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SUTRON CORP  
Form 10-K  
March 31, 2009

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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, 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 No.)

21300 RIDGETOP CIRCLE, STERLING VIRGINIA 20166

-----  
(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  No

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

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  No

Indicate by check mark if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K 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-K or any amendments to this Form 10-K.

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):

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing price of \$4.21 as reported by the NASDAQ Stock Market, Inc. for the Registrant's Common Stock as of March 27, 2009, was \$15,227,098.

The number of shares outstanding of the Registrant's Common Stock, \$.01 par value, as of March 27, 2009 was 4,570,632.

## DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrants' Definitive Proxy Statement for the 2009 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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## SUTRON CORPORATION

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### PART I

#### 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, 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.

#### ITEM 1 - BUSINESS

Sutron Corporation was incorporated on December 30, 1975 under the General Laws of the Commonwealth of Virginia. Our headquarters is located at 21300 Ridgetop Circle, Sterling, Virginia 20166, and the telephone number at that location is (703) 406-2800. We maintain a worldwide web address at [www.sutron.com](http://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.

We design, manufacture and market products and solutions that enable government and commercial 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 and for the optimization of hydropower plants. We provide real-time solutions and services to our customers in three areas of the hydrological, meteorological and oceanic markets. First, we provide real-time data collection and control products consisting primarily of dataloggers, satellite transmitters/loggers, water level and meteorological sensors and tides monitoring systems. Second, we provide turnkey integrated systems for hydrological and meteorological networks including airport weather systems. Third, we provide services consisting of installation, training and maintenance of hydrological and meteorological networks and other related engineering services. Our customers include a diversified base of federal,

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state, local and foreign governments, engineering companies, universities and hydropower companies.

Our ongoing, principal strategic business units consist of the Hydromet Products Division, the Integrated Systems Division, the Hydrological Services Division and our India operations that consist of a branch office and a wholly owned subsidiary, Sutron Hydromet Systems Private Limited. The Integrated Services Division includes the results of providing airport weather systems and special projects due to similarity of services and due to these units not being significant in terms of size and volume. Each unit includes a range of products and services designed to meet the specific needs of a particular customer segment. Our India branch office was established in 2004 to comply with India tax laws and the India wholly owned subsidiary was established in 2005 in order to gain access to the local market. On December 31, 2008, we purchased the assets of Ilex Engineering located in Columbia, Maryland, a provider of DOMSAT systems, custom software and engineering 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 interface to sensors from other companies. We have long-standing relationships with suppliers for wind speed and wind direction, water quality, humidity and solar radiation sensors. The principal products that are manufactured by the Hydromet Products Division are described below.

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### XPERT AND XLITE DATALOGGERS

The Xpert Datalogger/controller is our fourth generation datalogger. The Xpert is environmentally hardened and capable of operating from -40 C to 60 C. It runs on a Microsoft CE operating system, has a 486 microprocessor, C++ programming and standard 2 MB memory that is expandable to over 1 gigabyte. 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.

The Xpert and XLite dataloggers are the core of a wide-range of remote monitoring and control systems, The rugged Xpert is highly modular and can be leveraged to handle multiple applications, from the simplest to the most complex. Its Sensor Library programs are for widely used brand name sensors and all Sutron sensors. Generic measurement objects make adding support for new sensors very easy. 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, AWOS stations, tide stations, hydromet stations, water level and water quality stations, rainfall stations, gate control stations, irrigation and water distribution control stations, stream gaging stations, dam safety stations and flood forecasting, monitoring, control and warning systems

### SATLINK2

In January 2004, the SatLink2 was certified by the National Environmental Satellite, Data and Information Services (NESDIS). The SatLink2 is a redesign of the original SatLink transmitter in order to provide the latest features, to improve functionality and to lower manufacturing costs. The SatLink2 is a high data rate satellite transmitter/logger that transmits at 100, 300 and 1200 baud,

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incorporates GPS and functions as a logger. The SatLink transmitter was certified by the 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 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.

SatLink2 is certified on all major satellite systems around the world and works with virtually all dataloggers. SatLink2 is programmable from any PC or PDA using software provided with the unit. SatLink2's innovative design includes everything needed to collect high quality data, without costly options. Our standard unit includes a built-in logger, SDI-12 interface, dedicated tipping bucket input, 4 analog inputs and a powerful mathematical equation editor.

### STAGE DISCHARGE RECORDER

The Stage Discharge Recorder is an ultra-reliable SDI-12 optical encoder fused with logger technology from our Satlink2 Transmitter/Logger to create an encoder that never forgets. Using proven float-tape-counterweight technology, the Stage Discharge Recorder is a "plug compatible" replacement for strip chart recorders or punched-tape recorder. The Stage Discharge Recorder saves data in ultra-reliable 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

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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 logger supporting the SDI-12 standard.

### TIDES AND PORTS SYSTEMS

The National Ocean Survey (NOS), part of the National Oceanic and Atmospheric

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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. Tide stations are based on the Xpert data logger and the SatLink2. 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. In 2004, we 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 all 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 for all inputs. Although designed for the tidal market, the Main Tide Station is an ideal starting point for a wide variety of highly reliable and accurate weather stations.

The Integrated Systems Division provides system integration services consisting of the design, integration, and installation and commissioning of customer-specific configurations and software applications for hydrological and meteorological monitoring and control systems. The division is also responsible for the sale of our XConnect database systems software and long-term software support for XConnect users. This 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 days to twelve months depending on the scope and complexity of the system.

Airport weather systems are integrated and installed by the Integrated Services Division. We have contracted with a seasoned manager with over 20 years experience in the Automatic Weather Observation System (AWOS) market to lead our airport weather efforts. 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.

Special projects are customer funded projects for the development of specific products or systems. Special projects vary in size, complexity and duration. We received one Small Business Innovation Research (SBIR) contract in 2007. The SBIR was to continue to develop and test a prototype (preliminary design and specifications) for a "DCPI Low Power and Low Cost Command Receiver". The new DCPI (Data Collection Platform with Interrogate Capability) employing DS-CDMA RF transmission techniques will allow two-way communication through the GOES Satellite System and other geostationary satellite systems. We anticipate completing this project in 2009.

The Hydrological Services Division provides hydrologic services including data interpretation and analysis, 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,

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regression analysis, basin inventory studies), environmental permitting, legal or expert witness and equipment integration, installation, commissioning and maintenance.

Our India Operations consist of a Branch Office that was established early in 2004 in order to comply with India tax law and to perform work on an annual maintenance contract that was received from the Central Water Commission of India (CWC) in July 2004. In February 2005, we established Sutron HydroMet Systems Private Limited, a wholly owned subsidiary, in order to bid on National tenders. Our India Operations procures local goods for projects and performs systems integration, civil works construction, installation, commissioning and maintenance. Our India Operations maintains over 260 remote automatic real-time hydromet monitoring stations in India under contracts with the CWC and with the Government of Andhra Pradesh.

On December 31, 2008, we purchased the assets of Ilex Engineering, Inc., a provider of DOMSAT systems, custom software and engineering services, located in Columbia, Maryland. Ilex's customers are primarily the same government agencies as ours including the U.S. Army Corps of Engineers, U.S. Geological Survey, National Oceanic and Atmospheric Administration (NOAA), National Weather Service and U.S. Bureau of Reclamation. The acquisition is expected to strengthen our position in the GOES data collection services market and global satellite market. The purchase price was approximately \$575,000. The excess of the purchase price over the fair value of assets purchased in the amount of approximately \$570,000 was recorded as goodwill. Goodwill represents the excess of cost of the acquired net assets over the net amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but rather evaluated for impairment each year. Impairment exists when the carrying amount of goodwill exceeds its implied fair value.

### 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 two other employees in marketing and sales support functions. Internationally, we have two employees who cover the world 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 and oceanic monitoring markets and are aware of both domestic and foreign competitors who offer products, systems, 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.

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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 and services.

### CUSTOMERS

During 2008, approximately 33% of our products and services were sold to the Federal Government. Net sales and revenues in 2008 among the various agencies were as follows: Department of the Interior, 19%; Department of Commerce, 6% and Department of Defense, 8%. The revenues from the Department of the Interior were among the U.S. Geological Survey and the Bureau of Reclamation. The revenue from the Department of Defense was

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primarily from the U.S. Army Corps of Engineers. The revenue from the Department of Commerce was from sales of tides systems and spares to NOS and SatLink2 Transmitters to 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 foreign customers amounted to approximately 42% of revenues in 2008, 40% of revenues in 2007 and 36% of revenues in 2006.

### RESEARCH AND DEVELOPMENT

During the three years ended December 31, 2008, 2007, and 2006, we incurred expenses of \$1,228,661, \$1,293,207 and \$1,358,624, respectively, on activities relating to the development of new products and enhancements and improvements of existing products.

