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SONO TEK CORP  
Form 10QSB  
June 22, 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: May 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

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 June 15, 2007 -----
Common Stock, par value \$.01 per share	14,360,541

SONO-TEK CORPORATION

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### SONO-TEK CORPORATION CONSOLIDATED BALANCE SHEETS

	May 31, 2007	February 28, 2007
	-----	-----
	Unaudited	
ASSETS		
Current Assets		
Cash and cash equivalents .....	\$ 2,301,508	\$ 2,268,976
Accounts receivable (less allowance of \$18,500 and \$18,500 at May 31 and February 28, respectively) .....	687,194	946,833
Inventories .....	1,553,021	1,406,231
Prepaid expenses and other current assets .....	102,659	69,107
Deferred tax asset .....	270,000	270,000
Total current assets .....	4,914,382	4,961,147
Equipment, furnishings and leasehold improvements (less accumulated depreciation of \$928,197 and \$896,773 at May 31 and February 28, respectively) .....		
	298,723	301,360
Intangible assets, net .....	29,709	30,744
Other assets .....	7,171	7,171
Deferred tax asset .....	446,239	411,239
TOTAL ASSETS .....	\$ 5,696,224	\$ 5,711,661
	=====	=====

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## LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable .....	\$ 144,865	\$ 209,202
Accrued expenses .....	501,290	476,140
Current maturities of long term debt .....	27,870	27,373
Deferred Tax Liability .....	16,239	16,239
	-----	-----
Total current liabilities .....	690,264	728,954
Long term debt, less current maturities .....	44,308	51,506
Deferred Tax Liability .....	80,000	80,000
	-----	-----
Total liabilities .....	814,572	860,460
	-----	-----
Commitments and Contingencies .....	--	--
Stockholders' Equity		
Common stock, \$.01 par value; 25,000,000 shares authorized, 14,360,541 shares issued and outstanding .....	143,606	143,606
Additional paid-in capital .....	8,318,838	8,308,301
Accumulated deficit .....	(3,580,792)	(3,600,706)
	-----	-----
Total stockholders' equity .....	4,881,652	4,851,201
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY .....	\$ 5,696,224	\$ 5,711,661
	=====	=====

See notes to consolidated financial statements.

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## SONO-TEK CORPORATION CONSOLIDATED STATEMENTS OF INCOME Unaudited

	Three Months Ended May 31,	
	2007	2006
	-----	-----
Net Sales .....	\$ 1,232,643	\$ 1,781,744
Cost of Goods Sold .....	629,133	953,123
	-----	-----
Gross Profit .....	603,510	828,621
	-----	-----
Operating Expenses		
Research and product development costs .. .	227,035	179,510
Marketing and selling expenses .....	234,044	320,488
General and administrative costs .....	182,693	219,186
	-----	-----
Total Operating Expenses .....	643,772	719,184
	-----	-----
Operating (Loss) Income .....	(40,262)	109,437
	-----	-----

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Interest Expense .....	(1,235)	(1,294)
Interest Income .....	24,767	13,857
Other Income .....	2,831	2,831
	-----	-----
	26,363	15,394
	-----	-----
(Loss) Income Before Income Taxes .....	(13,899)	124,831
Income Tax (Benefit) .....	(33,813)	--
	-----	-----
Net Income .....	\$ 19,914	\$ 124,831
	=====	=====
Basic Earnings Per Share .....	\$ 0.00	\$ 0.01
	=====	=====
Diluted Earnings Per Share .....	\$ 0.00	\$ 0.01
	=====	=====
Weighted Average Shares - Basic .....	14,360,541	14,358,140
	=====	=====
Weighted Average Shares - Diluted .....	14,436,298	14,468,868
	=====	=====

See notes to consolidated financial statements.

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SONO-TEK CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Unaudited

	Three Months Ended May 31,	
	2007	2006
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income .....	\$ 19,914	\$ 124,831
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization .....	32,459	18,838
Provision for doubtful accounts .....	--	3,650
Stock based compensation expense .....	10,538	23,879
Decrease (Increase) in:		
Accounts receivable .....	259,639	(99,906)
Inventories .....	(146,790)	(164,574)
Prepaid expenses and other current assets .....	(33,552)	(7,340)
Deferred tax asset .....	(35,000)	--
Increase (Decrease) in:		
Accounts payable and accrued expenses .....	(39,187)	151,370
	-----	-----

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Net Cash Provided By Operating Activities .....	68,021	50,748
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and furnishings .....	(28,788)	(18,721)
	-----	-----
Net Cash Used In Investing Activities .....	(28,788)	(18,721)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options and warrants ..	--	2,548
Repayments of notes payable .....	(6,701)	(6,367)
	-----	-----
Net Cash Used In Financing Activities .....	(6,701)	(3,819)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS .....	32,532	28,208
CASH AND CASH EQUIVALENTS		
Beginning of year .....	2,268,976	1,740,804
	-----	-----
End of period .....	\$ 2,301,508	\$ 1,769,012
	=====	=====
SUPPLEMENTAL DISCLOSURE:		
Interest paid .....	\$ 1,294	\$ 1,294
	=====	=====
Income taxes paid .....	\$ 1,187	\$ --
	=====	=====

See notes to consolidated financial statements.

