

SONO TEK CORP  
Form 10-K  
May 23, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended: **February 28, 2011**

Commission File Number: 0-16035

**SONO-TEK CORPORATION**

(Name of registrant as specified in its charter)

|   |                                      |
|---|--------------------------------------|
| NEW YORK  | 14-1568099                           |
| (State or other Jurisdiction of<br>Incorporation or Organization) | (IRS Employer Identification Number) |

|  |            |
|--|------------|
| 2012 Route 9W, Milton, New York          | 12547      |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant's Telephone Number, Including Area Code: **(845) 795-2020**

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act: **Common Stock, \$.01 par value**

(Title of Class)

Indicate by checkmark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.  Yes  No

Indicate by checkmark 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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by checkmark 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. (Check One):

Large Accelerated Filer  Accelerated Filer  Non-accelerated Filer  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

As of August 31, 2010, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately \$11,014,289 computed by reference to the average of the bid and asked prices of the Common Stock on said date, which average was \$.90.

The Registrant had 14,441,511 shares of Common Stock outstanding as of May 2, 2011.

DOCUMENTS INCORPORATED BY REFERENCE: None.

## **PART I**

### **ITEM 1 DESCRIPTION OF BUSINESS**

#### Organization and Business

Sono-Tek Corporation (the “Company”, “Sono-Tek”, “We” or “Our”) was incorporated in New York on March 21, 1975 for the purpose of engaging in the development, manufacture and sale of ultrasonic liquid atomizing nozzles. Ultrasonic nozzle systems atomize low to medium viscosity liquids by converting electrical energy into mechanical motion in the form of high frequency ultrasonic vibrations that break liquids into minute drops that can be applied to surfaces at low velocity. The principal advantage of these nozzle systems is that they use much less liquid than competitive nozzle systems to attain the required coatings on solar cells, fuel cells, glass, textiles, food and food packaging, circuit boards, medical devices and many other coating applications. This advantage translates into lower costs for materials, less water consumption, less energy required for subsequent drying operations and less release into the environment of spray that would normally bounce back with competitive nozzle systems. These factors are increasingly important to customers at a time of rising commodity and energy costs and supply limitations.

We use our core technology – ultrasonic spray coating – to provide customized coating solutions to a wide range of industrial manufacturing companies, enabling them to reduce their product costs and to develop new products with superior features and quality.

At the present time, our customers are in six major industries: electronics, advanced energy (solar and fuel cells), medical device, glass, textiles and foods. Our diversified group of customers provides the base for both financial stability and business growth opportunities.

In addition, our systems are being used under confidentiality agreements by leading high tech companies and research institutions, as well as by defense, energy and health agencies of governments from around the world.

#### Markets

An outcome of our rapid growth and diversification program over the past two 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.

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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 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 for the territory of USA and Canada.

## **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 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 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 include: MediCoat I; Medicoat II; Medicoat SPI; AccuMist; MicroMist.

## **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 global glass manufacturers as their equipment of choice. With a price tag of around \$250,000 per installation, and with the return of the glass manufacture industry to a healthier business state, we are looking forward toward growth in this part of our business portfolio.

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 recover from the recent economic downturn related to the declines in new housing construction (carpets), automotive and clothing (fabrics).

This industry coats 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 a few 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 capital investment budgets, as soon as the general economy improves.

## **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 introduced our ultrasonic coating systems to various segments of the food industry. These include: baked goods, dairy, meat and biodegradable food packaging. The leading applications are coating of flavors, oils, nutraceuticals, anti-microbial agents, decorative glazes and coating of moisture barrier compounds on films, trays and cups. 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.

3. SonoFlux Servo – a new 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.

5. WideTrack – Wide area modular coating system – 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 number of systems have been sold over the past four 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. It is designed to be used in applications that require efficient web-coating or wide area spraying capability. 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. Advanced Energy Applications – We now offer a line of equipment for applications involving 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 are robotic XYZ platforms that position and move our nozzle systems in a precise application pattern. We have also introduced a new product, the Hypersonic, a high speed reciprocator spraying system for this market. We have seen increasing sales in these growing industries, especially when combined with a novel ultrasonic syringe pump (patent pending) to agitate and suspend the carbon based suspensions needed in fuel cell applications.

### Other Product Offerings

We have an exclusive distribution relationship with EVS International. Ltd. (“EVS”), a U.K. Company, to distribute EVS’s line of solder recovery systems and spares 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 Sono-Tek’s existing customer base for spray fluxer sales in the printed circuit board industry.

### Manufacturing

We purchase circuit board assemblies and sheet metal components from outside suppliers. These materials are available from a wide range of suppliers throughout the world. All raw materials used in our products are readily available from many different domestic suppliers. We also purchase certain systems and subsystems to supplement our in house manufacturing. These items are integrated with our ultrasonic system technology to meet specific applications. We provide a limited warranty on all of our products covering parts and labor for a period of one year from the date of sale.