In 2008, we focused on enhancements to the Xpert datalogger and to the SatLink2 Transmitter/Logger. We developed a total precipitation gage upgrade kit for the National Weather Service that resulted in a contract award of approximately \$765,000 in September 2008. We also performed work on a Small Business Innovation Research (SBIR) contract in the amount of approximately \$400,000 that was received in 2007. The SBIR was to continue to develop and test a prototype (preliminary design and specifications) for a "DCPI Low Power and Low Cost Command Receiver". The new DCPI (Data Collection Platform with Interrogate Capability) employing DS-CDMA RF transmission techniques will allow two-way communication through the GOES Satellite System and other geostationary satellite systems. We anticipate that the prototype will be delivered in May 2009.

### PATENTS, TRADEMARKS, COPYRIGHTS AND AGREEMENTS

We may in the future seek patents for certain products, real-time networks, and technology as well as software products, real-time networks, and technology. 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



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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.

### 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 assure consistent high product quality. Products are tested after the assembly process using internally developed automated product assurance testing procedures.

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.

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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 2008.

### 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, regulations governing these 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

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purchases from us, which would adversely impact our business.

### FOREIGN OPERATIONS

We opened a branch office in New Delhi, India in December 2004. The branch office was established in order to comply with India tax law after the Advance Tax Court of India determined that we had a Permanent Establishment in India as a result of the employment of a full-time Country Manager. The branch office can perform sales and marketing and installation and maintenance activities but is restricted from bidding on domestic Indian tenders. We began the process of forming a wholly owned subsidiary in India in 2004 in order to bid on domestic India tenders. Formal approval of the wholly owned subsidiary was given in February 2005. Our India Operations procures local goods for projects and performs systems integration, civil works construction, installation, commissioning and maintenance services including maintaining over 260 remote automatic real-time hydromet monitoring stations under contracts with the CWC and with the Government of Andhra Pradesh.

### EMPLOYEES

As of December 31, 2008, we and our wholly owned subsidiary had a total of 85 employees, of which 80 were full time. We also from time to time employ part-time employees and hires 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, 2008, our backlog was approximately \$7,239,000 as compared with approximately \$11,099,000 at December 31, 2007. We anticipate that 70% of our 2008 year-end backlog will be shipped in 2009. An economic downturn may result in increased cancellation of orders, which could have a material adverse effect on our ability to convert our backlog into revenues.

### 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 46% of our revenues in fiscal year 2008. The success of our business is therefore materially dependent on governmental agencies. Companies engaged in government business are subject to certain unique risks not shared by the general commercial sector. Among these risks are:

- o a competitive procurement process with no guaranty of being awarded contracts;
- o dependence on congressional appropriations and administrative

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allotment of funds;

- o policies and regulations that can be changed at any time by Congress or a presidential administration;
- o changes in and delays or cancellations of government programs or requirements; and
- o some contracts with 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 42%, 40% and 36% of our sales for fiscal 2008, 2007 and 2006, respectively. We 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. Our contract with the Ministry of Energy and Water in Afghanistan could be impacted by security issues. If stations cannot be installed in certain areas of the country due to security issues, this could result in a reduction in the scope of work and in the contract value. Contract backlog on this project at December 31, 2008 was approximately \$1,884,000.

### 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.

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MANAGING COSTS WHILE PLANNING FOR GROWTH WILL BE CRITICAL We believe that we must expand our technical workforce to develop new products, enhance existing products and serve the needs of our existing and anticipated customer base. Our ability to successfully expand our operations will depend, in large part, upon

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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) increase our operating expenses in anticipation that our new products will increase future revenues.

### 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 rely on patent or trade secret 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

Portions of our revenue are denominated in India rupees. Consequently, a portion of our costs, revenue and operating margins may be affected by fluctuations in exchange rates, primarily between the U.S. dollar and the India rupee. We recognized a foreign currency loss of approximately \$180,000 in 2008, a foreign currency gain of approximately \$179,000 in 2007 and a foreign currency loss of approximately \$23,000 in 2006 due to intercompany payable balances owed to us by our India entities. Fluctuations between the U.S. dollar and the India rupee 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. 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

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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

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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. We do not have an employment agreement with any of our key personnel with one exception. 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.

### ITEM 1B - UNRESOLVED STAFF COMMENTS

Not applicable

### ITEM 2 - PROPERTIES

Our corporate headquarters are located at 21300 Ridgetop Circle, Sterling, Virginia. We lease this 17,000 square foot facility and it contains our administrative offices, sales and marketing offices and manufacturing facilities. The lease expires in March 2009. We lease an additional 7,000 square feet of space in Sterling, Virginia for our Research and Development group and Integrated Services Division. The lease for this facility expires in March 2009 as well. We will lease both facilities after March 31, 2008 and until May 31, 2009 after which we will move into our new headquarters and manufacturing facility in Sterling, Virginia.

We lease 2,850 square feet of office and warehouse space in West Palm Beach, Florida. The three-year lease expires in August 2011. The Hydrological Services division uses this space which consists of both office and warehouse space. The Hydrological Services Division also occupies 800 square feet of leased office space in Lakeland, Florida. The lease expires in November 2009. This space is used for sales and marketing and engineering offices.

We entered into lease agreements for office space and furniture in New Delhi, India in September 2006. The three-year leases expire in August 2009. The India branch office and wholly owned subsidiary use this space for offices.

We entered into a ten year lease for a new headquarters and manufacturing facility on November 13, 2008, that commences on June 1, 2009. We will lease approximately 27,800 square feet at our new building. The new space will allow us to combine all our Virginia operations into one facility. We anticipate moving into the new space in May 2009. We believe that our facilities are adequate for our present needs and that our properties are in good condition, well maintained and adequately insured.

### ITEM 3 - LEGAL PROCEEDINGS

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Various legal claims can arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on our financial statements. We have been named in a compensation claim under the Indian Anti-Trust Law that has pending before The Monopolies and Restrictive Trade Practices Commission in New Delhi, India since 2005. Management believes that the case is unsubstantiated and intends to vigorously defend itself.

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

Not applicable

## PART II

### ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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#### MARKET INFORMATION

Our common stock trades on the Nasdaq Capital Market (formerly the Nasdaq SmallCap Market) under the symbol "STRN". The table below sets forth the high and low sales prices for the periods shown.

FISCAL YEAR ENDED DECEMBER 31, 2007	HIGH	LOW
-----	-----	-----
First Quarter	\$ 9.85	\$ 6.28
Second Quarter	\$ 10.51	\$ 6.20
Third Quarter	\$ 9.60	\$ 8.05
Fourth Quarter	\$ 12.94	\$ 8.14
FISCAL YEAR ENDED DECEMBER 31, 2008		
-----	-----	-----
First Quarter	\$ 10.81	\$ 5.75
Second Quarter	\$ 8.31	\$ 6.18
Third Quarter	\$ 7.95	\$ 3.33
Fourth Quarter	\$ 10.30	\$ 2.83

#### STOCKHOLDERS

On March 27, 2009, there were approximately 815 stockholders of record.

#### DIVIDEND POLICY

We have never declared or paid a dividend on our common stock. We intend to retain future earnings to fund development and growth of our business.

#### STOCK PERFORMANCE GRAPH

The graph below compares our cumulative total shareholder return of the Common Stock of the Company with the cumulative total return on the NASDAQ Composite Index and the NASDAQ Computer Index for the five year period ending December 31, 2008. The graph assumes an investment of \$100 on December 31, 2003 when the closing price was \$.65 per share and reinvestment of any dividends. The comparison in the graph is not intended to forecast future performance of Common Stock.

