SUTRON CORP
Form 10-K
March 31, 2015

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, 2014

Commission file number: 0-12227

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

Virginia (State or other jurisdiction of incorporation or organization)	54-1006352 (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 o No þ

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

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 þ No o

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not 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 amendment to this Form 10-K. o

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 Act.

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the closing price of $4.97 as reported by the NASDAQ Stock Market, Inc. for the Registrant's Common Stock as of June 30, 2014, was $18,796,470.

As of March 20, 2015, there were 5,084,134 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrants' Definitive Proxy Statement for the 2015 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.

Table of Contents

TABLE OF CONTENTS

Table of Contents

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, risks, 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 (the “Company”) 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. The Company has several branch offices located throughout the United States and a branch office in India. We maintain a 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.

The Company is a leading provider of real-time data collection and control products, systems and applications software and professional services in the hydrological, meteorological, air quality and oceanic monitoring markets. We design, manufacture, market and sell products, systems, and software as well as provide services that enable government and commercial entities to monitor and collect hydrological, meteorological, air quality 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, emissions monitoring, for the supply of critical aviation information and for other environmental applications. We provide real-time data collection and control products consisting primarily of dataloggers, satellite transmitters/loggers, water level and meteorological sensors and tide monitoring systems. We provide turnkey integrated systems for hydrological, meteorological, air quality and oceanic networks and related services consisting of installation, training and maintenance of hydrological, meteorological and air quality networks. We provide both systems and applications software that is used to provide data necessary for the management of vital resources. Our customers include a diversified base of federal, state, local and foreign governments, engineering firms, universities, hydropower companies and aviation firms.

We operate principally in two industry segments. We provide to our customers standard products which consist of hydrological, meteorological, oceanic monitoring and control and air quality products that are sold off-the-shelf. Our Hydromet Products Division and our Sabio Division are responsible for the manufacturing of all standard products. We also provide customized systems and solutions consisting of hydrological, meteorological and oceanic monitoring systems that are comprised of standard products and non-standard items, systems and applications software and services, including installation, training, and maintenance. We have various profit centers consisting of our Integrated Systems Division, Sutron India operations and MeteoStar Division that provide our systems, software 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 interact with 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.

Xpert and XLite Dataloggers

The Xpert and XLite dataloggers are the core of a wide-range of remote monitoring and control systems. The Xpert is highly modular and can be leveraged to handle multiple applications. 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, automatic weather observation 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.

Table of Contents

SatLink2 Transmitter/Logger

The SatLink2 is a high data rate satellite transmitter/logger that incorporates GPS and functions as a logger. Our standard unit includes a built-in logger, SDI-12 interface, dedicated tipping bucket input, 4 analog inputs and a powerful mathematical equation editor. The V2 version meets the latest specifications being adopted by the National Environmental Satellite, Data and Information Services (NESDIS). Starting in May 2012, all users of the Geostationary Operational Environmental Satellite (GOES) satellite are required over a 10 year period to upgrade all their transmitters to comply with the V2 specifications. 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 optical encoder fused with logger technology from our Satlink2 Transmitter/Logger. Using proven float-tape-counterweight technology, the Stage Discharge Recorder is a “plug compatible” replacement for strip chart recorders or punched-tape recorders. The Stage Discharge Recorder saves data in 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 that can rupture over time.

Tides and Ports Systems

The National Ocean Survey (NOS), part of the National Oceanic and Atmospheric Administration (NOAA), has the responsibility to measure accurately tide levels around the perimeter of the United States. NOS seeks to ensure 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. 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 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.

The Integrated Systems Division provides system integration services consisting of design, integration, installation and commissioning of customer-specific hydrological, meteorological and oceanic monitoring and control systems. We are an Iridium Value Added Reseller which enhances our communication options to our customers. 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 weeks to several years depending on the scope and complexity of the system. In 2013, we combined our previous Ilex Division with our Integrated Systems Division.

Table of Contents

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.

Sutron India Operations consist of a Branch Office that was established in 2004. In 2005, we established Sutron HydroMet Systems Private Limited, a wholly owned subsidiary, in order to bid on domestic India tenders. Our India Operations procures local goods for projects, performs systems integration, 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").

The Company acquired IPS MeteoStar (“MeteoStar”) on May 24, 2012. Our MeteoStar Division is a leader in the environmental analysis, display and integration/distribution systems market for the meteorological, aviation, and hydrology community. MeteoStar provides its Leading Environmental Analysis and Display System (“LEADS®”) product set as the foundation for its solutions. LEADS® is an advanced set of scalable tools specializing in weather, water and environmental monitoring solutions. MeteoStar’s products are used in a variety of markets to provide real-time weather situational awareness, forecasting solutions for decision support and emergency responders, and environmental air quality data collection/EPA reporting systems. MeteoStar’s customer base includes applications for aviation, hydrology, meteorology, transportation, power/energy, research and the military.

