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SONO TEK CORP  
Form 10QSB  
October 12, 2007

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: August 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Commission File No.: 0-16035

SONO-TEK CORPORATION  
(Exact name of small business issuer as specified in its charter)

New York

14-1568099

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer  
Identification No.)

2012 Rt. 9W, Milton, NY 12547  
(Address of Principal Executive Offices) (Zip Code)

Issuer's telephone no., including area code: (845) 795-2020

Indicate by check mark whether the small business issuer (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 small business issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding as of October 2, 2007
-----	-----
Common Stock, par value \$.01 per share	14,360,541

SONO-TEK CORPORATION

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### SONO-TEK CORPORATION CONSOLIDATED BALANCE SHEETS

	August 31, 2007 Unaudited
	-----
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 2,223,514
Accounts receivable (less allowance of \$18,500 at August 31 and February 28)	797,276
Inventories	1,566,082
Prepaid expenses and other current assets	27,346
Deferred tax asset	270,000
	-----
Total current assets	4,884,218
	-----
Equipment, furnishings and leasehold improvements (less accumulated depreciation of \$962,611 and \$896,773 at August 31 and February 28, respectively)	299,523
Intangible assets, net	28,675
Other assets	7,171
Deferred tax asset	446,239
	-----
TOTAL ASSETS	\$ 5,665,826
	=====

### LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	\$ 225,381
Accrued expenses	375,774
Current maturities of long term debt	28,263

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Deferred tax liability	16,239
	-----
Total current liabilities	645,657
Long term debt, less current maturities	37,147
Deferred tax liability	80,000
	-----
Total liabilities	762,804
	-----
Commitments and Contingencies	--
Stockholders' Equity	
Common stock, \$.01 par value; 25,000,000 shares authorized, 14,360,541 shares issued and outstanding at August 30 and February 28	143,606
Additional paid-in capital	8,328,138
Accumulated deficit	(3,568,722)
	-----
Total stockholders' equity	4,903,022
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,665,826
	=====

See notes to consolidated financial statements.

SONO-TEK CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
Unaudited

	Six Months Ended August 31,		Three
	2007	2006	20
	-----	-----	-----
Net Sales	\$ 2,647,166	\$ 3,615,682	\$ 1,41
Cost of Goods Sold	1,387,884	1,811,978	75
	-----	-----	-----
Gross Profit	1,259,282	1,803,704	65
	-----	-----	-----
Operating Expenses			
Research and product development costs	432,827	377,333	20
Marketing and selling expenses	494,086	660,336	26
General and administrative costs	385,311	438,795	20
	-----	-----	-----
Total Operating Expenses	1,312,224	1,476,464	66
	-----	-----	-----
Operating Income (Loss)	(52,942)	327,240	(1
Interest Expense	(2,377)	(3,308)	(
Interest Income	47,829	28,874	2
Other Income	5,661	5,861	
	-----	-----	-----

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Income (Loss) from Operations Before Income Taxes	(1,829)	358,667	1
Income Tax (Benefit)	(33,813)	--	
Net Income	\$ 31,984	\$ 358,667	\$ 1
Basic Earnings Per Share	\$ 0.00	\$ 0.02	\$
Diluted Earnings Per Share	\$ 0.00	\$ 0.02	\$
Weighted Average Shares - Basic	14,360,541	14,359,341	14,36
Weighted Average Shares - Diluted	14,445,376	14,461,122	14,44

See notes to consolidated financial statements.

