

SUTRON CORP
Form 10-K
March 28, 2012

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, 2011

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.)

22400 Davis Drive, Sterling Virginia 20164

(Address of principal executive offices)

(703) 406-2800

(Registrants telephone number, including area code)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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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.

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

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

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 \$6.08 as reported by the NASDAQ Stock Market, Inc. for the Registrant’s Common Stock as of March 23, 2012, was \$21,736,822.

The number of shares outstanding of the Registrant’s Common Stock, \$.01 par value, as of March 28, 2012 was 4,704,632.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrants’ Definitive Proxy Statement for the 2012 Annual Meeting of Shareholders, which will be filed within 120 days after the end of the year covered by this Form 10-K, are incorporated in Part III as set forth herein.

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NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

PART I

Item 1 - Business

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

We design, manufacture, market and sell products and systems 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 data collection and control products consisting primarily of dataloggers, satellite transmitters/loggers, water level and meteorological sensors and tides monitoring systems. We provide turnkey integrated systems for hydrological, meteorological and oceanic and related services consisting of installation, training and maintenance of hydrological and meteorological networks. Our customers include a diversified base of federal, state, local and foreign governments, engineering firms, universities and hydropower companies.

We operate principally in two industry segments: standard products (hydrological, meteorological and oceanic monitoring and control products) which are sold off-the-shelf and systems (hydrological, meteorological and oceanic monitoring systems that are comprised of standard products and non-standard items as required by the system specification also including software) and services including installation, training, and maintenance of systems. Our Hydromet Products Division is responsible for the manufacturing of all standard products. We have various profit centers consisting of Integrated Systems Division, Hydrological Services Division, Ilex Division and Sutron India operations that provide our systems and services.

The Hydromet Products Division manufactures dataloggers, satellite transmitters/loggers, water level and meteorological sensors and tides monitoring systems. Dataloggers collect sensor data and transmit the data to central facilities primarily by satellite radio but also by cell phone, fiber optics or microwave. Our sensors collect hydrological and meteorological data and include a tipping bucket rain gauge, a barometric pressure sensor, a temperature sensor and differing types of water level sensors including shaft encoders, bubbler systems, submersible

sensors and radar sensors. Our dataloggers can interface to sensors from other companies. We have long-standing relationships with suppliers of sensors for wind speed and wind direction, water quality, humidity and solar radiation. The principal products that are manufactured by the Hydromet Products Division are described below.

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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. First released in 2001, the product was updated in 2007 with a new processor. The product is supported by adding new features needed to meet the growing demands of customers.

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. 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 gauging stations, dam safety stations and flood forecasting, monitoring, control and warning systems

SatLink2 Transmitter/Logger

The SatLink2 is a high data rate satellite transmitter/logger that transmits at 100, 300 and 1200 baud, incorporates GPS and functions as a logger. 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. In October 2010, Sutron certified its new V2 version of the Satlink2. The V2 version meets the latest specifications being adopted by the National Environmental Satellite, Data and Information Services (NESDIS). Starting sometime in 2012, all users of the Geostationary Operational Environmental Satellite (GOES) satellite will have a 10 year period to upgrade all their transmitters to comply with the V2 specifications. Along with supporting V2 specifications, Sutron added important new hardware and software features to Satlink2. The SatLink2 transmitter operates on the GOES system. NESDIS operates two U.S. Government environmental satellites on this system.

Stage Discharge Recorder

The Stage Discharge Recorder is an 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 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 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. We have enhanced the capabilities of tides systems by adding Storm Surge/Tsunami software. This software provides added capability to tides stations to detect and provide tsunami warnings.

The Main Tide Station is designed to detect a vast array of events. Sutron's Xpert Logger is a Windows device programmable to monitor multiple parameters including traditional NOS methods such as sudden water level drops and seismic sensors, or both at one time. It supports a wide variety of water level monitoring and weather instruments. The Main Tide Station provides pre-programmed support for 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, installation and commissioning of customer-specific hydrological and meteorological monitoring and control systems. We became an Iridium Value Added Reseller in 2010 in order to provide another communications option to our customers. We believe that Iridium will be a more significant part of our future especially for systems being located in highly remote areas. Systems include software applications based on our XConnect database software and our Ilex Tempest database software. Our database software capability allows us to provide turnkey hydrological and meteorological systems to a variety of users. Projects may range in size from one station to hundreds of stations. Projects usually require design, equipment integration, software application development, installation, training and commissioning. Projects can range in duration from several days to several years depending on the scope and complexity of the system.

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

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

Our Ilex Division is a provider of Tempest database software, DOMSAT systems, custom software and engineering services. Ilex's customers are primarily the U.S. Army Corps of Engineers, U.S. Geological Survey, NOAA National Weather Service and U.S. Bureau of Reclamation.

Sutron India Operations consist of a Branch Office that was established early in 2004 in order to comply with India tax law. 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, performs systems

integration, civil works construction, installation, commissioning and equipment maintenance. Our India Operations maintains over 260 remote automatic real-time hydromet monitoring stations in India under contracts with the Central Water Commission (CWC) and with the India Meteorological Department (IMD).

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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.

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 2011, approximately 29% of our products and services were sold to the United States Federal Government. Net sales and revenues in 2011 among the various agencies were as follows: Department of the Interior, 15%; Department of Commerce, 3%; Department of Defense, 4% and Other Federal Agencies, 7%. Revenues from the Department of the Interior were derived from sales to the U.S. Geological Survey and the Bureau of Reclamation. Revenues from the Department of Defense were primarily from the U.S. Army Corps of Engineers. Revenues from the Department of Commerce were from sales of tides systems and spares to NOS and the National Data Buoy Center. The loss of any significant portion of our sales to any major customer, the loss of a single major customer or budgetary constraints of any one of our major customers could have a material adverse effect on our business and financial results. We also performed on various contracts of foreign origin. Revenues from foreign customers amounted to approximately 53% of revenues in 2011, 39% of revenues in 2010 and 48% of revenues in 2009.

Research and Development

During the years ended December 31, 2011, 2010 and 2009, we incurred expenses of \$1,993,183, \$1,887,318 and \$1,635,161, respectively, on activities relating to the development of new products and enhancements and improvements of existing products. In 2011, we spent significant development efforts on IridiumLink and GPRSLink. These are integrated logger/telemetry products that provide low cost, two-way communication. Significant efforts were spent on the 7310 and 8310 dataloggers which are lower cost dataloggers. In 2011, we spent significant efforts in the continued development of SUTRONWIN which provides a

complete system software package including webhosting, real-time data storage for one year, data analysis and complete data management. Significant enhancements were also made to the Constant Flow Bubbler and Total Precipitation Gauge.

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 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.

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 2011.

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 purchases from us, which would adversely impact our business.

Foreign Operations

We opened a branch office in New Delhi, India in December 2004. We formed a wholly owned subsidiary in India in February 2005 in order to bid on domestic India tenders. Our India Operations performs systems integration, civil works construction, systems installation and commissioning and maintenance services. We are maintaining over 260 remote automatic real-time hydromet monitoring stations and three Digital Direct Read-out Ground Stations under contracts with the CWC and the IMD.

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Employees

As of December 31, 2011, we and our wholly owned subsidiary had a total of 89 employees, of which 87 were full time. We also from time to time employ part-time employees and hire independent contractors. Our employees are not represented by any collective bargaining agreement and we have never experienced a work stoppage. We believe that our employee relations are good.

Backlog

At December 31, 2011, our backlog was approximately \$9,599,000 as compared with approximately \$11,748,000 at December 31, 2010. We anticipate that 85% of our 2011 year-end backlog will convert to revenue in 2012. 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. Other factors that may result in a cancellation of orders include changes, delays or cancellation of government programs, political and economic business events and trade restrictions.

Item 1A Risk Factors

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

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 34% of our revenues in fiscal year 2011. 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:

- a competitive procurement process with no guaranty of being awarded contracts;
- dependence on congressional appropriations and administrative allotment of funds;
- policies and regulations that can be changed at any time by Congress or a presidential administration;
- changes in and delays or cancellations of government programs or requirements; and
- 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 53%, 39% and 48% of our revenue for fiscal 2011, 2010 and 2009, 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.