The Company acquired Sabio Instruments LLC (“Sabio”) on March 6, 2013. Our Sabio Division currently manufactures and sells calibration units that maintain and service air quality monitoring sensors. Sabio has an international customer base that is loyal to the Sabio brand. Sabio also has intellectual capital giving it capabilities to develop air quality sensors that will allow the Company to further market complete air quality systems to Sabio’s existing customers and attract new customers in what the Company believes is a growing domestic and international market increasingly interested in monitoring air quality. Domestically, core Sabio customers and targets are primarily made up of state governments and agencies focused on monitoring air quality in their respective geography. Internationally, core Sabio customers and targets are primarily made up of foreign governments and distributors that market to foreign governments.

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 four other employees in marketing and sales support functions. Internationally, we have five employees with global responsibilities 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, air quality and oceanic monitoring markets and are aware of both domestic and foreign competitors who offer products, systems, software 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, software and services.

Table of Contents

Customers

During 2014, approximately 22% of our products and services were sold to the United States Federal Government. Net sales and revenues in 2014 among the various agencies were as follows: Department of the Interior, 13%; Department of Commerce, 4%; Department of Defense, 2% and Other Federal Agencies, 3%. 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 sales to the U.S. Army Corps of Engineers. Revenues from the Department of Commerce were from sales of tides systems and spares to NOS, the National Weather Service 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 international customers amounted to approximately 49% of revenues in 2014, 48% of revenues in 2013 and 57% of revenues in 2012.

Research and Development

The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and enhanced products. Research and development expenses include new product development costs, consisting primarily of salaries, benefits and related costs for personnel associated with research and development activities, fees paid to third parties to develop new products and allocated overhead, which is comprised of rent and other facilities related costs, and depreciation expense generated by general purpose equipment and software.

During the years ended December 31, 2014, 2013 and 2012, we incurred expenses of $3,367,172, $3,438,250, and $3,384,393, respectively, on activities relating to the development of new products and enhancements and improvements of existing products. The slight decrease from 2013 to 2014 is primarily due to engineers devoting more of their time to project work as opposed to research and development efforts during the period.

In 2014, we devoted significant development efforts to several new products we expect to come to market in the next three to nine months. In our Virginia headquarters, we concentrated on supporting our existing product offerings and on developing the next generation upgrade of our flagship product, Satlink. We expect to introduce Satlink 3 to the marketplace in the next three to six months. In our MeteoStar Division, we concentrated our resources and efforts on bringing our LEADS6 software to market and developing an advanced set of scalable tools specializing in weather, water and environmental monitoring solutions. The LEADS6 software is currently available and is being marketed to our customer base. In our Sabio Division, our focus was on the development of new analyzer products we expect to introduce to the marketplace in the next six to nine months.

Patents, Trademarks, Copyrights and Agreements

We may in the future seek patents for certain products, real-time networks, technology and software. 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. As a part of our MeteoStar acquisition, we acquired the trademarks and copyrights to the LEADS® software.

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 obtain consistent high product quality. Products are tested after the assembly process using internally developed automated product assurance testing procedures. During 2014, we acquired surface mount technology ("SMT") machinery that will allow us to manufacture our own printed circuit boards in house rather than contracting independent third party manufacturers for this component. We believe the SMT capability will provide for operational advantages by allowing us to control the entire manufacturing process including internal management of the quality of our products and establishing more efficient processes with relation to this production activity resulting in better cost containment and ultimately implementation of cost reduction measures.

Table of Contents

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 2014.

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, government 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 2004. We formed a wholly owned subsidiary in India in 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 maintain over 220 remote automatic real-time hydromet monitoring stations in India under contracts with the Central Water Commission.

Employees

As of December 31, 2014, we and our wholly owned subsidiary had a total of 132 employees, of which 129 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, 2014, our backlog was approximately $13,158,000 as compared with approximately $12,469,000 at December 31, 2013. We anticipate that approximately 67% of our 2014 year-end backlog will convert to revenue in 2015. An economic downturn and/or budgetary restrictions 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.

Table of Contents

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 22% of our revenues in fiscal year 2014. The success of our business is therefore materially dependent on governmental agencies. Companies engaged in government business, both domestically and internationally, 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 the Executive branch, or by foreign governments internationally;
- changes in and delays or cancellations of government programs or requirements; and
- some contracts with international, 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 49%, 48% and 57% of our revenue for fiscal 2014, 2013 and 2012, respectively. Despite our international sales increasing only slightly by1% as a percentage of total revenue, we continue to 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.

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 maintain our technical workforce and commit adequate resources to our research and development to develop new products, enhance existing products and serve the needs of our existing and anticipated customer base. Our ability to expand our operations successfully 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) have the capacity to increase operating expenses in anticipation that our new products will increase future revenues.

Table of Contents

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 generally 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

A portion of our revenue and costs are denominated in other foreign currencies. 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 foreign currencies. We recognized a foreign currency gain of approximately $41,000 in 2014 and foreign currency losses of approximately $97,000 and $12,000 in 2013 and 2012, respectively. Fluctuations between the U.S. dollar and other foreign currencies may have a material adverse effect on our financial results.