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SONO-TEK CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ende
	Unaud
	2007
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Income	\$ 31,984
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Depreciation and amortization	67,907
Provision for doubtful accounts	--
Stock based compensation expense	19,838
Gain on sale of equipment	--
Decrease (Increase) in:	
Accounts receivable	149,557
Inventories	(159,851)
Prepaid expenses and other current assets	41,761
Deferred tax asset	(35,000)
(Decrease) Increase in:	
Accounts payable and accrued expenses	(84,187)
Net Cash Provided By Operating Activities	32,009
CASH FLOW FROM INVESTING ACTIVITIES:	

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Patent application costs	--
Purchase of equipment and furnishings	(64,002)
	-----
Net Cash (Used In) Investing Activities	(64,002)
	-----
 CASH FLOW FROM FINANCING ACTIVITIES:	
Proceeds from exercise of stock options and warrants	--
Repayments of notes payable and loans	(13,469)
	-----
Net Cash (Used In) Financing Activities	(13,469)
	-----
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (45,462)
 CASH AND CASH EQUIVALENTS	
Beginning of period	2,268,976
	-----
End of period	\$ 2,223,514
	=====
 SUPPLEMENTAL DISCLOSURE:	
Interest paid	\$ 2,376
	=====

See notes to consolidated financial statements.

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SONO-TEK CORPORATION  
Notes to Consolidated Financial Statements  
Six Months Ended August 31, 2007 and 2006

### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The accompanying consolidated financial statements of Sono-Tek Corporation, a New York Corporation (the "Company"), include the accounts of the Company and its wholly owned subsidiary, Sono-Tek Cleaning Systems, Inc., a New Jersey Corporation ("SCS") which the Company acquired on August 3, 1999, whose operations have been discontinued. There have been no operations of this subsidiary since Fiscal Year Ended February 28, 2002. All significant intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents - Cash and cash equivalents consist of money market mutual funds, short term commercial paper and short term certificates of deposit with original maturities of 90 days or less. The Company occasionally has cash or cash equivalents on hand in excess of the \$100,000 insurable limits at a given bank.

Fair Value of Financial Instruments - The carrying amounts reported in the balance sheet for cash, receivables, accounts payable and accrued expenses approximate fair value based on the short-term maturity of these instruments.

Interim Reporting - The attached summary consolidated financial information does not include all disclosures required to be included in a complete set of financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Such disclosures were included with the financial statements of the Company at February 28, 2007, and included in

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its report on Form 10-KSB. Such statements should be read in conjunction with the data herein.

The financial information reflects all adjustments, normal and recurring, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. The results for such interim periods are not necessarily indicative of the results to be expected for the year.

Intangible Assets - Include cost of patent applications that are deferred and charged to operations over seventeen years for domestic patents and twelve years for foreign patents. The accumulated amortization is \$56,418 and \$54,350 at August 31, 2007 and February 28, 2007, respectively. Annual amortization expense of such intangible assets is expected to be \$4,272 per year for the next five years.

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### NOTE 2: INVENTORIES

Inventories at August 31, 2007 are comprised of:

Finished goods	\$ 781,016
Work in process	471,255
Consignment	9,770
Raw materials and subassemblies	508,239
	-----
Total	1,770,280
Less: Allowance	(204,198)
	-----
Net inventories	\$1,566,082
	=====

### NOTE 3: STOCK OPTIONS AND WARRANTS

Stock Options - Under the 2003 Stock Incentive Plan, as amended ("2003 Plan"), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. The 2003 Plan supplemented and replaced the 1993 Stock Incentive Plan (the "1993 Plan"), under which no further options may be granted. Options granted under the 1993 Plan expire on various dates through 2013. As of August 31, 2007 there were 111,500 options outstanding under the 1993 Plan and 829,875 options outstanding under the 2003 plan.

Under both the 1993 and 2003 Stock Incentive Plans, option prices must be at least 100% of the fair market value of the common stock at time of grant. For qualified employees, except under certain circumstances specified in the plans or unless otherwise specified at the discretion of the Board of Directors, no option may be exercised prior to one year after date of grant, with the balance becoming exercisable in cumulative installments over a three year period during the term of the option, and terminating at a stipulated period of time after an employee's termination of employment.

### NOTE 4: STOCK BASED COMPENSATION

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On March 1, 2006, the Company adopted SFAS No. 123R, "Share Based Payments." SFAS No. 123R requires companies to expense the value of employee stock options and similar awards for periods beginning after December 15, 2005, and applies to all outstanding and vested stock-based awards at a company's adoption date.

