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SUTRON CORP
 Form 10QSB
 May 15, 2003

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, 2003

Commission file number 0-12227

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

Virginia 54-1006352
 (State or other jurisdiction of (I.R.S. Employer 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, 2003.

PART I. - FINANCIAL INFORMATION

SUTRON CORPORATION
 BALANCE SHEETS

	(Unaudited)	
	March 31, 2003	December 31, 2002
	_____	_____
Assets		
Current Assets:		
Cash	\$ 88,579	\$ 401,740
Accounts receivables	1,532,817	1,814,269
Costs and estimated earnings in excess of billings on contracts in process	387,633	-
Inventory	2,438,155	2,028,985
Prepaid items and other	250,441	182,774
Deferred income taxes	392,675	195,000

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Total Current Asset	\$5,090,300	\$4,622,768	
Property, Plant, and Equipment			
Cost	2,630,292		2,567,421
Accumulated depreciation	(1,983,119)	(1,929,419)	
Net Property, Plant and Equipment	647,173		638,002
Income taxes receivable	151,000		151,000
Other		21,689	21,689
TOTAL ASSETS	\$5,910,162	\$5,433,459	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:			
Accounts payable	\$ 811,160	\$ 483,652	
Accrued payroll		79,412	157,196
Accrued expenses	1,124,266	590,798	
Line of credit	-	-	
Current maturities of long-term notes	93,204	93,204	
Total Current Liabilities	\$2,108,042	\$1,324,850	
Long-term liabilities:			
Long-term notes payable	92,804	116,105	
Deferred income taxes		142,000	142,000
Total liabilities		2,342,846	1,582,955
Stockholders' Equity:			
Common stock, \$.01 par value,	42,896	42,896	
Additional paid in capital	2,306,655	2,306,655	
Retained Earnings	1,217,765	1,500,953	
Total Stockholders' Equity	3,567,316	3,850,504	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$5,910,162	\$5,433,459	

See Accompanying Notes to Financial Statements

SUTRON CORPORATION
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2003	2002
Revenues	\$2,259,801	\$1,302,528

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Cost of Goods Sold	1,766,869	850,840	
Gross Profit	<u>492,932</u>	<u>451,688</u>	
Research and Development Expenses		316,937	326,429
Selling, General, and Administrative Expenses	650,895	562,338	
Income (Loss) from Operations	<u>(474,900)</u>	<u>(437,079)</u>	
Other Expense	0	0	
Interest Expense	4,288	11,497	
Income (Loss) before Provision for Income Taxes		<u>(479,188)</u>	<u>(448,576)</u>
Provisions for Income Taxes	(196,000)	(182,000)	
Net Income	<u>\$ (283,189)</u>	<u>\$ (266,576)</u>	
Net Income per Common Share	\$ (.07)	\$ (.06)	
Weighted Average Number of Common Shares	4,289,551	4,293,068	

See Accompanying Notes to Financial Statements

SUTRON CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,		
	2003	2002	
	<u> </u>	<u> </u>	
Cash Flows from Operating Activities:			
Net income (loss)	\$ (283,188)	\$ (266,576)	
Depreciation and amortization	53,700	49,998	
(Increase) Decrease in:			
Accounts receivables	281,452	1,131,804	
Costs and estimated earnings in excess of contract billings	(387,633)	-	0
Inventory		(409,170)	(532,001)
Other assets		(67,667)	(207,144)
Deferred income taxes		(197,675)	-
Increase (Decrease) in:			
Accounts payable	327,508	131,539	
Accrued expenses		455,684	(144,443)
Net Cash Provided by Operating Activities	(226,989)	<u>163,177</u>	
Cash Flows from Investing Activities:			
Capital expenditures	(62,871)	(9,237)	
Net Cash Used in Investing Activities	(62,871)	<u>(9,237)</u>	

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Cash Flows from Financing Activities:

Proceeds from advances on line of credit	-	-	-
Payments on line of credit		-	(158,365)
Payments on Term notes payable	(23,301)	(29,551)	
Payments on Installment notes payable		0	0
Purchase of Treasury Stock		-	-
Net Cash (Used) by Financing Activities	(23,301)	(187,916)	
Net Increase (Decrease) in Cash	(313,161)	(33,976)	
Cash and Cash Equivalents, January 1	401,740	102,976	
Cash and Cash Equivalents, March 31	\$	88,579	\$ 69,000

See Accompanying Notes to Financial Statements

SUTRON CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 2003

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 2002 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Net Revenues. The Company's revenues for the three months ended March 31, 2003 increased 73% to \$2,259,801 from \$1,302,528 in 2002. The increase is due to contract activity on two projects

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in India and one in Mexico and due to an interational shipment to Venezuela. Revenues from the projects in India and Mexico totalled approximately \$592,000 and the shipment to Venezuela totalled approximately \$360,000.