Acquisition and integration of new businesses could disrupt our ongoing business, distract management and employees, increase our expenses or adversely affect our business

A portion of our future growth may be accomplished through the acquisition of other businesses. The success of those acquisitions will depend, in part, on our ability to integrate the acquired personnel, operations, products, services and technologies into our organization, to retain and motivate key personnel of the acquired entities and to retain the customers of those entities. We may not be able to identify suitable acquisition opportunities, obtain financing on acceptable terms to bring the acquisition to fruition or to integrate such personnel, operations, products or services effectively. 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. 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. We do have an employment agreement with one key employee.

Table of Contents

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results, and current and potential shareholders may lose confidence in our financial reporting

We are required by the Sarbanes Oxley Act of 2002 to establish and maintain adequate internal control over financial reporting that provides reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). We are likewise required, on an annual basis, to evaluate the effectiveness of our internal controls and to disclose on a quarterly basis any material changes in those internal controls.

As described in Item 9A — Controls and Procedures elsewhere in this Annual Report on Form 10-K, we identified two material weaknesses in our internal control over financial reporting with regard to over-recording costs of goods sold and properly identifying estimated costs to complete used in contract revenue calculations. Given these material weaknesses, management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2014.

We have taken actions to remediate and improve our internal controls over financial reporting. We have enhanced checklists and procedures to assure necessary procedures are timely performed, including manual entries such as reversing the costs the Company's accounting system records for costed repair orders as well as identifying all estimated costs associated with revenue calculations performed on contracts placed on the estimate to complete method of accounting. The elements of our remediation plan can only be accomplished over time. Any failure to maintain such internal controls could adversely impact our ability to report our financial results on a timely and accurate basis. If our financial statements are not accurate, investors may not have a complete understanding of our operations or may lose confidence in our reported financial information. This could result in a material adverse effect on our business or have a negative effect on the trading price of our Common Stock.

Item 1B – Unresolved Staff Comments

Not applicable

Item 2 – Properties

Our corporate headquarters are located at 22400 Davis Drive, Sterling, Virginia where we occupy 31,190 feet of space under a lease that expires in 2019. We also lease space in various locations throughout the United States and India for sales and other personnel. If we require additional space, we believe that we would be able to obtain such space on commercially reasonable terms.

Item 3 – Legal Proceedings

There are currently no legal claims that, in the opinion of management have a material effect on our financial statements.

Item 4 – Mine Safety Disclosures

Not applicable

Table of Contents

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 20, 2015, there were approximately 680 stockholders of record. The table below sets forth the high and low sales prices for the periods shown.

Fiscal year ended December 31, 2014	High	Low
First Quarter	$ 5.98	$ 4.81
Second Quarter	$ 5.65	$ 4.50
Third Quarter	$ 5.60	$ 4.81
Fourth Quarter	$ 5.20	$ 4.50

Fiscal year ended December 31, 2013	High	Low
First Quarter	$ 6.10	$ 5.00
Second Quarter	$ 6.10	$ 5.14
Third Quarter	$ 5.83	$ 4.85
Fourth Quarter	$ 5.40	$ 4.25

We have never declared or paid a dividend on our Common Stock.

The Company has established equity compensation plans to attract, motivate and reward 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 this table's first column)
Equity compensation plans approved by security holders	236,000	$ 4.67	226,750
Equity compensation plans not approved by security holders	103,726	$ 6.68	97,941
Total	339,726	$ 5.47	324,691

11

Table of Contents

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, 2014. The information set forth below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and related notes included elsewhere in this Form 10-K.

	(In thousands, except earnings per share data) Years Ended December 31,				
	2014	2013	2012	2011	2010
Income Statement Data					
Revenues	$ 26,243	$ 27,208	$ 25,230	$ 20,222	$ 22,975
Operating income	314	1,221	1,357	2,129	4,417
Net Income	485	796	1,143	1,521	2,987
Basic earnings per share	.10	.16	.24	.33	.65
Diluted earnings per share	.09	.16	.23	.31	.60
Shares used in computing basic per share data	5,084	5,053	4,803	4,620	4,573
Shares used in computing diluted per share data	5,140	5,109	4,889	4,921	4,995
Balance Sheet Data					
Cash	$ 8,683	$ 9,133	$ 8,387	$ 9,498	$ 9,505
Working capital	16,902	16,858	16,592	18,973	17,086
Total assets	28,352	28,143	26,871	24,083	22,987
Long-term debt, including current portion	-	-	-	-	-
Stockholders' equity	23,476	23,019	22,126	19,975	18,139
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 “Note Concerning Forward-Looking Statements,” “Item 1 – Business,” “Item 1A - Risk Factors,” “Item 6 – Selected Financial Data” and Consolidated Financi Statements, the notes to those statements and other financial information contained elsewhere in this Annual Report on Form 10-K.

