SUTRON CORP
Form 10-K
March 31, 2011

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, 2010
Commission file number: 0-12227

SUTRON CORPORATION

(Exact name of registrant as specified in its charter)

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

22400 Davis Drive, Sterling Virginia 20164

(Address of principal executive offices)

(703) 406-2800

(Registrants telephone number, including area code)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

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

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). o Yes o No

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

Indicate by check mark if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. 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 Exchange Act. (Check one):

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

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 $7.65 as reported by the NASDAQ Stock Market, Inc. for the Registrant’s Common Stock as of March 29, 2011, was $25,788,158.

The number of shares outstanding of the Registrant’s Common Stock, $.01 par value, as of March 29, 2011 was 4,578,632.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Registrants’ Definitive Proxy Statement for the 2011 Annual Meeting of Shareholders, which will be filed within 120 days after the end of the year covered by this Form 10-K, are incorporated in Part III as set forth herein.

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EXPLANATORY NOTE

In our Annual Report on Form 10-K for the year ended December 31, 2009 (the “2009 Form 10-K”), Sutron Corporation presented restated financial statements for the year ended December 31, 2008, 2007 and 2006, as well as the quarterly financial statements for the periods ended March 31, 2006 through September 30, 2009. In this Annual Report on Form 10-K for the year ended December 31, 2010, restated financial statements for the year ended December 31, 2008 are included in “Selected Financial Data” in Item 6 and in “Financial Statements and Supplementary Data” in Item 8, in 19 “Quarterly Financial Information” in Item 8, and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” presented in this 2010 Form 10-K in Item 7, in each case relating to the fiscal year ended December 31, 2008. The restatement relates (i) to errors in inventory standard costs that were not being updated annually resulting in an overstatement of inventory values as of December 31, 2008, and (ii) to errors in income tax expense for tax deductions related to employee stock compensation that were not properly classified as additional paid-in capital and understated additional paid-in capital and income tax expense for the year ended December 31, 2008.

We have not amended our previously filed Annual Reports on Form 10-K for the fiscal years ended December 31, 2008, 2007 and 2006 or the Quarterly Reports on Form 10-Q for the periods ended March 31, 2006 through September 30, 2009, to reflect the restatements described in this Annual Report on Form 10-K, and thus the financial statements and related financial statement information contained in those reports and the disclosures regarding effectiveness of internal control over financial reporting for the fiscal years ended December 31, 2008, 2007 and 2006 and all related earnings releases and similar communications issued by the Company for those periods, should no longer be relied upon.

NOTE CONCERNING FORWARD-LOOKING STATEMENTS

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

PART I

Item 1 - Business

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

We design, manufacture and market products and systems that enable government and commercial entities to monitor and collect hydrological, meteorological and oceanic data for the management of critical water resources, for early warning of potentially disastrous floods, storms or tsunamis and for the optimization of hydropower plants. We provide real-time data collection and control products consisting primarily of dataloggers, satellite transmitters/loggers, water level and meteorological sensors and tides monitoring systems. We provide turnkey integrated systems for hydrological, meteorological and oceanic and related services consisting of installation, training and maintenance of hydrological and meteorological networks. Our customers include a diversified base of federal, state, local and foreign governments, engineering companies, universities and hydropower companies.

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

The Hydromet Products Division manufactures dataloggers, satellite transmitters/loggers, water level and meteorological sensors and tides monitoring systems. Dataloggers collect sensor data and transmit the data to central facilities primarily by satellite radio but also by cell phone, fiber optics or microwave. Our sensors collect hydrological and meteorological data and include a tipping bucket rain gauge, a barometric pressure sensor, a temperature sensor and differing types of water level sensors including shaft encoders, bubbler systems, submersible sensors and radar sensors. Our dataloggers can interface to sensors from other companies. We have long-standing relationships with suppliers of sensors for wind speed and wind direction, water quality, humidity and solar radiation. The principal products that are manufactured by the Hydromet Products Division are described below.

Xpert and XLite Dataloggers

The Xpert Datalogger/controller is our fourth generation datalogger. The Xpert is environmentally hardened and capable of operating from -40 C to +60 C. First released in 2001, the product was updated in 2007 with a new processor. The product is supported each year by adding new features needed to meet the growing demands of customers.

The Xpert and XLite dataloggers are the core of a wide-range of remote monitoring and control systems. The rugged Xpert is highly modular and can be leveraged to handle multiple applications, from the simplest to the most complex. It is designed specifically to support a variety of portable and permanent monitoring and control applications and systems including automatic weather stations, agrimet stations, synoptic weather stations, AWOS stations, tide stations, hydromet stations, water level and water quality stations, rainfall stations, gate control stations, irrigation and water distribution control stations, stream gauging stations, dam safety stations and flood forecasting, monitoring, control and warning systems

SatLink2 Transmitter/Logger

The SatLink2 is a high data rate satellite transmitter/logger that transmits at 100, 300 and 1200 baud, incorporates GPS and functions as a logger. SatLink2's innovative design includes everything needed to collect high quality data, without costly options. Our standard unit includes a built-in logger, SDI-12 interface, dedicated tipping bucket input, 4 analog inputs and a powerful mathematical equation editor. In October 2010, Sutron certified its new V2 version of Satlink. The V2 version meets the latest specifications being adopted by the National Environmental Satellite, Data and Information Services (NESDIS). Starting sometime in 2012 all users of the GOES satellite will have a 10 year period to upgrade all their transmitters to comply with the V2 specifications. Along with supporting V2 specifications, Sutron added important new hardware and software features to Satlink. The SatLink transmitter operates on the Geostationary Operational Environment Satellite (GOES) system. NESDIS operates two U.S. Government environmental satellites on this system.

Stage Discharge Recorder

The Stage Discharge Recorder is an ultra-reliable SDI-12 optical encoder fused with logger technology from our Satlink2 Transmitter/Logger to create an encoder that never forgets. Using proven float-tape-counterweight technology, the Stage Discharge Recorder is a “plug compatible” replacement for strip chart recorders or punched-tape recorder. The Stage Discharge Recorder saves data in ultra-reliable flash memory. This means that there are no backup batteries for the memory. The Stage Discharge Recorder incorporates standard flume and weir equations and can compute and log discharge totals and display discharge as well as flume/weir stage. A built-in event log keeps track of when anyone views or downloads data or makes changes to the setup. The Stage Discharge Recorder will run up to one year on an industrial alkaline battery.

Accubar Gauge Pressure Sensor

The Accubar Gauge Pressure sensor is used in water level monitoring systems and is a highly accurate solid state pressure transducer capable of measuring air/dry gas pressures from 0 to 22 psi with a maximum pressure of 35 psi. It is housed in an aluminum case and with its low power consumption and low maintenance requirements, it is ideal for remote monitoring applications.

AccuBubble Self-Contained Bubbler System

The AccuBubble Self-Contained Bubbler is a mercury-free and nitrogen-free bubbler apparatus designed for low maintenance water level measuring. Using the Sutron Accubar Pressure Sensor as the control and sensing element makes the AccuBubble a very stable and highly accurate water level measuring device. The AccuBubble uses power conservation techniques to minimize current consumption. The bubbler purges the orifice line prior to each measurement. This eliminates the need for a constant bubble rate, which has been known to consume excessive power. In addition, the purging sequence prevents debris build up in the orifice line. The AccuBubble uses an oil-less, non-lubricated piston and cylinder compressor. This type of compressor is designed to give consistent air delivery without the use of a diaphragm which can rupture over time. The AccuBubble uses the SDI-12 communications protocol as the control interface. This allows the unit to be configured by any data logger supporting the SDI-12 standard.

Tides and Ports Systems

The National Ocean Survey (NOS), part of the National Oceanic and Atmospheric Administration (NOAA), has the responsibility to accurately measure tide levels around the perimeter of the United States. NOS ensures that measurements are the most accurate possible by using the best water level instruments available. Tide stations are based on the Xpert data logger and the SatLink2. Xperts run the powerful Windows CE multi-tasking operating system. Sutron has taken advantage of Windows CE to equip each tide station with software that meets and exceeds all of the NOS requirements. We have enhanced the capabilities of tides systems by adding Storm Surge/Tsunami software. This software provides added capability to tides stations to detect and provide tsunami warnings.

The Main Tide Station is designed to detect a vast array of events. Sutron's Xpert Logger is a Windows device programmable to monitor multiple parameters including traditional NOS methods such as sudden water level drops and seismic sensors, or both at one time. It supports a wide variety of water level monitoring and weather instruments. The Main Tide Station provides pre-programmed support for all NOS-required tidal data processing. The Main Tide Station also supports GOES satellite and a wide variety of other telemetry methods including cell and marine phones. The tides station provides built-in surge protection for all inputs. Although designed for the tidal market, the Main Tide Station is an ideal starting point for a wide variety of highly reliable and accurate weather stations.

The Integrated Systems Division provides system integration services consisting of the design, integration, installation and commissioning of customer-specific hydrological and meteorological monitoring and control systems. Systems also include software applications based on our XConnect database software and our Ilex Tempest database software. Our database software capability allows us to provide turnkey hydrological and meteorological systems to a variety of users. Projects may range in size from one station to hundreds of stations. Projects usually require design, equipment integration, software application development, installation, training and commissioning. Projects can range in duration from several days to several years depending on the scope and complexity of the system.