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	12/03 -----	12/04 -----	12/05 -----	12/06 -----	12/07 -----	12/08 -----
Sutron Corporation	\$100.00	\$1,464.62	\$1,130.77	\$1,047.69	\$1,633.85	\$684.62
NASDAQ Composite Index	\$100.00	\$109.16	\$111.47	\$123.05	\$140.12	\$ 84.12
NASDAQ Computer Index	\$100.00	\$103.54	\$106.96	\$114.24	\$139.21	\$ 74.21

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ITEM 6 - SELECTED FINANCIAL DATA

The following table sets forth consolidated financial data with respect to Sutron Corporation for each of the five years in the period ended December 31, 2008. 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 Years Ended December 31,			
	2008	2007	2006	2005
-----				
INCOME STATEMENT DATA				
Revenues	\$15,941	\$18,868	\$19,407	\$15,434
Operating income	635	3,043	3,055	2,203
Net Income	524	2,067	2,450	1,470
Basic earnings per share	.12	.46	.56	.34
Diluted earnings per share	.10	.41	.51	.30
Shares used in computing basic per share data	4,550	4,513	4,342	4,292
Shares used in computing diluted per share data	5,052	4,982	4,811	4,933
-----				
BALANCE SHEET DATA				
Cash	\$4,490	\$5,434	\$1,677	\$2,095
Working capital	11,745	11,564	9,505	6,844
Total assets	15,049	14,631	13,450	9,847
Long-term debt, including current portion	3	40	88	137
Stockholders' equity	12,724	12,156	10,009	7,322
Cash dividends declared	--	--	--	--

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### 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 DISCLAIMER ON "FORWARD-LOOKING STATEMENTS," "ITEM 1 - BUSINESS," "ITEM 1A - RISK FACTORS," "ITEM 6 - SELECTED FINANCIAL DATA" AND CONSOLIDATED FINANCIAL STATEMENTS, THE NOTES TO THOSE STATEMENTS AND OTHER FINANCIAL INFORMATION CONTAINED ELSEWHERE IN 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 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, engineering companies, universities 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, the Xpert/XLite dataloggers, the Accububble Self-Contained Bubbler, the Accubar Pressure Sensor and XConnect Systems Software. These are the essential components of most systems and are provided to customers as off-the-shelf equipment or as part of a custom system. The SatLink2 is a key product because it functions both as a transmitter and logger. It is an excellent 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 significant more logging capability and communications options than the SatLink2.

We expanded our services capabilities when we started our Hydrological Services Division in 2001. The principal customer of this division has been the South Florida Water Management District (SFWMD) which is a regional agency of the state of Florida that is charged with managing and protecting water resources in a 16 county area. We provide a variety of services to SFWMD as well as other entities including hydrologic modeling, flood and stormwater management, river and stream analysis, and equipment integration, installation, commissioning and maintenance.

We are beginning fiscal year 2009 with a backlog of approximately \$7,239,000 as compared to beginning fiscal year 2008 with a backlog of approximately \$11,099,000. We estimate that approximately 70% of our December 31, 2008 backlog will convert to revenue in 2009. We anticipate that we will continue to experience significant quarterly fluctuations in our sales and revenues in 2009. Operating results will depend upon the product mix and upon the timing of project awards.

International sales, which totaled 42% of revenues for 2008, continue to constitute a more significant portion of our revenues. 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 governmental approvals. Our contract with the Ministry of Energy and Water in Afghanistan could be impacted by security issues. If stations cannot be installed in certain areas of the country due to security issues, this could result in a reduction in the scope of work and in the contract value. Contract backlog on this project at December 31, 2008 was approximately \$1,884,000. We are committed to our airport weather systems business which only competes



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internationally although we compete against established firms with more experience.

Our domestic business is highly dependent upon government business. Contracts and purchase orders with Federal, state and local government agencies represented approximately 46% of our 2008 revenues. Due to economic conditions in 2008, we believe that competition was more price-based and that some projects were delayed due to

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funding issues. We are closely following the federal economic stimulus plan. We believe that we will benefit from increased future spending on water resources projects. We believe that this will result in major customer orders in 2009 and 2010 from our federal and state customers. We are committed to growing our hydrological services however our primary customer in Florida has expanded the pool of qualified contractors on all our contracts. We therefore must expand our business outside of SFWMD. We also hope to sell significantly more standard products through our Hydrological Services which was a primary reason for setting up operations in Florida. We have added the Ilex Division through our purchase of Ilex Engineering on December 31, 2008. We believe that Ilex will help us compete better in the GOES data collection services market and global satellite market, both domestically and internationally.

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 2009 as compared to 2008.

### CRITICAL ACCOUNTING POLICIES AND 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, including those related to bad debts, excess and obsolete inventories, warranty obligations, income taxes, contingencies and litigation. 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.

- o Revenue recognition;
- o Allowance for doubtful accounts;
- o Allowances for excess and obsolete inventories;
- o Accounting for warranty obligations;
- o Accounting for income taxes;
- o Accounting and valuation of stock option compensation.

REVENUE RECOGNITION - Our revenue recognition policy is consistent with the requirements of Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements," Statement of Position No. 97-2 (SOP 97-2),

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"Software Revenue Recognition," and other applicable revenue recognition guidance and interpretations. In general, we record revenue when it is realized, or realizable, and earned. We consider these requirements met when persuasive evidence of an arrangement exists, the products or services have been provided to the customer, the sales price is fixed or determinable and collectability is reasonably assured. Our revenue reflects reductions attributable to discounts and customer returns.

For our products, consisting of both equipment and software, revenue 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.

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

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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 years. 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

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or may become unsaleable based on estimates of future demand and sale price in the market. Judgments with respect to saleability 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 warranty our 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.

**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 adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), **SHARED-BASED PAYMENT**, (SFAS 123(R)), on January 1, 2006, which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. Additionally, the Corporation follows the Securities and Exchange Commission's Staff Accounting Bulletin No. 107, **SHARE-BASED PAYMENT (SAB 107)**, issued in March 2005, which provides supplemental SFAS 123(R) application guidance based on the views of the SEC.

The Corporation adopted SFAS 123(R) using the modified prospective transition method. Under this transition method, share-based compensation expense recognized during the year ended December 31, 2006 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested, as of January 1, 2006, based

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on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based awards granted beginning January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In accordance with the modified prospective transition method, the Corporation's consolidated financial statements for prior periods have not been restated to reflect the impact of SFAS 123(R).

### 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:

Year Ended December 31,		
2008	2007	2006
-----	-----	-----

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Net sales and revenues	100.0%	100.0%	100.0%
Cost of sales and revenues	66.3	59.5	62.1
	-----	-----	-----
Gross profit	33.7	40.5	37.9
Selling, general and administrative expenses	22.0	17.6	15.1
Research and Development expenses	7.7	6.8	7.1
	-----	-----	-----
Operating income	4.0	16.1	15.7
Interest income (expense)	.7	.6	.4
	-----	-----	-----
Income before income taxes	4.7	16.7	16.1
Income taxes (benefit)	1.4	5.8	3.5
	-----	-----	-----
Net income	3.3%	10.9%	12.6%
	=====	=====	=====

### FISCAL 2008 COMPARED TO FISCAL 2007

#### NET SALES AND REVENUES

Net sales and revenues for 2008 decreased 16% to \$15.9 million from \$18.9 million in 2007. The decrease was due to decreased revenues from sales of standard products and to decreased project activity. Revenues are reported internally by principal operating division or profit center consisting of the Hydromet Products Division, the Integrated Services Division, which includes airport weather systems and special projects that are funded R&D activities, the Hydrological Services Division and Sutron's India Operations. The Hydromet Products Division, which is responsible for sales of standard products, experienced a revenue decrease of 14% to \$8.6 million from \$10 million in 2007. Integrated Systems revenue decreased 8% to \$5.8 million from \$6.3 million in 2007. Revenues from the Hydrological Services Division decreased 31% to \$1.36 million from \$2.0 million in 2007. Revenues from our India Operations decreased 69% to \$176 thousand as compared to \$572 thousand in 2007.

Domestic net sales and revenues for 2008 decreased 19% to \$9.2 million from \$11.3 million in 2007. Net sales and revenues from standard products decreased to \$6.8 million in 2008 from \$7.7 million in 2007 due primarily to decreased orders from our federal customers. Net sales and revenues from Integrated Systems decreased to \$1.2 million compared to \$1.6 million in 2007, due to two projects awarded to us totaling approximately \$400 thousand with the State of New Mexico being put on hold until land rights issues are resolved. Our Integrated Systems experienced a decrease in project awards in 2008 as well. Net sales and revenues from Hydrological Services decreased to \$1.4 million from \$2.0 million in 2007. As a result of investigations of our former Hydrological Services Vice President in both 2007 and 2008 by SFWMD, our largest customer in Florida, several large contracts were delayed resulting in decreased work orders. One of these contracts was awarded in December 2007 however the number of approved contractors was expanded from four in the previous contract to nine in the current contract. The other contract was not awarded until October 2008. Due to the resolution of SFWMD's investigations and the contract awards, we anticipate that our revenues will increase significantly in 2009 over 2008.

International net sales and revenues decreased 11% to \$6.7 million in 2008 from \$7.5 million in 2007. Net sales and revenues from standard products decreased to \$1.8 million from \$2.3 million in 2007. We shipped approximately \$900 thousand of standard products to customers in China in 2007 for water-level stations relating to the Three

Gorges Dam. We did not receive any similar orders in 2008 but anticipate

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significant orders in 2009 for water-level stations for the Three Gorges Dam. Net sales and revenues from Integrated Systems were flat at \$4.7 million. In 2008, Integrated Systems recognized revenues that totaled \$3.0 million from a contract with the Ministry of Energy and Water in Afghanistan to provide and install 174 stream monitoring stations. We anticipate that this contract will be completed in 2009 however security concerns may result in some installations being cancelled. Net sales and revenues from our India Operations decreased 69% to \$176 thousand as compared to \$572 thousand in 2007. Our India Operations bid on some substantial projects in 2008, totaling over \$30 million, but was underbid by more than 40% on each. To date, our competitors have not delivered their systems to the customers. 2008 revenues were primarily from annual maintenance contracts. The renewal of several annual maintenance contracts was also delayed in 2008 resulting in decrease maintenance revenues.