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Intense competition can adversely affect our operating results

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

The variability of our quarterly operating results can be significant

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

Managing costs while planning for growth will be critical

We believe that we must 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 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 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 foreign currency gains of approximately \$36,000, \$37,000 and \$50,000 in 2011, 2010 and 2009 due to intercompany payables 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.

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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 entities, such as the assumption of additional liabilities. We may issue additional equity securities or incur debt to pay for future acquisitions.

We do not have contracts with key suppliers

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

We are highly dependent on key personnel

Our success has depended, and to a large extent will depend, on the continued services our key senior executives, and engineering, marketing, sales, production and other personnel. We do not have an employment agreement with any of our key personnel. The loss of these key personnel, who would be difficult to replace, could harm our business and operating results. Competition for management in our industry is intense and we may be unsuccessful in attracting and retaining the executive management and other key personnel that we require.

Item 1B – Unresolved Staff Comments

Not applicable

Item 2 - Properties

Our corporate headquarters are located at 22400 Davis Drive, Sterling, Virginia. We lease this 31,190 square foot facility. It contains our administrative and sales and marketing offices and our manufacturing facilities. The lease expires on May 31, 2019.

We lease 2,850 square feet of office and warehouse space in West Palm Beach, Florida. The lease expires in December 2012. The Hydrological Services division occupies this space which consists of both office and warehouse space. We lease office space and furniture in New Delhi, India. The leases were extended until September 2012. Our wholly owned subsidiary uses this space for their offices.

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

Various legal claims can arise from time to time in the normal course of business that, in the opinion of management, can have a material effect on our financial statements. We were named in a compensation claim under the Indian Anti-Trust Law that was filed in 2005 before The Monopolies and Restrictive Trade Practices Commission (the “Commission”) in New Delhi, India. That claim was dismissed by the Commission in March 2011.

Item 4 – Mine Safety Disclosures

Not applicable

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PART II

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

Common Stock

Our common stock trades on the Nasdaq Capital Market (formerly the Nasdaq SmallCap Market) under the symbol "STRN". On March 29, 2012, there were approximately 1,325 stockholders of record. The table below sets forth the high and low sales prices for the periods shown.

| | | | | |
|-------------------------------------|----|------|----|------|
| Fiscal year ended December 31, 2010 | | High | | Low |
| First Quarter | \$ | 7.49 | \$ | 6.32 |
| Second Quarter | \$ | 8.20 | \$ | 6.18 |
| Third Quarter | \$ | 7.20 | \$ | 5.84 |
| Fourth Quarter | \$ | 7.18 | \$ | 6.24 |
| Fiscal year ended December 31, 2011 | | High | | Low |
| First Quarter | \$ | 8.50 | \$ | 6.43 |
| Second Quarter | \$ | 7.94 | \$ | 6.50 |
| Third Quarter | \$ | 6.97 | \$ | 4.49 |
| Fourth Quarter | \$ | 5.58 | \$ | 4.30 |

We have never declared or paid a dividend on our common stock.

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

Equity Compensation Plan Information

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|---|---|---|
| Equity compensation plans approved by security holders | — | — | 500,000 |
| Equity compensation plans not approved by | 492,978 | \$2.61 | 51,941 |

| | | | |
|------------------|---------|--------|---------|
| security holders | | | |
| Total | 492,978 | \$2.61 | 551,941 |

Item 6 – Selected Financial Data

The following table sets forth consolidated financial data with respect to Sutron Corporation for the five-year period ended December 31, 2011. 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.

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(In thousands, except earnings per share data)

Years Ended December 31,

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|-----------|-----------|-----------|-----------|-----------|
| Income Statement Data | | | | | |
| Revenues | \$ 20,222 | \$ 22,975 | \$ 20,851 | \$ 15,941 | \$ 18,868 |
| Operating income | 2,129 | 4,417 | 3,333 | 719 | 2,797 |
| Net Income | 1,521 | 2,987 | 2,229 | 499 | 1,856 |
| Basic earnings per share | .33 | .65 | .49 | .11 | .41 |
| Diluted earnings per share | .31 | .60 | .45 | .10 | .37 |
| Shares used in computing basic per share data | 4,620 | 4,573 | 4,571 | 4,550 | 4,513 |
| Shares used in computing diluted per share data | 4,921 | 4,995 | 4,975 | 5,052 | 4,982 |
| Balance Sheet Data | | | | | |
| Cash | \$ 9,498 | \$ 9,505 | \$ 4,791 | \$ 3,605 | \$ 4,582 |
| Working capital | 18,973 | 17,086 | 13,931 | 11,654 | 11,364 |
| Total assets | 24,083 | 22,987 | 19,528 | 14,958 | 14,337 |
| Long-term debt, including current portion | — | — | — | 3 | 40 |
| Stockholders' equity | 19,975 | 18,139 | 15,031 | 12,633 | 11,956 |
| Cash dividends declared | — | — | — | — | — |

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

The following discussion and analysis should be read in conjunction with our 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, meteorological and oceanic monitoring. We design, manufacture, market and sell these products and services to a diversified customer base consisting of federal, state, local and foreign governments, engineering firms, universities and hydropower companies. Our products, systems 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 Tempest 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. The Xpert and XLite are more powerful dataloggers that have significant more logging capability and communications options than the

SatLink2. Our Tempest and XConnect systems software allow us to provide turn-key systems solutions to our customers.

We are beginning fiscal year 2012 with a backlog of approximately \$9,599,000 as compared to beginning fiscal year 2011 with a backlog of approximately \$11,748,000. We estimate that approximately 85% of our December 31, 2011 backlog will convert to revenue in 2012. We anticipate that we will continue to experience significant quarterly fluctuations in our sales and revenues in 2012. Operating results will depend upon the product mix and upon the timing and execution of project awards.

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International sales, which totaled 53% of revenues for 2011, are a significant portion of our revenues. We believe that international revenues will grow as a percentage of our total business as we plan to develop stronger international partnerships and expand our international sales opportunities. International sales are however difficult to forecast because they are frequently delayed due to the different governmental procurement and approval processes. Our domestic business is highly dependent upon government business. Contracts and purchase orders with Federal, state and local government agencies represented approximately 34% of our 2011 revenues.

We are committed in our ongoing sales, marketing and research and development activities to sustain and grow our sales and revenues from our products and services. We expect our sales and marketing, research and development and general and administrative expenses to increase moderately in 2012 as compared to 2011 due to planned spending on sales and marketing activities and on the development of new products and applications.

Critical Accounting Estimates

The discussion and analysis of financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate, on an on-going basis, our estimates and judgments, 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.

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

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

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

We use the percentage of completion method for recognizing revenue and profits when we perform on fixed price contracts that extend over a number of 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

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periodically based upon changes and facts, and any losses on contracts are recognized immediately. Contracts may contain provisions to earn incentive and award fees if targets are achieved. Incentive and award fees that can be reasonably estimated are recorded over the performance period of the contract. Incentive and award fees that cannot be reasonably estimated are recorded when awarded. We recognize revenue from time-and-materials contracts to the extent of billable rates, times hours delivered, plus direct materials costs incurred. Some of the contracts include provisions to withhold a portion of the contract value as retainage. Our policy is to take into revenue the full value of the contract, including any retainage, as we perform against the contract.

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

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

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

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

Stock Option Compensation – We adopted the provisions of FASB ASC 718 Compensation – Stock Compensation 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 Share-Based Payment which provides supplemental ASC 718 application guidance based on the views of the SEC.

