

SONO TEK CORP
Form 10-Q
October 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: August 31, 2013

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 registrant as specified in its charter)

New York 14-1568099
(State or other jurisdiction of (IRS Employer
incorporation or organization) 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 registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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.

Large Accelerated Filer Accelerated Filer Smaller reporting company

Non Accelerated Filer (Do not check if a smaller reporting company)

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:

<u>Class</u>	<u>Outstanding as of</u> <u>October 8, 2013</u>
Common Stock, par value \$.01 per share	14,508,507

SONO-TEK CORPORATION

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SONO-TEK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	August 31, 2013	February 28, 2013
	(Unaudited)	
:		
ASSETS		
Current Assets		
Cash and cash equivalents	\$2,502,412	\$1,940,906
Marketable Securities	945,293	975,910
Accounts receivable (less allowance of \$26,00 and \$20,000 at August 31 and February 28, respectively)	1,265,762	941,032
Inventories, net	1,990,450	1,829,171
Prepaid expenses and other current assets	131,127	79,605
Total current assets	6,835,044	5,766,624
Land	250,000	250,000
Buildings, net	2,132,088	2,170,409
Equipment, furnishings and building improvements, net	549,746	683,368
Intangible and other assets, net	117,795	106,022
Deferred tax asset	90,021	90,021
TOTAL ASSETS	\$9,974,694	\$9,066,444
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$636,655	\$408,738
Accrued expenses	509,389	477,027
Customer deposits	510,457	68,846
Current maturities of long term debt	127,849	125,999
Income taxes payable	86,024	6,331
Total current liabilities	1,870,374	1,086,941
Long term debt, less current maturities	1,923,007	1,987,236
Total liabilities	3,793,381	3,074,177
Commitments and Contingencies	—	—
Stockholders' Equity		
Common stock, \$.01 par value; 25,000,000 shares authorized, 14,508,507 and 14,503,010 shares issued and outstanding, at August 31 and February 28, respectively	145,085	145,030
Additional paid-in capital	8,719,416	8,709,601
Accumulated deficit	(2,683,188)	(2,862,364)
Total stockholders' equity	6,181,313	5,992,267
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$9,974,694	\$9,066,444

See notes to condensed consolidated financial statements.

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SONO-TEK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Six Months Ended August 31		Three Months Ended August 31	
	Unaudited 2013	2012	Unaudited 2013	2012
Net Sales	\$4,911,772	\$5,230,809	\$2,537,378	\$2,391,107
Cost of Goods Sold	2,528,126	2,715,739	1,295,146	1,225,735
Gross Profit	2,383,646	2,515,070	1,242,232	1,165,373
Operating Expenses				
Research and product development costs	457,236	486,787	231,642	232,717
Marketing and selling expenses	988,625	1,205,723	499,616	552,811
General and administrative costs	522,595	674,388	253,505	315,842
Rental operations expense	70,100	57,630	35,618	28,610
Total Operating Expenses	2,038,556	2,424,528	1,020,381	1,129,981
Operating Income	345,090	90,542	221,851	35,392
Interest Expense	(55,244)	(57,648)	(27,649)	(28,678)
Other (expense) income	(23,573)	(1,705)	(21,865)	6,234
Income from Operations Before Income Taxes	266,273	31,189	172,337	12,948
Income Tax (Benefit) Expense	87,096	(39,647)	66,908	(46,787)
Net Income	\$179,177	\$70,836	\$105,429	\$59,735
Basic Earnings Per Share	\$0.01	\$0.00	\$0.01	\$0.00
Diluted Earnings Per Share	\$0.01	\$0.00	\$0.01	\$0.00
Weighted Average Shares - Basic	14,503,040	14,466,892	14,503,070	14,472,849
Weighted Average Shares - Diluted	14,558,306	14,582,873	14,604,147	14,576,509

See notes to condensed consolidated financial statements.