The Department of the Interior, the principal agencies being the US Geological Survey and the Bureau of Reclamation, was our largest customer accounting for 19% and 21% of total revenues in years 2008 and 2007, respectively. Federal government revenues were 33% in both 2008 and 2007. State and local government, commercial and international revenues represented 67% of revenues in 2008 and 2007.

### COST OF SALES AND REVENUES

Cost of sales as a percentage of revenues increased to 66.3% for 2008 compared to 59.5% for 2007. The increase reflects changes in sales volume, product mix and standard product content in projects. In 2008, our Hydromet Products Division had decreased standard product revenues that caused our manufacturing group to be less efficient and to incur lower fixed costs recovery. In 2008, our Integrated Systems Division's projects had less standard product content than in 2007 resulting in higher project costs as a percentage of revenue. In 2007, Integrated Services benefited from a \$2.2 million order from Washington International Group for water level monitoring stations to be delivered to the Iraq Ministry of Water Resources. Although the Washington International Group order was a project award, most items were standard products. Standard products carry substantially higher margins than projects. Our Hydrological Services Division experienced a revenue decrease that resulted in higher cost absorption. We downsized personnel, leased space and vehicles but not sufficiently to offset the decrease in revenues. We do not anticipate additional reductions in 2009.

Cost of sales for both 2008 and 2007 include provisions for inventory obsolescence, physical inventory adjustments, inventory valuation adjustments and warranty provision adjustments. We continually pursue product cost reductions through continual review of procurement sourcing based on quality and cost goals, product value engineering and improvements in manufacturing processes.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$3.5 million in 2008 as compared to \$3.3 million in 2007. Selling, general and administrative expenses as a percentage of revenues increased to 22% in 2008 from 17.6% in 2007. We experienced higher general and administrative costs in 2008 due to increases in Board of Director annual retainers and fees, legal costs relating to our Ilex acquisition, audit fees and project management costs relating to the build-out of our new corporate headquarters and production facility. We experienced higher selling expenses in 2008 relating to our India operations and our Hydrological Services Division.

### PRODUCT RESEARCH AND DEVELOPMENT EXPENSES

Product research and development expenses decreased to \$1.23 million in 2008 from \$1.29 million in 2007. Research and development expenses as a percentage of

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revenues increased to 7.7% in 2008 from 6.8% in 2007 which is attributable to the decrease in revenues. In 2008, we focused our product development on enhancements to the Xpert datalogger and to the SatLink2 Transmitter/Logger. We developed a total precipitation gage upgrade kit for the National Weather Service that resulted in a contract award of approximately \$765,000 in September 2008. We also performed work on a Small Business Innovation Research (SBIR) contract in the amount of approximately \$400,000 that was received in 2007. The SBIR was to continue to develop and test a prototype (preliminary design and specifications) for a "DCPI Low Power and Low Cost Command Receiver". The new DCPI (Data Collection Platform with Interrogate Capability) employing DS-CDMA RF transmission techniques will allow

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two-way communication through the GOES Satellite System and other geostationary satellite systems. We anticipate that the prototype will be delivered in May 2009.

### INTEREST INCOME AND EXPENSE, NET

We earned net interest income of \$108,391 in 2008 as compared with net interest income of \$121,448 in 2007. Although our cash and cash equivalent balances were higher throughout 2008 as compared to 2007, the decrease in interest rates caused a decrease in net interest income.

### INCOME TAXES

Income tax expense for 2008 was \$219,000 compared to \$1,098,000 for 2007. The provision for income taxes for 2008 represents an effective tax rate of approximately 29% compared with 34% for 2007.

### FISCAL 2007 COMPARED TO FISCAL 2006

#### NET SALES AND REVENUES

Net sales and revenues for 2007 decreased 3% to \$18.9 million from \$19.4 million in 2006. The decrease was primarily due to decreased domestic project revenues. Revenues are reported internally by principal operating division or profit center consisting of the Hydromet Products Division, the Integrated Services Division, which includes airport weather systems and special projects that are funded R&D activities, the Hydrological Services Division and Sutron's India Operations. The Hydromet Products Division, which is responsible for sales of standard products, experienced a revenue increase of 9% to \$10 million from \$9.2 million in 2006. Integrated Systems revenue increased 2% to \$6.3 million from \$6.2 million in 2006. Revenues from the Hydrological Services Division decreased to \$2.0 million from \$2.2 million in 2006. Sutron's India Operations had decreased revenues of \$572 thousand as compared to \$1.8 million in 2006 due primarily to significant costs on a contract with the Central Water Commission to deliver, install, and provide training and commissioning on 168 rainfall monitoring stations being incurred in 2006 and therefore higher revenues being recognized in 2006 as compared to 2007.

Domestic net sales and revenues for 2007 decreased 10% to \$11.3 million from \$12.5 million in 2006. Net sales and revenues from standard products increased to \$7.7 million in 2007 from \$7.0 million in 2006 due primarily to increased sales of the SatLink 2 Transmitter/Logger. Net sales and revenues from Integrated Systems decreased to \$1.6 million compared to \$3.3 million in 2006, primarily due to decreased project activity. In 2006, the Company performed on various contracts totaling approximately \$2.0 million with the Army Corps of Engineers in New Orleans to replace equipment that was destroyed by Hurricane Katrina. Net sales and revenues from Hydrological Services decreased to \$2.0

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million from \$2.2 million in 2006 due to decreased project activity.

International net sales and revenues increased 9% to \$7.5 million in 2007 from \$6.9 million in 2006. Net sales and revenues from standard products increased to \$2.3 million from \$2.2 million in 2006. Net sales and revenues from Integrated Systems increased to \$4.7 million from \$2.9 million due primarily to revenues of \$2.2 million from an order from Washington Group International to provide water level, snow, rainfall and water quality monitoring equipment to the Iraq Ministry of Water Resources. Sutron India Operations had net sales and revenues of \$572 thousand as compared to \$1.8 million in 2006 due to decreased project activity as the Central Water Commission project to provide 168 rainfall monitoring stations was near completion and acceptance at the end of 2007.

The Department of the Interior, the principal agencies being the US Geological Survey and the Bureau of Reclamation, was our largest customer accounting for 21% and 17% of total revenues in years 2007 and 2006, respectively. State and local government, commercial and international revenues represented 67% of revenues in 2007 and 59% in 2006.

### COST OF SALES AND REVENUES

Cost of sales as a percentage of revenues decreased to 59.5% for 2007 compared to 62.1% for 2006. The decrease reflects changes in product mix. In 2007, our Hydromet Products Division had increased standard product revenues which enabled us to be more efficient and to recover fixed costs. Our Integrated Systems Division also helped to

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reduce cost of sales as they benefited from the Washington International Group order which consisted primarily of standard products. Standard products carry substantially higher margins than projects. In 2006, we had substantial project work with the Army Corps of Engineers in New Orleans that was labor intensive resulting in higher cost of sales. Our Hydrological Services Division experienced a revenue decrease that resulted in higher cost absorption and had one contract that was underbid by the former vice president of the division that resulted in substantial losses.

Cost of sales for both 2007 and 2006 include provisions for inventory obsolescence, physical inventory adjustments and inventory valuation adjustments. We continually pursue product cost reductions through continual review of procurement sourcing based on quality and cost goals, product value engineering and improvements in manufacturing processes.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$3.3 million in 2007 as compared to \$2.9 million in 2006. Selling, general and administrative expenses as a percentage of revenues increased to 17.6% in 2007 from 15.1% in 2006. The increased expenses were primarily due to the addition of two domestic salesmen in 2007, higher legal costs relating to a lawsuit against a former employee to recover monetary damages, SOX 404 compliance costs and higher standby letter of credit fees relating to performance bonds for various international projects.

### PRODUCT RESEARCH AND DEVELOPMENT EXPENSES

Product research and development expenses decreased to \$1.29 million in 2007 from \$1.36 million in 2006. Research and development expenses as a percentage of revenues decreased to 6.8% in 2007 from 7.1% in 2006. In 2007, product development focused on two water level sensors. The first was a radar water level sensor which is a precision water level measuring instrument that uses

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radar pulses without direct contact with the water surface. The second was a continuous flow bubbler system which operates in severe cold conditions. We also continued to focus on enhancements to the Xpert and XLite dataloggers that were upgraded in 2006 and released in 2007.