Results of Operations

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

| | Years ended December 31, | | |
|----------------------------|--------------------------|------|------|
| | 2011 | 2010 | 2009 |
| Net sales and revenues | 100% | 100% | 100% |
| Cost of sales and revenues | 61.0 | 56.1 | 58.1 |
| Gross profit | 39.0 | 43.9 | 41.9 |

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| | | | |
|--|------|-------|-------|
| Selling, general and administrative expenses | 18.6 | 16.5 | 18.0 |
| Research and Development expenses | 9.9 | 8.2 | 7.9 |
| Operating income | 10.5 | 19.2 | 16.0 |
| Interest income | .5 | .2 | 1.0 |
| Income before income taxes | 11.0 | 19.4 | 17.0 |
| Income taxes | 3.5 | 6.4 | 6.3 |
| Net income | 7.5% | 13.0% | 10.7% |

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Fiscal 2011 Compared to Fiscal 2010

Net Sales and Revenues

Revenues for the year ended December 31, 2011 decreased 12% to \$20,222,369 from \$22,975,600 in 2010. Net sales and revenues are broken down between sales of standard products and sales of systems and services. Standard products had a net sales and revenue decrease of 30% to \$9,022,856 in 2011 from \$12,944,313 in 2010. The decrease is due to the accelerated purchases of equipment as a result of stimulus funding, totaling approximately \$5,200,000, received in fiscal year 2009. The equipment purchases were shipped in 2009 and 2010. The equipment purchases would otherwise have been spread out over future years. Net sales and revenues for systems and services increased 12% to \$11,199,513 from \$10,031,288 in 2010 primarily due to increased system sales.

Overall domestic revenues decreased 32% to \$9,589,549 in 2011 versus \$14,112,382 in 2010 while international revenues increased 20% to \$10,632,820 in 2011 versus \$8,863,218 in 2010. The Department of the Interior, the principal agencies being the US Geological Survey and the Bureau of Reclamation, was our largest customer accounting for 15% and 24% of total revenues in years 2011 and 2010, respectively. Federal government revenues were 29% and 36% of revenues in 2011 and 2010.

Cost of Sales and Revenues

Cost of sales as a percentage of revenues increased to 61% for 2011 compared to 56% for 2010. Cost of sales for standard products was approximately 54% in 2011 as compared to 46% in 2010. The increase in the cost of sales of standard products was primarily due to higher absorption of fixed production costs. Cost of sales for systems and services was 67% in 2011 as compared to 68% in 2010. Cost of sales for both 2011 and 2010 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 \$3,773,942 in 2011 as compared to \$3,790,760 in 2010. Selling, general and administrative expenses as a percentage of revenues increased to 19% in 2011 from 17% in 2010 due to the decreased sales volume in 2011 as compared to 2010.

Product Research and Development Expenses

Product research and development expenses increased to \$1,993,183 in 2011 from \$1,887,318 in 2010, a 6% increase. Product research and development expenses as a percentage of revenues were 10% in 2011 as compared to 8% in 2010. Expenses increased in 2011 as compared to 2010 due to our increased development efforts on new products including the Iridium Link and Cell Link products, SUTRONWIN, 7310 Data Logger and the 8310 Data Logger. We also expended resources on making significant enhancements to the Constant Flow Bubbler and Total Precipitation Gauge.

Interest and Other Income, Net

Net interest and other income increased to \$101,515 in 2011 as compared to \$50,534 in 2010.

Income Taxes

Income tax expense for 2011 was \$710,000 compared to \$1,480,000 for 2010. The provision for income taxes for 2011 represents an effective tax rate of approximately 32% compared with 33% for 2010.

Fiscal 2010 Compared to Fiscal 2009

Net Sales and Revenues

Revenues for the year ended December 31, 2010 increased 10% to \$22,975,600 from \$20,851,144 in 2009. Net sales and revenues are broken down between sales of standard products and sales of systems and services.

Standard products had a net sales and revenue increase of 10% to \$12,944,313 in 2010 from \$11,791,235 in 2009. The increase was primarily due to increased sales to federal government agencies. Net sales and revenues for systems and services increased 11% to \$10,031,288 from \$9,059,909 in 2009 primarily due to increased systems sales.

Overall domestic revenues increased 29% to \$14,112,382 in 2010 versus \$10,940,894 in 2009 while international revenues decreased 11% to \$8,863,218 in 2010 versus \$9,910,250 in 2009. The Department of the Interior, the principal agencies being the US Geological Survey and the Bureau of Reclamation, was our largest customer accounting for 24% and 18% of total revenues in years 2010 and 2009, respectively. Federal government revenues were 36% and 35% of revenues in 2010 and 2009.

Cost of Sales and Revenues

Cost of sales as a percentage of revenues decreased to 56% for 2010 compared to 58% for 2009. Cost of sales for standard products was approximately 46% in 2010 as compared to 51% in 2009. The decrease in the cost of sales of standard products was primarily due to sales of higher margin products in the fourth quarter of 2010 as compared to 2009. Cost of sales for systems and services was 68% in 2010 as compared to 67% in 2009. The increase was primarily due an inventory write down of approximately \$100,000 by our Hydrological Services Division. Cost of sales for both 2010 and 2009 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 \$3,790,760 in 2010 as compared to \$3,762,291 in 2009, a 1% increase. Selling, general and administrative expenses as a percentage of revenues decreased to 17% in 2010 from 18% in 2009 due to the increased sales volume in 2010 as compared to 2009.

Product Research and Development Expenses

Product research and development expenses increased to \$1,887,318 in 2010 from \$1,635,161 in 2009, a 15% increase. Product research and development expenses as a percentage of revenues were 8.2% in 2010 as compared to 7.9% in 2009. Expenses increased in 2010 as compared to 2009 due to our increased development efforts on new products including the SatLink2 Transmitter/Logger Version 2, the Total Precipitation Gauge, the Dual Orifice Bubbler, SUTRONWIN and in development work on the new 8310 Data Logger which was released early in 2011. We also expended resources on making significant enhancements to the 9210 datalogger and the Stage Discharge Recorder.

Interest and Other Income, Net

Net interest and other income decreased to \$50,534 in 2010 as compared to \$214,844 in 2009. In 2007, we brought a lawsuit against a former employee. We successfully settled the lawsuit in January 2009 in the amount of \$150,000. The settlement provided for the immediate payment of \$60,000. The remaining balance of \$90,000 was secured by a promissory note that requires monthly payments over a five year period including interest at 4%.

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Income Taxes

Income tax expense for 2010 was \$1,480,000 compared to \$1,319,000 for 2009. The provision for income taxes for 2010 represents an effective tax rate of approximately 33.1% compared with 37.2% for 2009.

Off-Balance Sheet Arrangements

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

Liquidity and Capital Resources

Cash and cash equivalents were \$8,737,543 at December 31, 2011 compared to \$8,708,831 at December 31, 2010. Working capital increased to \$19 million at December 31, 2011 compared with \$17 million at December 31, 2010.

Net cash used by operating activities was \$136,355 for the year ended December 31, 2011. Net cash provided by operating activities was \$4,765,906 for the year ended December 31, 2010. Net cash provided by operating activities was \$1,590,116 for the year ended December 31, 2009. Net cash used in 2011 was primarily due to a significant increase in accounts receivables. Net cash provided in 2010 was primarily due to a decrease in accounts receivable. Net cash provided in 2009 was due to a significant increase in income taxes receivable.

Net cash used by investing activities was \$46,834 for the year ended December 31, 2011. Net cash provided by investing activities was \$144,914 for the year ended December 31, 2010. Net cash used by investing activities was \$685,609 for the year ended December 31, 2009. Net cash used in 2011 was primarily for purchases of property and equipment. Net cash provided in 2010 was primarily due to a decrease in restricted cash. Net cash used in 2009 in 2009 resulted primarily from the purchase of property and equipment and an increase in restricted cash.

Net cash provided by financing activities was \$339,718 for the year ended December 31, 2011 due to proceeds from the exercise of employee stock options and tax benefits relating to tax deductible employee compensation associated with the exercise of non-qualified stock options. Net cash provided by financing activities was \$15,400 for the year ended December 31, 2010 due payments to proceeds from the exercise of an employee stock option and tax benefits relating to tax deductible employee compensation associated with the exercise of non-qualified stock options. Net cash used by financing activities was \$2,765 for the year ended December 31, 2009 due payments on notes payable.