SONO-TEK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended August 31, Unaudited	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 179,177	\$ 70,836
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	164,421	155,634
Stock based compensation expense	9,712	21,658
Allowance for doubtful accounts	6,000	6,000
Inventory reserve	31,343	30,000
Decrease (Increase) in:		
Accounts receivable	(330,432)	(273,528)
Inventories	(192,622)	102,015
Prepaid expenses and other current assets	(51,522)	(80,420)
(Decrease) Increase in:		
Accounts payable and accrued expenses	260,280	(174,938)
Customer Deposits	441,611	(121,380)
Income Taxes Payable	79,693	—
Net Cash Provided by (Used in) Operating Activities	597,661	(264,123)
CASH FLOW FROM INVESTING ACTIVITIES:		
Patent application and other asset costs	(17,621)	(32,218)
Purchase of equipment and furnishings	(25,461)	(61,277)
Proceeds from sale of equipment	38,531	—
Sale (Purchase) of marketable securities	30,617	(704,377)
Net Cash Provided by (Used in) Investing Activities	26,066	(797,872)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	158	20,346
Repayments of notes payable and loans	(62,379)	(59,992)
Net Cash (Used In) Financing Activities	(62,221)	(39,646)
NET INCREASE (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	561,506	(1,101,641)
CASH AND CASH EQUIVALENTS		
Beginning of period	1,940,906	2,531,689
End of period	\$ 2,502,412	\$ 1,430,048
SUPPLEMENTAL DISCLOSURE:		
Interest paid	\$ 55,244	\$ 57,648
Taxes Paid	\$ —	\$ —

See notes to condensed consolidated financial statements.

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SONO-TEK CORPORATION

Notes to Condensed Consolidated Financial Statements

Six Months Ended August 31, 2013 and 2012

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The accompanying condensed consolidated financial statements of Sono-Tek Corporation, a New York corporation (the “Company”), include the accounts of the Company and its wholly owned subsidiaries, Sono-Tek Cleaning Systems Inc. and Sono-Tek Industrial Park, LLC. Sono-Tek Cleaning Systems, Inc., a New Jersey Corporation, ceased operations during the Fiscal Year Ended February 28, 2002. Sono-Tek Industrial Park, LLC operates as a real estate holding company for the Company’s real estate operations.

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 Company adopted the guidance in the Fair Value Measurements and Disclosure Topic of the Accounting Standards Codification for assets and liabilities measured at fair value on a recurring basis. This guidance establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of this guidance did not have an impact on the Company’s financial position or operating results, but did expand certain disclosures. The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, the guidance requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Quoted prices in active markets.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity’s own assumptions.

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The fair values of financial assets of the Company were determined using the following categories at August 31, 2013:

Quoted Prices in Active Markets

(Level 1)

August 31, 2013 February 28, 2013

Marketable Securities	\$945,293	\$975,910
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Marketable Securities include mutual funds of \$945,293, that are considered to be highly liquid and easily tradeable as of August 31, 2013. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within the Company's fair value hierarchy.

Interim Reporting - The attached summary condensed 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, 2013, and included in its report on Form 10-K. 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 \$100,827 and \$95,634 at August 31, 2013 and February 28, 2013, respectively. Annual amortization expense of such intangible assets is expected to be \$9,600 per year for the next five years.

Reclassifications – Certain reclassifications have been made to the prior period to conform to the presentations of the current period.

Impact of New Accounting Pronouncements - All new accounting pronouncements issued but not yet effective have been deemed to be not applicable to the Company. Hence, the adoption of these new accounting pronouncements once effective are not expected to have any impact on the Company.

In July 2013, the FASB issued Accounting Standards Update “ASU” 2013-11 on “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists”. The amendments in this ASU are to improve the current U.S. GAAP because they are expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted.

Inventories consist of the following:

	August 31, 2013	February 28, 2013
Finished goods	\$585,533	\$561,298
Work in process	490,669	385,092
Consignment	12,405	9,728
Raw materials and subassemblies	1,133,625	1,073,492
Total	2,222,232	2,029,610
Less: Allowance	(231,782)	(200,439)
Net inventories	\$1,990,450	\$1,829,171

NOTE 3: STOCK OPTIONS AND WARRANTS

Stock Options - Under the 2003 Stock Incentive Plan, as amended ("2003 Plan"), until May 2013, options were available to 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. As of August 31, 2013, there were 1,306,061 options outstanding under the 2003 plan, under which no additional options may be granted.