We have restated herein our consolidated interim financial statements for the three, six and nine month periods ended March 31, 2014, June 30, 2014 and September 30, 2014, respectively, to correct errors in such consolidated interim financial statements relating to overstating costs of goods sold amounts related to the Company’s service department. For more information regarding the restatement, please see Note 2 to the financial statements included in Item 8 of Part II to 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, air quality 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, hydropower companies and aviation firms. Our products, systems, software and services enable these entities to monitor and collect hydrological, meteorological, air quality and oceanic data for the management of critical water resources, early warning of potentially disastrous floods, storms or tsunamis, the optimization of hydropower plants, monitoring and management of air quality and the supply of critical aviation information.

Our key products are the SatLink2 Transmitter/Logger, the Xpert/XLite dataloggers, the Accububble Self-Contained Bubbler, the Accubar Pressure Sensor, Air Quality calibrators and Tempest, XConnect and LEADS 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, XConnect and LEADS systems software allow us to provide turnkey systems solutions to our customers.

We are beginning fiscal year 2015 with a backlog of approximately $13,158,000 as compared to beginning fiscal year 2014 with a backlog of approximately $12,469,000. We estimate that approximately 67% of our December 31, 2014 backlog will convert to revenue in 2015. We anticipate that we will continue to experience significant quarterly fluctuations in our sales and revenues in 2015 as our business is highly project driven and subject to governmental approval and funding processes. Operating results will depend upon the product mix and upon the timing and execution of project awards.

Table of Contents

International revenue, which comprised 49% of total revenues for 2014, are a significant portion of our revenues. International revenues have increased slightly by 1% as a percentage of sales from 48% in 2013. The anticipated growth in our international sales was not fully realized primarily due to the Company's inability to secure key large projects. The Company did secure a number of projects, but the real driver of significant growth in our international efforts is dependent on winning large projects. While the Company's international sales remained relatively consistent year-over-year, the Company believes our international sales as a percentage of our total business will continue to rise in the near future due to stronger international partnerships and expanded 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 which generally requires competitive tenders and is subject to budgetary constraints. Contracts and purchase orders with Federal, state and local government agencies represented approximately 22% of our 2014 revenues compared to 31% of our 2013 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 2015 sales and marketing expenses to be consistent with 2014 due to planned spending on those activities. We expect our 2015 research and development costs to be lower than our 2014 levels as we expect more of our engineers to be working on project work as opposed to development related activities, particularly in our MeteoStar Division. We expect our 2015 general and administrative expenses to decrease as compared to 2014 due to planned implementation of new policies and procedures across Sutron's larger business platforms.

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 as they pertain to our financial information present herein. 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;
- Goodwill impairment;
- Accounting and valuation of stock option compensation:
- Contingencies and litigation;

· Accounting for income taxes; and

· Acquisition accounting.

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.

Table of Contents

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 quarters. Under the percentage of completion method, revenue and profits are recorded as costs are incurred based on estimates of total sales value and costs at completion where total profit can be estimated with reasonable accuracy and ultimate realization is reasonably assured. Profit estimates are revised periodically based upon changes and facts, and any losses on contracts are recognized immediately. Contracts may contain provisions to earn incentive and award fees if targets are achieved. Incentive and award fees that can be reasonably estimated are recorded over the performance period of the contract. Incentive and award fees that cannot be reasonably estimated are recorded when awarded. We recognize revenue from time-and-materials contracts to the extent of billable rates, times hours delivered, plus direct materials costs incurred. Some of the contracts include provisions to withhold a portion of the contract value as retainage. Our policy is to take into revenue the full value of the contract, including any retainage, as we perform against the contract.

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

Inventory Valuation – Our inventories are stated at the lower of cost or market. We provide allowances on inventories for any material that has become obsolete 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 warrant 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 measure and recognize compensation expense for all share-based payment awards to employees and directors based on estimated fair values.

For stock options granted during the year ended December 31, 2014, the Company used the Black-Scholes model to estimate the fair value of the options. 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.

Table of Contents

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		
	2014	2013	2012
Net sales and revenues	100%	100%	100%
Cost of sales and revenues	60.6	60.4	60.3
Gross profit	39.4	39.6	39.7
Selling, general and administrative expenses	25.3	22.5	20.9
Research and Development expenses	12.9	12.6	13.4
Operating income	1.2	4.5	5.4
Interest income	0.3	0.2	0.3
Income before income taxes	1.5	4.7	5.7
Income taxes	0.3	1.7	1.2
Net income	1.8%	3.0%	4.5%

Fiscal 2014 Compared to Fiscal 2013

Net Sales and Revenues

Revenues for the year ended December 31, 2014 decreased 4% to $26,243,398 from $27,208,304 in 2013. Net sales and revenues are broken down between sales of standard products and sales of systems, software and services. Standard products had a net sales and revenue increase of 2% to $10,748,102 in 2014 from $10,588,226 in 2013. The increase is primarily due to an overall increase in standard product purchases by core customers and a slight increase in our Sabio Division sales year-over-year, largely due to owning Sabio for the full year of 2014 as opposed to owning Sabio for ten months in 2013. Net sales and revenues for systems, software and services decreased 7% to $15,495,296 from $16,620,078 in 2013. While the Company did add a number of new projects throughout 2014, the decrease is primarily due to the Company's inability to secure multiple, new large projects and forecasted projects within our MeteoStar Division that have been delayed to future periods. The Company continues to have a robust pipeline of small, mid and large-sized projects that continue to be pursued.