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 September 5, 2013 and is secured by substantially all assets of the Company. Borrowings bear interest at the bank's prime rate. During 2011, there was no borrowing on the line of credit. We frequently bid on and enter into contracts that require bid and performance bonds. At December 31, 2011 and 2010, BB&T had issued standby letters of credit in the amount of \$898,013 and \$1,583,000 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 2012. Management also

plans to use our cash in 2012 to make one or more strategic acquisitions that will complement our business and add to our growth.

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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 foreign currency gains of approximately \$36,000, \$37,000 and \$50,000 in 2011, 2010 and 2009 due to payables 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.

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.

Item 8 - Financial Statements and Supplementary Data

SUTRON CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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|--|----|
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Certified Public Accountants
and Consultants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Sutron Corporation and Subsidiary as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years ended December 31, 2011. 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. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sutron Corporation and Subsidiary as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years then ended in conformity with U.S. generally accepted accounting principles.

Winchester, Virginia
March 28, 2012

SUTRON CORPORATION
CONSOLIDATED BALANCE SHEETS

| | December 31, 2011 | December 31, 2010 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$8,737,543 | \$8,708,831 |
| Restricted cash and cash equivalents | 760,037 | 796,189 |
| Certificates of deposit | 924,294 | 919,130 |
| Accounts receivable, net | 6,754,434 | 5,380,975 |
| Inventory | 3,520,530 | 3,758,702 |
| Prepaid items and other assets | 322,369 | 560,460 |
| Income taxes receivable | 383,943 | — |
| Deferred income taxes | 481,000 | 477,000 |
| Total Current Assets | 21,884,150 | 20,601,287 |
| Property and Equipment, Net | 1,524,880 | 1,706,971 |
| Other Assets | | |
| Goodwill | 570,150 | 570,150 |
| Other Assets | 103,591 | 108,769 |
| Total Assets | \$24,082,771 | \$22,987,177 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$799,007 | \$1,119,684 |
| Accrued payroll | 337,563 | 490,197 |
| Other accrued expenses | 1,573,409 | 1,543,086 |
| Billings in excess of costs and estimated earnings | 201,015 | 361,699 |
| Total Current Liabilities | 2,910,994 | 3,514,666 |
| Long-Term Liabilities | | |
| Deferred rent | 1,127,860 | 1,234,385 |
| Deferred income taxes | 69,000 | 99,000 |
| Total Long-term Liabilities | 1,196,860 | 1,333,385 |
| Total Liabilities | 4,107,854 | 4,848,051 |
| Stockholders' Equity | | |
| Common stock, 12,000,000 shares authorized; 4,704,632 and 4,575,632 issued and outstanding | 47,047 | 45,757 |
| Additional paid-in capital | 4,173,828 | 3,732,184 |
| Retained earnings | 15,930,551 | 14,409,877 |
| Accumulated other comprehensive loss | (176,509) | (48,692) |
| Total Stockholders' Equity | 19,974,917 | 18,139,126 |
| Total Liabilities and Stockholders' Equity | \$24,082,771 | \$22,987,177 |

See accompanying notes to consolidated financial statements.

SUTRON CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Years Ended December 31, | | |
|--|----------------------------------|--------------|--------------|
| | 2011 | 2010 | 2009 |
| Net sales and revenues | \$20,222,369 | \$22,975,600 | \$20,851,144 |
| Cost of sales and revenues | 12,326,085 | 12,880,664 | 12,120,975 |
| Gross profit | 7,896,284 | 10,094,936 | 8,730,169 |
| Operating expenses: | | | |
| Selling, general and administrative expenses | 3,773,942 | 3,790,760 | 3,762,291 |
| Research and development expenses | 1,993,183 | 1,887,318 | 1,635,161 |
| Total operating expenses | 5,767,125 | 5,678,078 | 5,397,452 |
| Operating income | 2,129,159 | 4,416,858 | 3,332,717 |
| Financing income, net | 101,515 | 50,534 | 214,884 |
| Income before income taxes | 2,230,674 | 4,467,392 | 3,547,601 |
| Income tax expense | 710,000 | 1,480,000 | 1,319,000 |
| Net income | \$1,520,674 | \$2,987,392 | \$2,228,601 |
| Net income per share: | | | |
| Basic income per share | \$0.33 | \$0.65 | \$0.49 |
| Diluted income per share | \$0.31 | \$0.60 | \$0.45 |

See accompanying notes to consolidated financial statements.

SUTRON CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | Common Shares | Stock Par Value | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|--------------------------------------|------------------|-----------------------|----------------------------------|----------------------|---|---------------|
| Balances, December 31, 2008 | 4,570,632 | \$ 45,707 | \$ 3,502,996 | \$ 9,193,884 | \$ (109,469) | \$ 12,633,118 |
| Net income | — | — | — | 2,228,601 | — | 2,228,601 |
| Cumulative translation adjustment | — | — | — | — | 36,230 | 36,230 |
| Total comprehensive income | | | | | | 2,264,831 |
| Stock based compensation | — | — | 132,663 | — | — | 132,663 |
| Balances, December 31, 2009 | 4,570,632 | 45,707 | 3,635,659 | 11,422,485 | (73,239) | 15,030,612 |
| Net income | — | — | — | 2,987,392 | — | 2,987,392 |
| Cumulative translation adjustment | — | — | — | — | 24,547 | 24,547 |
| Total comprehensive income | | | | | | 3,011,939 |
| Stock based compensation | — | — | 81,175 | — | — | 81,175 |
| Stock options exercised | 5,000 | 50 | 15,350 | — | — | 15,400 |
| Balances, December 31, 2010 | 4,575,632 | 45,757 | 3,732,184 | 14,409,877 | (48,692) | 18,139,126 |
| Net income | — | — | — | 1,520,674 | — | 1,520,674 |
| Cumulative translation adjustment | — | — | — | — | (127,817) | (127,817) |
| Total comprehensive income | | | | | | 1,392,857 |
| Stock based compensation | — | — | 103,216 | — | — | 103,216 |
| Stock options exercised | 129,000 | 1,290 | 338,428 | — | — | 339,718 |
| Balances, December 31, 2011 | 4,704,632 | \$ 47,047 | \$ 4,173,828 | \$ 15,930,551 | \$ (176,509) | \$ 19,974,917 |

See accompanying notes to consolidated financial statements.

SUTRON CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Years Ended December 31, | | |
|--|----------------------------------|-------------|--------------|
| | 2011 | 2010 | 2009 |
| Cash Flows from Operating Activities: | | | |
| Net income | \$1,520,674 | \$2,987,392 | \$2,228,601 |
| Noncash items included in net income: | | | |
| Depreciation and amortization | 267,741 | 277,868 | 247,311 |
| Deferred income taxes | (34,000) | (114,000) | 65,000 |
| Stock based compensation | 103,216 | 81,175 | 132,663 |
| (Gain) loss on disposal of property | (2,650) | — | 13,412 |
| Tax benefit from stock options exercised | (211,638) | (12,000) | — |
| Change in current assets and liabilities: | | | |
| Accounts receivable | (1,373,459) | 2,087,352 | (3,595,800) |
| Inventory | 238,172 | (669,920) | 743,006 |
| Prepaid items and other assets | 238,091 | (354,122) | 96,295 |
| Income taxes receivable | (172,305) | 82,695 | 964,180 |
| Accounts payable | (320,677) | 55,259 | (136,296) |
| Accrued expenses | (122,311) | 83,299 | 1,026,535 |
| Billings in excess of costs and estimated earnings | (160,684) | 361,699 | (139,117) |
| Deferred rent | (106,525) | (100,791) | (55,674) |
| Net Cash Provided (Used) by Operating Activities | (136,355) | 4,765,906 | 1,590,116 |
| Cash Flows from Investing Activities: | | | |
| Restricted cash and cash equivalents | 36,152 | 236,328 | (247,597) |
| Purchase of property and equipment | (85,650) | (99,963) | (386,419) |
| Certificates of deposit | (5,164) | (10,211) | (23,536) |
| Other assets | 5,178 | 18,760 | (32,472) |
| Proceeds from the sale of property and equipment | 2,650 | — | 4,415 |
| Net Cash Provided (Used) by Investing Activities | (46,834) | 144,914 | (685,609) |
| Cash Flows from Financing Activities: | | | |
| Payments on notes payable | — | — | (2,765) |
| Tax benefit from stock options exercised | 211,638 | 12,000 | — |
| Proceeds from stock options exercised | 128,080 | 3,400 | — |
| Net Cash Provided (Used) by Financing Activities | 339,718 | 15,400 | (2,765) |
| Effect of exchange rate changes on cash and cash equivalents | | | |
| | (127,817) | 24,547 | 36,230 |
| Net increase in cash and cash equivalents | 28,712 | 4,950,767 | 937,972 |
| Cash and Cash Equivalents, beginning of year | 8,708,831 | 3,758,064 | 2,820,092 |
| Cash and Cash Equivalents, end of year | \$8,737,543 | \$8,708,831 | \$3,758,064 |