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

The Hydrological Services Division provides hydrologic services including data interpretation and analysis, flow modeling (low flow, rainfall runoff, unsteady flow routing, water surface profiles), field studies (time of travel, diffusion, dispersion, calibration of flow control structures, site location), hydrologic studies (water budget, regression analysis, basin inventory studies), environmental permitting, legal or expert witness and equipment integration, installation, commissioning and maintenance.

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

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

Sales and Marketing

We market our products and services domestically and internationally. Domestic sales are conducted by our internal sales staff that consists of five salaried sales personnel who are directly engaged in direct sales activities. The sales staff is assisted by two other employees in marketing and sales support functions. Internationally, we have two employees who cover the world and who work closely with our international sales network that consists of 35 resellers and agents in Canada, Latin and South America, Europe, Africa, Asia and Australia.

Competition

We compete in the hydrological, meteorological and oceanic monitoring markets and are aware of both domestic and foreign competitors who offer products, systems, and services of their own as well as companies that are systems integrators who primarily offer real-time networks from components manufactured by others. We are aware of numerous firms, ranging in size, that offer competitive dataloggers, high data rate satellite transmitters, sensors and other instruments and software.

Several of these companies have financial, research and development, marketing, management and technical resources substantially greater than ours. We may also be at a competitive disadvantage because we purchase certain sensors and other equipment components, as well as computer hardware and peripheral equipment, from manufacturers who are or may become competitors with respect to one or more of our products.

With respect to our professional engineering and technical services, we are in competition with numerous diverse engineering and consulting firms, many of which have larger staffs and facilities, and are better known, have greater financial resources, and have more experience. As to hydrological services, we are aware that many firms offer maintenance services; some of these companies have larger staffs, are better equipped, and have greater financial, marketing and management resources. Price, features, product quality, promptness of delivery, customer service and performance are believed to be the primary competitive factors with respect to all of our products and services.

Customers

During 2010, approximately 36% of our products and services were sold to the Federal Government. Net sales and revenues in 2010 among the various agencies were as follows: Department of the Interior, 24%; Department of Commerce, 6%; Department of Defense, 5% and Other Federal Agencies, 1%. Revenues from the Department of the Interior were derived from sales to the U.S. Geological Survey and the Bureau of Reclamation. Revenues from the Department of Defense were primarily from the U.S. Army Corps of Engineers. Revenues from the Department of Commerce were from sales of tides systems and spares to NOS and the National Data Buoy Center. The loss of any significant portion of our sales to any major customer, the loss of a single major customer or budgetary constraints of any one of our major customers could have a material adverse effect on our business and financial results. We also performed on various contracts of foreign origin. Revenues from foreign customers amounted to approximately 39% of revenues in 2010, 48% of revenues in 2009 and 42% of revenues in 2008.

Research and Development

During the years ended December 31, 2010, 2009 and 2008, we incurred expenses of $1,887,318, $1,635,161 and $1,228,661, respectively, on activities relating to the development of new products and enhancements and improvements of existing products. In 2010, we completed the SatLink2 Transmitter/Logger V2, which meets NESDIS GOES V2 specifications. We released our Total Precipitation Gauge, which is a weighing bucket gauge designed for measurement of precipitation. We released our Dual Orifice Bubbler which is an all-in-one logging bubbler that measures water level in two separate bodies of water as redundant sensors. We made significant enhancements to the 9210 datalogger and the Stage Discharge Recorder to provide increased functionally and features to our customers. We also spent significant efforts in developing SUTRONWIN which is a new Sutron product that provides a complete system software package including webhosting, real-time data storage for one year, data analysis, complete data management and more.

Patents, Trademarks, Copyrights and Agreements

We may in the future seek patents for certain products, real-time networks, and technology as well as software products, real-time networks, and technology. We treat our products, real-time networks, technology and software as proprietary and rely on trade secret laws and internal non-disclosure safeguards rather than making our designs and processes generally available to the public by applying for patents. We believe that, because of the rapid pace of technological change in the computer, electronics and telecommunications industries, patent and copyright protection is of less significance than factors such as the knowledge and experience of our personnel and their ability to design and develop enhanced and new products, real-time networks and their components.

Manufacturing

Our manufacturing operations consist of materials planning and procurement, final assembly, product assurance testing, quality control, and packaging and shipping. We currently use several independent manufacturers to provide certain printed circuit boards, chassis and subassemblies. We believe that the efficiency of our manufacturing process to date is largely due to our product architecture and our commitment to manufacturing process design. We have spent significant engineering resources producing customized software to assure consistent high product quality. Products are tested after the assembly process using internally developed automated product assurance testing procedures.

Our products use certain components, such as microprocessors, memory chips and pre-formed enclosures that are acquired or available from one or a limited number of sources. We have generally been able to procure adequate supplies of these components in a timely manner from existing sources. While most components are standard items, certain application-specific integrated circuit chips used in many of our products are customized to our specifications. None of the suppliers of components operate under contract. Additionally, availability of some standard components may be affected by market shortages and allocations. Our inability to obtain a sufficient quantity of components when required or to develop alternative sources at acceptable prices and within a reasonable time could result in delays or reductions in product shipments which could materially affect our operating results in any given period. In addition, as referenced above, we rely heavily on outsourcing subcontractors for production. The inability of such subcontractors to deliver products in a timely fashion or in accordance with our quality standards could materially affect our operating results and business.

We received an ISO 9001 certification on March 12, 1999 and an ISO 9001:2000 certification on August 13, 2003. We continued to be certified during fiscal year 2010.

Government Regulation

We manufacture some of our products and provide some of our services under contracts with the United States government. We manufacture other products under contracts with private third parties who utilize our products to satisfy United States government contracts to which they are a party. Federal acquisition regulations and other federal regulations govern these relationships. Some of these regulations relate specifically to the seller-purchaser relationship with the government (which may exist on our own account, or that of one or more of our clients), such as the bidding and pricing rules. Under regulations of this type, we must observe pricing restrictions, produce and maintain detailed accounting data, and meet various other requirements.

Other regulations relate to the conduct of our business generally, such as regulations and standards established by the Occupational Safety and Health Act or similar state laws and relating to employee health and safety. In particular, regulations governing these contracts require that we comply with federal laws and regulations, in general, or face civil liability, cancellation or suspension of existing contracts, or ineligibility for future contracts or subcontracts funded in whole or in part with federal funds. In addition, loss of governmental certification (affirming that we are eligible to participate on government contracted work) could cause some of our customers to reduce or cease making purchases from us, which would adversely impact our business.

Foreign Operations

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

Employees

As of December 31, 2010, we and our wholly owned subsidiary had a total of 92 employees, of which 88 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, 2010, our backlog was approximately $11,748,000 as compared with approximately $11,908,000 at December 31, 2009. We anticipate that 85% of our 2010 year-end backlog will convert to revenue in 2011. An economic downturn may result in increased cancellation of orders, which could have a material adverse effect on our ability to convert our backlog into revenues. Other factors that may result in a cancellation of orders include changes, delays or cancellation of government programs, political and economic business events and trade restrictions.

Item 1A Risk Factors

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

Our dependence on government business could adversely affect our operating results

Contracts and purchase orders with agencies of the United States government and various state and local governments represented approximately 39% of our revenues in fiscal year 2010. The success of our business is therefore materially dependent on governmental agencies. Companies engaged in government business are subject to certain unique risks not shared by the general commercial sector. Among these risks are:

- a competitive procurement process with no guaranty of being awarded contracts;
- dependence on congressional appropriations and administrative allotment of funds;
- policies and regulations that can be changed at any time by Congress or a presidential administration;
- changes in and delays or cancellations of government programs or requirements; and
- some contracts with Federal, state and local government agencies require annual funding and may be terminated at the agency's discretion.

A reduction or shift in spending priorities by government agencies could limit or eliminate the continued funding of our existing government contracts. These reductions or shifts in spending, if significant, could have a material adverse effect on our business.

Our dependence on international sales involves significant risk

Sales and services to customers outside the United States accounted for approximately 39%, 48% and 42% of our sales for fiscal 2010, 2009 and 2008, respectively. We expect that our non-U.S. sales and services will continue to grow and account for a higher percentage of overall future revenues. International business operations may be adversely affected by many factors, including fluctuations in exchange rates, imposition of government controls, trade restrictions, political, economic and business events and social and cultural differences.

Intense competition can adversely affect our operating results

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

The variability of our quarterly operating results can be significant

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

Managing costs while planning for growth will be critical

We believe that we must expand our technical workforce to develop new products, enhance existing products and serve the needs of our existing and anticipated customer base. Our ability to successfully expand our operations will depend, in large part, upon our ability to attract and retain highly qualified employees. Our ability to manage our planned growth effectively also will require that we continue to (1) improve our operational, management, and financial systems and controls, (2) train, motivate, and manage our employees and (3) increase our operating expenses in anticipation that our new products will increase future revenues.

Technological changes may make our products obsolete or result in decreased prices or increased expenses

Technological changes may make our services or products obsolete. Advances in technology may lead to significant price erosion for products. Our success will depend in part on our ability to develop and offer more advanced products in the future, to anticipate both future demand and the technology to supply that demand, to enhance our current products and services, to provide those products and services at competitive prices on a timely and cost-effective basis and to achieve market acceptance of those products and services. To accomplish these goals, we may be required to incur significant engineering expenses. As new products or services are introduced, we may experience warranty claims or product returns. We may not be able to accomplish these goals correctly or timely enough. If we fail in our efforts, our products and services may become less competitive or obsolete.

