

SONO TEK CORP
Form 10-Q
July 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: May 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)

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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

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>	Outstanding as of July 2, 2013
Common Stock, par value \$.01 per share	14,503,010

SONO-TEK CORPORATION

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SONO-TEK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	May 31, 2013 (Unaudited)	February 28, 2013
Current Assets:		
Cash and cash equivalents	\$2,443,065	\$1,940,906
Marketable Securities	973,400	975,910
Accounts receivable (less allowance of \$23,000 and \$20,000 at May 31 and February 28, respectively)	859,615	941,032
Inventories, net	1,703,121	1,829,171
Prepaid expenses and other current assets	77,159	79,605
Total current assets	6,056,360	5,766,624
Land	250,000	250,000
Buildings, net	2,150,322	2,170,409
Equipment, furnishings and building improvements, net	641,827	683,368
Intangible assets, net	111,206	106,022
Deferred tax asset	90,021	90,021
TOTAL ASSETS	\$9,299,736	\$9,066,444

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	\$348,533	\$408,738
Accrued expenses	573,852	477,027
Customer Deposits	198,222	68,846
Current portion of long term debt	126,917	125,999
Income taxes payable	26,519	6,331
Total current liabilities	1,274,043	1,086,941
Long term debt, less current maturities	1,955,269	1,987,236
Total liabilities	3,229,312	3,074,177
Stockholders' Equity		
Common stock, \$.01 par value; 25,000,000 shares authorized, 14,503,010 shares issued and outstanding, at May 31 and February 28	145,030	145,030
Additional paid-in capital	8,714,011	8,709,601
Accumulated deficit	(2,788,617)	(2,862,364)
Total stockholders' equity	6,070,424	5,992,267
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$9,299,736	\$9,066,444

See notes to condensed consolidated financial statements.

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SONO-TEK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended May	
	31,	
	2013	2012
Net Sales	\$2,374,394	\$2,839,702
Cost of Goods Sold	1,232,979	1,490,004
Gross Profit	1,141,415	1,349,698
Operating Expenses		
Research and product development costs	225,594	254,070
Marketing and selling expenses	489,010	652,912
General and administrative costs	269,090	358,546
Rental operations expense	34,482	29,020
Total Operating Expenses	1,018,176	1,294,548
Operating Income	123,239	55,150
Interest Expense	(27,775)	(28,970)
Other (expense) income	(1,528)	(7,940)
Income Before Income Taxes	93,936	18,240
Income Tax Expense	20,188	7,140
Net Income	\$73,748	\$11,100
Basic Earnings Per Share	\$0.01	\$0.00
Diluted Earnings Per Share	\$0.01	\$0.00
Weighted Average Shares - Basic	14,503,010	14,459,579
Weighted Average Shares - Diluted	14,559,441	14,570,514

See notes to condensed consolidated financial statements.

SONO-TEK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended May	
	31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$73,748	\$11,100
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	82,923	83,576
Stock based compensation expense	4,410	10,964
Allowance for doubtful accounts	3,000	3,000
Inventory reserve	13,343	-
Decrease (Increase) in:		
Accounts receivable	78,417	(307,798)
Inventories	112,707	26,561
Prepaid expenses and other current assets	2,446	(5,483)
(Decrease) Increase in:		
Accounts payable and accrued expenses	36,620	28,175
Customer Deposits	129,376	(45,109)
Income taxes payable	20,188	(30,866)
Net Cash Provided by (Used In) Operating Activities	557,178	(225,880)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Patent application costs	(7,782)	(24,115)
Purchase of equipment and furnishings	(18,698)	(9,412)
Sale (Purchase) of marketable securities	2,510	(400,106)
Net Cash (Used In) Investing Activities	(23,970)	(433,633)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable and loans	(31,049)	(29,862)
Proceeds from exercise of options	-	9,006
Net Cash (Used In) Financing Activities	(31,049)	(20,856)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	502,159	(680,369)
CASH AND CASH EQUIVALENTS		
Beginning of period	1,940,906	2,531,689
End of period	\$2,443,065	\$1,851,320
SUPPLEMENTAL DISCLOSURE:		
Interest paid	\$27,775	\$28,970

Taxes Paid	\$0	\$38,848
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See notes to condensed consolidated financial statements.

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SONO-TEK CORPORATION

Notes to Condensed Consolidated Financial Statements

Three Months Ended May 31, 2013 and 2012

(Unaudited)

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, a New York Limited Liability Company, operates as a real estate holding company for the Company’s real estate operations and started operating in December 2010.

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 - Effective June 1, 2008, 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.

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

The fair values of financial assets of the Company were determined using the following categories at May 31, 2013 and February 28, 2013:

	Quoted Prices in Active Markets (Level 1)	
	May 31, 2013	February 28, 2013
Marketable Securities	\$ 973,400	\$ 975,910

Marketable Securities include mutual funds of \$973,400, that are considered to be highly liquid and easily tradeable as of May 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.