### INTEREST INCOME AND EXPENSE, NET

We earned net interest income of \$121,448 in 2007 as compared with net interest income of \$68,394 in 2006. Higher cash and cash equivalent balances were responsible for the increase in net interest income.

### INCOME TAXES

Income tax expense for 2007 was \$1,098,000 compared to \$674,000 for 2006. The provision for income taxes for 2007 represents an effective tax rate of approximately 34% compared with 22% for 2006. In 2006, tax deductible compensation expense from the exercise of non-qualified stock options reduced income taxes by approximately \$440,000 as compared to a reduction of \$56,000 in 2007.

### 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.

### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents was \$3,705,475 at December 31, 2008 compared to \$5,299,904 at December 31, 2007. Working capital increased to \$11.7 million at December 31, 2008 compared with \$11.6 million at December 31, 2007.

Net cash used by operating activities was \$278,754 for the year ended December 31, 2008, compared to net cash provided by operating activities was \$3,983,274 for the year ended December 31, 2007, and net cash used by

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operating activities of \$430,148 for the year ended December 31, 2006. The decrease in net cash provided was due to a significant increase in income taxes receivable in 2008. Net cash provided by operating activities increased in 2007 as compared to 2006 due to a significant decrease in accounts receivable in 2007 as compared to an increase in accounts receivable in 2006. Net cash used by investing activities was \$1,265,584 for the year ended December 31, 2008, compared to cash used by investing activities of \$204,456 for the year ended December 31, 2007 and compared to cash used by investing activities of \$45,885 for the year ended December 31, 2006. The decreases in 2008 resulted primarily from the purchases of Ilex Engineering and in restricted cash that was used to secure a performance bond given to the Ministry of Energy and Water in Afghanistan. Net cash used in 2007 and 2006 was primarily due to purchases of property and equipment.

Net cash used by financing activities was \$9,041 for the year ended December 31, 2008. Net cash provided by financing activities was \$37,306 for the year ended December 31, 2007 due to the proceeds from the exercise of employee stock options. Net cash provided by financing activities was \$164,934 for the year ended December 31, 2006 due to the proceeds from the exercise of employee stock options.



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We have a revolving credit facility of \$3,000,000 with Branch Banking and Trust (BB&T). We are permitted to borrow based on accounts receivable and inventory according to pre-established criteria. The credit facility expires on August 5, 2009 and is secured by substantially all assets of the Company. Borrowings bear interest at the bank's prime rate. During 2008, there was no borrowing on the line of credit. We frequently bid on and enter into international contracts that require bid and performance bonds. At December 31, 2008 and 2007, BB&T had issued standby letters of credit in the amount of \$1,010,238 and \$1,652,818 that served as either bid or performance bonds. The amount available to borrow under the line of credit was reduced by these amounts.

Management believes that its existing cash resources, cash flow from operations and short-term borrowings on the existing credit line will provide adequate resources for supporting operations during fiscal 2009. Although there can be no assurance that our revolving credit facility will be renewed, management believes that, if needed, it would be able to find alternative sources of funds on commercially acceptable terms.

### ITEM 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 is denominated in India rupees. 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 India rupee. We recognized a foreign currency loss of approximately \$180,000 in 2008, a foreign currency gain of approximately \$179,000 in 2007 and a foreign currency loss of approximately \$23,000 in 2006 due to intercompany payable balances owed to us by our Sutron India entities. Fluctuations between the U.S. dollar and the India rupee 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 and in a certificate of deposit. We do not invest for the purposes of trading in securities. We do not use derivative financial instruments in our investments.

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### ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

#### SUTRON CORPORATION INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Balance Sheets at December 31, 2008 and 2007	25
Consolidated Statements of Operations for the Years ended December 31, 2008, 2007 and 2006	26
Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2008, 2007 and 2006	27

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Consolidated Statements of Cash Flows for the Years ended  
December 31, 2008, 2007 and 2006 28

Notes to Consolidated Financial Statements 29

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, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2008. 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 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. 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 and Subsidiary as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ Thompson, Greenspon & Co., P.C.

Fairfax, Virginia  
March 24, 2009

SUTRON CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008	DECEMBER 31, 2007
-----	-----

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ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 3,705,475	\$ 5,299,904
Restricted cash and cash equivalents	784,920	134,241
Accounts receivable, net	3,872,527	3,614,532
Inventory	4,053,788	4,114,014
Prepaid items and other assets	302,633	477,754
Income taxes receivable	983,875	--
Deferred income taxes	308,000	312,000
	-----	-----
TOTAL CURRENT ASSETS	14,011,218	13,952,445

PROPERTY AND EQUIPMENT, NET	372,745	579,282
	-----	-----

OTHER ASSETS

GOODWILL	570,150	--
OTHER ASSETS	95,057	99,308
	-----	-----
TOTAL ASSETS	\$ 15,049,170	\$ 14,631,035
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 1,200,721	\$ 823,114
Accrued payroll	129,142	285,829
Other accrued expenses	794,307	995,123
Notes payable - current	2,765	38,381
Billings in excess of costs and estimated earnings	139,117	246,448
	-----	-----
TOTAL CURRENT LIABILITIES	2,266,052	2,388,895

LONG-TERM LIABILITIES

Notes payable, net of current maturities	--	2,075
Deferred income taxes	59,000	84,000
	-----	-----
TOTAL LONG-TERM LIABILITIES	59,000	86,075
	-----	-----
TOTAL LIABILITIES	2,325,052	2,474,970
	-----	-----

STOCKHOLDERS' EQUITY

Common stock	45,707	45,257
Additional paid-in capital	2,778,775	2,694,416
Retained earnings	10,009,105	9,484,811
Accumulated other comprehensive loss	(109,469)	(68,419)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	12,724,118	12,156,065
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 15,049,170	\$ 14,631,035
	=====	=====

See accompanying notes to consolidated financial statements.

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	FOR THE YEARS ENDED DECEMBER 31,		
	2008	2007	2006
NET SALES AND REVENUES	\$ 15,941,328	\$ 18,868,101	\$ 19,406,638
COST OF SALES AND REVENUES	10,566,685	11,219,321	12,055,829
Gross profit	5,374,643	7,648,780	7,350,809
OPERATING EXPENSES:			
Selling, general and administrative expenses	3,511,079	3,312,088	2,936,925
Research and development expenses	1,228,661	1,293,207	1,358,624
Total operating expenses	4,739,740	4,605,295	4,295,549
Operating income	634,903	3,043,485	3,055,260
FINANCING INCOME, NET	108,391	121,448	68,394
Income before income taxes	743,294	3,164,933	3,123,654
INCOME TAX EXPENSE	(219,000)	(1,098,000)	(674,000)
NET INCOME	\$ 524,294	\$ 2,066,933	\$ 2,449,654
NET INCOME PER SHARE:			
Basic income per share	\$ .12	\$ .46	\$ .56
Diluted income per share	\$ .10	\$ .41	\$ .51

See accompanying notes to consolidated financial statements.

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SUTRON CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006

	Common Shares	Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulate Other Comprehens Income (Lo
BALANCES, DECEMBER 31, 2005	4,294,551	\$ 42,946	\$ 2,312,230	\$ 4,968,224	\$ (1,6
Net income	--	--	--	2,449,654	--

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Cumulative translation adjustment	--	--	--	--	(11,4
Total comprehensive income					
Stock based compensation	--	--	36,081	--	--
Stock options exercised	200,000	2,000	210,970	--	--
	-----	-----	-----	-----	-----
BALANCES, DECEMBER 31, 2006	4,494,551	44,946	2,559,281	7,417,878	(13,1
Net income	--	--	--	2,066,933	--
Cumulative translation adjustment	--	--	--	--	(55,2
Total comprehensive income					
Stock based compensation	--	--	50,196	--	--
Stock options exercised	31,081	311	84,939	--	--
	-----	-----	-----	-----	-----
BALANCES, DECEMBER 31, 2007	4,525,632	45,257	2,694,416	9,484,811	(68,4
Net income	--	--	--	524,294	--
Cumulative translation adjustment	--	--	--	--	(41,0
Total comprehensive income					
Stock based compensation	--	--	56,159	--	--
Stock options exercised	45,000	450	28,200	--	--
	-----	-----	-----	-----	-----
BALANCES, DECEMBER 31, 2008	4,570,632	\$ 45,707	\$ 2,778,775	\$ 10,009,105	\$ (109,4
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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SUTRON CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

2008                      2007                      2006

CASH FLOWS FROM OPERATING ACTIVITIES:

