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SUTRON CORP
Form 10QSB
May 17, 2004

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

FORM 10-QSB

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

For the quarterly period ended: March 31, 2004

Commission file number 0-12227

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

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

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

(703) 406-2800
(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Common Stock, \$.01 Par Value - 4,289,551 shares of as of March 31, 2004.

SUTRON CORPORATION
FORM 10-QSB QUARTERLY REPORT
FOR THE QUARTER ENDED MARCH 31, 2004
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 PART I. CONDENSED FINANCIAL INFORMATION

Item 1. Financial Statements

SUTRON CORPORATION
 BALANCE SHEETS

(Unaudited)

	March 31, 2004	December 31, 2003	
Assets			
Current Assets:			
Cash	\$ 185,912	\$ 388,612	
Accounts receivables	3,461,243	3,062,205	
Inventory	2,487,367	2,438,275	
Prepaid items and other	167,168	122,150	
Deferred income taxes	211,658	120,000	
Total Current Asset	<u>\$6,513,348</u>	<u>\$6,131,242</u>	
Property, Plant, and Equipment Cost	2,811,526	2,723,107	
Accumulated depreciation	(2,179,527)	(2,125,624)	
Net Property, Plant and Equipment	<u>631,999</u>	<u>597,483</u>	
Income taxes receivable		0	129,000
Other		23,686	22,986
TOTAL ASSETS	<u>\$7,169,033</u>	<u>\$6,880,711</u>	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	\$ 821,852	\$1,043,805

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Accrued payroll		110,534	50,142
Accrued expenses	1,155,022	850,726	
Accrued income taxes	152,327		-
Current maturities of long-term notes:			
Line of credit		-	399,454
Notes payable-stockholders	330,000		330,000
Notes payable		105,121	49,936
Total Current Liabilities	\$2,674,856	\$2,724,063	
Long-term liabilities:			
Long-term notes payable	72,379	100,129	
Deferred income taxes	111,000		111,000
Total liabilities		2,858,235	2,935,192
Stockholders' Equity:			
Common stock, \$.01 par value,	42,896	42,896	
Additional paid in capital	2,306,655	2,306,655	
Retained Earnings	1,961,247	1,595,968	
Total Stockholders' Equity	4,310,798	3,945,519	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$7,169,033	\$6,880,711	

See Accompanying Notes to Financial Statements

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SUTRON CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2004	2003
Revenues	\$3,727,228	\$2,259,801
Cost of Goods Sold	2,362,101	1,766,869
Gross Profit	1,365,127	492,932
Research and Development Expenses		247,895
		316,937
Selling, General, and Administrative Expenses	546,743	650,895
Income (Loss) from Operations	570,489	(474,900)
Interest Expense	15,210	4,288
Income (Loss) before Provision for Income Taxes		555,279
Provisions for Income Taxes	190,000	(196,000)
		(479,1)

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Net Income	\$ 365,279	\$ (283,189)
Net Income per Common Share	\$.09	\$ (.07)
Weighted Average Number of Common Shares	4,289,551	4,293,068

See Accompanying Notes to Financial Statements

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SUTRON CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2004	2003
Cash Flows from Operating Activities:		
Net income (loss)	\$ 365,279	\$ (283,188)
Depreciation and amortization	53,903	53,700
(Increase) Decrease in:		
Accounts receivables	(399,038)	(106,181)
Inventory		(49,092)
Prepaid items and other	(45,018)	(67,667)
Deferred income taxes		(91,658)
Income tax receivable		129,000
Other assets		(700)
Increase (Decrease) in:		
Accounts payable	(221,953)	327,508
Accrued expenses		364,688
Accrued income taxes		152,327
Net Cash Provided by Operating Activities	257,738	(226,989)
Cash Flows from Investing Activities:		
Capital expenditures	(88,419)	(62,871)
Net Cash Used in Investing Activities	(88,419)	(62,871)
Cash Flows from Financing Activities:		
Payments on line of credit		(399,454)
Payments on Term notes payable	27,435	(23,301)
Net Cash (Used) by Financing Activities	(372,019)	(23,301)
Net Increase (Decrease) in Cash	(202,700)	(313,161)
Cash and Cash Equivalents, January 1	388,612	401,740
Cash and Cash Equivalents, March 31	\$ 185,912	\$ 88,579