In August 2013, the Company's shareholders approved the 2013 Stock Incentive Plan under which 2,500,000 options may be granted. No options have been granted to date.

NOTE 4: STOCK BASED COMPENSATION

The weighted-average fair value of options has been estimated on the date of grant using the Black-Scholes options-pricing model. For the six months ended August 31, 2013 no options were issued.

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 number 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, 2013 and 2012, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated \$9,712 and \$21,658 in additional compensation expense during the six months ended August 31, 2013 and 2012, respectively. Such amounts are 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

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The denominator for the calculation of diluted earnings per share at August 31, 2013 and 2012 are calculated as follows:

	Six Months Ended August 31,		Three Months Ended August 31,	
	2013	2012	2013	2012
Denominator for basic earnings per share	14,503,040	14,466,892	14,503,070	14,472,849
Dilutive effect of stock options	55,266	115,981	101,077	103,660
Denominator for diluted earnings per share	14,558,306	14,582,873	14,604,147	14,576,509

NOTE 6: LONG TERM DEBT

Long-term debt consists of the following:

	August 31, 2013	February 28,
Note payable, individual, collateralized by land and buildings, payable in monthly installments of principal and interest of \$14,446 through January 2031. Interest rate 5.5%. 20 year term.	\$1,939,815	\$1,972,617
Equipment loan, bank, collateralized by related office equipment, payable in monthly installments of principal and interest of \$5,154 through June 2015. Interest rate 2.12%. 48 month term.	111,041	140,618
Total long term debt	2,050,856	2,113,235
Due within one year	127,849	125,999
Due after one year	\$1,923,007	\$1,987,236

NOTE 7: REVOLVING LINE OF CREDIT

The Company has a \$750,000 revolving line of credit at prime which was 3.25% at August 31, 2013. The loan is collateralized by all of the assets of the Company, except for the land and buildings. The line of credit is payable on demand and must be retired for a 30 day period once annually. If the Company fails to perform the 30 day annual pay down or if the bank elects to terminate the credit line, the bank may at its option convert the outstanding balance to a 36 month term note with payments including interest in 36 equal installments. As of August 31, 2013, the Company's outstanding balance was \$0, and the unused credit line was \$750,000.

NOTE 8: SEGMENT INFORMATION

The Company operates in two segments: ultrasonic spraying systems and rental real estate operations.

All inter-company transactions are eliminated in consolidation. For the six and three months ended August 31, 2013 and 2012, segment information is as follows:

	Six Months Ended August 31, 2013				Three Months Ended August 31, 2013			
	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated
Net Sales	\$4,872,607	\$107,036	\$67,871	\$4,911,772	\$2,518,628	\$52,685	\$33,935	\$2,537,378
Rental Expense	\$67,871	\$70,099	\$(67,871)	\$70,099	\$33,935	\$35,618	\$(33,935)	\$35,618
Interest Expense	\$1,371	\$53,873		\$55,244	\$825	\$26,824		\$27,649
Net Income (Loss)	\$196,113	\$(16,936)		\$179,177	\$149,120	\$(43,691)		\$105,429
Assets	\$7,514,178	\$2,460,516		\$9,974,694	\$7,514,178	\$2,460,516		\$9,974,694
Debt	\$111,041	\$1,939,815		\$2,050,856	\$111,041	\$1,939,815		\$2,050,856

	Six Months Ended August 31, 2012				Three Months Ended August 31, 2012			
	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated
Net Sales	\$5,201,514	\$97,164	\$67,869	\$5,230,809	\$2,382,657	\$42,385	\$33,935	\$2,391,107
Rental Expense	\$67,869	\$57,630	\$(67,869)	\$57,630	\$33,935	\$28,610	\$(33,935)	\$28,610
Interest Expense	\$2,023	\$55,625		\$57,648	\$972	\$27,706		\$28,678
Net Income (Loss)	\$86,926	\$(16,090)		\$70,836	\$73,666	\$(13,931)		\$59,735
Assets	\$6,725,311	\$2,507,885		\$9,233,196	\$6,725,311	\$2,507,885		\$9,233,196
Debt	\$169,979	\$2,004,529		\$2,174,508	\$169,979	\$2,004,529		\$2,174,508