See accompanying notes to consolidated financial statements.

SUTRON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2011, 2010 and 2009

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

Basis of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

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

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

The Company uses the percentage of completion method for recognizing revenue and profits when it performs on fixed price contracts that extend over a number of 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-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 on contracts in excess of related billings are reflected as unbilled receivables and are included in accounts receivable. Billings in excess of costs are reflected as a liability.

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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 \$900, \$26,000 and \$0 for the years ended December 31, 2011, 2010 and 2009. Income taxes paid approximated \$706,000, \$1,332,000 and \$630,000 for the years ended December 31, 2011, 2010 and 2009, respectively. Foreign income tax paid approximated \$33,000, \$336,000 and \$144,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

Restricted Cash

For the years ended December 31, 2011 and 2010, the Company had submitted bid bonds or performance bonds on both official tenders or awarded contracts. At December 31, 2011 and 2010, cash in the amount of \$760,037 and \$796,189, respectively, was restricted for bid or performance bonds.

Accounts Receivable

Based on management's evaluation of uncollected accounts receivable at the end of each year, bad debts are provided for utilizing the allowance method. At December 31, 2011 and 2010, the Company's investment in accounts 90 days or more past due was \$1,398,668 and \$584,832, respectively, net of contract retainages. Bad debt expense for the years ending December 31, 2011, 2010, and 2009 was \$44,000, \$0 and \$34,539, respectively.

Inventory

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

Property and Equipment

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

Acquisition and Goodwill

On December 31, 2009, the Company purchased the assets of Ilex Engineering, Inc., a provider of DOMSAT systems, custom software and engineering services, located in Columbia, Maryland. The acquisition has strengthened the Company'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.

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. The Company performs impairment testing in the last quarter of each year. No impairment of goodwill was deemed to exist as of the balance sheet date.

Income Taxes

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

Management has evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

Capital

The Company has 12,000,000, \$.01 par value, shares of authorized common stock. There were 4,704,632 shares issued and outstanding at December 31, 2011 and 4,575,632 shares issued and outstanding at December 31, 2010.

Foreign Currency Translation

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

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.

Earnings per Share

The Company has adopted the provision of FASB ASC 260 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 Company.

Stock Compensation Plans

Effective January 1, 2006, the Company adopted the provisions of FASB ASC 718 Compensation – Stock Compensation, 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 Company follows the Securities and Exchange Commission’s Staff Accounting Bulletin Share-Based Payment which provides supplemental application guidance based on the views of the SEC.

Fair Value Measurement

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under the standards are described as follows:

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Level 1 – Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities or other inputs observable for the asset or liability, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

For the fiscal years ended December 31, 2011 and 2010, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Certificates of Deposit

Certificates of deposit are carried at cost, which approximates fair value based upon observable market prices of similar instruments. If observable market prices are not available, fair values are estimated by discounting expected future cash flows applying interest rates currently being offered. For the fiscal years ended December 31, 2011, and 2010, all certificates of deposit are valued using Level 2 inputs and are valued at \$924,294 and \$919,130, respectively.

The carrying amounts of the Company's financial instruments not described above arise in the ordinary course of business and approximate fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Reclassifications

Certain items on the Balance Sheet as of December 31, 2010 have been reclassified with no effect on net income or earnings per share to be consistent with the classifications adopted as of December 31, 2011.

Recent Accounting Pronouncements

The FASB issued ASU No. 2009-13, Revenue Recognition (Topic 605) – Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force. This ASU addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. The ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after September 15, 2010. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

The FASB issued ASU No. 2009-14, Software (Topic 985) – Certain Revenue Arrangements That Include Software Elements – a consensus of the FASB Emerging Issues Task Force. The amendments in this ASU change the accounting model for revenue arrangements that include both tangible products and software elements. The ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after September 15, 2010. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.” ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers’ disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

In December 2010, the FASB issued ASU 2010-28, “Intangible – Goodwill and Other (Topic 350) – When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.” The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, “Business Combinations (Topic 805) – Disclosure of Supplementary Pro Forma Information for Business Combinations.” The guidance requires pro forma disclosure for business combinations that occurred in the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma information should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

The Securities Exchange Commission (SEC) issued Final Rule No. 33-9002, “Interactive Data to Improve Financial Reporting.” The rule requires companies to submit financial statements in extensible business reporting language (XBRL) format with their SEC filings on a phased-in schedule. Large accelerated filers and foreign large accelerated filers using U.S. generally accepted accounting principles (GAAP) were required to provide interactive data reports starting with their first quarterly report for fiscal periods ending on or after June 15, 2010. All remaining filers were required to provide interactive data reports starting with their first quarterly report for fiscal periods ending on or after June 15, 2011. The Company has submitted financial statements in extensible business reporting language (XBRL) format with their SEC filings in accordance with the phased-in schedule.

In March 2011, the SEC issued Staff Accounting Bulletin (SAB) 114. This SAB revises or rescinds portions of the interpretive guidance included in the codification of the Staff Accounting Bulletin Series. This update is intended to make the relevant interpretive guidance consistent with current authoritative accounting guidance issued as a part of the FASB’s Codification. The principal changes involve revision or removal of accounting guidance references and

other conforming changes to ensure consistency of referencing through the SAB Series. The effective date for SAB 114 is March 28, 2011. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

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In May 2011, the FASB issued ASU 2011-04, “Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” This ASU is the result of joint efforts by the FASB and International Accounting Standards Board (IASB) to develop a single, converged fair value framework on how (not when) to measure fair value and what disclosures to provide about fair value measurements. The ASU is largely consistent with existing fair value measurement principles in U.S. GAAP (Topic 820), with many of the amendments made to eliminate unnecessary wording differences between U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments are effective for interim and annual periods beginning after December 15, 2011 with prospective application. Early application is not permitted. The Company is currently assessing the impact that ASU 2011-04 will have on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220) – Presentation of Comprehensive Income.” The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity. The amendments require that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The single statement of comprehensive income should include the components of net income, a total for net income, the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present all the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The amendments do not change the items that must be reported in other comprehensive income, the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, or the calculation or reporting of earnings per share. The amendments in this ASU should be applied retrospectively. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2011. Early adoption is permitted because compliance with the amendments is already permitted. The amendments do not require transition disclosures. The Company is currently assessing the impact that ASU 2011-05 will have on its consolidated financial statements.

