

Edgar Filing: SUTRON CORP - Form 10QSB

SUTRON CORP
Form 10QSB
November 13, 2003

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

FORM 10-QSB

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

For the quarterly period ended September 30, 2003

Commission file number 0-12227

Sutron Corporation

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

Virginia

54-1006352

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

21300 Ridgetop Circle, Sterling Virginia

20166

(Address of principal executive offices)

(Zip Code)

(703) 406-2800

(Registrant's telephone number, including area code)

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

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

Common Stock, \$.01 Par Value - 4,289,551 shares of as of September 30, 2003.

PART I. - FINANCIAL INFORMATION

SUTRON CORPORATION
BALANCE SHEETS

(Unaudited)
September 30, December 31,
2003 2002

Edgar Filing: SUTRON CORP - Form 10QSB

Assets

Current Assets:

Cash	\$ 591,944	\$ 401,740	
Accounts receivables	1,487,140		1,814,269
Costs and estimated earnings in excess of billings on contracts in process	804,696		-
Inventory	2,381,585		2,028,985
Prepaid items and other	126,623	182,774	
Deferred income taxes	401,173		195,000

Total Current Asset	<u>\$5,793,161</u>	<u>\$4,622,768</u>	
---------------------	--------------------	--------------------	--

Property, Plant, and Equipment

Cost	2,679,340		2,567,421
Accumulated depreciation	(2,090,519)	(1,929,419)	

Net Property, Plant and Equipment	<u>588,821</u>		638,002
-----------------------------------	----------------	--	---------

Income taxes receivable	151,000		151,000
Other		21,689	21,689

TOTAL ASSETS	<u>\$6,554,671</u>	<u>\$5,433,459</u>	
--------------	--------------------	--------------------	--

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$ 773,862	\$ 483,652	
Accrued payroll		91,274	157,196
Accrued expenses	1,038,624	590,798	
Line of credit	424,454	-	
Current maturities of long-term notes	96,923	93,204	
Shareholder notes payable		330,000	-

Total Current Liabilities	<u>\$2,755,136</u>	<u>\$1,324,850</u>	
---------------------------	--------------------	--------------------	--

Long-term liabilities:

Long-term notes payable	65,144	116,105	
Deferred income taxes		142,000	142,000

Total liabilities		<u>2,962,279</u>	<u>1,582,955</u>
-------------------	--	------------------	------------------

Stockholders' Equity:

Common stock, \$.01 par value,	42,896	42,896	
Additional paid in capital	2,306,655	2,306,655	
Retained Earnings	1,242,840	1,500,953	

Total Stockholders' Equity	<u>3,592,392</u>	<u>3,850,504</u>	
----------------------------	------------------	------------------	--

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$6,554,671</u>	<u>\$5,433,459</u>	
---	--------------------	--------------------	--

See Accompanying Notes to Financial Statements

Edgar Filing: SUTRON CORP - Form 10QSB

SUTRON CORPORTION STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended September 30,	
	2003	2002
	<u> </u>	<u> </u>
Revenues	\$2,230,638	\$2,532,255
Cost of Goods Sold	1,654,140	1,798,911
Gross Profit	<u>576,497</u>	<u>733,344</u>
Research and Development Expenses		276,463 364,183
Selling, General, and Administrative Expenses	480,574	556,205
Income (Loss) from Operations	<u>(180,540)</u>	<u>(187,044)</u>
Interest Expense	4,976	14,061
Income (Loss) before Provision for Income Taxes		<u>(185,516)</u> (201,105)
Provisions for Income Taxes	(82,000)	(88,000)
Net Income	<u>\$ (103,516)</u>	<u>\$ (113,105)</u>
Net Income per Common Share	\$ (.02)	\$ (.03)
Weighted Average Number of Common Shares	4,289,551	4,289,551
See Accompanying Notes to Financial Statements		

SUTRON CORPORTION STATEMENTS OF OPERATIONS (Unaudited)

	Nine Months Ended September 30,	
	2003	2002
	<u> </u>	<u> </u>
Revenues	\$7,309,235	\$6,118,790
Cost of Goods Sold	5,247,548	4,129,399
Gross Profit	<u>2,061,687</u>	<u>1,989,391</u>
Research and Development Expenses		860,477 1,090,102
Selling, General, and Administrative Expenses	1,673,724	1,590,011
Income (Loss) from Operations	<u>(472,514)</u>	<u>(690,722)</u>