NOTE 9: SUBSEQUENT EVENTS

On September 27, 2013, the Company signed a mortgage commitment letter with a bank to refinance its existing mortgage which is collateralized by the Company's land and buildings. The proposed mortgage would be for \$1,900,000, and would bear interest at 4.34% per annum. The existing mortgage bears interest at 5.5% and has a remaining term of 17.5 years. The term of the loan would be for ten years and would be collateralized by land and buildings. In addition, the mortgage will require a ten year lease between Sono-Tek Corp and Sono-Tek Industrial Park, the Company's wholly owned subsidiary which holds title to the property. The actual interest rate will be set at closing. Completion of the mortgage is subject to an acceptable appraisal and environmental review.

The Company has evaluated all other subsequent events for disclosure purposes.

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ITEM 2 – Management’s Discussion and Analysis of Financial Condition and Results 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. These factors include, among other considerations, general economic and business conditions; political, regulatory, competitive and technological developments affecting our operations or the demand for our products; timely development and market acceptance of new products; adequacy of financing; capacity additions, the ability to enforce patents and the ability to achieve increased sales volume and continued profitability.

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

Overview

We have developed a unique and proprietary series of ultrasonic atomizing nozzles, which are being used in an increasing variety of applications in the six major industries that we serve: electronics, advanced energy (solar and fuel cells), medical device, glass, textiles and food 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 and lower energy use.

Market Diversity

During the past four years we have invested significant time, monies and efforts to enhance our market diversity. Based on our core ultrasonic coating technology, we increased our portfolio of products, the industries we serve and the countries in which we operate.

A majority of our sales originate outside the United States, and we are geographically present directly and through distributors and trade representatives in North and Latin America, Europe and Asia. The infrastructure upon which this diversified market approach is based, includes a newly equipped process development laboratory, a strengthened

sales organization with application engineers, an engineering team with additional talent and the latest, most sophisticated design software tools, as well as an expanded, highly trained installation and service organization.

The new products which we introduced, the new markets that we penetrated, and the regions in which we now operate, are a strong foundation for our future sales growth and enhanced profitability.

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Markets

An outcome of our rapid growth and diversification program over the past several years, is that we are now capable of offering a unique and superior family of customized products to the six major industries we serve. All of these systems are based on our core technology of ultrasonic spray coating. Many of these systems have been commercially proven in 24/7 working schedules, under harsh and challenging industrial manufacturing environments, where they provide value in a continuous and reliable fashion.

1. Electronics Industry.

We serve this industry by providing manufacturers of electronic printed circuit boards with state-of-the-art solder fluxers. Our ultrasonic spray fluxers reduce the amount of fluxing chemical needed, enhance the quality of the boards, and provide our customers with a better product at reduced costs of operations, when compared with conventional foam fluxers and pressure assisted fluxers.

We are recognized as a standard setter in the industry, and our systems are incorporated by various original equipment manufacturers (OEMs), in their own manufacturing lines for making electronic printed circuit boards. Some examples of our products marketed to the electronics industry include: SonoFlux 2000F, SonoFlux 2000FP, SonoFlux XL, SonoFlux EZ and SonoFlux Servo.

We also offer to the same customer base, EVS solder recovery systems, through our exclusive distribution agreement with EVS International Ltd (“EVS”) for the territory of the United States and Canada.

In addition, we have an established customer base in the semiconductor industry. The semiconductor industry utilizes our ultrasonic atomizing nozzles for the application and deposition of photo-resist onto semiconductor wafers. A particular sector of the semiconductor manufacturing industry, micro-electro-mechanical systems, “MEMS”, has proven the ability to use our technology to apply micron thick coatings to these complex wafers.