In August 2011, the SEC issued Final Rule No. 33-9250, “Technical Amendments to Commission Rules and Forms related to the FASB’s Accounting Standards Codification.” The SEC has adopted technical amendments to various rules and forms under the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Company Act of 1940. These revisions were necessary to conform those rules and forms to the FASB Accounting Standards Codification. The technical amendments include revision of certain rules in Regulation S-X, certain items in Regulation S-K, and various rules and forms prescribed under the Securities Act, Exchange Act and Investment Company Act. The Release was effective as of August 12, 2011. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, “Intangible – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment.” The amendments in this ASU permit an entity to first assess qualitative factors related to goodwill to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this ASU are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued. The Company is currently assessing the impact that ASU 2011-08 will have on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, “Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities.” This ASU requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company is currently assessing the impact that ASU 2011-11 will have on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, “Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.” The amendments are being made to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently assessing the impact that ASU 2011-12 will have on its consolidated financial statements.

3. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, consists of the following:

| | 2011 | | 2010 |
|---------------------------------|--------------|----|-----------|
| Trade receivables | \$ 5,598,124 | \$ | 4,165,239 |
| Unbilled receivables | 638,950 | | 804,618 |
| Contract retainage | 602,360 | | 452,118 |
| Allowance for doubtful accounts | (85,000) | | (41,000) |
| Totals | \$ 6,754,434 | \$ | 5,380,975 |

4. INVENTORY

Inventory consists of the following at December 31:

| | 2011 | | 2010 |
|----------------------------------|--------------|----|------------|
| Electronic components | \$ 2,078,432 | \$ | 2,237,257 |
| Work in process | 1,446,419 | | 1,493,664 |
| Finished goods | 662,859 | | 751,834 |
| Allowance for obsolete inventory | (667,180) | | (724,053) |
| Totals | \$ 3,520,530 | \$ | 3,758,702 |

5. PROPERTY AND EQUIPMENT

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

| | 2011 | | 2010 |
|-----------------------------------|--------------|----|-----------|
| Furniture, fixtures and equipment | \$ 1,915,375 | \$ | 1,847,377 |
| Vehicles | 253,176 | | 278,121 |
| Leasehold improvements | 1,555,057 | | 1,555,057 |
| Totals | \$ 3,723,608 | \$ | 3,680,555 |

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

| | 2011 | | 2010 |
|-----------------------------------|--------------|----|-----------|
| Furniture, fixtures and equipment | \$ 1,554,629 | \$ | 1,445,985 |

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| | | |
|-----------------------------|--------------|--------------|
| Vehicles | 232,527 | 272,530 |
| Leasehold improvements | 411,572 | 255,069 |
| Totals | \$ 2,198,728 | \$ 1,973,584 |
| Property and Equipment, Net | \$ 1,524,880 | \$ 1,706,971 |

Depreciation and amortization expense totaled \$267,741, \$277,868 and \$247,311 for the years ended December 31, 2011, 2010 and 2009, respectively.

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6. CONTRACTS IN PROGRESS

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

| | 2011 | | 2010 |
|--|--------------|----|--------------|
| Costs incurred to date | \$ 4,158,690 | \$ | 2,570,022 |
| Estimated earnings | 1,957,728 | | 971,684 |
| Revenue recognized to date | 6,116,418 | | 3,541,706 |
| Billings to date | (5,678,483) | | (3,098,788) |
| | \$ 437,935 | \$ | 442,919 |
| Included in the accompanying balance sheets: | | | |
| Costs in excess of billings on uncompleted contracts (unbilled receivables) | \$ 638,950 | \$ | 804,618 |
| Billings in excess of costs on uncompleted contracts | (201,015) | | (361,699) |
| | \$ 437,935 | \$ | 442,919 |

7. LINE OF CREDIT

The Company 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 Company and expires September 5, 2013. Under the terms of the line of credit, the Company 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, 2011 and 2010.

The Company frequently bids on and enters into international contracts that require bid and performance bonds. At December 31, 2011 and 2010, the commercial bank had issued standby letters of credit on behalf of the Company in the amount of \$898,013 and \$1,583,000, respectively that served as either bid or performance bonds. The amount available under the line of credit was reduced by this amount.

8. OTHER ACCRUED EXPENSES

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

| | 2011 | | 2010 |
|---------------------------|--------------|----|-----------|
| Accrued vacation pay | \$ 264,260 | \$ | 251,124 |
| Accrued warranty costs | 270,000 | | 311,000 |
| Customer advance payments | 781,896 | | 808,762 |
| Other accruals | 257,253 | | 172,200 |
| Totals | \$ 1,573,409 | \$ | 1,543,086 |

9. ACCRUED WARRANTY COSTS

The Company 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, 2008 | \$245,000 | |
| Reserve adjustment | 59,000 | |
| Balance as of December 31, 2009 | 304,000 | |
| Reserve adjustment | 7,000 | |
| Balance as of December 31, 2010 | 311,000 | |
| Reserve adjustment | (41,000) |) |
| Balance as of December 31, 2011 | \$270,000 | |

10. NOTES PAYABLE

The Company did not have any Notes payable outstanding at December 31, 2011 and 2010.

11. LEASE OBLIGATIONS

The Company entered into a ten-year lease for a new corporate headquarters and operations facility in Sterling, Virginia on November 13, 2008. The Company moved into the new facility on May 15, 2009 and lease payments commenced on June 1, 2009. As per the lease agreement, the monthly rent for the first year was \$30,135, and increases 3 percent per annum. The Company leased additional space in its Sterling facility on October 4, 2010 resulting in additional monthly rent of \$3,119 and with the same expiration date as the original lease. The lease agreement includes additional rent payments based on a pro rata portion of operating expenses which consist of building insurance, real estate taxes, landscaping and other property related expenses. The Company received a tenant improvement allowance in the amount of \$1,390,850 from the landlord. The tenant improvement allowance was capitalized and recorded as an asset under leasehold improvements and as a liability under deferred rent.

The Company leases office and warehouse space in West Palm Beach, Florida. The one year lease, expiring December 31, 2012, requires monthly payments of \$3,044. The Company's wholly owned subsidiary, Sutron Hydromet Systems, Pvt., Ltd., leases office space and furniture in New Delhi, India. The three-year lease expires in August 2012 and requires monthly payments of \$1,821.

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

| | | |
|---------------------------|----|-----------|
| Years ending December 31: | | |
| 2012 | \$ | 457,110 |
| 2013 | | 431,079 |
| 2014 | | 441,874 |
| 2015 | | 452,981 |
| 2016 | | 464,380 |
| 2017 and thereafter | | 1,169,638 |
| Total | \$ | 3,417,062 |

Rent expense amounted to \$410,773, \$453,589 and \$385,375 for the years ended December 31, 2011, 2010 and 2009, respectively.

12. INCOME TAXES

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

| | | | | | | |
|-----------------------------|----|---------|----|-----------|----|-----------|
| | | 2011 | | 2010 | | 2009 |
| Domestic income tax expense | \$ | 711,000 | \$ | 1,473,000 | \$ | 1,110,000 |
| Foreign income tax expense | | 33,000 | | 121,000 | | 144,000 |

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| | | | |
|--------------------------------|------------|--------------|--------------|
| Deferred tax (benefit) expense | (34,000) | (114,000) | 65,000 |
| Total income tax expense | \$ 710,000 | \$ 1,480,000 | \$ 1,319,000 |

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

| | 2011 | 2010 | 2009 |
|---|------------|------------|------------|
| Accrued vacation and warranty | \$ 208,000 | \$ 219,000 | \$ 80,000 |
| Stock compensation additional paid in capital | 160,000 | 163,000 | 131,000 |
| Accounts receivable and inventory allowances | 113,000 | 95,000 | 201,000 |
| Gross deferred tax assets | 481,000 | 477,000 | 412,000 |
| Gross deferred tax liability – depreciation | (69,000) | (99,000) | (148,000) |
| Net deferred tax assets | \$ 412,000 | \$ 378,000 | \$ 264,000 |

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

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

| | 2011 | 2010 | 2009 |
|---|--------------|--------------|--------------|
| Income before income taxes | \$ 2,230,674 | \$ 4,467,392 | \$ 3,547,601 |
| Applicable statutory tax rate | 34% | 34% | 34% |
| Computed “expected” Federal income tax expense | 758,000 | 1,519,000 | 1,206,000 |
| Adjustments to Federal income tax resulting from: | | | |
| State income tax expense | 99,000 | 267,000 | 206,000 |
| Tax credits and other | (147,000) | (306,000) | (93,000) |
| Income tax expense | \$ 710,000 | \$ 1,480,000 | \$ 1,319,000 |