We do not rely on patents to protect our products or technology

We do not rely on patent or trade secret protection for our products or technology. Competitors may develop technologies similar to or more advanced than ours. We treat our products, real-time networks, technology and software as proprietary and rely on trade secret laws and internal non-disclosure safeguards rather than making our designs and processes generally available to the public by applying for patents. We cannot assure that our current or future products will not be copied or will not infringe on the patents of others. Moreover, the cost of litigation of any claim or damages resulting from infringement of patents or other intellectual property could adversely affect our business, financial condition and results of operations.

We may incur losses due to foreign currency fluctuations

Portions of our revenue are denominated in India rupees. Consequently, a portion of our costs, revenue and operating margins may be affected by fluctuations in exchange rates, primarily between the U.S. dollar and the India rupee. We recognized foreign currency gains of approximately $37,000 and $50,000 in 2010 and 2009 and a foreign currency loss of approximately $180,000 in 2008 due to intercompany payables owed to us by our India entities. Fluctuations between the U.S. dollar and the India rupee may have a material adverse effect on our financial results.

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

A portion of our future growth may be accomplished through the acquisition of other businesses. The success of those acquisitions will depend, in part, on our ability to integrate the acquired personnel, operations, products, services and technologies into our organization, to retain and motivate key personnel of the acquired entities and to retain the customers of those entities. We may not be able to identify suitable acquisition opportunities, obtain financing on acceptable terms to bring the acquisition to fruition or to integrate such personnel, operations, products or services. The process of identifying and closing acquisition opportunities and integrating acquisitions into our operations may distract our management and employees, disrupt our ongoing business, increase our expenses and materially and adversely affect our operations. We may also be subject to certain other risks if we acquire other entities, such as the assumption of additional liabilities. We may issue additional equity securities or incur debt to pay for future acquisitions.

We do not have contracts with key suppliers

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

We are highly dependent on key personnel

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

Item 1B – Unresolved Staff Comments

Not applicable

Item 2 - Properties

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

We lease 2,850 square feet of office and warehouse space in West Palm Beach, Florida. The three-year lease expires in August 2011. The Hydrological Services division uses this space which consists of both office and warehouse space. The Hydrological Services Division also occupies 800 square feet of leased office space in Lakeland, Florida. The lease expires on October 31, 2011. This space is used for sales and marketing and engineering offices.

We lease office space and furniture in New Delhi, India. The leases were extended until September 2012. Our wholly owned subsidiary uses this space for their offices.

We believe that our facilities are adequate for our present needs and that our properties are in good condition, well maintained and adequately insured.

Item 3 - Legal Proceedings

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

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

Not applicable

PART II

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

Common Stock

Our common stock trades on the Nasdaq Capital Market (formerly the Nasdaq SmallCap Market) under the symbol “STRN”. On March 18, 2011, there were approximately 915 stockholders of record. The table below sets forth the high and low sales prices for the periods shown.

Fiscal year ended December 31, 2009				
First Quarter	$	10.00	$	3.75
Second Quarter	$	5.99	$	3.51
Third Quarter	$	6.62	$	5.48
Fourth Quarter	$	7.50	$	5.78

Fiscal year ended December 31, 2010		
First Quarter	$ 7.49	$ 6.32
Second Quarter	$ 8.20	$ 6.18
Third Quarter	$ 7.20	$ 5.84
Fourth Quarter	$ 7.18	$ 6.24

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

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

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	—	—	500,000
Equity compensation plans not approved by security holders	634,252	$2.37	39,667
Total	634,252	$2.37	539,667

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, 2010. 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.

The data for the years ended December 31, 2008, 2007 and 2006 have been restated to reflect the effects of the accounting errors discussed in Note 3 to the Consolidated Financial Statements.

(In thousands, except earnings per share data)

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Income Statement Data					
Revenues	$ 22,975	$ 20,851	$ 15,941	$ 18,868	$ 19,407
Operating income	4,417	3,333	719	2,797	2,934
Net Income	2,987	2,229	499	1,856	1,871
Basic earnings per share	.65	.49	.11	.41	.43
Diluted earnings per share	.60	.45	.10	.37	.39
Shares used in computing basic per share data	4,573	4,571	4,550	4,513	4,342
Shares used in computing diluted per share data	4,995	4,975	5,052	4,982	4,811
Balance Sheet Data					

Cash	$ 9,628	$ 5,700	$ 4,490	$ 5,434	$ 1,677
Working capital	17,086	13,931	11,654	11,364	9,430
Total assets	22,987	19,528	14,958	14,337	13,375
Long-term debt, including current portion	—	—	3	40	88
Stockholders' equity	18,139	15,031	12,633	11,956	9,934
Cash dividends declared	—	—	—	—	—

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

The following discussion and analysis should be read in conjunction with our disclaimer on "Forward-Looking Statements," "Item 1 – Business," "Item 1A - Risk Factors," "Item 6 – Selected Financial Data" and Consolidated Financi Statements, the notes to those statements and other financial information contained elsewhere in this Annual Report on Form 10-K. The information below reflects the impact of the restatement of our financial results which is more fully described in Note 3 to the Consolidated Financial Statements contained in this Annual Report on Form 10-K and under the paragraph" Restatement of Previously Issued Financial Statements" below and does not reflect any subsequent information or events occurring after the date of the filing of our reports originally presenting the financial information being restated or update any disclosure herein to reflect the passage of time since the date of such filings.

Restatement of Previously Issued Financial Statements

In March and April 2010, after discussions with management and our independent registered public accounting firm, the Audit Committee of the Board (the "Audit Committee") recommended to the Board, and the Board thereafter concluded, that our previously issued consolidated financial statements for the years ended December 31, 2008, 2007 and 2006, including the quarterly periods be restated. The data for the years ended December 31, 2008, 2007 and 2006 have been restated to reflect the effects of the accounting errors discussed in Note 3 to our Consolidated Financial Statements and the Explanatory Note on page 4 of this 2010 Form 10-K. We have not amended our previously filed Annual Reports on Form 10-K for the fiscal years ended December 31, 2008, 2007 and 2006, or the Quarterly Reports on Form 10-Q for the periods ended March 31, 2006 through September 30, 2009 to reflect the restatements described in this Annual Report on Form 10-K, and thus the financial statements and related financial statement information contained in those reports should no longer be relied upon.

The restatement relates to errors in inventory standard costs that were not updated annually, and were as a result set in excess of inventory purchase costs, resulting in an overstatement of inventory values as of December 31, 2008, 2007 and 2006. The restatement also relates to errors in income tax expense for tax deductions related to employee stock compensation for the years ended December 31, 2008, 2007 and 2006 that were not properly classified as additional paid-in capital resulting in the understatement of additional paid-in capital and income tax expense. For a discussion of the restatement, including the material adjustments to our previously issued financial statements, see Note 3 of the Notes to Consolidated Financial Statements.

Background and Overview

Our primary focus is to provide real-time systems solutions, including equipment and software, and services to our customers in the areas of hydrological, meteorological and oceanic monitoring. We design, manufacture and market these products and services to a diversified customer base consisting of federal, state, local and foreign governments, engineering companies, universities and hydropower companies. Our products and services enable these entities to monitor and collect hydrological, meteorological and oceanic data for the management of critical water resources, for early warning of potentially disastrous floods, storms or tsunamis, for the optimization of hydropower plants and for providing real-time weather conditions at airports.

Our key products are the SatLink2 Transmitter/Logger, the Xpert/XLite dataloggers, the Accububble Self-Contained Bubbler, the Accubar Pressure Sensor, and Tempest and XConnect systems software. These are the essential components of most systems and are provided to customers as off-the-shelf equipment or as part of a custom system. The SatLink2 is a key product because it functions both as a transmitter and logger. The Xpert and XLite are more powerful dataloggers that have significant more logging capability and communications options than the SatLink2. Our Tempest and XConnect systems software allow us to provide turn-key systems solutions to our customers.

We are beginning fiscal year 2011 with a backlog of approximately $11,748,000 as compared to beginning fiscal year 2010 with a backlog of approximately $11,908,000. We estimate that approximately 85% of our December 31, 2010 backlog will convert to revenue in 2011. We anticipate that we will continue to experience significant quarterly fluctuations in our sales and revenues in 2011. Operating results will depend upon the product mix and upon the timing of project awards.

International sales, which totaled 39% of revenues for 2010, are a significant portion of our revenues. We believe that international revenues will grow as a percentage of our total business as we plan to develop stronger international partnerships and expand our international sales opportunities. International sales are however difficult to forecast because they are frequently delayed due to the different governmental procurement and approval processes. Our domestic business is highly dependent upon government business. Contracts and purchase orders with Federal, state and local government agencies represented approximately 39% of our 2010 revenues.

We are committed in our ongoing sales, marketing and research and development activities to sustain and grow our sales and revenues from our products and services. We expect our sales and marketing, research and development and general and administrative expenses to increase moderately in 2011 as compared to 2010 due to planned spending on sales and marketing activities and on new products and applications.

Critical Accounting Estimates

The discussion and analysis of financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate, on an on-going basis, our estimates and judgments, including those related to bad debts, excess and obsolete inventories, warranty obligations, income taxes, contingencies and litigation. Our estimates are based on historical experience and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of the consolidated financial statements.