2. Advanced Energy Industry.

Manufacturers of solar cells and fuel cells share two major technical and business challenges: enhancing the energy efficiency of their products and manufacturing their products in a cost effective way. Extremely uniform, thin layer coatings are at the heart of the solution for these advanced energy systems’ challenges.

Our precision coating systems are now presented in scientific conferences and trade shows pertaining to advanced energy around the world for the superior surface uniformity and density they provide, which are directly related to enhanced energy efficiency. Our systems afford our energy industry clients with the capabilities of saving up to 80% of the expensive catalysts and nano-materials used in these manufacturing processes. Some examples of our products marketed to the advanced energy industry include: ExactaCoat, FlexiCoat, Hypersonic and SonoFlow CSP.

3. Medical Device Industry.

Our ultrasonic coating technology is being used by medical device manufacturers worldwide. The leading applications for this industry are coating of arterial stents with precise and uniform micronic layers of polymers and drugs; coating of various implantable devices with lubricous materials and coating of blood collection tubes with anti-coagulants. These applications are typically performed under strict regulatory supervision of governmental agencies in different countries, and the continuing demand for our systems from these customers is indicative of the high quality performance that our systems provide these customers.

Some examples of our products marketed to the medical device industry include: MediCoat I; Medicoat II; Medicoat PSI; AccuMist; MicroMist; Balloon Catheter Coater.

4. **Glass Industry.**

The manufacture of float glass occurs under extremely harsh conditions of elevated temperatures. Our ultrasonic coating technology provides this manufacturing process with the means of precise and uniform application of anti-stain, and other specialty chemical agents, on the hot glass. Our customers benefit from an improved quality product, enhanced productivity and significantly reduced expenditures on annual maintenance, often resulting in a return on investment of less than one year. Based on this equipment's recent successful performance, our systems are now specified by many global glass manufacturers as their equipment of choice. The equipment we offer to the glass industry is the WideTrack – wide area modular coating system.

5. **Textiles Industry.**

This industry applies expensive chemicals such as flame retardant, anti-stain, anti-microbial as well as moisture barriers, which are currently applied using inefficient dip or padding methods, resulting in significant waste of material, energy and water. We have demonstrated to several leading textile manufacturers the technical advantages and financial benefits of our WideTrack coating system for their specific operations, and we are hopeful that these manufacturers will prioritize the WideTrack in their future capital investment budgets.

6. **Food Industry.**

The food industry is traditionally a slow adapter of new technologies. Accordingly, we focus our efforts on a select few global food companies, where our technical advantages and economic benefits could translate into successful market penetration and sales growth. We have introduced our ultrasonic coating systems to various segments of the food industry, with our primary focus on coating of flavors, nutraceuticals and anti-microbial agents. Most of our food industry equipment is designed on the WideTrack platform.

Products

We have core technology and have developed and market the following products:

1. SonoFlux 2000F – spray fluxer product – designed for high volume operations with standard width lines requiring low maintenance using a variety of solder fluxes, including rosin flux. It is designed to be used by electronic circuit board manufacturers to apply solder flux to fixed width circuit boards. The major customers for the SonoFlux 2000F are OEMs that produce their own electronic circuit boards.

2.

SonoFlux 2000FP, SonoFlux XL and SonoFlux EZ- spray fluxer product - applies solder flux to electronic printed circuit boards that vary from two inches to up to 24 inches in width in a cost-effective and uniform manner. They are designed to be used by either OEMs or contract manufacturers of electronic circuit assemblies. All SonoFlux products provide substantial benefits in terms of reduced use of fluxing agents, reduced need for maintenance and reduced cost of operations compared to foam fluxers and competitive pressure nozzle fluxing products.

3. SonoFlux Servo – a newer spray fluxer capable of providing flux to both wide areas of a circuit board as well as selective fluxing. We also sell a selective fluxing apparatus known as Selectaflux.