13. MAJOR CUSTOMERS

Net sales for the years ended December 31, 2011, 2010 and 2009, include sales to the following major customers, together with the receivables due from the major customers:

| | Net Sales | | | % to Total Net Sales | | |
|---|---------------|------------------------------|---------------|----------------------|------|------|
| | 2011 | Year Ended December 31, 2010 | 2009 | 2011 | 2010 | 2009 |
| U.S. Government Agencies | \$ 6,890,444 | \$ 8,291,418 | \$ 7,337,768 | 34% | 36% | 35% |
| Ministry of Energy and Water, Afghanistan | 2,268,219 | 686,133 | 982,286 | 11% | 3% | 5% |
| Dominion/ADASA | 1,159,686 | 1,880,323 | 2,317,998 | 6% | 8% | 11% |
| Tamil Nadu Agricultural University | 131,778 | 372,982 | 2,357,331 | 1% | 2% | 11% |
| | \$ 10,450,127 | \$ 11,230,856 | \$ 12,995,383 | 52% | 49% | 62% |

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| | Accounts Receivable | | | % of Total Accounts | | |
|---|------------------------|--------------|--------------|----------------------------|------|------|
| | Amount at December 31, | | | Receivable at December 31, | | |
| | 2011 | 2010 | 2009 | 2011 | 2010 | 2010 |
| U.S. Government Agencies | \$ 1,460,810 | \$ 1,183,509 | \$ 1,315,195 | 22% | 22% | 18% |
| Ministry of Energy and Water, Afghanistan | 1,447,536 | 577,035 | 593,841 | 21% | 11% | 8% |
| Dominion/ADASA | 563,487 | 49,151 | 2,108,081 | 8% | 1% | 28% |
| Tamil Nadu Agricultural University | 12,398 | 144,632 | 1,461,170 | — | 3% | 20% |
| | \$ 3,184,231 | \$ 1,954,327 | \$ 5,478,287 | 51% | 37% | 74% |

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The above table includes unbilled accounts receivable. As of December 31, 2011 and 2010, unbilled receivables of \$460,000 and \$751,000 are included for Ministry of Energy and Water, Afghanistan. As of December 31, 2009, unbilled receivables of \$1,068,000 and \$1,040,000 are included for Dominion/ASDA and Tamil Nadu Agricultural University, respectively.

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

14. CONCENTRATIONS

The Company's bank participates in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2011, 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 Company also maintains accounts that are not covered by the guarantee program. At times throughout the year, cash and cash equivalents exceeded the FDIC insurance limits in these accounts. As of December 31, 2011 and 2010, the Company's cash deposits exceeded the FDIC insured amount by approximately \$9,665,000 and \$8,550,000, respectively.

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

15. STOCK OPTIONS

The Company's Amended and Restated 1996, 1997 and 2002 Stock Option Plans (the "Stock Option Plans") provide for the issuance of non-qualified stock options to employees, officers and directors. The Company's 2010 Equity Incentive Plan provides for the grant of stock options, stock appreciation rights, restricted stock, stock units, unrestricted stock, dividend equivalent rights and cash awards. All plans are administered by the compensation committee of the Board of Directors who select persons to receive awards and determines the number of shares subject to each award and the terms, conditions, performance measures and other provisions of the award.

The Company has granted stock options under the Stock Option Plans to key employees and directors for valuable services provided to the Company. Under the 1996 Plan, the Company authorized 260,000 shares, 259,000 of which have been granted. The Company authorized 60,000 shares under the 1997 Plan, all of which have been granted. Under the 2002 Stock Option Plan, the Company authorized 650,000 shares, 599,059 of which have been granted. The 1996, 1997 and 2002 Plans remain in effect until such time as no shares of Stock remain available for issuance under the Plans and the Company and Optionees have no further rights or obligations under the Plans. Under the 2010 Equity Incentive Plan, the Company authorized 500,000 shares, none of which have been granted. The ability to make awards under the 2010 Plan will terminate in May 2020. Shares under all of the plans may be granted at not less than 100 percent of the fair market value at the grant date. All options have a ten-year term from the date of grant. Cancelled or expired options are able to be reissued.

The Company measures and recognizes compensation expense for all stock-based payments at fair value. The Company recognizes stock-based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. In fiscal year 2011, the Company awarded 18,559 shares of common stock to board members as performance and incentive awards. The awards vest over a period of one year. Stock based compensation expense relating to stock option awards for the years ended December 31, 2011, 2010 and 2009 was \$103,216, \$81,175 and, \$132,663, respectively. These expenses were included in the selling, general and administrative lines of the Consolidated Statements of Operations. Unamortized stock compensation

expense as of December 31, 2011 totaled approximately \$74,000 and these costs will be expensed over a weighted average period of 2 years. The weighted average fair value of options granted during the years ended December 31, 2011, 2010 and 2009 were calculated using the Black-Scholes option pricing model.

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

| | 2011 | 2010 | 2009 |
|------------------------|------------|-------|------------|
| Risk free rate | 2.66-3.19% | 3.36% | 2.46-3.11% |
| Expected volatility | 39% | 17% | 25-33% |
| Dividend yield | 0% | 0% | 0% |
| Expected term in years | 10 | 10 | 10 |

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

| 2011 | | | | |
|------------------------------------|------------------|---------------------------------|---|---------------------------|
| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
| Outstanding at beginning of period | 634,252 | \$2.37 | 3.59 | \$2,747,390 |
| Granted | 18,559 | 6.86 | — | — |
| Exercised | 129,000 | .99 | — | 529,095 |
| Forfeited or expired | 30,833 | 6.94 | — | — |
| Outstanding at end of period | 492,978 | \$2.61 | 2.93 | \$1,925,176 |
| Exercisable at end of period | 446,908 | \$2.20 | 2.42 | \$1,925,176 |
| Nonvested at end of period | 46,070 | \$6.62 | 7.88 | \$— |
| 2010 | | | | |
| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
| Outstanding at beginning of period | 589,252 | \$2.01 | 4.08 | \$3,071,261 |
| Granted | 50,000 | 6.47 | — | — |
| Exercised | 5,000 | 0.68 | — | 30,725 |
| Forfeited or expired | — | — | — | — |
| Outstanding at end of period | 634,252 | \$2.37 | 3.59 | \$2,747,390 |
| Exercisable at end of period | 573,582 | \$1.92 | 3.09 | \$2,741,701 |
| Nonvested at end of period | 60,670 | \$6.61 | 8.32 | \$5,690 |
| 2009 | | | | |
| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
| Outstanding at beginning of period | 544,252 | \$1.80 | 4.66 | \$1,709,610 |

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| | | | | |
|------------------------------|---------|--------|------|-------------|
| Granted | 45,000 | 4.57 | — | — |
| Exercised | — | — | — | — |
| Forfeited or expired | — | — | — | — |
| Outstanding at end of period | 589,252 | \$2.01 | 4.08 | \$3,071,261 |
| Exercisable at end of period | 553,828 | \$1.71 | 3.86 | \$3,049,706 |
| Nonvested at end of period | 35,424 | \$6.58 | 7.50 | \$21,555 |

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16. EARNINGS PER SHARE

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

| | Twelve Months Ended December 31, | | |
|---|----------------------------------|--------------|--------------|
| | 2011 | 2010 | 2009 |
| Net income | \$ 1,520,674 | \$ 2,987,392 | \$ 2,228,601 |
| Shares used in calculation of income per share: | | | |
| Basic | 4,619,542 | 4,573,810 | 4,570,632 |
| Effect of dilutive options | 301,752 | 421,331 | 404,480 |
| Diluted | 4,921,294 | 4,995,141 | 4,975,112 |
| Net income per share: | | | |
| Basic | \$ 0.33 | \$ 0.65 | \$ 0.49 |
| Diluted | \$ 0.31 | \$ 0.60 | \$ 0.45 |