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

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

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

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

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

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

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

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

Stock Option Compensation – We adopted the provisions of FASB ASC 718 Compensation – Stock Compensation on January 1, 2006, which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. Additionally, the Corporation follows the Securities and Exchange Commission’s Staff Accounting Bulletin Share-Based Payment which provides supplemental ASC 718 application guidance based on the views of the SEC.

Results of Operations

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

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	Year ended December 31, 2010	2009	2008
Net sales and revenues	100%	100%	100%
Cost of sales and revenues	56.1	58.1	65.6
Gross profit	43.9	41.9	34.4
Selling, general and administrative expenses	16.5	18.0	22.2
Research and Development expenses	8.2	7.9	7.7
Operating income	19.2	16.0	4.5
Interest income	.2	1.0	0.7
Income before income taxes	19.4	17.0	5.2
Income taxes	6.4	6.3	2.1
Net income	13.0%	10.7%	3.1%

Fiscal 2010 Compared to Fiscal 2009

Net Sales and Revenues

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

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

Overall domestic revenues increased 29% to $14,112,382 in 2010 versus $10,940,894 in 2009 while international revenues decreased 11% to $8,863,218 in 2010 versus $9,910,250 in 2009. The Department of the Interior, the principal agencies being the US Geological Survey and the Bureau of Reclamation, was our largest customer accounting for 24% and 18% of total revenues in years 2010 and 2009, respectively. Federal government revenues were 36% and 35% of revenues in 2010 and 2009. State and local government, commercial and international revenues represented 64% and 65% of revenues in 2010 and 2009.

Cost of Sales and Revenues

Cost of sales as a percentage of revenues decreased to 56% for 2010 compared to 58% for 2009. Cost of sales for standard products was approximately 46% in 2010 as compared to 51% in 2009. The decrease in the cost of sales of standard products was primarily due to sales of higher margin products in the fourth quarter of 2010 as compared to 2009. Cost of sales for systems and services was 68% in 2010 as compared to 67% in 2009. The increase was primarily due an inventory write down of approximately $100,000 by our Hydrological Services Division. Cost of sales for both 2010 and 2009 include provisions for inventory obsolescence, physical inventory adjustments, inventory valuation adjustments and warranty provision adjustments. We continually pursue product cost reductions through continual review of procurement sourcing based on quality and cost goals, product value engineering and improvements in manufacturing processes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $3,790,760 in 2010 as compared to $3,762,291 in 2009, a 1% increase. Selling, general and administrative expenses as a percentage of revenues decreased to 17% in 2010 from 18% in 2009 due to the increased sales volume in 2010 as compared to 2009.

Product Research and Development Expenses

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

Interest and Other Income, Net

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

Income Taxes

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

Fiscal 2009 Compared to Fiscal 2008

Net Sales and Revenues

Revenues for the year ended December 31, 2009 increased 31% to $20,851,144 from $15,941,328 in 2008. Net sales and revenues are broken down between sales of standard products and sales of systems and services.

Standard products had a net sales and revenue increase of 37% to $11,791,235 in 2009 from $8,581,451 in 2008. The increase was primarily due to increased sales to federal government agencies and to international projects in India and Venezuela. Sales of standard products to Tamil Nadu Agricultural University (TNAU) totaled approximately $1,040,000. Sales of standard products to UTE Dominion-ADASA, a consortium of Spanish firms, for 631 rainfall, hydrological, meteorological, and agricultural monitoring stations in Venezuela totaled approximately $1,066,000.

Net sales and revenues for systems and services increased 23% to $9,059,909 from $7,359,837 in 2008 primarily due to increased systems sales. Significant system sales in 2009 included the UTE Dominion-ADASA project in Venezuela totaling approximately $1,252,000 and TNAU systems sales of approximately $1,410,000. The Ilex Division had sales of approximately $698,000 for the full year. Our India subsidiary also experienced increased annual maintenance contract revenues. These increases offset decreased revenues due to the completion of our contract with the Ministry of Energy and Water in Afghanistan in October 2009, decreased sales of hydrological services and decreased sales of airport weather systems.

Overall domestic revenues increased 19% to $10,940,894 in 2009 versus $9,222,662 in 2008 while international revenues increased 48% to $9,910,250 in 2009 versus $6,718,666 in 2008. The Department of the Interior, the principal agencies being the US Geological Survey and the Bureau of Reclamation, was our largest customer accounting for 18% and 19% of total revenues in years 2009 and 2008, respectively. Federal government revenues were 35% and 33% of revenues in 2009 and 2008. State and local government, commercial and international revenues represented 65% and 67% of revenues in 2009 and 2008.

Cost of Sales and Revenues

Cost of sales as a percentage of revenues decreased to 58% for 2009 compared to 66% for 2008. Cost of sales for standard products was approximately 51% in 2009 as compared to 48% in 2008. The increase for standard products was primarily due to the product mix and due to discounts provided to customers on several large orders. Cost of sales for systems and services was 67% in 2009 as compared to 87% in 2008. The decrease was primarily due to increased project activity and sales volume and higher utilization of personnel. Cost of sales for both 2009 and 2008 include provisions for inventory obsolescence, physical inventory adjustments, inventory valuation adjustments and warranty provision adjustments. We continually pursue product cost reductions through continual review of procurement sourcing based on quality and cost goals, product value engineering and improvements in manufacturing processes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $3,762,291 in 2009 as compared to $3,544,065 in 2008, a 6% increase. Selling, general and administrative expenses as a percentage of revenues decreased to 18% in 2009 from 22% in 2008 due to the increased sales volume in 2009 as compared to 2008. We experienced lower general and administrative costs in 2009 due to lower legal and bank letter of credit fees which however were offset by higher selling expenses due to an increased agent commissions relating to international contracts, increased sales and marketing activities by our Integrated Services Division and sales and marketing expenses of our new Ilex Division.

Product Research and Development Expenses

Product research and development expenses increased to $1,635,161 in 2009 from $1,228,661 in 2008, a 33% increase. Research and development expenses as a percentage of revenues were 7.9% in 2009 as compared to 7.7% in 2008 due to the increased sales volume in 2009 as compared to 2008. In 2009, we focused on software enhancements to the Xpert datalogger and to the SatLink2 Transmitter/Logger and we released our SatLink2B Transmitter/Logger to production. We released our Wireless Link to production which provides a way for an SDI-12 data recorder to read one or more SDI-12 sensors located up to 1 mile away using un-licensed band radios. We completed work on a Small Business Innovation Research (SBIR) contract that was awarded in 2007. The SBIR was to develop and test a prototype (preliminary design and specifications) for a "DCPI Low Power and Low Cost Command Receiver" that allows two-way communication through the GOES Satellite System and other geostationary satellite systems.

Interest and Other Income, Net

Net interest and other income increased to $214,844 in 2009 as compared to $108,391 in 2008. In 2007, we brought a lawsuit against a former employee. We successfully settled the lawsuit in January 2009 in the amount of $150,000. The settlement provided for the immediate payment of $60,000. The remaining balance of $90,000 was secured by a promissory note that requires monthly payments over a five year period including interest at 4%.

Income Taxes

Income tax expense for 2009 was $1,319,000 compared to $328,000 for 2008. The provision for income taxes for 2009 represents an effective tax rate of approximately 37.2% compared with 39.6% for 2008.

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 $9,627,961 at December 31, 2010 compared to $4,666,983 at December 31, 2009. Working capital increased to $17 million at December 31, 2010 compared with $14 million at December 31, 2009.

Net cash provided by operating activities was $4,765,906 for the year ended December 31, 2010. Net cash provided by operating activities was $1,590,116 for the year ended December 31, 2009. Net cash used by operating activities was $379,753 for the year ended December 31, 2008. The increase in 2010 was primarily due to a significant decrease in accounts receivable as we received payment on several large projects that were included in our accounts receivable at the end of 2009 . The increase in 2009 was due to a decrease in income taxes receivable and an increase in accrued expenses. The decrease in 2008 was due to a significant increase in income taxes receivable.

Net cash provided by investing activities was $155,125 for the year ended December 31, 2010. Net cash used by investing activities was $662,073 for the year ended December 31, 2009. Net cash used by investing activities was $1,265,585 for the year ended December 31, 2008. Net cash provided in 2010 was primarily due to a decrease in restricted cash that is used to secure bid and performance bonds. Net cash used in 2009 was primarily for purchases of property and equipment and due to an increase in restricted cash. The decrease in 2008 resulted primarily from the purchase of Ilex Engineering and due to an increase in restricted cash.

Net cash provided by financing activities was $15,400 for the year ended December 31, 2010 due to proceeds from the exercise of an employee stock option and tax benefits relating to tax deductible employee compensation associated with the exercise of non-qualified stock options. Net cash used by financing activities was $2,765 for the year ended December 31, 2009 due payments on notes payable. Net cash provided by financing activities was $91,959 for the year ended December 31, 2008 due primarily to tax benefits relating to tax deductible employee compensation associated with the exercise of non-qualified stock options.

We have a revolving credit facility of $3,000,000 with Branch Banking and Trust (BB&T). We are permitted to borrow based on accounts receivable and inventory according to pre-established criteria. The credit facility expires on August 5, 2011 and is secured by substantially all assets of the Company. Borrowings bear interest at the bank's prime rate. During 2010, there was no borrowing on the line of credit. We frequently bid on and enter into contracts that require bid and performance bonds. At December 31, 2010 and 2009, BB&T had issued standby letters of credit in the amount of $1,583,000 and $411,000 that served as either bid or performance bonds. The amount available to borrow under the line of credit was reduced by these amounts.