Overall domestic revenues decreased 6% to $13,413,558 in 2014 versus $14,203,677 in 2013. Our MeteoStar and Sabio Divisions had domestic revenues of approximately $3,849,601 in 2014, a decrease of 19% over 2013 domestic revenues of $4,756,572 due in part to timing issues and fewer orders from government customers. International revenues decreased 1% to $12,829,840 in 2014 compared to $13,004,627 in 2013. Our MeteoStar and Sabio Divisions contributed international revenues of approximately $2,790,853 in 2014, an increase of 20% over 2013 international revenues of $2,316,341. The overall increase is primarily due to the customer base of the MeteoStar Division shifting more heavily to international customers and the mix of products and services provided.

Cost of Sales and Revenues

Cost of sales and revenues consists primarily of operational costs associated with our standard products production facilities, the costs associated with the design and development of customized software systems and services that we provide to our customers as well as the costs associated with implementing the system solutions for our customers.

Cost of sales as a percentage of revenues increased 1% in 2014 to 61% from 60% in 2013. Cost of sales for standard products was approximately 57% in 2014 as compared to 58% in 2013. Cost of sales for systems and services was 63% in 2014 as compared to 62% in 2013. The slight differences in the cost of sales of both our standard products as well as our systems and services, was primarily due to the mix of products being sold in 2014 compared to 2013.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consists primarily of salaries, benefits, stock-based compensation, professional fees, rent and other facility related costs, depreciation and amortization of acquired intangible assets. All selling and marketing costs are expensed as incurred.

Table of Contents

Selling, general and administrative expenses were $6,647,788 in 2014 as compared to $6,124,930 in 2013, a 9% increase. Selling, general and administrative expenses as a percentage of revenues increased to 25% in 2014 from 23% in 2013. The increase was attributable to the addition of our Sabio operations for the full year in 2014 compared to only ten months in 2013, increased commission expense associated with expanding our worldwide business, increased travel related costs to support of sales growth initiatives, and additional depreciation recognized on the SMT equipment the Company acquired.

Product Research and Development Expenses

Product research and development expenses decreased to $3,367,172 in 2014 from $3,438,250 in 2013, a 2% decrease. Product research and development expenses as a percentage of revenue remained constant at 13% for both years ended December 31, 2014 and 2013. Research and development efforts are maintained at our Sutron headquarters; as well as, our MeteoStar and Sabio Divisions. In 2014, research and development expenses totaled $1,888,760, $1,213,323 and $265,089 for each Division, respectively. Each of these Divisions is working on new products that the Company believes will be coming to market in the coming three to nine months.

Financing Income, Net

Net interest and other income increased to $83,067 in 2014 as compared to $46,892 in 2013.

Income Taxes

Income tax (benefit) expense for 2014 was $(88,131) compared to $471,984 for 2013. The provision for income taxes for 2014 represents an effective tax rate of approximately 22% compared with 37% for 2013. The decrease in the effective tax rate is primarily attributed to lower pre-tax book income and the impact of the R&D and foreign tax credits generated.

Fiscal 2013 Compared to Fiscal 2012

Net Sales and Revenues

Revenues for the year ended December 31, 2013 increased 8% to $27,208,304 from $25,229,519 in 2012. Net sales and revenues are broken down between sales of standard products and sales of systems, software and services. Standard products had a net sales and revenue increase of 30% to $10,588,226 in 2013 from $8,131,734 in 2012. The increase is primarily due to an overall increase in standard product purchases by core customers as well as the addition of a new air quality product line through the Company's acquisition of Sabio Instruments. Net sales and revenues for systems, software and services decreased 3% to $16,620,078 from $17,097,785 in 2012. While the Company did add a number of new projects throughout 2013, the decrease is primarily due to the Company's inability to secure any new large projects.

Overall domestic revenues increased 31% to $14,203,677 in 2013 versus $10,805,283 in 2012. Our MeteoStar and Sabio Divisions had domestic revenues of approximately $4,756,572 in 2013. International revenues decreased 10% to $13,004,627 in 2013 versus $14,424,236 in 2012. Our MeteoStar and Sabio Divisions contributed international revenues of approximately $2,316,341. The overall decrease is primarily due to the Company's inability to secure any large international projects in 2013.

