - 10(u) Stock Option Agreement between Sutron Corporation and Glenn A. Conover dated November 1, 1996 (11)
 - 10(v) Stock Option Agreement between Sutron Corporation and Daniel W. Farrell dated November 1, 1996 (11)
 - 10(w) Stock Option Agreement between Sutron Corporation and Sidney C. Hooper November 1, 1996 (11)
 - 10(x) Stock Option Agreement between Sutron Corporation and Raul S. McQuivey dated October 18, 2002 (12)
 - 10(y) Stock Option Agreement between Sutron Corporation and Daniel W. Farrell dated October 18, 2002 (12)
 - 10(z) Stock Option Agreement between Sutron Corporation and Sidney C. Hooper October 18, 2002 (12)
 - 10.1 Stock Option Agreement between Sutron Corporation and Thomas N. Keefer dated October 18, 2002 (12)
 - 10.2 Stock Option Agreement between Sutron Corporation and Robert F. Roberts, Jr. dated December 18, 2003 (13)

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(1) Filed as Exhibits to registrants Registration Statement on Form S-18 (File No. 2-86573-W) dated September 16, 1983, and incorporated herein by reference.

(2) Filed as Exhibits to Amendment No. 1 to registrants Registration Statement on Form S-18 (File No. 2-86573-W) dated October 26, 1983, and incorporated herein by reference.

(3) Filed as Exhibits to Amendment No. 2 to registrants Registration Statement on form S-18 (File No. 2-896573-W) dated November 4, 1983 and incorporated herein by reference.

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(4) Filed as Exhibits to registrants Annual Report on Form 10-K for the year ended December 31, 1987, and incorporated herein by reference.

(5) Filed as Exhibit on Form 8-K dated April 1, 1990, and incorporated herein by reference.

(6) Filed as Exhibits to registrants Annual Report on Form 10-K for the year ended December 31, 1989, and incorporated herein by reference.

(7) Filed as Exhibits to registrants Annual Report on Form 10-K for the year ended December 31, 1990 and incorporated herein by reference.

(8) Filed as Exhibits to Registrants Annual Report on Form 10-KSB for the year ended December 31, 1992 and incorporated herein by reference.

(9) Filed as Exhibits to Registrants Annual Report on Form 10-KSB for the year ended December 31, 1993 and incorporated herein by reference.

(10) Filed as Exhibits to Registrants Annual Report on Form 10-KSB for the year ended December 31, 1995 and incorporated herein by reference.

(11) Filed as Exhibits to Registrants Annual Report on Form 10-KSB for the year ended December 31, 1996 and incorporated herein by reference.

(12) Filed as Exhibits to Registrants Annual Report on Form 10-KSB for the year ended December 31, 2002 and incorporated herein by reference.

(13) Filed as Exhibits to Registrants Annual Report on Form 10-KSB for the year ended December 31, 2003 and incorporated herein by reference.

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(b) Reports on Form 8-K

The registrant did not file any reports on Form 8-K during the fourth quarter of the fiscal year ended December 31, 2003.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference to the Proxy Statement under the sections captioned "Principal Accountant Fees and Services."

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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)

Date: March 30, 2004
By /s/ Raul S. McQuivey

Raul S. McQuivey, Chairman of
the Board of Directors
and President

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.

Date: March 30, 2004
By /s/ Raul S. McQuivey

Raul S. McQuivey, Chairman of
the Board of Directors
and President

Date: March 30, 2004
By /s/ Thomas N. Keefer

Thomas N. Keefer,
Director and
Vice President

Date: March 30, 2004
By /s/ Daniel W. Farrell

Daniel W. Farrell,
Director and
Vice President

Date: March 30, 2004
By /s/ Sidney C. Hooper

Sidney C. Hooper,
Director and
Chief Financial
Officer

Date: March 30, 2004
By /s/ Robert F. Roberts, Jr.

Director

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SUTRON CORPORATION
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Sutron Corporation as of December 31, 2003 and 2002, and the related statements of operations, stockholders' equity, and cash flows for each of the three years ended December 31, 2003, 2002 and 2001. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the financial position of Sutron Corporation as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years ended December 31, 2003, 2002 and 2001 in conformity with generally accepted accounting principles.

Thompson, Greenspon & Co.

/s/ Thompson, Greesspon & Co.

Fairfax, Virginia
February 20, 2004

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SUTRON CORPORATION
BALANCE SHEETS
(In thousands)

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| | December 31, 2003 | December 31, 2002 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 389 | \$ 402 |
| Accounts receivable | 3,062 | 1,814 |
| Inventory | 2,438 | 2,029 |
| Prepaid items and other | 122 | 183 |
| Deferred income taxes | 120 | 195 |
| | ----- | ----- |
| Total current assets | 6,131 | 4,623 |
| Property, plant and equipment | 2,723 | 2,567 |
| Accumulated depreciation and amortization | (2,126) | (1,929) |
| | ----- | ----- |
| Net property, plant, and equipment | 598 | 638 |
| | ----- | ----- |
| Income taxes receivable | 129 | 151 |
| Other assets | 23 | 22 |
| | ----- | ----- |
| Total Assets | \$6,881 | \$5,434 |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---------|---------|
| Current liabilities | | |
| Accounts payable | \$1,044 | \$ 484 |
| Accrued payroll | 50 | 157 |
| Other accrued expenses | 851 | 591 |
| Line of credit | 399 | - |
| Stockholder notes | 330 | - |
| Current maturities of long-term notes | 50 | 93 |
| | ----- | ----- |
| Total current liabilities | 2,724 | 1,325 |
| Long-term notes | 100 | 116 |
| Deferred income taxes | 111 | 142 |
| | ----- | ----- |
| Total liabilities | 2,935 | 1,583 |
| | ----- | ----- |
| Stockholders' equity | | |
| Common stock, | 43 | 43 |
| Additional paid-in capital | 2,307 | 2,307 |
| Retained Earnings | 1,596 | 1,501 |
| | ----- | ----- |
| Total stockholders' equity | 3,946 | 3,851 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$6,881 | \$5,434 |
| | ===== | ===== |