Management believes that its existing cash resources, cash flow from operations and short-term borrowings on the existing credit line will provide adequate resources for supporting operations during fiscal 2011. Management also plans to use our cash in 2011 to make one or more strategic acquisitions that will complement our business and add to our growth. Although there can be no assurance that our revolving credit facility will be renewed, management believes that, if needed, it would be able to find alternative sources of funds on commercially acceptable terms.

Item 7A – Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Rate Risk

Although the majority or our sales, costs of sales and selling costs are transacted in U.S. dollars, a portion of our revenue is denominated in India rupees. Consequently, a portion of our revenues, costs and operating margins may be affected by fluctuations in exchange rates between the U.S. dollar and the India rupee. We recognized foreign currency gains of approximately $37,000 and $50,000 in 2010 and 2009 and a foreign currency loss of approximately $180,000 in 2008 due to payables owed to us by our India entities. Fluctuations between the U.S. dollar and the India rupee may have a material adverse effect on our financial results.

Interest Rate Risk

We currently invest our cash balances, in excess of our current needs, in an interest bearing savings account and in a certificate of deposit. We do not invest for the purposes of trading in securities. We do not use derivative financial instruments in our investments.

Item 8 - Financial Statements and Supplementary Data

SUTRON CORPORTION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sutron Corporation and Subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

We also have audited the adjustments described in note 3 that were applied to restate the 2008 financial statements to correct certain errors. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2008 financial statements of the Company other than with respect to the adjustments and accordingly, we do not express an opinion or any other form of assurance on the 2008 financial statements taken as a whole.

Winchester, Virginia
March 30, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited, before the effects of the adjustments for the correction of the errors described in Note 3, the consolidated balance sheets of Sutron Corporation and Subsidiary as of December 31, 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, except for the errors in Note 3, the 2008 financial statements present fairly, in all material respects, the financial position of Sutron Corporation and Subsidiary as of December 31, 2008, the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

We were not engaged to audit, review or apply any procedures to the adjustments for the correction of the errors described in Note 3 and, accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by Yount, Hyde & Barbour, P.C.

Fairfax, Virginia
March 24, 2009

SUTRON CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$9,627,961	$4,666,983
Restricted cash and cash equivalents	796,189	1,032,517
Accounts receivable, net	5,380,975	7,468,327
Inventory	3,758,702	3,088,782
Prepaid items and other assets	560,460	206,338
Income taxes receivable	—	70,695
Deferred income taxes	477,000	412,000
Total Current Assets	20,601,287	16,945,642
Property and Equipment, Net	1,706,971	1,884,876
Other Assets		
Goodwill	570,150	570,150
Other Assets	108,769	127,529
Total Assets	$22,987,177	$19,528,197
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$1,119,684	$1,064,425
Accrued payroll	490,197	479,507
Other accrued expenses	1,543,086	1,470,477
Billings in excess of costs and estimated earnings	361,699	—
Total Current Liabilities	3,514,666	3,014,409
Long-Term Liabilities		
Deferred rent	1,234,385	1,335,176
Deferred income taxes	99,000	148,000
Total Long-Term Liabilities	1,333,385	1,483,176
Total Liabilities	4,848,051	4,497,585
Stockholders' Equity		
Common stock	45,757	45,707
Additional paid-in capital	3,732,184	3,635,659
Retained earnings	14,409,877	11,422,485
Accumulated other comprehensive loss	(48,692)	(73,239)
Total Stockholders' Equity	18,139,126	15,030,612
Total Liabilities and Stockholders' Equity	$22,987,177	$19,528,197

See accompanying notes to consolidated financial statements.

SUTRON CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31, 2010	2009	2008
Net sales and revenues	$22,975,600	$20,851,144	$15,941,328
Cost of sales and revenues	12,880,664	12,120,975	10,449,685
Gross profit	10,094,936	8,730,169	5,491,643
Operating expenses:			
Selling, general and administrative expenses	3,790,760	3,762,291	3,544,065
Research and development expenses	1,887,318	1,635,161	1,228,661
Total operating expenses	5,678,078	5,397,452	4,772,726
Operating income	4,416,858	3,332,717	718,917
Financing income, net	50,534	214,884	108,391
Income before income taxes	4,467,392	3,547,601	827,308
Income tax expense	1,480,000	1,319,000	328,000
Net income	$2,987,392	$2,228,601	$499,308
Net income per share:			
Basic income per share	$0.65	$0.49	$0.11
Diluted income per share	$0.60	$0.45	$0.10

See accompanying notes to consolidated financial statements.

SUTRON CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Shares	Stock Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, December 31, 2007	4,525,632	$ 45,257	$ 3,284,651	$ 8,694,576	$ (68,419)	$ 11,956,065
Net income	—	—	—	499,308	—	499,308
Cumulative translation adjustment	—	—	—	—	(41,050)	(41,050)
Total comprehensive income						458,258
Stock based compensation	—	—	89,145	—	—	89,145
Stock options exercised	45,000	450	129,200	—	—	129,650
Balances, December 31, 2008	4,570,632	45,707	3,502,996	9,193,884	(109,469)	12,633,118
Net income	—	—	—	2,228,601	—	2,228,601
Cumulative translation adjustment	—	—	—	—	36,230	36,230
Total comprehensive income						2,264,831
Stock based compensation	—	—	132,663	—	—	132,663
Stock options exercised	—	—	—	—	—	—
Balances, December 31, 2009	4,570,632	45,707	3,635,659	11,422,485	(73,239)	15,030,612
Net income	—	—	—	2,987,392	—	2,987,392
Cumulative translation adjustment	—	—	—	—	24,547	24,547
Total comprehensive income						3,011,939
Stock based compensation	—	—	81,175	—	—	81,175
Stock options exercised	5,000	50	15,350	—	—	15,400
Balances, December 31, 2010	4,575,632	$ 45,757	$ 3,732,184	$ 14,409,877	$ (48,692)	$ 18,139,126

See accompanying notes to consolidated financial statements.

SUTRON CORPORTION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2010	2009	2008
Cash Flows from Operating Activities:			
Net income	$2,987,392	$2,228,601	$499,308
Noncash items included in net income:			
Depreciation and amortization	277,868	247,311	254,443
Deferred income taxes	(114,000)	65,000	(56,000)
Stock based compensation	81,175	132,663	89,145
(Gain) loss on disposal of property	—	13,412	1,100
Tax benefit from stock options exercised	(12,000)	—	(101,000)
Change in current assets and liabilities:			
Accounts receivable	2,087,352	(3,595,800)	(257,995)
Inventory	(669,920)	743,006	(56,774)
Prepaid items and other assets	(354,122)	96,295	175,121
Income taxes receivable	82,695	964,180	(933,875)
Accounts payable	55,259	(136,296)	377,608
Accrued expenses	83,299	1,026,535	(263,503)
Billings in excess of costs and estimated earnings	361,699	(139,117)	(107,331)
Deferred rent	(100,791)	(55,674)	—
Net Cash Provided (Used) by Operating Activities	4,765,906	1,590,116	(379,753)
Cash Flows from Investing Activities:			
Restricted cash and cash equivalents	236,328	(247,597)	(650,679)
Purchase of property and equipment	(99,963)	(386,419)	(54,007)
Other assets	18,760	(32,472)	4,251
Acquisition and goodwill	—	—	(570,150)
Proceeds from the sale of property and equipment	—	4,415	5,000
Net Cash Provided (Used) by Investing Activities	155,125	(662,073)	(1,265,585)
Cash Flows from Financing Activities:			
Payments on notes payable	—	(2,765)	(37,691)
Tax benefit from stock options exercised	12,000	—	101,000
Proceeds from stock options exercised	3,400	—	28,650
Net Cash Provided (Used) by Financing Activities	15,400	(2,765)	91,959
Effect of exchange rate changes on cash and cash equivalents	24,547	36,230	(41,050)
Net increase (decrease) in cash and cash equivalents	4,960,978	961,508	(1,594,429)
Cash and Cash Equivalents, beginning of year	4,666,983	3,705,475	5,299,904
Cash and Cash Equivalents, end of year	$9,627,961	$4,666,983	$3,705,475
Supplemental Disclosure of Non-Cash Activities:			
Acquisition of leasehold improvements from lease incentives	$—	$1,390,850	$—

See accompanying notes to consolidated financial statements.