Cost of Sales and Revenues

Cost of sales as a percentage of revenues was consistent at 60% for both of the 2013 and 2012 years. Cost of sales for standard products was approximately 58% in 2013 as compared to 55% in 2012. The increase in standard product cost of sales as a percentage of revenue is due to the addition of the Sabio line of products which historically have a lower associated margin. Cost of sales for systems and services was 62% in 2013 as compared to 63% in 2012. The decrease in cost of sales as a percentage of revenues for systems and services was primarily due to the mix of products associated with the 2013 projects.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $6,124,930 in 2013 as compared to $5,275,676 in 2012, a 16% increase. Selling, general and administrative expenses as a percentage of revenues increased to 23% in 2013 from 21% in 2012. The increase is primarily attributed to the acquisition of Sabio Instruments during the year and a full year of activity in 2013 for the prior year acquisition of IPS MeteoStar (as opposed to seven months in 2012) including an increase of $375,000 related to legal and other professional fees associated with the Sabio acquisition and our corporate initiatives to strengthen the Company's policies and procedures. These increases were offset by reductions of approximately $141,000 in our reserve for bad debts, international sales commissions, and warranty expenses, as well as a $40,000 reduction in salary expense due to the departure of the Company's former Chief Financial Officer.

Table of Contents

Product Research and Development Expenses

Product research and development expenses increased to $3,438,250 in 2013 from $3,384,393 in 2012, a 2% increase. Product research and development expenses as a percentage of revenue were consistently 13% for both of the 2013 and 2012 years. Research and development efforts are maintained at each of our main Sutron, MeteoStar and Sabio Divisions where 2013 research and development expenses totaled $1,978,000, $1,277,000 and $183,000, respectively.

Financing Income, Net

Net interest and other income decreased to $46,892 in 2013 as compared to $74,783 in 2012.

Income Taxes

Income tax expense for 2013 was $471,984 compared to $289,000 for 2012. The provision for income taxes for 2013 represents an effective tax rate of approximately 37% compared with 20% for 2012. The increase in the effective tax rate is primarily attributed to book and tax amortization differences resulting from the Company's amortization of acquisition intangibles and an adjustment to the Company's effective state tax rate to more appropriately reflect the net tax position of the Company's state tax filing obligations.

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 $7,873,903 at December 31, 2014 compared to $8,283,092 at December 31, 2013. Working capital remained comparable at $16.9 million for both December 31, 2014 and 2013.

We generated net cash from operating activities of $574,204 for the year ended December 31, 2014. Net cash provided by operating activities was $2,178,449 for the year ended December 31, 2013 and $1,506,368 for the year ended December 31, 2012. Our cash flows from operations were impacted by our net income of $484,908 and non-cash items such as depreciation, amortization, stock-based compensation, and deferred taxes of $273,807 and reductions in our inventory levels, prepaid expenses and deferred revenues, offset by an increase in accounts receivables and expense accruals. Net cash provided by operating activities in 2013 was primarily due to a decrease in the income tax receivable and customer payments received in advance. Net cash provided by operating activities in 2012 was primarily due to a decrease in accounts receivable and an increase in accounts payable.

We used cash for investing activities of $830,267 for the year ended December 31, 2014. Net cash used by investing activities was $1,448,288 for the year ended December 31, 2013 and $3,538,736 for the year ended December 31, 2012. Our primary investing activities in 2014 have consisted of purchases of manufacturing equipment to support our production facility. As our customer base and product suite expands, we expect purchases of technical infrastructure equipment to similarly increase. The extent of these investments will be impacted by our ability to expand existing customer relationships, grow our customer base, introduce new business opportunities to the market and increase our international presence. Net cash used by investing activities in 2013 was primarily due to the acquisition of Sabio Instruments. Net cash used by investing activities in 2012 was primarily due to the acquisition of IPS MeteoStar.

We did not engage in any financing activities during 2014. However, we did generate cash of $182 due to the issuance of stock related to the vesting of restricted stock units. We generated $35,530 and $877,293 for the year ended December 31, 2013 and 2012, respectively. In 2013 and 2012, the cash provided was due to the 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.

We have a line of credit facility of $4,000,000 with a commercial bank. The line of credit is collateralized by the assets of the Company. Borrowings under the line of credit may be used towards working capital and the issuance of stand-by letters of credit. We are permitted to borrow based on accounts receivable and inventory according to pre-established criteria. The issuance of letters of credit against the line of credit reduces the borrowing capacity of the facility for working capital purposes. The maturity date of the credit facility is December 20, 2015. Borrowings under the agreement will bear interest payable monthly based on the bank’s prime rate. As of December 31, 2014 and 2013, the Company did not have an outstanding balance under the terms of the line of credit agreement.

Table of Contents

The Company maintains letters of credit to satisfy bid or performance guarantees under certain contracts. As of December 31, 2014 and 2013, the commercial bank had issued stand-by letters of credit on behalf of the Company in the amount of $1,128,000 and $1,663,000, respectively. The amount of borrowing available under the line of credit was reduced by this amount.

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 2014.

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 and costs are denominated in other foreign currencies. 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 foreign currencies. We recognized foreign currency gains of approximately $41,000 in 2014 and losses of approximately $97,000, and $22,000 in 2013, and 2012, respectively. Fluctuations between the U.S. dollar and other foreign currencies 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. 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

Table of Contents

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, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014. These financial statements are the responsibility of the Company'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 audits 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with U.S. generally accepted accounting principles.