Edgar Filing: SUTRON CORP - Form 10QSB

Other Expense	-	-
Interest Expense	13,599	36,749
Income (Loss) before Provision for Income Taxes		(486,113)
		(727,471)
Provisions for Income Taxes	(228,000)	(315,000)
Net Income	\$ (258,113)	\$ (412,471)
Net Income per Common Share	\$ (.06)	\$ (.10)
Weighted Average Number of Common Shares	4,289,551	4,289,551

See Accompanying Notes to Financial Statements

SUTRON CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2003	2002
Cash Flows from Operating Activities:		
Net income (loss)	\$ (258,113)	\$ (412,471)
Depreciation and amortization	161,100	149,994
(Increase) Decrease in:		
Accounts receivables	327,129	365,372
Costs and estimated earnings in excess of billings on contracts in process	(804,696)	-
Inventory		(352,600)
Prepaid items and other assets	56,151	(145,539)
Deferred income taxes		(206,173)
Increase (Decrease) in:		
Accounts payable	290,210	484,532
Accrued expenses		381,903
		5,547
Net Cash Provided by Operating Activities	(405,089)	(2,618)
Cash Flows from Investing Activities:		
Capital expenditures	(111,919)	(45,490)
Net Cash Used in Investing Activities	(111,919)	(45,490)
Cash Flows from Financing Activities:		
Proceeds from advances on line of credit	424,454	257,153
Proceeds from term note		18,593
Proceeds from shareholder notes		330,000
Payments on Term notes payable	(47,242)	(88,653)
Purchase of Treasury Stock		-
Net Cash (Used) by Financing Activities	(707,212)	168,500

Edgar Filing: SUTRON CORP - Form 10QSB

Net Increase (Decrease) in Cash	190,204	120,392
Cash and Cash Equivalents, January 1	401,740	102,976
	\$ 591,944	\$ 223,368
Cash and Cash Equivalents, September 30		
See Accompanying Notes to Financial Statements		

SUTRON CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2003

1. Basis of Presentation

The financial statements for the nine months ended September 30, 2003 and 2002 were prepared from the books and records of the company. Management believes that all adjustments have been made to the financial statements to make a fair presentation of the financial condition of the company as of September 30, 2003 and 2002. The results of the nine months are not indicative of a full year of operation for the Company.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2002 audited financial statements.

2. Earnings Per Share

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 128 which establishes standards for computing and presenting earnings per share (EPS) for entities with publicly held common stock. The standard requires presentation of two categories of earning per share, basic EPS and diluted EPS. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

Sutron Corporation Computation of Per Share Earnings

	2003	Three Months Ended September 30, 2002	2003	Nine Months Ended September 30, 2002
Basic EPS				
Average shares outstanding	4,289,551	4,289,551	4,289,551	4,289,551

Edgar Filing: SUTRON CORP - Form 10QSB

Net Income	\$(103,516)	\$(113,105)	\$(258,113)	\$(412,471)
Net Income per common share	\$ (.02)	\$ (.03)	\$ (.06)	\$ (.10)
Dilutive EPS				
Average shares outstanding	4,289,551	4,289,551	4,289,551	4,289,551
Effect of dilutive securities	286,688	1,467	286,688	1,467
Total average shares outstanding	4,576,239	4,291,018	4,576,239	4,291,018
Net earnings	\$(103,516)	\$(113,105)	\$(258,113)	\$(412,471)
Net income per diluted share	\$ (.02)	\$ (.03)	\$ (.06)	\$ (.10)

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

Results of Operations

Three months ended September 30, 2003 Compared to 2002

Net Revenues. The Company's revenues for the three months ended September 30, 2003 decreased 12% to \$2,230,638 from \$2,532,255 in 2002 due to decreased sales of standard products. Sales of 8210 dataloggers and accessory products decreased approximately \$828,000. Systems and Hydrological Services revenue increased approximately \$526,000 resulting in a net decrease of approximately \$302,000.

Gross Profit. Gross profit for 2003 decreased 21% to \$576,497 from \$733,344 in 2002. Gross margin as a percentage of revenues was 26% and 29% respectively for the quarters.