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SUTRON CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010, 2009 and 2008

1. ORGANIZATION AND BASIS OF PRESENTATION

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

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

Basis of Presentation

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

Restatement

As discussed in Note 3, the Company determined that its previously issued consolidated financial statements for the fiscal year ended December 31, 2008 were not prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and were restated. The consolidated financial statements and the notes to the financial statements for the fiscal year ended December 31, 2008 reflect the effects of these restatements. See Note 3, Restatement of Previously Issued Consolidated Financial Statements for further detail as it relates to the Restatement. We have not amended our previously filed Annual Reports on Form 10-K for the fiscal year ended December 31, 2008 or the Quarterly Reports on Form 10-Q for the periods ended March 31, 2008 through September 30, 2009, to reflect the restatements described in this Annual Report on Form 10-K, and thus the financial statements and related financial statement information contained in those reports should no longer be relied upon.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

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

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

The Company uses the percentage of completion method for recognizing revenue and profits when it performs on fixed price contracts that extend over a number of years. Under the percentage of completion method, revenue and profits are recorded as costs are incurred based on estimates of total sales value and costs at completion where total profit can be estimated with reasonable accuracy and ultimate realization is reasonably assured. Profit estimates are revised periodically based upon changes and facts, and any losses on contracts are recognized immediately. Contracts may contain provisions to earn incentive and award fees if targets are achieved. Incentive and award fees that can be reasonably estimated are recorded over the performance period of the contract. Incentive and award fees that cannot be reasonably estimated are recorded when awarded. The Company recognizes revenue from time-and-materials contracts to the extent of billable rates, times hours delivered, plus direct materials costs incurred. Some of the contracts include provisions to withhold a portion of the contract value as retainage. The Company's policy is to take into revenue the full value of the contract, including any retainage, as it performs against the contract. Contract costs include allocated indirect costs. Anticipated losses on all contracts are recognized as soon as they become known. Costs on contracts in excess of related billings are reflected as unbilled receivables and are included in accounts receivable. Billings in excess of costs are reflected as a liability.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash equivalents include time deposits and all highly liquid debt instruments with original maturities of three months or less. Interest paid approximated $26,031 for the year ended December 31, 2010 and $35 for the year ended December 31, 2009. No interest was paid for the year ended December 31, 2008. Income taxes paid approximated $1,332,000, $630,000 and $901,000 for the years ended December 31, 2010, 2009 and 2008, respectively. Foreign income tax paid approximated $336,000, $144,000 and $123,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

Restricted Cash

For the years ended December 31, 2010 and 2009, the Company had submitted bid bonds or performance bonds on both official tenders or awarded contracts. At December 31, 2010 and 2009, cash in the amount of $796,189 and $1,032,517, respectively, was restricted for bid or performance bonds.

Accounts Receivable

Based on management's evaluation of uncollected accounts receivable at the end of each year, bad debts are provided for utilizing the allowance method. At December 31, 2010 and 2009, the Company's investment in accounts 90 days or more past due was $584,832 and $543,283, respectively, net of contract retainages. Bad debt expense for the years ending December 31, 2010, 2009, and 2008 was $0, $34,539 and $71,368, respectively.

Inventory

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

Property and Equipment

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

Acquisition and Goodwill

On December 31, 2008, the Company purchased the assets of Ilex Engineering, Inc., a provider of DOMSAT systems, custom software and engineering services, located in Columbia, Maryland. The acquisition is expected to strengthen the Company's position in the GOES data collection services market and global satellite market. The purchase price of approximately $575,000 was allocated among tangible assets based on the relative fair market value of assets. The excess of the purchase price over the fair value of assets in the amount of approximately $570,000 was recorded as goodwill and the entire amount is expected to be deductible for tax purposes.
Goodwill represents the excess of cost of the acquired net assets over the net amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but rather evaluated for impairment each year. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. The Company performs impairment testing in the last quarter of each year. No impairment of goodwill was deemed to exist as of the balance sheet date.

Income Taxes

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

Management has evaluated the Company's tax positions and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Company is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2007.

Capital

The Company has 12,000,000, $.01 par value, shares authorized. There were 4,575,632 issued and outstanding at December 31, 2010 and 4,570,632 shares issued and outstanding at December 31, 2009.

Foreign Currency Translation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from the estimates that were used.

Earnings per Share

The Company has adopted the provision of FASB ASC 260 that establishes standards for computing and presenting earnings per share (EPS) for entities with publicly held common stock. The standard requires presentation of two categories of earnings per share, basic EPS and diluted EPS. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Stock Compensation Plans

Effective January 1, 2006, the Company adopted the provisions of FASB ASC 718 Compensation – Stock Compensation, which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. Additionally, the Company follows the Securities and Exchange Commission's Staff Accounting Bulletin Share-Based Payment which provides supplemental application guidance based on the views of the SEC.

Fair Value Measurement

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

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

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

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

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

For the fiscal years ended December 31, 2010 and 2009, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Certificates of Deposit

Certificates of deposit are carried at cost, which approximates fair value based upon observable market prices of similar instruments. If observable market prices are not available, fair values are estimated by discounting expected future cash flows applying interest rates currently being offered. For the fiscal years ended December 31, 2010, and 2009, all certificates of deposit are valued using Level 2 inputs and are valued at $919,130 and $908,919, respectively.

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

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

Recent Accounting Pronouncements

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

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

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

In February 2010, the FASB issued ASU 2010-09, “Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements.” ASU 2010-09 addresses both the interaction of the requirements of Topic 855 with the SEC’s reporting requirements and the intended breadth of the reissuance disclosures provisions related to subsequent events. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated. ASU 2010-09 was effective immediately. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

On September 15, 2010, the SEC issued Release No. 33-9142, “Internal Control Over Financial Reporting In Exchange Act Periodic Reports of Non-Accelerated Filers.” This release issued a final rule adopting amendments to its rules and forms to conform them to Section 404(c) of the Sarbanes-Oxley Act of 2002 (SOX), as added by Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act. SOX Section 404(c) provides that Section 404(b) shall not apply with respect to any audit report prepared for an issuer that is neither an accelerated filer nor a large accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934. Release No. 33-9142 was effective September 21, 2010.

On September 17, 2010, the SEC issued Release No. 33-9144, “Commission Guidance on Presentation of Liquidity and Capital Resources Disclosures in Management’s Discussion and Analysis.” This interpretive release is intended to improve discussion of liquidity and capital resources in Management’s Discussion and Analysis of Financial Condition and Results of Operations in order to facilitate understanding by investors of the liquidity and funding risks facing the registrant. This release was issued in conjunction with a proposed rule, “Short-Term Borrowings Disclosures,” that would require public companies to disclose additional information to investors about their short-term borrowing arrangements. Release No. 33-9144 was effective on September 28, 2010.

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

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

3. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

In March 2010, the Audit Committee recommended to the Board, and the Board thereafter concluded, that our previously issued consolidated financial statements for the year ended December 31, 2008 be restated as well as the quarterly financial statements for the periods ended March 31, 2008 through September 30, 2009. The restatement related to errors in inventory standard costs that were set in excess of inventory purchase costs resulting in an overstatement of inventory values as of December 31, 2008 and due to errors in income tax expense relating to tax deductible stock compensation expense that should have been classified as additional paid-in capital resulting in the understatement of additional paid-in capital and income tax expense for the year ended December 31, 2008. The quarterly impact of the restatement for 2008 and 2009 is included in Note 19. The adjustments below resulted from the restatement as described above and from the correction of errors that were previously deemed immaterial, both individually and in the aggregate to the consolidated financial statements.

		2008
Total adjustment to inventory	$	(222,000)
Previously reported inventory	$	4,053,788
Percent variation from previously reported inventory		-5.50%

		2008
Total adjustment to income taxes receivable	$	51,000
Previously reported income taxes receivable	$	983,875
Percent variation from previously reported income taxes receivable		5.20%

		2008
Total adjustment to deferred income taxes	$	80,000
Previously reported deferred income taxes	$	308,000
Percent variation from previously deferred income taxes		26%

		2008
Total adjustment to additional paid-in capital	$	724,221
Previously reported additional paid-in capital	$	2,778,775
Percent variation from previously reported additional paid-in capital		26.10%

		2008
Total adjustment to retained earnings	$	(815,221)
Previously reported retained earnings	$	10,009,105
Percent variation from previously retained earnings		-8.10%

		2008
Total adjustment to cost of sales	$	(117,000)
Previously reported cost of sales	$	10,566,685
Percent variation from previously reported cost of sales		-1.10%

		2008
Total adjustment to selling, general and administrative expenses	$	32,986
Previously reported selling, general and administrative expenses	$	3,511,079
Percent variation from previously reported selling, general and administrative expenses		0.10%

	2008
Total adjustment to net income before taxes	$84,014
Previously reported net income before taxes	$743,294
Percent variation from previously reported net income before taxes	11.30%

	2008
Total adjustment to income tax expense	$109,000
Previously reported income tax expense	$219,000
Percent variation from previously reported income tax expense	49.80%

	2008
Total adjustment to net income	$(24,986)
Previously reported net income	$524,294
Percent variation from previously reported net income	-4.80%

4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, consists of the following:

	2010	2009
Trade receivables	$ 4,165,239	$ 4,802,563
Unbilled receivables	804,618	2,145,779
Contract retainage	452,118	564,985
Allowance for doubtful accounts	(41,000)	(45,000)
Totals	$ 5,380,975	$ 7,468,327

5. INVENTORY

Inventory consists of the following at December 31:

	2010	2009
Electronic components	$ 2,237,257	$ 1,678,448
Work in process	1,493,664	1,472,169
Finished goods	751,834	482,720
Allowance for obsolete inventory	(724,053)	(544,555)
Totals	$ 3,758,702	$ 3,088,782

6. PROPERTY AND EQUIPMENT

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

	2010	2009
Furniture, fixtures and equipment	$ 1,847,377	$ 1,901,814
Vehicles	278,121	277,803
Leasehold improvements	1,555,057	1,555,057
Totals	$ 3,680,555	$ 3,734,674

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

	2010	2009
Furniture, fixtures and equipment	$ 1,445,985	$ 1,491,888
Vehicles	272,530	261,837
Leasehold improvements	255,069	96,073
Totals	$ 1,973,584	$ 1,849,798

Depreciation and amortization expense totaled $277,868, $247,311 and $254,443 for the years ended December 31, 2010, 2009 and 2008, respectively.