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Net income	\$ 524,294	\$ 2,066,933	\$ 2,449,654
Noncash items included in net income:			
Depreciation and amortization	254,443	208,135	206,088
Deferred income taxes	(21,000)	(24,000)	(95,000)
Stock based compensation	56,159	50,196	36,081
(Gain) loss on disposal of property	1,100	(7,483)	--
Changes in current assets and liabilities:			
Accounts receivable	(257,995)	3,221,219	(3,124,325)
Inventory	60,226	(711,997)	(869,493)
Prepaid items and other assets	175,121	52,966	(36,773)
Income taxes receivable	(983,875)	--	--
Increase (Decrease) in Accounts payable	377,607	(575,171)	553,774
Accrued expenses	(357,503)	(543,972)	449,846
Billings in excess of costs and estimated earnings	(107,331)	246,448	--
Net Cash Provided (Used) by Operating Activities	(278,754)	3,983,274	(430,148)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Restricted cash and cash equivalents	(650,679)	3,992	95,142
Purchase of property and equipment	(54,006)	(176,719)	(139,074)
Other assets	4,251	(48,732)	(1,953)
Acquisition and goodwill	(570,150)	--	--
Proceeds from the sale of property and equipment	5,000	17,003	--
Net Cash Provided (Used) by Investing Activities	(1,265,584)	(204,456)	(45,885)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on notes payable	(37,691)	(47,944)	(48,036)
Proceeds from stock options exercised	28,650	85,250	212,970
Net Cash Provided (Used) by Financing Activities	(9,041)	37,306	164,934
Effect of exchange rate changes on cash and cash equivalents	(41,050)	(55,252)	(11,496)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,594,429)	3,760,872	(322,595)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,299,904	1,539,032	1,861,627
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,705,475	\$ 5,299,904	\$ 1,539,032
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES			
Ilex Engineering, Inc. Asset Acquisition:			
Property and equipment	\$ 5,000	\$ --	\$ --
Goodwill and contracts	570,000	--	--
Total Assets Acquired	\$ 575,000	\$ --	\$ --
Acquired by:			
Cash	\$ 575,000	\$ --	\$ --

See accompanying notes to consolidated financial statements.

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## SUTRON CORPORATION AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

#### PRINCIPLES OF CONSOLIDATION

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

#### REVENUE RECOGNITION

The Company's revenue recognition policy is consistent with the requirements of Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements," Statement of Position No. 97-2 (SOP 97-2), "Software Revenue Recognition," and other applicable revenue recognition guidance and interpretations. In general, the Company records revenue when it is realized, or realizable, and earned. The Company considers these requirements met when persuasive evidence of an arrangement exists, the products or services have been provided to the customer, the sales price is fixed or determinable and collectability is reasonably assured. The Company's revenue reflects reductions attributable to discounts and customer returns.

For the Company's products, consisting of both equipment and software, revenue 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. 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.

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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 years. 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-

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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. Costs rendered on contracts in excess of related billings are reflected as costs in excess of billings.

### 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 \$200 for the years ended December 31, 2007, and 2006. No interest was paid for the year ended December 31, 2008. Income taxes paid approximated \$901,000, \$683,000 and \$663,000 for the years ended December 31, 2008, 2007 and 2006, respectively. Foreign income tax paid approximated \$123,000, \$40,000 and \$74,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

### RESTRICTED CASH

For the years ended December 31, 2008 and 2007, the Corporation submitted contract proposals that require bid bonds or bank guarantees. At December 31, 2008 and 2007, \$784,920 and \$134,241, respectively, of the cash and cash equivalents balance is restricted for these bid bonds or serves as a performance bond. At December 31, 2006, \$89,480 is restricted for protest 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. At December 31, 2008 and 2007, the Corporation's investment in accounts 90 days or more past due is \$1,277,231 and \$1,070,808, respectively, net of contract retainages.

### 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 Corporation 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 seven 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.

### ACQUISITION AND GOODWILL

On December 31, 2008, the Corporation purchased the assets of Ilex Engineering, Inc., a provider of DOMSAT systems, custom software and engineering services, located in Columbia, Maryland. The acquisition is expected to strengthen the Corporation's position in the GOES data collection services market and global satellite market. The purchase price of approximately \$575,000 was allocated among tangible assets based on the relative fair market value of assets. The excess of the purchase price over the fair value of assets in the amount of approximately \$570,000 was recorded as goodwill and the entire amount is expected to be deductible for tax purposes.

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Goodwill represents the excess of cost of the acquired net assets over the net amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but rather evaluated for impairment each year. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. No impairment of goodwill was deemed to exist as of the balance sheet date.

### INCOME TAXES

The Corporation 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 Corporation'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 Corporation'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.

The Corporation adopted the provisions of FASB Interpretation No. 48 (FIN No. 48), ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES, on January 1, 2007. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, ACCOUNTING FOR INCOME TAXES. FIN No. 48 prescribes a recognition threshold and measurement principles for financial statement disclosure of tax positions taken or expected to be taken on a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2008 and 2007, the

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Corporation had no unrecognized tax benefits. The Corporation also had no interest expense and/or tax penalties during the year ended December 31, 2008. If the Corporation had such expenses, they would be classified in the consolidated statements of operations as part of the provisions for income tax expense.

### CAPITAL

The Company has 12,000,000, \$.01 par value, shares authorized. There were 4,570,632 shares issued and outstanding at December 31, 2008, 4,525,632 shares issued and outstanding at December 31, 2007 and 4,494,551 shares issued and outstanding at December 31, 2006.

### FOREIGN CURRENCY TRANSLATION

Results of operations for the Corporation'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, net of any related tax effect.

### FINANCIAL INSTRUMENTS

The estimated fair value of cash and cash equivalents, accounts receivable, accounts payable, other accrued expenses, and short term notes payable approximate their carrying amounts in the financial statements.

### 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.

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### EARNINGS PER SHARE

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 128 that establishes standards for computing and presenting earnings per share (EPS) for entities with publicly held common stock. The standard requires presentation of 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 Corporation.

### STOCK COMPENSATION PLANS

Effective January 1, 2006, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), SHARED-BASED PAYMENT, (SFAS 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. Additionally, the Corporation follows the Securities and

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Exchange Commission's Staff Accounting Bulletin No. 107, SHARE-BASED PAYMENT (SAB 107), issued in March 2005, which provides supplemental SFAS 123(R) application guidance based on the views of the SEC. The Corporation adopted SFAS 123(R) using the modified prospective transition method. Under this transition method, share-based compensation expense recognized during the year ended December 31, 2005 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based awards granted beginning January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R).

### RECENT ACCOUNTING PRONOUNCEMENTS

In February 2008, the Financial Account Standards Board (FASB) issued Staff Position (FSP) 157-2, EFFECTIVE DATE OF FASB STATEMENT NO. 157. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value on a nonrecurring basis to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of this new standard is not expected to have a material impact on the Corporation's results of operations or financial position. The Corporation does not have financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, CONSIDERING THE EFFECTS OF PRIOR YEAR MISSTATEMENTS WHEN QUANTIFYING MISSTATEMENTS IN CURRENT YEAR FINANCIAL STATEMENTS, which eliminates the diversity in practice surrounding the quantification and evaluation of financial statement errors. The guidance outlined in SAB 108 is effective for the Corporation in 2008 and is consistent with our historical practices for assessing such matters when circumstances have required such an evaluation. Accordingly, the Corporation does not believe that adoption of SAB 108 will have any impact on the Corporation.

### 2. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, consists of the following:

	2008	2007
	-----	-----
Current	\$ 3,398,285	\$ 2,703,063
Costs in excess of billings and estimated earnings	109,948	761,207
Contract retainage	493,835	206,262
Allowance for doubtful accounts	(129,541)	(59,000)
	-----	-----
Totals	\$ 3,872,527	\$ 3,614,532
	=====	=====

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### 3. INVENTORY

Inventory consists of the following at December 31:

	2008	2007
	-----	-----
Electronic components	\$ 1,890,438	\$ 1,868,590
Work in process	1,945,616	1,665,652
Finished goods	658,317	1,215,249

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Allowance for obsolete inventory	(440,583)	(635,477)
	-----	-----
Totals	\$ 4,053,788	\$ 4,114,014
	=====	=====

### 4. PROPERTY AND EQUIPMENT

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

	2008	2007
	-----	-----
Furniture, fixtures and equipment	\$ 1,955,526	\$ 1,949,776
Vehicles	355,660	364,134
Leasehold improvements	127,439	110,858
	-----	-----
Totals	\$ 2,438,625	\$ 2,424,768
	=====	=====

Accumulated depreciation and amortization at December 31, is as follows:

	2008	2007
	-----	-----
Furniture, fixtures and equipment	\$ 1,651,011	\$ 1,543,053
Vehicles	305,080	256,136
Leasehold improvements	109,789	46,297
	-----	-----
Totals	\$ 2,065,880	\$ 1,845,486
	=====	=====

Depreciation and amortization expense totaled \$254,443, \$208,135 and \$206,088 for the years ended December 31, 2008, 2007 and 2006, respectively.