MediCoat and MediCoat II for stent coating – table-top and stand alone, fully-contained systems designed to apply thin layers of polymer and drug coatings to arterial stents with high precision. The system incorporates motion control of the stent during the coating process and produces coatings having excellent uniformity. The MediCoat systems use either the Accumist or MicroMist nozzle systems, which are precision nozzle configurations used in applications where precise patterns and coatings are required. These products provide customers the ability to achieve a minimal amount of waste of expensive drug polymer coatings and high uniformity of drug addition from stent to stent. MediCoat II is similar to the MediCoat, but it has higher throughput capabilities more suited for a production environment. We have recently developed additional medical coating platforms to address developing market segments for drug coated balloons, catheters and other implantable devices.

WideTrack – Wide area modular coating system – designed to be used in applications that require efficient web-coating or wide area spraying capability. One module can cover substrates from 6 inches to 24 inches wide, depending on the application. Much greater widths can be achieved by linking modules together, and these systems have been applied in glass lines of up to four meters wide. A large number of systems have been sold over the past six years, and this application holds promise for the future due to cost and environmental savings demonstrated at customer sites. It uses non-clogging ultrasonic atomizing nozzles to produce a low velocity, highly controllable spray. The WideTrack System offers significant advantages over conventional pressure-spray methods in a broad range of applications such as non-woven fabrics, float glass, or odd-shaped industrial or consumer products. Since the ultrasonic spray can be easily controlled, it is possible to use fewer chemicals and less water and energy in applying coatings to glass, textiles, food products and packaging materials than with traditional nozzles. This also results in reduced environmental impact due to less overspray.

Exactacoat/Flexicoat – We offer a line of robotic XYZ coating equipment for applications involving 3D coatings for fuel cell membranes and solar energy panels. This equipment is offered in bench-top configurations as our Exactacoat product and standalone as our Flexicoat product. These platforms position and move our nozzle systems in a precise three dimensional application pattern. We also have a newer product, the Hypersonic, a high speed reciprocator spraying system for this market. These coaters are extremely efficient especially when combined with our novel ultrasonic syringe pump (patent pending) to agitate and suspend the carbon based suspensions needed in fuel cell applications.

Other Product Offerings – EVS Solder Recovery System

We have an exclusive distribution relationship with EVS to distribute EVS's line of solder recovery systems and spare parts. The territory for this distribution relationship is the United States and Canada. EVS manufactures the EVS6000, EVS3000 and the EVS1000 solder recovery systems which are used to reclaim solder from the dross which accumulates in the wave-solder equipment of circuit board manufacturers. The customer base for distribution of these systems is synergistic with our existing customer base for spray fluxer sales in the printed circuit board industry.

Rental Real Estate Operations

In December 2010, we purchased the industrial park where our facilities are located in Milton, NY. The park is an improved 3.13 acre parcel of land comprised of five buildings of office/industrial space, with 50,000 square feet of gross leasable floor area. We currently utilize 24,000 square feet of the park for our operations. We presently lease 16,000 square feet of the park to unrelated third parties and 10,000 square feet is currently vacant and available for rent.

For financial reporting purposes, we report the results of the park as rental real estate operations.

Liquidity and Capital Resources

Working Capital – Our working capital increased \$285,000 from \$4,680,000 at February 28, 2013 to \$4,965,000 at August 31, 2013. The increase in working capital is due to the current period's net income of \$179,000, offset by cash outflows of \$18,000 for patent and other asset costs, \$25,000 for the purchase of equipment and furnishings and \$62,000 for the repayments of notes payable. We incurred non-cash expenses for depreciation and amortization of \$164,000, stock based compensation expense of \$10,000, \$6,000 for our accounts receivable reserve and \$31,000 for our inventory reserve. The Company's current ratio is 3.66 to 1 at August 31, 2013 as compared to 5.3 to 1 at February 28, 2013.

Stockholders' Equity – Stockholder's Equity increased \$189,000 from \$5,992,000 at February 28, 2013 to \$6,181,000 at August 31, 2013. The increase is a result of net income of \$179,000, and an adjustment for stock based compensation expense of \$10,000.

Operating Activities – Our operating activities provided \$598,000 of cash for the six months ended August 31, 2013 as compared to using \$264,000 for the six months ended August 31, 2012. During the six months ended August 31, 2013, accounts receivable increased \$330,000, inventory increased \$193,000, prepaid expenses increased \$52,000, accounts payable and accrued expenses increased \$260,000, customer deposits increased \$442,000 and income taxes payable increased \$80,000. In addition, we incurred non-cash expenses of \$164,000 for depreciation and amortization, \$10,000 for stock based compensation expense, \$6,000 for bad debt expense and increased our inventory reserve by \$31,000.