See Accompanying Notes to Financial Statements

SUTRON CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

1. Basis of Presentation

The accompanying financial statements, which should be read in conjunction with the financial statements of Sutron Corporation ("the Company") included in the 2003 Annual Report filed on Form 10-KSB, are unaudited but have been prepared in the ordinary course of business for the purpose of providing information with respect to the interim period. The Company believes that all adjustments (none of which were other than normal recurring accruals) necessary for a fair presentation for such periods have been included.

2. Earnings Per Share

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 128 which 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 earning 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.

Computation of Per Share Earnings

	Three Months Ended March 31,	
	2004	2003
Basic EPS		
Average shares outstanding	4,289,551	4,289,551
Net Income		\$ 365,279
Net Income per common share	\$.09	\$ (.07)
Dilutive EPS		
Average shares outstanding	4,289,551	4,289,551
Effect of dilutive securities	391,760	59,403
Total average shares outstanding	4,681,311	4,348,954
Net earnings	\$ 365,279	\$ (283,188)
Net income per diluted share	\$.08	\$ (.07)

3. Cash and Cash Equivalents

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The Company has entered into certain international contracts that require provision of letters of guarantee to the customer until acceptance of the system by the customer. Standby irrevocable letters of credit were issued by the Companys previous bank that do not expire until March 2005. As of March 31, 2004, \$277,454 of the cash and cash equivalents balance is restricted and is held as security by M&T Bank for these standby letters of credit.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Statements made in this Report on Form 10-QSB, including without limitation this Management's Discussion and Analysis of Financial Condition and Operations, other than statements of historical information, are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may sometimes be identified by such words as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue" or similar words. We believe that it is important to communicate our future expectations to investors. However, these forward-looking statements involve many risks and uncertainties. Our actual results could differ materially from those indicated in such forward-looking statements as a result of certain factors. We are under no duty to update any of the forward-looking statements after the date of this Report on Form 10-QSB to conform these statements to actual results.

Sutron Corporation (the Company) was incorporated on December 30, 1975 under the General Laws of the Commonwealth of Virginia. The Company's headquarters is located at 21300 Ridgetop Circle, Sterling, Virginia 20166, and the Company's telephone number at that location is (703) 406-2800. The Company maintains a worldwide web address at www.sutron.com. The Company designs, manufactures and markets products and solutions that enable government and commercial entities to monitor and collect hydrological and meteorological data for the management of critical water resources, for early warning of potentially disastrous floods or storms and for the optimization of hydropower plants.

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

The Company utilizes the accrual method of accounting for both financial statement and tax return reporting purposes.

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The Company recognizes revenue from product sales upon shipment. Selling, general, and administrative expenses are charged against periodic income as incurred. Revenue from fixed-price contracts is recognized on the percentage-of-completion method based on costs incurred in relation to total estimated costs. Revenue from time-and-materials contracts is recognized to the extent of billable rates, times hours delivered, plus materials costs incurred. Contract costs include allocated indirect costs and general and administrative expenses. Anticipated losses are recognized as soon as they become known.

Our revenue and operating results are subject to substantial variations based on our customers' expenditures and the frequency with which we are chosen to perform services for our customers. Revenue from any given customer will vary from period to period. Our gross margins are affected by the product mix and can vary substantially based on quantities and contract requirements.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and notes thereto and the other financial information included elsewhere in this Report on Form 10-QSB.

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Results of Operations

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

	2004	2003
	----	----
Revenues	100.0%	100.0%
Cost of sales	63.4	78.2
Gross profit	36.6	21.8
Selling, general and administrative expenses	14.7	28.8
Research and Development expenses	6.7	14.0
Operating income	15.2	(21.0)
Interest expense	.3	.2
Income before income taxes	14.9	(21.2)
Income taxes (benefit)	5.1	(8.7)
Net income	9.8%	(12.5)%

Net Revenues. The Company's revenues for the three months ended March 31, 2004 increased 65% to \$3,727,228 from \$2,259,801 in 2003. Domestic sales increased to \$2,053,056 in the first quarter of 2004 versus \$1,014,365 in 2003. International sales were \$1,674,172 in 2004 versus \$1,245,436 in 2003. The domestic sales increase was primarily due to increased sales of the 8210 datalogger/transmitter and increased sales of services by the Hydrological Services Division on contracts with the South Florida Water Management District. The international sales increase was primarily due to the shipment of 9210 XLite dataloggers to a Canadian consortium for the Emergency Flood Recovery Project in Poland.