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### SONO-TEK CORPORATION Notes to Consolidated Financial Statements Three Months Ended May 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.

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

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

The financial information reflects all adjustments, 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 \$55,384 and \$54,350 at May 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 May 31, 2007 are comprised of:

Finished goods	\$ 435,728
Work in process	565,110
Consignment	9,770
Raw materials and subassemblies	746,611
	-----
Total	1,757,219
Less: Allowance	(204,198)
	-----
Net inventories	\$1,553,021
	=====

### 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 May 31, 2007 there were 119,000 options outstanding under the 1993 Plan and 862,875 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

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employee's termination of employment.

### NOTE 4: STOCK BASED COMPENSATION

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.

During the transition period of the Company's adoption of SFAS 123R, 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:

	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%

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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 quarters ended May 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 \$10,538 and \$23,879 in additional compensation expense during the quarters ended May 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.

### NOTE 5: EARNINGS PER SHARE

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

	May 31, 2007	May 31, 2006
	-----	-----
Denominator for basic earnings per share	14,360,541	14,358,140
Dilutive effect of stock options	75,757	110,728
	-----	-----

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Denominator for diluted earnings per share	14,436,298	14,468,868
	=====	=====

### NOTE 6: OTHER INCOME

As previously reported 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 69% of these funds to date. The Company is pursuing appropriate remedies to recover the balance of the funds. 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 level 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.

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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 plan to increase our marketing efforts into the broader textile and food industry markets. This will require a continuation of market and technology development in these areas in the years ahead. Some of these WideTrack applications involve nano-technology based liquids. We believe there is an excellent fit between the thin, precise films required in nano-technology coating applications and our ultrasonic nozzle systems.

We are continuing to see a decline in our US based electronics business. It is approximately 50% below previous levels, as a result of the trend toward production moving offshore, coupled with a slower economy, due to reduced housing starts and reduced competitiveness of our US based automotive customers.

In conclusion, our quarterly revenues and net income have been affected by the decline in the electronics market. 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 decreased \$8,000 from a working capital of \$4,232,000 at February 28, 2007 to \$4,224,000 at May 31, 2007. The Company's current ratio is 7.12 to 1 at May 31, 2007 as compared to 6.8 to 1 at February 28, 2007.

Stockholders' Equity - Stockholder's Equity increased \$31,000 from \$4,851,000 at February 28, 2007 to \$4,882,000 at May 31, 2007. The increase is the result of net income of \$20,000 and an adjustment for stock based compensation expense of \$11,000.

Operating Activities - Our operations provided \$68,000 of cash for the three months ended May 31, 2007, an increase of \$17,000 when compared to the three months ended May 31, 2006.

Investing Activities - We used \$29,000 for the purchase of capital equipment during the three months ended May 31, 2007 compared to the use of \$19,000 during the three months ended May 31, 2006.

Financing Activities - For the three months ended May 31, 2007, we used \$7,000 in financing activities resulting from the repayment of our notes payable. For the three months ended May 31, 2006, we used \$4,000 in financing activities resulting from the repayment of notes payable of \$7,000 and the proceeds of stock option exercises of \$3,000.

#### Results of Operations

For the three months ended May 31, 2007, our sales decreased \$549,000 or 31% to \$1,233,000 as compared to \$1,782,000 for the three months ended May 31, 2006. During the quarter ended May 31, 2007, sales of both fluxer units and nozzles decreased when compared to the quarter ended May 31, 2006. The decrease in sales of these units was partially offset by an increase in sales of our stent coating systems and WideTrack units.

Our gross profit decreased \$225,000 to \$604,000 for the three months ended May 31, 2007 from \$829,000 for the three months ended May 31, 2006. The decrease in gross profit is due to a decrease in sales. The gross profit margin was 49% of sales for the three months ended May 31, 2007 as compared to 46.5% of sales for the three months ended May 31, 2006. The improvement in the gross profit margin is due to the mix of products sold and a decrease in manufacturing costs.

Research and product development costs increased \$47,000 to \$227,000 for the three months ended May 31, 2007 from \$180,000 for the three months ended May 31, 2006. The increase was principally due to an increase in engineering personnel and increased purchases of research and development materials in the current period.

Marketing and selling costs decreased \$86,000 to \$234,000 for the three months ended May 31, 2007 from \$320,000 for the three months ended May 31, 2006. The decrease was due to decreased commissions and travel expenses.

General and administrative costs decreased \$36,000 to \$183,000 for the three months ended May 31, 2007 from \$219,000 for the three months ended May 31, 2006. The decrease was due to reduced insurance expense, employee bonuses 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 the one described below. For a detailed discussion on the application of this 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

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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.

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### 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 and President (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 May 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) 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 first 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

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Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports

(a) Exhibits

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: June 22, 2007

SONO-TEK CORPORATION  
(Registrant)

/s/ Christopher L. Coccio

By: \_\_\_\_\_  
Christopher L. Coccio  
Chief Executive Officer and President

/s/ Stephen J. Bagley

By: \_\_\_\_\_  
Stephen J. Bagley  
Chief Financial Officer

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