7. LINE OF CREDIT

The Company has a $3,000,000 line of credit with a commercial bank. The line of credit is collateralized by substantially all of the assets of the Company and expires August 2011. Under the terms of the line of credit, the Company is required to maintain certain financial covenants. Interest is charged at the bank's prime rate and is payable monthly. There was no balance outstanding at December 31, 2010 and 2009.

The Company frequently bids on and enters into international contracts that require bid and performance bonds. At December 31, 2010 and 2009, the commercial bank had issued standby letters of credit on behalf of the Company in the amount of $1,583,000 and $411,000, respectively that served as either bid or performance bonds. The amount available under the line of credit was reduced by this amount.

8. OTHER ACCRUED EXPENSES

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

	2010	2009
Accrued vacation pay	$ 251,124	$ 211,637
Accrued warranty costs	311,000	304,000
Customer advance payments	808,762	512,203
Federal income taxes payable	—	287,847
Other accruals	172,200	101,790
Totals	$ 1,543,086	$ 1,470,477

9. ACCRUED WARRANTY COSTS

The Company warranties its products for up to two years and estimated warranty costs are based upon management's best estimate of the amounts necessary to settle future and existing claims on equipment sold as of the balance sheet date. Factors considered include actual past experience of product returns and the related estimated cost of labor and material to make the necessary repairs as well as technological advances and enhanced design and manufacturing processes. If actual future product return rates or the actual costs of material and labor differ from the estimates, adjustments to the accrued warranty liability are made. Changes to the product warranty reserve are identified below and represent adjustments to the reserve based on management estimates and other factors as noted above:

Balance as of December 31, 2007	$226,000
Reserve adjustment	19,000
Balance as of December 31, 2008	$245,000

Reserve adjustment	59,000
Balance as of December 31, 2009	304,000
Reserve adjustment	7,000
Balance as of December 31, 2010	$311,000

10. NOTES PAYABLE

The Company did not have any Notes payable outstanding at December 31, 2010 and 2009.

11. LEASE OBLIGATIONS

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

The Company leases office and warehouse space in West Palm Beach, Florida. The three-year lease, expiring August 31, 2011, requires monthly payments of $3,695. The Company leases office space in Brandon, Florida. The one-year lease, expiring October 31, 2011, requires monthly payment of $482.

The Company's wholly owned subsidiary, Sutron Hydromet Systems, Pvt., Ltd., leases office space and furniture in New Delhi, India. The three-year leases expire in August 2012 and require monthly payments of $1,821.

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

Years ending December 31:		
2010	$	592,884
2011		554,986
2012		554,986
2013		554,986
2014		554,986
2015 and thereafter		1,341,215
Total	$	4,154,043

Rent expense amounted to $453,589, $361,091 and $362,182 for the years ended December 31, 2010, 2009 and 2008, respectively.

12. INCOME TAXES

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

		2010		2009		2008
Domestic income tax expense	$	1,473,000	$	1,110,000	$	261,000
Foreign income tax expense		121,000		144,000		123,000
Deferred tax benefit		(114,000)		65,000		(56,000)
Total income tax expense	$	1,480,000	$	1,319,000	$	328,000

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

	2010	2009	2008
Accrued vacation and warranty	$ 219,000	$ 80,000	$ 171,000
Stock compensation additional paid in capital	163,000	131,000	80,000
Accounts receivable and inventory allowances	95,000	201,000	137,000
Gross deferred tax assets	477,000	412,000	388,000
Gross deferred tax liability – depreciation	(99,000)	(148,000)	(59,000)
Net deferred tax assets	$ 378,000	$ 264,000	$ 329,000

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

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

	2010	2009	2008
Income before income taxes	$ 4,467,392	$ 3,547,601	$ 827,308
Applicable statutory tax rate	34%	34%	34%
Computed "expected" Federal income tax expense	1,519,000	1,206,000	281,000
Adjustments to Federal income tax resulting from:			
State income tax expense	267,000	206,000	63,000
Tax credits and other	(306,000)	(93,000)	(16,000)
Income tax expense	$ 1,480,000	$ 1,319,000	$ 328,000

13. MAJOR CUSTOMERS

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

	Net Sales Year Ended December 31,		% to Total Net Sales Year Ended December 31,	
	2010	2009	2010	2009
U.S. Government Agencies	$ 8,291,418	$ 7,337,768	36%	35%
Dominion/ADASA	$ 1,880,323	$ 2,317,998	8%	11%
Tamil Nadu Agricultural University	$ 372,982	$ 2,357,331	2%	11%
	$ 10,544,722	$ 12,013,097	46%	58%

	Accounts Receivable Amount at December 31,		% of Total Accounts Receivable at December 31,	
	2010	2009	2010	2009
U.S. Government Agencies	$ 1,183,509	$ 1,315,195	22%	18%
Dominion/ADASA	$ 49,151	$ 2,108,081	1%	28%
Tamil Nadu Agricultural University	$ 144,632	$ 1,461,170	3%	20%
	$ 1,377,292	$ 4,884,446	26%	65%

The above table includes unbilled accounts receivable. As of December 31, 2009, unbilled receivables of $1,068,000 and $1,040,000 are included for Dominion/ASDA and Tamil Nadu Agricultural University, respectively.

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

14. CONCENTRATIONS

The Company’s bank participates in the FDIC’s Transaction Account Guarantee Program. Under that program, through December 31, 2010, all non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage is in addition to, and separate from, the coverage available under the FDIC’s general deposit insurance rules. The Company also maintains accounts that are not covered by the guarantee program. At times throughout the year, cash and cash equivalents exceeded the FDIC insurance limits in these accounts. As of December 31, 2010 and 2009, the Company’s cash deposits exceeded the FDIC insured amount by approximately $8,550,000 and $4,497,000, respectively.

The Company's products use certain standard and application specific components that are acquired from one or a limited number of sources. The Company has generally been able to procure adequate supplies of these components in a timely manner from existing sources. The Company's inability to obtain a sufficient quantity of components when required or to develop alternative sources at acceptable prices and within a reasonable time, could result in delays or reductions in product shipments which could materially affect the Company's operating results in any given period.

15. STOCK OPTIONS

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

The Company has granted stock options under the Stock Option Plans to key employees and directors for valuable services provided to the Company. Under the 1996 Plan, the Company authorized 260,000 shares, 259,000 of which have been granted. The Company authorized 60,000 shares under the 1997 Plan, all of which have been granted. Under the 2002 Stock Option Plan, the Company authorized 650,000 shares, 611,333 of which have been granted. The 1996, 1997 and 2002 Plans remain in effect until such time as no shares of Stock remain available for issuance under the Plans and the Company and Optionees have no further rights or obligations under the Plans. Under the 2010 Equity Incentive Plan, the Company authorized 500,000 shares, none of which have been granted. The ability to make awards under the 2010 Plan will terminate in May 2020. Shares under all of the plans may be granted at not less than 100 percent of the fair market value at the grant date. All options have a ten-year term from the date of grant. Cancelled or expired options are able to be reissued.

The Company measures and recognizes compensation expense for all stock-based payments at fair value. The Company recognizes stock-based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. In fiscal year 2010, the Company awarded 50,000 shares of common stock to board members and executive officers as performance and incentive awards. The awards vest over a period of one year to five years. Stock based compensation expense relating to stock option awards for the years ended December 31, 2010, 2009 and 2008 was $81,175, $132,663 and $89,145, respectively. These expenses were included in the selling, general and administrative lines of the Consolidated Statements of Operations. Unamortized stock compensation expense as of December 31, 2010 totaled approximately $84,457 and these costs will be expensed over a weighted average period of 2 years. The weighted average fair value of options granted during the years ended December 31, 2010, 2009 and 2008 were calculated using the Black-Scholes option pricing model.