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Bookings for the first quarter of 2004 were \$4,147,838 as compared to \$2,094,736 in the first quarter of 2003. As a result to the Company's strong first quarter bookings, the Company's backlog of orders at March 31, 2004 was \$4,771,481 as compared to \$2,338,018 as of March 31, 2003. The Company anticipates that 80% of its backlog as of March 31, 2004 will be shipped in 2004.

Gross Profit. Gross profit for 2004 increased to \$1,365,127 from \$492,932 in 2003. Gross margin as a percentage of revenues for 2004 increased to 36.6% as compared to 21.8% in 2003. The increase in the Company's gross margin is due to increased sales volume and to the product mix. Sales of 8210 datalogger/transmitters and 9210 XLites significantly improved margins. Gross margins in 2003 were lower due to two projects in India and one in Mexico that were all bid at reduced margins in order to capture the business.

Selling, General And Administrative. Selling, general and administrative expenses decreased to \$546,743 in 2004 from \$650,895 in 2003, a decrease of \$104,152 or 16%. The primary cause of the decrease was a reduction in international agent commissions.

Research And Development. Research and development expenses decreased to \$247,895 in 2004 from \$316,937 in 2003, a decrease of \$69,042 or 22%. This decrease is due to work performed on the Hanscom Air Force Base FMQ-13(V)2 Wind Sensor Replacement contract that required significant engineering effort which is direct billable work versus indirect engineering work.

Interest Expenses. Interest expenses increased to \$15,210 in 2004 from \$4,288 in 2003 due to borrowings from shareholders to supplement the bank line of credit in order to finance inventory growth and project requirements.

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Liquidity and Capital Resources

Cash and cash equivalents decreased to \$185,912 at March 31, 2004, compared to \$388,612 at December 31, 2003.

The ratio of current assets to current liabilities was 2.44:1 as of March 31, 2004, compared to 2.25 as of December 31, 2003. Working capital increased to \$3,838,492 at the end of the first quarter of fiscal 2004 compared to \$3,407,179 at the end of fiscal 2003.

The Company has a revolving credit facility of \$500,000 with BB&T Bank that expires on June 30, 2004. Borrowings on the line of credit are based on a percentage of billed receivables. In addition to the revolving credit facility, the Company borrowed \$330,000 from three shareholders in 2003 in order to finance inventory growth and project requirements. In April 2004, the Company paid one of these notes in full in the amount of \$200,000. The remaining notes are due and payable on demand to Raul S. McQuivey, President, and Thomas N. Keefer, Vice President. The Company has begun negotiations with BB&T Bank to extend the line of credit for one year.

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Management believes that its existing cash resources, cash flow from operations and short-term borrowings on the existing line of credit and anticipated future line of credit will provide adequate financial resources for supporting operations during the remainder of fiscal 2004.

Item 3. Controls and Procedures

Based on their evaluation of the Companys disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of a date within 90 days of the filing date of this Quarterly Report on Form 10-QSB the Companys chief executive officer and chief financial officer have concluded that the Companys disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and are operating in an effective manner.

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

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

Item 4. Submission of Matters to a Vote of Security Holders.

None.

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Item 6. Exhibits and Reports on Form 8-K

B. Reports on Form 8-K

No reports have been filed on Form 8-K during this quarter.

SUTRON CORPORATION

SIGNATURES

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

Sutron Corporation
(Registrant)

May 17, 2004
Date

/s/Raul S. McQuivey
Raul S. McQuivey
Principal Executive Officer

May 17, 2004
Date

/s/Sidney C. Hooper
Sidney C. Hooper
Principal Accounting Officer