Bookings for the first quarter of 2003 were \$2,139,000 as compared to \$2,095,000 in the first quarter of 2002.

Gross Profit. Gross profit for 2003 increased to \$492,932 from \$451,688 in 2002. Gross margin as a percentage of revenues for 2003 decreased to 22% as compared to 35% in 2002. The decrease in the Company's gross margin as a percentage of sales is attributed to manufacturing overruns that the Company has experienced in the production of the SatLink-G312 satellite transmitter, increased warranty costs associated with the SatLink and inventory revaluation costs. Also the gross margins achieved on the two projects in India and the one in Mexico were not significant as these projects were all bid at reduced margins in order to capture the business.

Selling, General And Administrative. Selling, general and administrative expenses increased to \$650,895 in 2003 from \$562,338 in 2002, an increase of \$88,557 or 16%. The increase is primarily due to international agent commissions on the shipment to Venezuela.

Research And Development. Research and development expenses decreased to \$316,937 in 2003 from \$326,429 in 2002, a decrease of \$9,492. This decrease is due to a reduction in XConnect application development costs. XConnect is the Company's new systems software based on open systems.

Interest Expenses. Interest expenses decreased to \$4,288 in 2003 from \$11,497 in 2002.

The Company's backlog of orders at March 31, 2003 was \$2,689,000 as compared to \$2,338,000 as of March 31, 2002. The Company anticipates that 80% of its March backlog will be shipped in 2003.

Liquidity and Capital Resources

Cash and cash equivalentents decreased to \$88,579 at March 31, 2003, compared to \$401,740 at December 31, 2002.

The ratio of current assets to current liabilities was 2.4:1 as of March 31, 2003, compared to 3.5 as of December 31, 2002. Working capital decreased to \$2,982,258 at the end of the first quarter of fiscal 2003 compared to \$3,297,918 at the end of fiscal 2002.

The Company has a revolving credit facility of \$1,000,000 that expires on June 30, 2003 and will not be renewed with its current lender. The Company is currently in the process of evaluating several other financial institutions in order to obtain additional financing.

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 fiscal 2003.

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PART II - OTHER INFORMATION

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.

Item 14. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures. Based on their evaluation of the Companys disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of a date within 90 days of the filing date of this 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.

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

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 15, 2003

Date

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

May 15, 2003

Date

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

CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE
SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Raul S. McQuivey, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of
Sutron Corporation;

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2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; b) evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrants other certifying officers and I have disclosed, based on our most recent evaluation, to the registrants auditors and the audit committee of the registrant board of directors (or persons performing the equivalent functions): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrants ability to record, process, summarize and report financial data and have identified for the registrants auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants internal controls; and

6. The registrants other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By /s/ Raul S. McQuivey

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

CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE
SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sidney C. Hooper, certify that:

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1. I have reviewed this quarterly report on Form 10-QSB of Sutron Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared; b) evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrants other certifying officers and I have disclosed, based on our most recent evaluation, to the registrants auditors and the audit committee of the registrant board of directors (or persons performing the equivalent functions): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrants ability to record, process, summarize and report financial data and have identified for the registrants auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants internal controls; and
6. The registrants other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By /s/ Sidney C. Hooper

Sidney C. Hooper,
Director and
Chief Accounting
Officer

Exhibit 11

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Sutron Corporation
 Computation of Per Share Earnings

	Three Months Ended	
	March 31,	
	2003	2002
Basic EPS		
Average shares outstanding	4,289,551	4,289,551
Net Income	\$ (283,188)	\$ (266,576)
Net Income per common share	\$ (.07)	\$ (.06)
Dilutive EPS		
Average shares outstanding	4,289,551	4,289,551
Effect of dilutive securities	59,403	-
Total average shares outstanding	4,348,954	4,289,551
Net earnings	\$ (283,188)	\$ (266,576)
Net income per diluted share	\$ (.07)	\$ (.06)