Selling, General And Administrative. Selling, general and administrative expenses decreased to \$480,574 in 2003 from \$556,205 in 2002, a decrease of \$75,631 or 14%. The decrease was due to a reduction of one sales position and increased cost controls.

Research And Development. Research and development expenses were \$276,463 in 2003 compared with \$364,183 in 2002, a decrease of \$87,720 or 24%. Due to the completion of new systems software, XConnect, resources were shifted from R&D to sales resulting in the decrease in product development expenses. Product development expenditures were primarily focused on software enhancements to SatLink and the Xpert and XLite dataloggers.

Interest Expenses. Interest expenses decreased to \$4,976 in 2003 from \$14,061 in 2002.

Nine months ended September 30, 2003 Compared to 2002

Revenues. The Company's revenues for the nine months ended September 30, 2003 increased 20% to \$7,309,235 from revenues of \$6,118,790 in 2002. Sales of standard products decreased to approximately \$4,264,000 from approximately \$4,895,000 in 2002 due to a decrease in sales of 8210 dataloggers and accessories. Integrated Systems sales increased to approximately \$2,494,000 from \$1,122,000 and Hydrological Services sales increased to approximately \$551,000 from approximately \$68,000. Integrated Systems and Hydrological Services sales increased

Edgar Filing: SUTRON CORP - Form 10QSB

as a result of increased projects and contract awards.

The Company booked orders during the first nine months of 2003 totalling approximately \$9,805,000 compared with \$9,766,000 in 2002. Orders for systems and services were up during the first nine months and standard product orders were down. The Company's backlog was approximately \$5,201,000 at September 30, 2003 as compared to \$5,240,000 at September 30, 2002. The Company anticipates that 65% of its September backlog will be shipped in 2003.

Gross Profit. Gross profit for 2003 increased to \$2,061,687 from \$1,989,391 in 2002. Gross margin as a percentage of revenues for 2003 decreased to 28% as compared to 32% in 2002. The decrease in the Company's gross margin as a percentage of sales is attributed to manufacturing overruns that the Company has experienced in the production of the SatLink-G312 satellite transmitter and increased warranty costs associated primarily with the SatLink. Also the gross margins achieved on two projects in India and one in Mexico were not significant as these projects were all bid at reduced margins but accounted for revenue of approximately \$663,000.

Selling, General and Administrative. Selling, general and administrative expenses increased to \$1,673,724 in 2003 from \$1,590,011 in 2002, an increase of \$83,713 due to increased sales commissions and systems and Hydrological Services Division selling expenses. Sales commissions increased due to a project in Venezuela. Due to the completion of the Company's systems software, XConnect, resources were shifted from R&D to sales that increased systems selling expenses. Hydrological Services selling expenses increased due to increased selling activities.

Research and Development. Research and development expenses decreased \$229,625 to \$860,477 in 2003 from \$1,090,102 in 2002. Due to the completion of new systems software, XConnect, resources were shifted from R&D to sales resulting in the decrease in product development expenses. Product development expenditures were primarily focused on software enhancements to SatLink and the Xpert and XLite dataloggers.

Interest Expenses. Interest expenses decreased to \$13,599 in 2003 from \$36,749 in 2002.

Liquidity and Capital Resources

Cash and cash equivalents increased to \$591,944 at September 30, 2003, compared to \$401,740 at December 31, 2002.

The ratio of current assets to current liabilities was 2.1:1 as of September 30, 2003, compared to 3.5:1 as of December 31, 2002. Working capital decreased to \$3,038,025 at the end of the third quarter of fiscal 2003 compared to \$3,297,918 at the end of fiscal 2002.

The Company has a revolving credit facility of \$500,000 that expires on June 12, 2004. In addition, the Company has borrowed \$330,000 from three shareholders in order to supplement the line of credit. Management believes that its existing cash resources, cash flow from operations and short-term borrowings on the existing line

Edgar Filing: SUTRON CORP - Form 10QSB

of credit and anticipated future line of credit will provide adequate financial resources for supporting operations during fiscal 2003.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(A) No reports on Form 8-K were filed or required to be filed during the quarter ended September 30, 2003.

(B) The following exhibits are included as part of this report:
32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Item 14. CONTROLS AND PROCEDURES

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

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

SUTRON CORPORATION

SIGNATURES

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

Sutron Corporation
(Registrant)

November 13, 2003
Date

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

November 13, 2003
Date

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