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 138,000, 45,000 and 96,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

17. PROFIT SHARING PLAN

The Company has a 401(k) Profit-Sharing Plan that covers substantially all employees of the Company. The 401(k) provision permits employees to elect to defer a portion of their compensation. The Plan was amended in July 2010 to allow for employer matching of up to 5 percent. The profit-sharing contribution is determined each year by the Board of Directors based on profits. The Company did not make a profit sharing contribution for the years ended December 31, 2011, 2010 and 2009. The employer matching contribution was approximately \$240,000, \$201,000 and \$158,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

18. SEGMENT INFORMATION

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

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| | Years Ended Dec. 31 | Net Sales | Operating Income (Loss) | Total Assets | Depreciation | Capital Expenditures |
|---------------------------|------------------------------|--------------|-------------------------------|--------------|--------------|-------------------------|
| Standard Products | 2011 | 9,023 | 1,166 | 6,021 | 147 | 36 |
| | 2010 | 12,944 | 2,866 | 5,802 | 95 | 29 |
| | 2009 | 11,791 | 1,959 | 5,698 | 139 | 283 |
| Systems/Services | 2011 | 11,199 | 963 | 6,502 | 121 | 51 |
| | 2010 | 10,032 | 1,551 | 5,284 | 183 | 71 |
| | 2009 | 9,060 | 1,374 | 6,477 | 108 | 103 |
| Corporate and Unallocated | 2011 | — | — | 11,560 | — | — |
| | 2010 | — | — | 11,901 | — | — |
| | 2009 | — | — | 7,353 | — | — |
| Total Company | 2011 | 20,222 | 2,129 | 24,083 | 268 | 87 |
| | 2010 | 22,976 | 4,417 | 22,907 | 278 | 100 |
| | 2009 | 20,851 | 3,333 | 19,528 | 247 | 386 |

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

| | 2011 | 2010 | 2009 |
|---------------------------|-----------|----------|----------|
| Central and South America | \$ 3,852 | \$ 3,703 | \$ 4,056 |
| Canada | 1,759 | 1,959 | 1,236 |
| Asia | 1,570 | 1,746 | 2,904 |
| Europe and other | 473 | 736 | 731 |
| Middle East | 2,978 | 719 | 983 |
| | \$ 10,632 | \$ 8,863 | \$ 9,910 |

19. SUMMARIZED QUARTERLY UNAUDITED FINANCIAL DATA

| | 2011 | | | |
|---------------------------------|-------------|-------------|-------------|-------------|
| | Q1 | Q2 | Q3 | Q4 |
| Net Sales | \$4,880,619 | \$3,848,508 | \$5,415,230 | \$6,078,012 |
| Gross Profit | 1,848,626 | 1,380,086 | 2,316,241 | 2,351,332 |
| Operating Income (Loss) | 454,452 | (73,214) | 826,730 | 921,191 |
| Net Income (Loss) | \$301,577 | \$(21,372) | \$541,000 | \$699,469 |
| Basic income per common share | \$0.07 | \$0.00 | \$0.12 | \$0.15 |
| Diluted income per common share | \$0.06 | \$0.00 | \$0.11 | \$0.14 |
| | 2010 | | | |
| | Q1 | Q2 | Q3 | Q4 |
| Net Sales | \$4,899,840 | \$5,472,936 | \$5,833,904 | \$6,768,920 |
| Gross Profit | 1,911,511 | 2,343,781 | 2,565,869 | 3,273,775 |
| Operating Income | 505,758 | 907,048 | 1,157,869 | 1,846,183 |
| Net Income | \$333,743 | \$586,738 | \$782,295 | \$1,284,616 |

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| | | | | |
|---------------------------------|--------|--------|--------|--------|
| Basic income per common share | \$0.07 | \$0.13 | \$0.17 | \$0.28 |
| Diluted income per common share | \$0.07 | \$0.12 | \$0.16 | \$0.26 |

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| | 2009 | | | |
|---------------------------------|-------------|-------------|-------------|-------------|
| | Q1 | Q2 | Q3 | Q4 |
| Net Sales | \$3,575,031 | \$4,786,898 | \$4,536,850 | \$7,952,365 |
| Gross Profit | 1,344,122 | 2,078,412 | 2,060,029 | 3,247,606 |
| Operating Income (Loss) | (51,339) | 696,862 | 739,242 | 1,947,952 |
| Net Income | \$68,154 | \$436,349 | \$521,014 | \$1,203,084 |
| Basic income per common share | \$0.01 | \$0.10 | \$0.11 | \$0.26 |
| Diluted income per common share | \$0.01 | \$0.09 | \$0.10 | \$0.24 |

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

20. LEGAL CONTINGENCIES

Various legal claims can arise from time to time in the normal course of business which, in the opinion of management, can have a material effect on our financial statements. We were named in a compensation claim under the Indian Anti-Trust Law that was filed in 2005 before The Monopolies and Restrictive Trade Practices Commission (the "Commission") in New Delhi, India. The claim was dismissed by the Commission in March 2011.

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

Not applicable.

Item 9A - Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, we carried out an evaluation under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) of the Exchange Act). Disclosure controls and procedures are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2011 because of the material weakness described below.

(b) Material Weakness in Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officer, and affected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement in the reporting company’s annual or interim financial statements will not be prevented or detected on a timely basis.

Our management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2011 based upon criteria in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, management determined that our internal control over financial reporting was not effective as of December 31, 2011 because of the following material weakness in internal control over financial reporting:

- Procedures for the review of year end cutoff and accruals for revenue and expenses were not adequate to identify and correct errors in a timely manner.

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

(c) Changes in Internal Control Over Financial Reporting

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

(d) Attestation Report of the Independent Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Internal control over financial reporting was not subject to attestation by the Company's independent registered public accounting firm in accordance with recent amendments to Section 404 of the Sarbanes-Oxley Act of 2002 pursuant to Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act that permit the Company to provide only management's report in this Annual Report.

Item 9B – Other Information

None

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PART III

Item 10 – Directors, Executive Officers and Corporate Governance

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

The remainder of information required for this Item is incorporated by reference to the Proxy Statement to be filed in connection with our 2012 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 2012 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 2012 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 2012 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 2012 Annual Meeting of Shareholders.

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 21 are filed as part of this report.

(b) Exhibits

3.2 Copy of Articles of Amendment to the Articles of Incorporation and Articles of Reduction of Stated Capital of the Company (incorporated by reference as filed with the Securities and Exchange Commission on September 16, 1983)

3.3 By-laws of the Company (incorporated by reference as filed with the Securities and Exchange Commission on September 16, 1983)

10.23 Form of Stock Option Plan*

10.24 Form of Stock Option Agreement*

10.25 Loan Modification Agreement dated September 16, 2011 between Sutron Corporation and Branch Banking and Trust Company of Virginia, a North Carolina Banking Corporation

23.1 Consent of Independent Registered Public Accounting Firm

31.1 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chairman of the Board of Directors, President and Chief Executive Officer

31.2 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chief Financial Officer and Treasurer

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Presentation Linkbase Document

* Indicates management contract or compensatory plan or arrangement

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

Date: March 28, 2012

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

Date: March 28, 2012

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

/s/ Daniel W. Farrell

Date: March 28, 2012

By: Daniel W. Farrell,
Director and Senior Vice President

/s/ Andrew D. Lipman

Date: March 28, 2012

By: Andrew D. Lipman, Director

/s/ Leland R. Phipps

Date: March 28, 2012

By: Leland R. Phipps, Director

/s/ John F. DePodesta

Date: March 28, 2012

By: John F. DePodesta, Director

/s/ Larry C. Linton

Date: March 28, 2012

By: Larry C. Linton, Director

/s/ Ashish H. Raval

Date: March 28, 2012

By: Ashish H. Raval, Director
and Senior Vice President

/s/ Sidney C. Hooper

Date: March 28, 2012

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

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