### 5. LINE OF CREDIT

The Corporation has a \$3,000,000 line of credit with a commercial bank. The line of credit is collateralized by substantially all of the assets of the Corporation and expires August 2009. Under the terms of the line of credit, the Corporation is required to maintain certain financial covenants. Interest is charged at the bank's prime rate and is payable monthly. There was no balance outstanding at December 31, 2008 or 2007.

The Corporation frequently bids on and enters into international contracts that require bid and performance bonds. At December 31, 2008 and 2007, a commercial bank had issued standby letters of credit in the amount of \$1,010,238 and \$1,652,818, respectively that served as either bid or performance bonds. The amount available under the line of credit is reduced by this amount.

### 6. OTHER ACCRUED EXPENSES

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

	2008	2007
	-----	-----
Accrued vacation pay	\$ 192,858	\$ 218,278
Accrued warranty costs	245,000	226,000
Customer advance payments	318,407	224,972
Federal income taxes payable	--	303,015
Other accruals	38,042	22,858
	-----	-----
Totals	\$ 794,307	\$ 995,123
	=====	=====

7. ACCRUED WARRANTY COSTS

The Corporation warrants 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, 2006	\$ 288,000
Reserve adjustment	(62,000)
	-----
Balance as of December 31, 2007	226,000
Reserve adjustment	19,000
	-----
Balance as of December 31, 2008	\$ 245,000
	=====

8. NOTES PAYABLE

Notes payable consist of notes from various finance companies for vehicle acquisitions and are secured by the underlying vehicles. Monthly installments range from \$259 to \$700 and include zero percent interest. The balances outstanding at December 31 are as follows:

	2008	2007
	-----	-----
Long-term maturities	\$ --	\$ 2,075
Current maturities	2,765	38,381
	-----	-----
Totals	\$ 2,765	\$ 40,456
	=====	=====

9. LEASE OBLIGATIONS

The Corporation leases space for its headquarters and production facilities, which expire in March 2009. The operating lease calls for monthly rent of \$12,616 and increases three percent per annum, thereafter. The lease agreement includes additional rent payments based on a pro rata portion of maintenance fees and operating expenses on the land and building.

The Corporation leases additional office and warehouse space in Sterling, Virginia. The lease was renewed in 2005 and expires in March 2009 and requires monthly rent payments of \$5,500.

The Corporation leased office and warehouse space in West Palm Beach, Florida. The four-year lease, expired in August 2008, required monthly payments of \$5,827. The Corporation entered into a lease agreement for different office space in West Palm Beach commencing September 2008. The three-year lease, expiring on August 31, 2011, requires monthly payments of \$3,695 and increases annually at \$.75 per square foot at 2,850 square feet, thereafter.

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The Corporation entered into a lease agreement for office space in Brandon, Florida. The five-year lease, expired in December 31, 2008 and required monthly payments of \$1,984. The Corporation entered into a lease agreement for office space in Lakeland, Florida. The one-year lease, expiring October 31, 2009, requires monthly payment of \$482.

The Corporation entered into lease agreements for office space and furniture in New Delhi, India in September 2006. The three-year leases, expiring in August 2009, require monthly payments of \$1,518. Both leases include an option to renew for another period of three years with a twenty percent increase in rent.

The Corporation entered into a ten year lease for its headquarters and production facilities on November 13, 2008, which commences on June 1, 2009. The lease calls for monthly rent of \$30,135, and increases 3 percent per annum, thereafter. The lease agreement includes additional rent payments based on a pro rata portion of operating expenses

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and real estate taxes. The Corporation has the right to extend the term of the lease for two additional terms of five years beyond the initial term. The Corporation will receive a tenant improvement allowance up to approximately \$1,390,000 based on certain conditions described in the lease.

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

Years ending December 31:	
2009	\$ 329,617
2010	453,138
2011	449,067
2012	383,920
2013	393,496
2014 and thereafter	2,309,177
	-----
Total	\$ 4,318,415
	=====

Rent expense amounted to \$362,182, \$332,999 and \$315,903 for the years ended December 31, 2008, 2007 and 2006, respectively.

### 10. INCOME TAXES

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

	2008	2007	2006
	-----	-----	-----
Current income tax expense	\$ (240,000)	\$ (1,122,000)	\$ (769,000)
Deferred tax benefit	21,000	24,000	95,000
	-----	-----	-----
Total income tax expense	\$ (219,000)	\$ (1,098,000)	\$ (674,000)
	=====	=====	=====

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

	2008	2007	2006
	-----	-----	-----
Accrued vacation and warranty	\$ 171,000	\$ 173,000	\$ 184,000

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Accounts receivable and inventory allowances	137,000	139,000	149,000
	-----	-----	-----
Gross deferred tax assets	308,000	312,000	333,000
Gross deferred tax liability - depreciation	(59,000)	(84,000)	(129,000)
	-----	-----	-----
Net deferred tax assets	\$ 249,000	\$ 228,000	\$ 204,000
	=====	=====	=====

The realization of the deferred tax assets is dependent on future taxable earnings. The Corporation 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:

	2008	2007	2006
	-----	-----	-----
Income before income taxes	\$ 743,294	\$ 3,164,933	\$ 3,123,654
Applicable statutory tax rate	34%	34%	34%
	-----	-----	-----
Computed "expected" Federal income tax Expense	(253,000)	(1,076,000)	(1,062,000)
Adjustments to Federal income tax resulting from:			
State income tax expense	(39,000)	(184,000)	(120,000)
Tax credits	36,000	106,000	68,000
Stock compensation	37,000	56,000	440,000
	-----	-----	-----
Income tax (expense) benefit	\$ (219,000)	\$ (1,098,000)	\$ (674,000)
	=====	=====	=====

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### 11. MAJOR CUSTOMERS

Set forth below are customers, including agencies of the U.S. Government, from which the Corporation received more than ten percent of total revenue, reported in the Hydromet Products and Integrated Systems segments, for the years ended December 31:

	2008	2007	2006
	-----	-----	-----
Department of Interior	19%	21%	17%
International	42%	40%	36%
Commercial	24%	27%	23%
Department of Defense	--	--	16%

Set forth below are customers from which the Corporation had more than ten percent of total accounts receivable outstanding for the years ended December 31:

	2008	2007
	-----	-----
Islamic Republic of Afghanistan	\$ 1,713,673	\$ 798,656

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At December 31, 2008 and 2007, unbilled accounts receivable of approximately \$506,000 and \$695,000, respectively, is from the Government of India Central Water Commission.

### 12. CONCENTRATIONS

The Corporation's bank participates in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage is in addition to, and separate from, the coverage available under the FDIC's general deposit insurance rules.

The Corporation also maintains accounts that are not covered by the guarantee program. At times throughout the year, cash and equivalents exceeded the FDIC insurance limits in these accounts. As of December 31, 2008, the Corporation's cash deposits exceeded the FDIC insured amount by approximately \$3,954,000.

The Corporation's products use certain standard and application specific components that are acquired from one or a limited number of sources. The Corporation has generally been able to procure adequate supplies of these components in a timely manner from existing sources. The Corporation's 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 the Corporation's operating results in any given period.

### 13. STOCK OPTION PLANS

The Corporation has granted stock options under the 2002, 1997 and the 1996 Stock Option Plans to key employees and directors for valuable services provided to the Corporation. The authorized and granted options under each of these plans are as follows:

	Authorized	Granted
	-----	-----
1996 Plan	260,000	259,000
1997 Plan	60,000	60,000
2002 Plan	650,000	516,333

Shares under all 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. Cancelled or expired options are able to be reissued.

As discussed in Note 1, STOCK COMPENSATION PLANS, effective January 1, 2006, the Corporation adopted the fair value recognition provision of SFAS 123(R), using the modified prospective transition method. The adoption of SFAS

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123(R) resulted

in share-based compensation expense associated with options for the years ended December 31, 2008, 2007 and 2006 of \$56,159, \$50,196 and \$36,081, respectively which was recorded to general and administrative expenses. This expense decreased basic and diluted earnings per share by \$0.01 for the years ended December 31, 2008, 2007 and 2006.

The vesting period of the remaining options is as follows:

Vested and exercisable	506,960
2009	15,625
2010	10,000



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2011	10,000
2012	1,667
	-----
Total	544,252
	=====

The fair value of Sutron Corporation stock options used to recognize compensation expense in 2008, 2007 and 2006 is the estimated present value at grant date using the Black-Scholes pricing model, with the following assumptions:

	2008 (Compensation)	2007 (Compensation)	2006 (Compensation)
	-----	-----	-----
Risk free rate	3.62-3.92%	4.5 - 5.16%	5.16%
Expected volatility	30%	30%	30%
Dividend yield	0%	0%	0%
Holding period	10 years	10 years	10 years

The risk free rate is based on the United States Treasury yield curve at the time of grant. The expected volatility is based on the historical volatility of the Company's stock. The dividend yield is based on the historical yield rate. The holding period is based on the life of the options.