The weighted-average fair value of options has been estimated on the date of grant using the Black-Scholes options-pricing model. The weighted-average Black-Scholes assumptions are as follows:

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	2007	2006
	-----	-----
Expected life	4 years	4 years
Risk free interest rate	4.35% - 5.07%	4% - 4.25%
Expected volatility	39% - 78%	40%
Expected dividend yield	0%	0%

In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate; volatility; and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the amount of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

For the six months ended August 31, 2007 and 2006, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying SFAS 123R approximated \$19,838 and \$36,451 in additional compensation expense during the six months ended August 31, 2007 and 2006, respectively. Such amount is included in general and administrative expenses on the statement of operations. The expense for stock-based compensation is a non-cash expense item.

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### NOTE 5: EARNINGS PER SHARE

The denominator for the calculation of diluted earnings per share at August 31, 2007 and 2006 are calculated as follows:

	August 31, 2007	August 31, 2006
	-----	-----
Denominator for basic earnings per share	14,360,541	14,359,341
Dilutive effect of stock options	84,835	101,781
	-----	-----

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Denominator for diluted earnings per share	14,445,376	14,461,122
	=====	=====

### NOTE 6: OTHER INCOME

As previously disclosed on Form 8-K, filed on July 5, 2005, the Company determined that a former employee had misappropriated approximately \$250,000 of the Company's monies, primarily through unauthorized check writing from the Company's accounts over a period of three calendar years. The Company had previously expensed substantially all of the misappropriated funds over the years.

The Company has recovered approximately 70% of these funds to date. The Company has a note that is being paid down by the former employee. As previously discussed, the Company can offer no assurances that it will be successful in its attempts to collect the balance of the remaining restitution.

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### SONO-TEK CORPORATION

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

##### Forward-Looking Statements

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, press releases, and other written and oral statements. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from our expectations. The following risks are by no means all inclusive but are designed to highlight what we believe are important factors to consider when evaluating our trends and future results.

- Our ability to respond to competition in national and global markets.
- General economic conditions in our markets.

We undertake no obligation to update any forward-looking statement.

##### Overview

Sono-Tek has developed a unique and proprietary series of ultrasonic atomization nozzles, which are being used in an increasing variety of electronic, medical, industrial, and nanotechnology applications. These nozzles are electrically driven and create a fine, uniform, low velocity spray of atomized liquid particles, in contrast to common pressure nozzles. These characteristics create a series of commercial applications that benefit from the precise, uniform, thin coatings that can be achieved. When combined with significant reductions in liquid waste and less overspray than can be achieved with ordinary pressure nozzle systems, there is lower environmental impact.

We have a well established position in the electronics industry with our SonoFlux spray fluxing equipment. It saves customers from 40% to 80% of the liquid flux required to solder printed circuit boards over more labor intensive methods, such as foam fluxing. Less flux equates to lower material cost, fewer chemicals in the workplace, and less clean-up. Also, the SonoFlux equipment reduces the number of soldering defects, which reduces the amount of rework.



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In the past three years, we have focused engineering resources on the medical device market, with emphasis on providing coating solutions for the new generation of drug coated stents. We have sold a significant number of specialized ultrasonic nozzles and MediCoat stent coating systems to large medical device customers. Sono-Tek's stent coating systems are superior compared to pressure nozzles in their ability to uniformly coat the very small arterial stents without creating webs or gaps in the coatings. We also sell a bench-top, fully outfitted stent coating system to a wide range of customers that are manufacturing stents and/or applying coatings to be used in developmental trials. With our success in the medical device market, we have demonstrated that we can grow new markets by developing new applications with our technology.

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We have also committed engineering resources to the development of the WideTrack coating system, a broad based platform for applying a variety of coatings to moving webs of glass, textiles, plastic, metal, food products and packaging materials. The WideTrack is a long term product and market development effort. Thus far, we have made successful inroads with WideTrack systems into the glass, medical textile (bandages) and solar and fuel cell industries.

We are heavily focused on developing the food industry market. This will require a continuation of market and technology development in this area in the years ahead. We believe there is an excellent fit between the food industry and our spraying and coating technology.