The increase in our accounts receivable balance during the six months ended August 31, 2013 is due to a relatively high level of sales in August 2013. Our customer deposits increased during the six months ended August 31, 2013 due to advance payments for orders that are scheduled to ship this current fiscal year.

Investing Activities – During the six months ended August 31, 2013, our investing activities provided \$26,000 as compared to using \$798,000 for the six months ended August 31, 2012. We used \$25,000 for the purchase of capital equipment and \$18,000 for patent application costs. In addition, we received \$39,000 from the sale of capital equipment and \$31,000 from the sale of marketable securities. During the six months ended August 31, 2012, we used \$61,000 for the purchase of capital equipment, \$32,000 for patent application costs and \$704,000 for the purchase of marketable securities.

Financing Activities – During the six months ended August 31, 2013, we used \$62,000 for the repayment of our notes payable. For the six months ended August 31, 2012, we used \$60,000 for the repayment of our notes payable and had proceeds from stock option exercises of \$20,000

On September 27, 2013, the Company signed a mortgage commitment letter with a bank to refinance its existing mortgage which is collateralized by the Company's land and buildings. The proposed mortgage would be for \$1,900,000, and would bear interest at 4.34% per annum. The existing mortgage bears interest at 5.5% and has a remaining term of 17.5 years. The term of the loan would be for ten years and would be collateralized by land and buildings. In addition, the mortgage will require a ten year lease between Sono-Tek Corp and Sono-Tek Industrial Park, the Company's wholly owned subsidiary which holds title to the property. The actual interest rate will be set at closing. Completion of the mortgage is subject to an acceptable appraisal and environmental review.

Net Increase in Cash – For the six months ended August 31, 2013, our cash balance increased \$562,000. During the six months ended August 31, 2013, our operating activities provided \$598,000 of cash, our investing activities provided \$26,000 of cash and we used \$62,000 in our financing activities.

Results of Operations

Ultrasonic Spraying Systems Segment:

For the six months ended August 31, 2013, our sales decreased \$329,000 or 6% to \$4,873,000 as compared to \$5,202,000 for the six months ended August 31, 2012. During the six month period ended August 31, 2013, we experienced a decrease in sales of our fluxer units, stent coating units and XYZ units. We did, however, see an increase in sales of our nozzles and related generator units, widetrack units and servo units.

For the three months ended August 31, 2013, our sales increased \$136,000 to \$2,519,000 or 6% as compared to \$2,383,000 for the three months ended August 31, 2012. During the three month period ended August 31, 2013, we experienced a decrease in sales of our fluxer units. The decrease in these sales was offset by an increase in sales of our XYZ units, servo units and nozzles and related generator units.

For the six months ended August 31, 2013, our gross profit decreased \$141,000 to \$2,317,000 from \$2,458,000 for the six months ended August 31, 2012. The gross profit margin was 48% of sales for the six months ended August 31, 2013 and 47% of sales for the six months ended August 31, 2012. The increase in our gross profit margin for the six months ended August 31, 2013 is due to an increase in sales of our nozzles and generators and widetrack units.

For the three months ended August 31, 2013, our gross profit increased \$67,000 to \$1,210,000 from \$1,143,000 for the three months ended August 31, 2012. The gross profit margin was 48% of sales for the three months ended August 31, 2013 and 2012. Our gross profit margin remained level at 48% due to the mix of products sold during the quarter and a reduction of labor costs in our manufacturing and service departments.

Research and product development costs decreased \$30,000 to \$457,000 for the six months ended August 31, 2013 from \$487,000 for the six months ended August 31, 2012. The decrease is due to reduced salary expense. For the three months ended August 31, 2013 and 2012, these costs remained level at \$232,000 and \$233,000.