/s/ Yount, Hyde & Barbour, P.C.
Winchester, Virginia
March 31, 2015

Table of Contents

SUTRON CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,873,903	$ 8,283,092
Restricted cash and cash equivalents	809,509	850,279
Accounts receivable, net	4,693,260	4,480,218
Costs in excess of billings	1,500,603	1,383,418
Inventory	4,747,676	4,876,641
Prepaid items and other assets	293,568	446,749
Income taxes receivable	173,537	106,897
Deferred income taxes	1,046,593	664,558
Total Current Assets	21,138,649	21,091,852
Property and Equipment, Net	1,935,760	1,532,144
Other Assets		
Goodwill	4,452,152	4,452,152
Intangibles, net of amortization	722,466	907,495
Deferred tax asset	-	77,357
Other assets	102,514	81,885
Total Assets	$ 28,351,541	$ 28,142,885
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,045,170	$ 1,170,446
Accrued payroll	110,639	468,454
Deferred revenue	1,286,121	686,029
Deferred rent	149,011	139,146
Other accrued expenses	1,520,074	1,520,261
Billings in excess of costs and estimated earnings	125,242	388,687
Total Current Liabilities	4,236,257	4,373,023
Long-Term Liabilities		
Deferred rent	608,568	751,245
Deferred tax liability	30,871	-
Total Liabilities	4,875,696	5,124,268
Stockholders' Equity		
Common stock, $0.01 par value, 12,000,000 shares authorized; 5,084,134 and 5,066,009 issued and outstanding	50,842	50,660
Additional paid-in capital	5,465,723	5,340,277
Retained earnings	18,354,164	17,869,256
Accumulated other comprehensive loss	(394,884)	(241,576)
Total Stockholders' Equity	23,475,845	23,018,617
Total Liabilities and Stockholders' Equity	$ 28,351,541	$ 28,142,885

See accompanying notes to consolidated financial statements.

20

Table of Contents

SUTRON CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Years Ended December 31, 2014	2013	2012
Net sales and revenues	$ 26,243,398	$ 27,208,304	$ 25,229,519
Cost of sales and revenues	15,914,728	16,424,127	15,212,433
Gross profit	10,328,670	10,784,177	10,017,086
Operating expenses:			
Selling, general and administrative expenses	6,647,788	6,124,930	5,275,676
Research and development expenses	3,367,172	3,438,250	3,384,393
Total operating expenses	10,014,960	9,563,180	8,660,069
Operating income	313,710	1,220,997	1,357,017
Financing income, net	83,067	46,892	74,783
Income before income taxes	396,777	1,267,889	1,431,800
Income tax expense (benefit)	(88,131)	471,984	289,000
Net income	$ 484,908	$ 795,905	$ 1,142,800
Net income per share:			
Basic income per share	$ .10	$ .16	$ .24
Diluted income per share	$ .09	$ .16	$ .23
Comprehensive income (loss):			
Net income	484,908	795,905	1,142,800
Foreign currency translation adjustments	(153,308)	(58,973)	(6,094)
Comprehensive income	$ 331,600	$ 736,932	$ 1,136,706

See accompanying notes to consolidated financial statements.

Table of Contents

SUTRON CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Shares	Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances, December 31, 2011	4,704,632	$ 47,047	$ 4,173,828	$ 15,930,551	$ (176,509)	$ 19,974,917
Net income	-	-	-	1,142,800	-	1,142,800
Foreign currency translation adjustment	-	-	-	-	(6,094)	(6,094)
Amortization of stock based compensation	-	-	137,554	-	-	137,554
Exercise of stock options	335,000	3,350	873,943	-	-	877,293
Balances, December 31, 2012	5,039,632	$ 50,397	$ 5,185,325	$ 17,073,351	$ (182,603)	$ 22,126,470
Net income	-	-	-	795,905	-	795,905
Foreign currency translation adjustment	-	-	-	-	(58,973)	(58,973)
Issuance of stock	19,125	191	-	-	-	191
Amortization of stock based compensation	-	-	119,685	-	-	119,685
Exercise of stock options	7,252	72	35,267	-	-	35,339
Balances, December 31, 2013	5,066,009	$ 50,660	$ 5,340,277	$ 17,869,256	$ (241,576)	$ 23,018,617
Net income	-	-	-	484,908	-	484,908
Foreign currency translation adjustment	-	-	-	-	(153,308)	(153,308)
Issuance of stock	18,125	182	-	-	-	182
Amortization of stock based compensation	-	-	125,446	-	-	125,446
Balances, December 31, 2014	5,084,134	$ 50,842	$ 5,465,723	$ 18,354,164	$ (394,884)	$ 23,475,845

See accompanying notes to consolidated financial statements.