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

	2010	2009	2008
Risk free rate	3.36%	2.46-3.11%	3.62-3.92%
Expected volatility	17%	25-33%	30%
Dividend yield	0%	0%	0%
Expected term in years	10	10	10

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

	2010			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of period	589,252	$2.01	4.08	$3,071,261
Granted	50,000	6.47	—	—
Exercised	5,000	0.68	—	30,725
Forfeited or expired	—	—	—	—
Outstanding at end of period	634,252	$2.37	3.59	$2,747,390
Exercisable at end of period	573,582	$1.92	3.09	$2,741,701
Nonvested at end of period	60,670	$6.61	8.32	$5,690

	2009			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of period	544,252	$1.80	4.66	$1,709,610
Granted	45,000	4.57	—	—
Exercised	—	—	—	—
Forfeited or expired	—	—	—	—
Outstanding at end of period	589,252	$2.01	4.08	$3,071,261
Exercisable at end of period	553,828	$1.71	3.86	$3,049,706
Nonvested at end of period	35,424	$6.58	7.50	$21,555

	2008			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of period	583,252	$1.65	5.53	$5,230,625
Granted	16,000	7.41	—	—
Exercised	45,000	0.64	—	273,900
Forfeited or expired	10,000	7.63	—	—
Outstanding at end of period	544,252	$1.80	4.66	$1,709,610
Exercisable at end of period	498,786	$1.32	4.33	$1,709,610
Nonvested at end of period	45,466	$6.97	8.31	$—

16. EARNINGS PER SHARE

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

	Years Ended December 31, 2010	2009	2008
Net income	$2,987,392	$2,228,601	$499,308
Shares used in calculation of income per share:			
Basic	4,573,810	4,570,632	4,549,810
Effect of dilutive options	421,331	404,480	501,816
Diluted	4,995,141	4,975,112	5,051,626
Net income per share:			
Basic	$0.65	$0.49	$0.11
Diluted	$0.60	$0.45	$0.10

Stock options that could potentially dilute basic EPS in the future were not included in the computation of diluted EPS, because to do so would have been anti-dilutive, were 45,000, 96,000 and 95,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

17. PROFIT SHARING PLAN

The Company has a 401(k) Profit-Sharing Plan that covers substantially all employees of the Company. The 401(k) provision permits employees to elect to defer a portion of their compensation. The Plan was amended in July 2010 to allow for employer matching of up to 5 percent. The profit-sharing contribution is determined each year by the Board of Directors based on profits. The Company did not make a profit sharing contribution for the years ended December 31, 2010, 2009 and 2008. The employer matching contribution was approximately $201,000, $158,000, and $148,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

18. SEGMENT INFORMATION

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

	Years Ended Dec. 31	Net Sales	Operating Income (Loss)	Total Assets	Depreciation	Capital Expenditures
Standard Products	2010	12,944	2,866	5,802	95	29
	2009	11,791	1,959	5,698	139	283
	2008	8,581	1,235	4,651	120	34
Systems and Services	2010	10,032	1,551	5,284	183	71
	2009	9,060	1,374	6,477	108	103
	2008	7,360	(516)	4,216	134	20
Corporate and Unallocated	2010	—	—	11,901	—	—
	2009	—	—	7,353	—	—

	2008	—	—	6,091	—	—
Total Company	2010	22,976	4,417	22,987	278	100
	2009	20,851	3,333	19,528	247	386
	2008	15,941	719	14,958	254	54

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

		2010		2009		2008
Central and South America	$	3,703	$	4,056	$	755
Canada		1,959		1,236		1,160
Asia		1,746		2,904		1,209
Europe and other		736		731		539
Middle East		719		983		3,056
	$	8,863	$	9,910	$	6,719

19. SUMMARIZED QUARTERLY UNAUDITED FINANCIAL DATA

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

	2008									
		Q1		Q2		Q3		Q4	
Net Sales	$	3,819,048	$	4,025,016	$	4,395,775	$	3,701,489	
Gross Profit		1,551,256		1,338,290		1,551,356		1,050,741	
Operating Income (Loss)		370,954		321,222		318,022		(291,281	)
Net Income	$	280,275	$	252,329	$	188,246	$	(221,542	)
Basic income (loss) per common share	$	0.06	$	0.06	$	0.04	$	(0.05	)
Diluted income (loss) per common share	$	0.06	$	0.05	$	0.04	$	(0.04	)

The sum of the quarterly earnings per share amounts do not equal the amount reported for the full year since per share amounts are computed independently for each quarter and for the full year based on respective weighted-average shares outstanding and other dilutive potential shares. The reconciliation of previously reported selected unaudited quarterly financial and restated quarterly financial data in 2009 is as follows:

	For the Three Months Ended March 31, 2009		
	Reported	Adjustment	As Restated
Net sales and revenues	$3,575,031	$—	$3,575,031
Cost of sales and revenues	2,188,742	42,167	2,230,909
Gross profit	1,386,289	(42,167)	1,344,122
Selling, general and administrative	1,010,035	26,337	1,036,372
Research and development expenses	359,089	—	359,089
Total operating expenses	1,369,124	26,337	1,395,461
Operating income (loss)	17,165	(68,504)	(51,339)
Interest income, net	172,493	—	172,493
Income before income taxes	189,658	(68,504)	121,154
Income taxes	83,000	(30,000)	53,000
Net income	$106,658	$(38,504)	$68,154
Diluted income per share	$0.02	$(0.01)	$0.01

	For the Three Months Ended June 30, 2009		
	Reported	Adjustment	As Restated
Net sales and revenues	$4,786,898	$—	$4,786,898
Cost of sales and revenues	2,843,518	(135,032)	2,708,486
Gross profit	1,943,380	135,032	2,078,412
Selling, general and administrative	961,872	7,176	969,048
Research and development expenses	412,502	—	412,502
Total operating expenses	1,374,374	7,176	1,381,550
Operating income	569,006	127,856	696,862
Interest income, net	22,487	—	22,487
Income before income taxes	591,493	127,856	719,349
Income taxes	232,700	50,300	283,000
Net income	$358,793	$77,556	$436,349
Diluted income per share	$0.07	$0.02	$0.09

	For the Three Months Ended September 30, 2009		
	Reported	Adjustment	As Restated
Net sales and revenues	$4,536,850	$—	$4,536,850
Cost of sales and revenues	2,613,524	(136,703)	2,476,821
Gross profit	1,923,326	136,703	2,060,029
Selling, general and administrative	905,980	(28,670)	877,310
Research and development expenses	443,477	—	443,477
Total operating expenses	1,349,457	(28,670)	1,320,787
Operating income	573,869	165,373	739,242
Interest income, net	20,772	—	20,772
Income before income taxes	594,641	165,373	760,014
Income taxes	187,300	51,700	239,000
Net income	$407,341	$113,673	$521,014
Diluted income per share	$0.08	$0.02	$0.10

20. LEGAL CONTINGENCIES

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

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

Not applicable.

Item 9A - Controls and Procedures

Disclosure Controls and Procedures

Our management (with the participation of our Chief Executive Officer and Chief Financial Officer) evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of December 31, 2010, the end of the fiscal period covered by this report on Form 10-K. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by the Company in reports filed or submitted under the Exchange Act is timely recorded, processed, summarized and reported and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the Exchange Act is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control Over Financial Reporting

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

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

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and provide reasonable assurance that receipts and expenditures of Sutron are being made only in accordance with authorization of management and directors of Sutron; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failure. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission's Internal Control-Integrated Framework.

Based on our assessment, management has concluded that, as of December 31, 2010, the Company's internal control over financial reporting was effective based on those criteria.

Attestation Report of the Independent Registered Public Accounting Firm

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

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation of such internal control that occurred during the Company's fourth quarter of fiscal year 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B – Other Information

None

PART III

Item 10 – Directors, Executive Officers and Corporate Governance

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

The remainder of information required for this Item is incorporated by reference to the Proxy Statement to be filed in connection with our 2011 Annual Meeting of Shareholders.

Item 11 - Executive Compensation

The information required for this Item is incorporated by reference to the Proxy Statement to be filed in connection with our 2011 Annual Meeting of Shareholders.

Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required for this Item is incorporated by reference to the Proxy Statement to be filed in connection with our 2011 Annual Meeting of Shareholders.

Item 13 - Certain Relationships, Related Transactions and Directors Independence

The information required for this Item is incorporated by reference to the Proxy Statement to be filed in connection with our 2011 Annual Meeting of Shareholders.

Item 14 – Principal Accounting Fees and Services

The information required for this Item is incorporated by reference to the Proxy Statement to be filed in connection with our 2011 Annual Meeting of Shareholders.

PART IV

Item 15 – Exhibits, Financial Statements and Schedules

(a)(1 and 2) Financial Statements and Schedules

The financial statements listed in Item 8 in the Index to Consolidated Financial Statements on page 21 are filed as part of this report.

(b) Exhibits

3.2 Copy of Articles of Amendment to the Articles of Incorporation and Articles of Reduction of Stated Capital of the Company (incorporated by reference as filed with the Securities and Exchange Commission on September 16, 1983)
3.3 By-laws of the Company (incorporated by reference as filed with the Securities and Exchange Commission on September 16, 1983)
10.20 Form of Stock Option Plan*
10.21 Form of Stock Option Agreement*
10.22 Loan Modification Agreement dated August 20, 2010 between Sutron Corporation and Branch Banking and Trust Company of Virginia, a North Carolina Banking Corporation
23.1 Consent of Independent Registered Public Accounting Firm
23.2 Consent of Independent Registered Public Accounting Firm
31.1 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chairman of the Board of Directors, President and Chief Executive Officer
31.2 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Chief Financial Officer and Treasurer
32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Indicates management contract or compensatory plan or arrangement

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sutron Corporation

(Registrant)

/s/ Raul S. McQuivey Date: March 30, 2011
By: Raul S. McQuivey,
Chairman of the Board of Directors, President
and Chief Executive Officer

In accordance with the Securities Exchange Act, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Raul S. McQuivey Date: March 30, 2011
By: Raul S. McQuivey,
Chairman of the Board of Directors, President
and Chief Executive Officer

/s/ Daniel W. Farrell Date: March 30, 2011
By: Daniel W. Farrell, Director and Vice President

/s/ Andrew D. Lipman Date: March 30, 2011
By: Andrew D. Lipman, Director

/s/ Leland R. Phipps Date: March 30, 2011
By: Leland R. Phipps, Director

/s/ Robert F. Roberts, Jr. Date: March 30, 2011
By: Robert F. Roberts, Jr., Director

/s/ Sidney C. Hooper Date: March 30, 2011
By: Sidney C. Hooper, Chief Financial Officer
(Principal Financial and Accounting Officer)

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