Marketing and selling expenses decreased \$217,000 to \$989,000 for the six months ended August 31, 2013 from \$1,206,000 for the six months ended August 31, 2012. During the six months ended August 31, 2013, we experienced a decrease in international commission expense of \$231,000 and decreased trade show and advertising expenses of \$39,000. The decrease in commission and trade show expenses was offset by an increase in salaries.

For the three months ended August 31, 2013, marketing and selling expenses decreased \$53,000. During the three months ended August 31, 2013, we experienced decreases in commissions and trade show expenses.

General and administrative costs decreased \$151,000 to \$523,000 for the six months ended August 31, 2013 from \$674,000 for the six months ended August 31, 2012. These costs decreased \$62,000 to \$254,000 for the three months ended August 31, 2013 from \$316,000 for the three months ended August 31, 2012. The decrease was due to decreased corporate expenses, decreased salaries, decreased professional fees, decreased stock based compensation expense and a decrease in outside consulting fees related to strategic opportunities and enhanced growth opportunities.

Rental Real Estate Operations:

For the six months ended August 31, 2013, our real estate operations generated \$39,000 in rental income from unrelated third parties and incurred \$70,000 in operating expenses and \$54,000 in interest expense, resulting in a net loss of \$85,000 for the six months ended August 31, 2013.

For the three months ended August 31, 2013, our real estate operations generated \$19,000 in rental income from unrelated third parties and incurred \$36,000 in operating expenses and \$27,000 in interest expense, resulting in a net loss of \$44,000 for the three months ended August 31, 2013. We are presently working with an independent real estate broker to lease our vacant warehouse space.

Condensed Consolidated Results:

We had net income of \$179,000 for the six months ended August 31, 2013 as compared to net income of \$71,000 for the six months ended August 31, 2012. During the three months ended August 31, 2013, we had net income of \$105,000 as compared to net income of \$60,000 for the three months ended August 31, 2012.

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-K for the year ended February 28, 2013.

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 for the deferred tax asset. During the fiscal year ended February 28, 2009, the Company increased the valuation reserve for the deferred tax asset. In the event that actual results differ from these estimates, the Company may need to again adjust such valuation reserve.

Stock-Based Compensation

The computation of the expense associated with stock-based compensation requires the use of a valuation model. ASC 718 is a complex accounting standard, the application of which requires significant judgment and the use of estimates, particularly surrounding Black-Scholes assumptions such as stock price volatility, expected option lives, and expected option forfeiture rates, to value equity-based compensation. The Company currently uses a Black-Scholes option pricing model to calculate the fair value of its stock options. The Company primarily uses historical data to determine the assumptions to be used in the Black-Scholes model and has no reason to believe that future data is likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility and future stock award exercise experience could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards. ASC 718 requires the recognition of the fair value of stock compensation in net income. Although every effort is made to ensure the accuracy of the Company's estimates and assumptions, significant unanticipated changes in those estimates, interpretations and assumptions may result in recording stock option expense that may materially impact our financial statements for each respective reporting period.

Impact of New Accounting Pronouncements

Accounting pronouncements issued but not yet effective have been deemed to be not applicable or the adoption of such accounting pronouncements are not expected to have a material impact on the financial statements of the Company.

ITEM 3 - Quantitative and Qualitative Disclosures about Market Risk

The Company does not issue or invest in financial instruments or derivatives for trading or speculative purposes. Substantially all of the operations of the Company are conducted in the United States, and, as such, are not subject to material foreign currency exchange rate risk. Although the Company's assets included \$2,502,000 in cash, the market rate risk associated with changing interest rates in the United States is not material.

ITEM 4 – 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, 2013. 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 second fiscal quarter of 2014 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Note Required for Smaller Reporting Companies

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits and Reports

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.

101.INS – XBRL Instance Document.

101.SCH – XBRL Taxonomy Extension Schema Document

101.CAL – XBRL Taxonomy Calculation Linkbase Document

101.DEF – XBRL Taxonomy Extension Definition Linkbase Document

101.LAB – XBRL Extension Label Linkbase Document

101.PRE – XBRL Taxonomy Extension Presentation Linkbase Document

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 15, 2013

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