The following summarizes the option activity under these plans for the last three years:

	Option Price Per Share	Number of Shares	Weighted Average Exercise Price
	-----	-----	-----
Outstanding, December 31, 2005	\$.40 - 7.45	739,333	\$ .98
Grants	7.80	15,000	\$ 7.80
Exercised	.40 - 1.125	200,000	\$ 1.06
Cancelled or expired	--	--	\$ --
Outstanding, December 31, 2006	.55 - 7.80	554,333	\$ 1.13
Grants	6.90 - 7.60	65,000	\$ 6.48
Exercised	.65 - 5.50	31,081	\$ 2.74
Cancelled or expired	7.60	5,000	\$ 7.60
Outstanding, December 31, 2007	.55 - 7.80	583,252	\$ 1.65
Grants	6.00 - 7.50	16,000	\$ 7.41
Exercised	.55 - .68	45,000	\$ 0.64
Cancelled or expired	7.45 - 7.80	10,000	\$ 3.91
Outstanding, December 31, 2008	\$.55 - 7.80	544,252	\$ 1.80
	=====	=====	=====

The weighted average fair value of options granted during the three years is as follows:

December 31, 2006	\$ 4.12
December 31, 2007	\$ 3.55
December 31, 2008	\$ 3.63

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The weighted average remaining contractual life of options outstanding at December 31, 2008 is 3.9 years.

### 14. 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.

	Years Ended December 31,		
	2008	2007	2006
Net income	\$ 524,924	\$2,066,933	\$2,449,654
Shares used in calculation of income per share:			
Basic	4,549,810	4,512,578	4,341,534
Effect of dilutive options	501,816	469,652	469,109
Diluted	5,051,626	4,982,230	4,810,643
Net income per share:			
Basic	\$.12	\$.46	\$.56
Diluted	\$.10	\$.41	\$.51

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 95,000 for the year ended December 31, 2008 and 0 for 2007, and 2006, respectively.

### 15. PROFIT SHARING PLAN

The Corporation has a profit-sharing retirement plan that covers substantially all employees of the Corporation. The Plan includes a 401(k) provision under which employees may elect to defer a portion of their compensation. The Plan was amended in May 2006 to allow for employer matching of up to 4 percent as determined in the Plan. The profit-sharing contribution is determined each year by the Board of Directors based on profits. The Corporation made a profit sharing contribution for the years ended December 31, 2006 of \$100,000. The Corporation did not make a profit sharing contribution for the year ended December 31, 2008 and 2007. The employer matching contribution was approximately \$148,000, \$156,000 and \$73,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

### 16. SEGMENT INFORMATION

Statement of Financial Accounting Standards (SFAS) No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, establishes standards for the manner in which public companies report information about operating segments in annual and interim financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. The method for determining what information to report is based on the way management organizes the operating segments within the Corporation for making operating decisions and assessing financial performance.

The Corporation's chief operating decision-maker is considered to be the Corporation's Chief Executive Officer (CEO). The CEO reviews financial information presented based on divisions, comprised of products and/or services. Nearly all of the Corporation's operations and assets are located at its headquarters location. Therefore, indirect costs are not allocated among segments.

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The Corporation currently reports its results in four divisions: Hydromet Products, Integrated Systems, Hydrological Services and Sutron India Operations. Hydromet Products division is responsible for the manufacture and sale of the Corporation's products including data loggers, satellite transmitters, sensors and tides systems. The Integrated Systems and Sutron India Operations are responsible for systems design, integration, installation, training and commissioning of turnkey hydro-meteorological systems. The Corporation's Hydrological Services provides hydrological services including modeling, flood forecasting, hydrologic studies and equipment installation and maintenance. Corporate assets consisted mainly of cash, deferred taxes, income tax receivables and goodwill.

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The results of these segments are shown below (in thousands):

	Years Ended Dec. 31	Net Revenues	Gross Margin	Total Assets
Hydromet Products	2008	\$ 8,581	\$ 4,384	\$ 4,651
	2007	10,019	5,784	5,049
	2006	9,234	4,726	5,127
Integrated Systems	2008	5,824	1,416	2,511
	2007	6,303	2,200	2,079
	2006	6,153	2,335	1,732
Hydrological Services	2008	1,360	(174)	749
	2007	1,974	(402)	967
	2006	2,214	(90)	1,820
Sutron India Operations	2008	176	(251)	1,047
	2007	572	67	1,187
	2006	1,806	380	3,022
Corporate and Unallocated	2008	--	--	6,091
	2007	--	--	5,349
	2006	--	--	1,749
Total Company	2008	\$15,941	\$ 5,375	\$15,049
	2007	\$18,868	\$ 7,649	\$14,631
	2006	\$19,407	\$ 7,351	\$13,450

### 17. EXPORT SALES

Export sales from the Company's operations at December 31, were as follow (in thousands):

	2008	2007	2006
Central and South America	\$ 755	\$ 580	\$ 1,269
Canada	1,160	717	645
Asia	1,209	3,187	4,527
Europe and other	539	800	441
Middle East	3,056	2,248	-
	\$ 6,719	\$ 7,532	\$ 6,882

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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.

### 18. LEGAL CONTINGENCIES

Various legal claims can arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Corporation's financial statements. The Corporation has been named in a compensation claim under the Indian Anti-Trust Law that is pending before The Monopolies and Restrictive Trade Practices Commission in New Delhi, India. Management believes that the case is unsubstantiated and does not anticipate that any material losses will occur.

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### ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

### ITEM 9A - CONTROLS AND PROCEDURES

#### 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 December 31, 2008, the end of the fiscal period covered by this report on Form 10-K. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

#### MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Sutron Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Sutron's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those written policies and procedures that:

- o pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Sutron's assets;

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- o provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;
- o provide reasonable assurance that receipts and expenditures of Sutron are being made only in accordance with authorization of management and directors of Sutron; and
- o provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified. 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 the policies or procedures may deteriorate.

Management assessed the effectiveness of Sutron's internal control over financial reporting as of December 31, 2008. Management based this assessment on criteria for effective internal control over financial reporting described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of Sutron's internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

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Based on this assessment, management determined that, as of December 31, 2008, Sutron maintained effective internal control over financial reporting.

### ATTESTATION REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting that occurred during the last fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ITEM 9B - OTHER INFORMATION

None

## PART III

### ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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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 to the Proxy Statement to be filed in connection with our 2009 Annual Meeting of Shareholders.

### ITEM 11 - EXECUTIVE COMPENSATION

The information required for this Item is incorporated by reference to the Proxy Statement to be filed in connection with our 2009 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 to the Proxy Statement to be filed in connection with our 2009 Annual Meeting of Shareholders.

### ITEM 13 - CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTORS INDEPENDENCE

The information required for this Item is incorporated by reference to the Proxy Statement to be filed in connection with our 2009 Annual Meeting of Shareholders.

### ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required for this Item is incorporated by reference to the Proxy Statement to be filed in connection with our 2009 Annual Meeting of Shareholders.

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## PART IV

### ITEM 15 - EXHIBITS, FINANCIAL STATEMENTS AND 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 \_\_ are filed as part of this report.

#### (b) EXHIBITS

- 10.17 Loan Modification Agreement dated August 4, 2008 between Sutron Corporation and Branch Banking and Trust Company of Virginia, a North Carolina Banking Corporation
- 10.18 Lease Agreement dated November 17, 2008 between Sutron Corporation and FP Sterling Park II, LLC
- 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

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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

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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  
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Date: March 31, 2009

By: Raul S. McQuivey,  
Chairman of the Board of Directors, President  
and Chief Executive Officer

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  
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Date: March 31, 2009

By: Raul S. McQuivey,  
Chairman of the Board of Directors, President  
and Chief Executive Officer

/s/ Daniel W. Farrell  
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Date: March 31, 2009

By: Daniel W. Farrell, Director and Vice President

/s/ Andrew D. Lipman  
-----

Date: March 31, 2009

By: Andrew D. Lipman, Director

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/s/ Leland R. Phipps  
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Date: March 31, 2009

By: Leland R. Phipps, Director

/s/ Robert F. Roberts, Jr.  
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Date: March 31, 2009

By: Robert F. Roberts, Jr., Director

/s/ Sidney C. Hooper  
-----

Date: March 31, 2009

By: Sidney C. Hooper, Chief Financial Officer  
(Principal Financial and Accounting Officer)