Our new product offering, the SonoDry ultrasonic spray dryer, has shown great potential since its introduction earlier this year. The product is being well received on a global basis and we are in the process of completing several sales of these units. The SonoDry series of spray dryers is of particular importance to product and process developers in the following industries: Pharmaceuticals (e.g. for drug actives and intermediates, enzymes and low molecular weight proteins), Foods (e.g. for nutraceuticals, herbal extracts and flavors) and Specialty Chemicals (e.g. for fragrances, Cosmetics ingredients and nano-scale particles).

During the second quarter, our global electronics business continued in a slower mode when compared to more robust periods. One factor has been the domestic housing market and its impact on electronics purchases. An additional factor is that many domestic corporations have moved their manufacturing facilities offshore. It is approximately 47% below the same period last year. Our quarterly revenues and net income have been affected by a slow electronics market which was partially offset by some of our new market initiatives. We are continuing our work on expanding our geographical markets and the creation of technical innovations for our products.

### Liquidity and Capital Resources

Working Capital - Our working capital increased \$7,000 from a working capital of \$4,232,000 at February 28, 2007 to \$4,239,000 at August 31, 2007. The Company's current ratio is 7.56 to 1 at August 31, 2007 as compared to 6.8 to 1 at February 28, 2007.

Stockholders' Equity - Stockholder's Equity increased \$52,000 from \$4,851,000 at February 28, 2007 to \$4,903,000 at August 31, 2007. The increase is the result of net income of \$32,000 and an adjustment for stock based compensation expense of \$20,000.

Operating Activities - Our operations provided \$32,000 of cash for the six

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months ended August 31, 2007, a decrease of \$258,000 when compared to the six months ended August 31, 2006. The decrease is primarily a result of a decrease in net income for the current period.

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Investing Activities - We used \$64,000 for the purchase of capital equipment during the six months ended August 31, 2007 compared to the use of \$103,000 during the six months ended August 31, 2006.

Financing Activities - For the six months ended August 31, 2007, we used \$13,000 in financing activities resulting from the repayment of our notes payable. For the six months ended August 31, 2006, we used \$10,000 in financing activities resulting from the repayment of notes payable of \$12,500 and the proceeds of stock option exercises of \$2,500.

### Results of Operations

During the six month period ended August 31, 2007, our sales decreased \$969,000 or 27% to \$2,647,000 as compared to \$3,616,000 for the six months ended August 31, 2006. For the three months ended August 31, 2007, our sales decreased \$419,000 to \$1,415,000 as compared to \$1,834,000 for the three months ended August 31, 2006. During the six month period ended August 31, 2007, we continued to see a decrease in sales of both fluxer units and nozzles when compared to the six month period ended August 31, 2006. The decrease in sales of these units was partially offset by sales of our WideTrack units and EVS Systems used for solder recovery.

Our gross profit decreased \$545,000 to \$1,259,000 for the six months ended August 31, 2007 from \$1,804,000 for the six months ended August 31, 2006. The gross profit margin was 48% of sales for the six months ended August 31, 2007 as compared to 50% of sales for the six months ended August 31, 2006. Our gross profit decreased \$319,000 to \$656,000 for the three months ended August 31, 2007 as compared to \$975,000 for the three months ended August 31, 2006. The gross profit margin was 46% of sales for the three months ended August 31, 2007 as compared to 53% of sales for the three months ended August 31, 2006. The decrease in the gross profit margin is due to the mix of products sold in the current quarter.

Research and product development costs increased \$56,000 to \$433,000 for the six months ended August 31, 2007 from \$377,000 for the six months ended August 31, 2006 and \$8,000 to \$206,000 for the three months ended August 31, 2007 from \$198,000 for the three months ended August 31, 2006. The increases were principally due to an increase in engineering personnel in the current periods. The increases are aimed at the development of new products which will benefit future periods.

Marketing and selling costs decreased \$166,000 to \$494,000 for the six months ended August 31, 2007 from \$660,000 for the six months ended August 31, 2006 and \$80,000 to \$260,000 for the three months ended August 31, 2007 from \$340,000 for the three months ended August 31, 2006. The decrease was due to decreased salaries, commissions and travel expenses.