Table of Contents

SUTRON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2014	2013	2012
Cash Flows from Operating Activities:			
Net income	$ 484,908	$ 795,905	$ 1,142,800
Noncash items included in net income:			
Depreciation	455,566	382,996	315,338
Amortization of intangible assets	185,029	176,138	78,367
Provision (recovery) for bad debt	(28,700)	(13,509)	230,485
Stock based compensation	125,446	119,685	137,554
Deferred income taxes	(273,807)	(114,451)	(150,000)
(Gain) on disposal of property	(8,774)	-	-
Tax benefit from stock options exercised	-	(30,408)	(603,993)
Change in current assets and liabilities:			
Accounts receivable	(184,341)	684,432	816,711
Costs in excess of billings	(117,186)	(680,693)	(63,775)
Inventory	128,965	(418,037)	(770,975)
Prepaid items and other assets	153,181	(194,936)	73,823
Income taxes receivable	(66,640)	1,135,220	(214,770)
Accounts payable	(125,276)	(130,471)	501,910
Deferred revenues	600,092	154,632	382,602
Accrued expenses	(358,002)	345,909	(353,875)
Billings in excess of costs and estimated earnings	(263,445)	82,539	105,133
Deferred rent	(132,812)	(116,502)	(120,967)
Net Cash Provided by Operating Activities	574,204	2,178,449	1,506,368
Cash Flows from Investing Activities:			
Restricted cash and cash equivalents	40,770	(39,883)	(50,359)
Purchase of property and equipment	(861,530)	(207,407)	(179,131)
Business acquisition	-	(1,214,330)	(4,241,914)
Certificate of deposit	-	-	924,294
Other assets	(20,629)	13,332	8,374
Proceeds from the sale of property and equipment	11,122	-	-
Net Cash Provided (Used) by Investing Activities	(830,267)	(1,448,288)	(3,538,736)
Cash Flows from Financing Activities:			
Tax benefit from stock options exercised	-	30,408	603,993
Proceeds from stock options exercised	-	4,931	273,300
Proceeds from the issuance of stock	182	191	-
Net Cash Provided by Financing Activities	182	35,530	877,293
Effect of exchange rate changes on cash and cash equivalents	(153,308)	(58,973)	(6,094)
Net increase (decrease) in cash and cash equivalents	(409,189)	706,718	(1,161,169)
Cash and Cash Equivalents, beginning of year	8,283,092	7,576,374	8,737,543
Cash and Cash Equivalents, end of year	$ 7,873,903	$ 8,283,092	$ 7,576,374

See accompanying notes to consolidated financial statements.

23

Table of Contents

SUTRON CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2013, 2012 and 2011

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 and applications 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 applications software. Customers consist of a diversified base of Federal, state, local and foreign government agencies, universities, engineering firms, hydropower companies and aviation companies.

The Company operates from its headquarters located in Sterling, Virginia. The Company has 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. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

In its annual review process of its 2014 financial records, the Company's management identified errors relating to over-booking of costs of goods sold amounts related to the Company's service department. The Company's service department repairs products that have been delivered to customers and that subsequently require repair, either under warranty or for a fee. The Company's accounting system has been set up to accumulate the costs associated with the service department in two places, costs of goods sold for costed repair orders and costs accumulated that are recorded when the customer is invoiced for a particular repair order. Historically, to avoid double counting the service department costs, a manual entry has been performed to reverse the costs the system records for costed repair orders. In the 2014 year-end review process, it was discovered that the manual entry to reverse the costs the system records for costed repair orders was not made for the first three quarters of 2014. This overstatement of cost was confined solely to the 2014 quarterly statements. The adjustments to remove these costs from each respective 2014 quarter had no impact on the Company's liquidity or cash position.

Table of Contents

The restatements reflect the recalculation of costs of goods sold for each of the previously issued interim financial statements contained in our Form 10-Q for the three months ended March 31, 2014, the three months ended June 30, 2014, and the three months ended September 30, 2014. The Company's restated Consolidated Balance Sheets as of March 31, 2014, June 30, 2014, and September 30, 2014, respectively, are:

SUTRON CORPORATION
CONSOLIDATED BALANCE SHEETS

	(Unaudited) Restated March 31, 2014	(Unaudited) Restated June 30, 2014	(Unaudited) Restated September 30, 2014
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 8,296,797	$ 7,751,469	$ 7,177,741
Restricted cash and cash equivalents	875,820	856,619	952,968
Accounts receivable, net	5,663,123	6,815,994	5,327,202
Inventory, net	5,276,830	5,532,102	5,278,898
Prepaid items and other assets	685,756	675,586	387,994
Income taxes receivable	77,866	59,078	295,019
Deferred income taxes	1,051,717	967,668	896,787
Total Current Assets	21,927,909	22,658,516	20,316,609
Property and Equipment, Net	1,466,119	1,728,419	1,770,713
Other Assets			
Goodwill	4,452,152	4,452,152	4,452,152
Intangibles, net of amortization	861,238	814,981	768,724
Deferred tax assets	64,075	50,353	49,716
Other Assets	80,427	105,430	103,971
Total Assets	$ 28,851,920	$ 29,809,851	$ 27,461,885
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$ 1,362,497	$ 1,189,988	$ 865,330
Accrued payroll	292,751	537,524	245,104
Deferred rent		143,910	146,438
Deferred revenue	789,573		