In addition, the guidance of the Fair Value Option for Financial Assets and Financial Liabilities Topic of the Codification was effective for June 1, 2008. The guidance expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value.

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 \$98,230 and \$95,634 at May 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.

NOTE 2: INVENTORIES

Inventories consist of the following:

	May 31, 2013	February 28, 2013
Finished goods	\$507,352	\$561,298
Work in process	427,916	385,092
Consignment	-	9,728
Raw materials and subassemblies	981,635	1,073,492
Total	1,916,903	2,029,610
Less: Allowance	(213,782)	(200,439)
Net inventories	\$1,703,121	\$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 May 31, 2013, there were 1,322,718 options outstanding under the 2003 plan, under which no additional options may be granted.

NOTE 4: STOCK BASED COMPENSATION

The weighted-average fair value of options are estimated on the date of grant using the Black-Scholes options-pricing model. For the three months ended May 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 three months ended May 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 \$4,410 and \$10,964 in additional compensation expense during the three months ended May 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

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

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	Three Months Ended May 31,	
	2013	2012
Denominator for basic earnings per share	14,503,010	14,459,579
Dilutive effect of stock options	56,431	110,935
Denominator for diluted earnings per share	14,559,441	14,570,514

NOTE 6: LONG TERM DEBT

Long-term debt consists of the following:

	May 31, 2013	February 28, 2013
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.	\$1,956,329	\$1,972,617
Equipment loan, bank, collateralized by related production equipment, payable in monthly installments of principal and interest of \$5,158 through June 2015. Interest rate 2.12%. 48 month term.	125,857	140,618
Total long term debt	2,082,186	2,113,235
Due within one year	126,917	125,999
Due after one year	\$1,955,269	\$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 May 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 May 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 spray coating systems, which is the business of developing, manufacturing, selling, installing and servicing ultrasonic spray coating equipment; and real estate operations, which is the business of owning and operating the Sono-Tek Industrial Park.

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

	Three Months Ended May 31, 2013				Three Months Ended May 31, 2012			
	Rental Real		Eliminations	Consolidated	Rental Real		Eliminations	Consolidated
	Ultrasonic Spraying	Estate Operations			Ultrasonic Spraying	Estate Operations		
Net Sales	\$2,353,979	\$54,350	\$33,935	\$2,374,394	\$2,818,857	\$54,779	\$33,934	\$2,839,702
Rental Expense	\$33,935	\$34,482	\$(33,935)	\$34,482	\$33,934	\$29,020	\$(33,934)	\$29,020
Interest Expense	\$726	\$27,049		\$27,775	\$1,051	\$27,919		\$28,970
Net Income (Loss)	\$80,928	\$(7,180)		\$73,748	\$13,260	\$(2,160)		\$11,100
Assets	\$6,821,131	\$2,478,605		\$9,299,736	\$6,918,542	\$2,513,137		\$9,431,679
Debt	\$125,858	\$1,956,328		\$2,082,186	\$184,477	\$2,020,161		\$2,204,638

NOTE 9: SUBSEQUENT EVENTS

The Company has evaluated subsequent events for disclosure purposes.

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 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.

Today we serve six major industries: electronics, advanced energy (solar and fuel cells), medical device, glass, textiles and food.

A majority of our sales now 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 were introduced, the new markets that were 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 (OEM), 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, as per 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 semi-conductor industry. The semi-conductor industry utilizes our ultrasonic atomizing nozzles for the application and deposition of photo-resist onto semiconductor wafers. A particular sector of the semi-conductor 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 also 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.

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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.

The textiles industry has yet to fully recover from the recent economic downturn related to the declines in new housing construction (carpets), automotive and clothing (fabrics).

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 to 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 original equipment manufacturers 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.

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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.

4. 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.

5. 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.

6. 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 3 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.

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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 \$102,000 from a working capital of \$4,680,000 at February 28, 2013 to \$4,782,000 at May 31, 2013. The increase in working capital is due to the current period's net income of \$73,000, offset by cash outflows of \$8,000 for patent application costs, \$19,000 for the purchase of equipment and furnishings, \$31,000 for the repayments of notes payable and \$3,000 for investment expenses. In addition, we incurred non-cash expenses for depreciation and amortization of \$83,000, stock based compensation expense of \$4,000 and \$3,000 for our accounts receivable reserve. The Company's current ratio is 4.75 to 1 at May 31, 2013 as compared to 5.3 to 1 at February 28, 2013.

Our inventories decreased \$126,000 from \$1,829,000 at February 28, 2013 to \$1,703,000 at May 31, 2013. The decrease in our inventories is due to a reduction in our purchases from outside vendors. Our purchasing continues to be on an as needed basis, dependent upon our sales forecast and product lines.

Our customer deposits on hand increased \$129,000 from \$68,000 at February 28, 2013 to \$198,000 at May 31, 2013. The increase in customer deposits is due to sales that we expect to complete in the current fiscal year.