General and administrative costs decreased \$54,000 to \$385,000 for the six months ended August 31, 2007 from \$439,000 for the six months ended August 31, 2006 and \$17,000 to \$203,000 for the three months ended August 31, 2007 from \$220,000 for the three months ended August 31, 2006. The decrease was due to reduced employee salaries and bonuses, bad debt allowance and a reduction in stock based compensation expense.

#### Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure on contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and may potentially result in materially different results under different assumptions and conditions. The Company believes that critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies see Note 2 to the Company's consolidated financial statements included in Form 10-KSB for the year ended February 28, 2007.

#### Accounting for Income Taxes

As part of the process of preparing the Company's consolidated financial statements, the Company is required to estimate its income taxes. Management judgment is required in determining the provision on its deferred tax asset. The Company reduced the valuation reserve for the deferred tax asset resulting from the net operating losses carried forward due to the Company having demonstrated consistent profitable operations. In the event that actual results differ from these estimates, the Company may need to again adjust such valuation reserve.

#### Stock-Based Compensation

Prior to fiscal year 2007, the Company accounted for employee stock options under the fair value provisions of SFAS No. 123. On March 1, 2006, the Company adopted SFAS No. 123R, "Share Based Payments." SFAS No. 123R requires companies to expense the value of employee stock options and similar awards for periods beginning after December 15, 2005, and applies to all outstanding and vested stock-based awards at a company's adoption date. Results from prior periods have not been restated in the Company's historical financial statements.

#### Impact of New Accounting Pronouncements

None.

#### SONO-TEK CORPORATION CONTROLS AND PROCEDURES

The Company has established and maintains "disclosure controls and procedures" (as those terms are defined in Rules 13a -15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act')). Christopher L. Coccio, Chief Executive Officer (principal executive) and Stephen J. Bagley, Chief Financial Officer (principal accounting officer) of the Company, have evaluated the Company's disclosure controls and procedures as of August 31, 2007. Based on this evaluation, they have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (1)

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recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to Management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding timely disclosure.

In addition, there were no changes in the Company's internal controls over financial reporting during the second fiscal quarter of 2008 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

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### PART II - OTHER INFORMATION

- Item 1. Legal Proceedings  
None
- Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.  
None
- Item 3. Defaults Upon Senior Securities  
None
- Item 4. Submission of Matters to a Vote of Security Holders

The following matters were voted upon at the Company's annual meeting of shareholders held on August 16, 2007.

- 1. The election of two (2) directors of the Company to serve until the Company's 2009 annual meeting of shareholders.

	For	Against
	---	-----
Christopher L. Coccio	10,417,702	281,372
Philip Strasburg	10,444,591	254,483

There were no broker non-votes.

Edward J. Handler, Donald F. Mowbray and Samuel Schwartz, who were not standing for re-election, continued to serve as Directors following the annual meeting.

- 2. The ratification of the appointment of Sherb & Co. as the Company's independent auditors for the fiscal year ending February 29, 2008.

For 10,381,620; Against 298,654; Abstained 18,800  
There were no broker non-votes.

- Item 5. Other Information  
None
- Item 6. Exhibits and Reports
  - (a) Exhibits
    - 10.1 Executive Agreement between Sono-Tek Corporation and Stephen J. Bagley dated September 1, 2007.

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10.2 Executive Agreement between Sono-Tek Corporation and Christopher L. Coccio dated September 1, 2007.

10.3 Executive Agreement between Sono-Tek Corporation and Joseph Riemer dated September 1, 2007.

31.1 - 31.2 - Rule 13a - 14(a)/15d - 14(a) Certification

32.1 - 32.2 - Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: October 10, 2007

SONO-TEK CORPORATION  
(Registrant)

By: /s/ Christopher L. Coccio

-----  
Christopher L. Coccio  
Chief Executive Officer

By: /s/ Stephen J. Bagley

-----  
Stephen J. Bagley  
Chief Financial Officer

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