Stockholders' Equity – Stockholder's Equity increased \$78,000 from \$5,992,000 at February 28, 2013 to \$6,070,000 at May 31, 2013. The increase is a result of net income of \$74,000 and stock based compensation expense of \$4,000.

Operating Activities – Our operating activities provided \$557,000 of cash for the three months ended May 31, 2013 as compared to using \$226,000 for the three months ended May 31, 2012. During the three months ended May 31, 2013, accounts receivable decreased \$78,000, inventories decreased \$113,000, prepaid expenses decreased \$3,000, accounts payable and accrued expenses increased \$37,000, customer deposits increased \$129,000 and income taxes payable increased \$20,000 compared to the prior year's period. In addition, in the current period we incurred non-cash expenses of \$83,000 for depreciation and amortization, \$4,000 for stock based compensation expense \$3,000 for bad debt expense and \$13,000 for our inventory reserve.

Investing Activities – We used \$19,000 for the purchase of capital equipment, \$8,000 for patent application costs and \$3,000 for investment expenses during the three months ended May 31, 2013. We used \$9,000 for the purchase of capital equipment, \$24,000 for patent application costs and \$400,000 for the purchase of marketable securities during the three months ended May 31, 2012.

Financing Activities – For the three months ended May 31, 2013 we used \$31,000 for the repayment of our notes payable. For the three months ended May 31, 2012 we used \$30,000 for the repayment of our notes payable and had proceeds from stock option exercises of \$9,000.

Net Increase in Cash – For the three months ended May 31, 2013, our cash balance increased by \$502,000 as compared to a decrease of \$680,000 for the three months ended May 31, 2012. During the three months ended May 31, 2013, our operations provided \$557,000 of cash, we used \$24,000 in investing activities and we used \$31,000 in our financing activities.

During the three months ended May 31, 2013, we shipped four large Widetrack units to Asia. Our negotiated payment terms for these sales, required the customer to provide irrevocable letters of credit to the Company. We collected approximately \$507,000 in cash directly related to these four sales during the three months ended May 31, 2013.

Results of Operations

Ultrasonic Spraying Systems Segment:

For the three months ended May 31, 2013, our sales decreased \$465,000 to \$2,354,000 as compared to \$2,819,000 for the three months ended May 31, 2012. During the three month period ended May 31, 2013, we experienced a decrease in sales of our Stentcoaters, XYZ platform units and Servo Units. These decreases were offset by an increase in sales of our Widetrack Units, nozzles and related generator units and fluxer units.

Sales of our Stentcoaters, XYZ platform units, Widetrack Units and Servo Units vary from quarter to quarter. We have seen the demand for our products fluctuate and demand is dependent upon market conditions. The continuing expansion of our product lines has reduced our dependence on any specific market and provides us flexibility to adapt to changing economic conditions.

Our gross profit decreased \$208,000 to \$1,107,000 for the three months ended May 31, 2013 from \$1,315,000 for the three months ended May 31, 2012. The gross profit margin was 47% of sales for the three months ended May 31, 2013 and 2012.

Research and product development costs decreased \$28,000 to \$226,000 for the three months ended May 31, 2013 from \$254,000 for the three months ended May 31, 2012. The decrease is due to reduced salaries and research and development costs offset by an increase in depreciation.

Marketing and selling costs decreased \$164,000 to \$489,000 for the three months ended May 31, 2013 from \$653,000 for the three months ended May 31, 2012. During the three months ended May 31, 2013, we experienced a decrease in international commission expense of \$180,000 and decreased trade show and advertising expenses of \$17,000. The decrease in commission and trade show expenses was offset by an increase in salaries.

The decrease in international commission expense is due to four large sales that were shipped to Asia during the quarter. These Asian sales originated in house by our internal sales staff and, as such, no external commissions applied to these sales.

General and administrative costs decreased \$89,000 to \$269,000 for the three months ended May 31, 2013 from \$358,000 for the three months ended May 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 three months ended May 31, 2013, our real estate operations generated \$20,000 in rental income from unrelated third parties and incurred \$34,000 in operating expenses and \$27,000 in interest expense. Overall, the real estate operations incurred a net loss of \$41,000 for the three months ended May 31, 2013. The \$41,000 loss excludes any inter-company rent. We are presently working with an independent real estate broker to lease our vacant warehouse space.

Condensed Consolidated Results:

We had net income of \$74,000 for the three months ended May 31, 2013 as compared to \$11,000 for the three months ended May 31, 2012. The improvement in our results for the three months ended May 31, 2013 is due to a decrease in our research and product development costs, marketing and selling costs and our general and administrative costs.

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.

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 our

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.

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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. All of our sales transactions are completed in US dollars.

Although the Company's assets included \$2,443,000 in cash and \$973,000 in marketable securities, 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 May 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 first 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
None 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 Extension Calculation Linkbase Document

101.DEF — XBRL Taxonomy Extension Definition Linkbase Document

101.LAB — XBRL Taxonomy 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: July 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