We recently purchased the industrial park in which we have leased space for twenty years. The park has 50,000 square feet of leaseable area and we presently use more than half the space at the present time. The purchase of the park will allow us to expand in the future without the need for relocation.

We have a business and quality control system that meets the qualifications of ISO 9001/2000. We were ISO 9001 registered in September 1998 and we have been recertified annually since then.

### Research and Development

We believe that our long-term growth and stability is linked to the development and release of products that provide solutions to customer needs across a wide spectrum of industries, while advancing the utility of our core technology. We expended approximately \$823,000 and \$718,000 for Fiscal Years 2011 and 2010, respectively, on new engineering and product development. In addition, we added application engineers to our sales organizations, and these engineers work closely with customers and technical staff to develop new applications for our technology and equipment.



### Patents and Licenses

Our business is based in part on the technology covered by our United States patents. We also rely on unpatented know-how in the design and production of our nozzle systems. We have executed non-disclosure and non-compete agreements with all of our employees to safeguard our intellectual property. We execute reciprocal non-disclosure agreements with our key customers to safeguard any jointly developed intellectual property. We also have an exclusive license from Cornell University for a patented vacuum deposition system using our ultrasonic nozzles.

During the fiscal year ended February 28, 2011, we have made significant progress on building our intellectual property portfolio. We have a patent pending covering a new design for our entire line of nozzle systems. We have also applied for patents on the following projects:

- New air shaping technology (US - Chinese patent applications).
- New ultrasonic atomizing nozzle methods for the food industry.
- New type of ultrasonic syringe pump for fuel cell liquids and other nano particle suspensions.

In addition, the United States Patent and Trademark Office granted us a patent for a process for coating three dimensional substrates with thin organic films and products. This process uses our ultrasonic nozzles to produce micro-droplets in a vacuum chamber, which then produce a smooth, continuous, uniform conformal coating on various surfaces such as cardiovascular stents, diabetes monitors and other implantable medical devices. We also were recently granted a patent for a novel ultrasonic nozzle design based on ceramic materials, that can achieve very high frequencies, smaller droplets and higher flow rates.

### Marketing and Distribution

Our products are marketed and distributed through independent distributors, sales representatives, or sales representative companies, OEMs, and through an in-house direct sales force. Many of our sales leads are generated from our Internet web site and from attendance at major industry trade shows.

In addition to the above, we have engaged an external marketing firm to expand awareness of our products in our targeted industries, and make use of the internet with our web page and other techniques.

Competition

We operate in competitive markets in the electronics and stent coating industries. We compete against global and regional manufacturers based on price, quality, product features and follow up service. We maintain our competitive position by providing highly effective solutions that meet our customers' requirements and needs. In other markets, there is limited competition based on the uniqueness of the ultrasonic technology in these applications.

Significant Customers

We have significant geographic and market diversification. One customer accounted for 8.5% of our sales for Fiscal Year ended February 28, 2011.

Foreign and Export Sales

During Fiscal Years 2011 and 2010, sales to foreign customers accounted for approximately \$5,624,000 and \$4,736,000, or 57% and 65% respectively, of total revenues.

Employees

As of February 28, 2011, we employed forty-seven full-time employees and eight part-time employees. We believe that relations with our employees are generally good.

Available Information

We have filed reports, proxy statements and other information with the Securities and Exchange Commission. Copies of our reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the SEC, at SEC, Public Reference Section, 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the SEC's public reference facilities by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding us. The address of the SEC website is <http://www.sec.gov>. We will also provide copies of our Forms 8-K, 10-K, 10-Q, Proxy and Annual Report at no charge available through our website at <http://www.sono-tek.com> as soon as reasonably practicable after filing electronically such material with the SEC. Copies are also available, without charge, from Sono-Tek Corporation, 2012 Route 9W, Milton, NY 12547.

**ITEM 1A RISK FACTORS – Not Required for Smaller Reporting Companies.**

**ITEM 1B UNRESOLVED STAFF COMMENTS - None.**

**ITEM 2**      **DESCRIPTION OF PROPERTIES**

We own an industrial park located in Milton, NY. The industrial park consists of approximately 50,000 square feet of office and warehouse space. Approximately 25,000 square feet of the park is leased or available for lease at any given time. The property is subject to a twenty year mortgage.

Our offices, product development, manufacturing and assembly facilities are located in the industrial park. We presently utilize a 13,000 square foot building and 10,000 square feet of additional office and storage space in an adjacent building. We also use unleased portions of the remaining space for equipment storage and special product tests. Our current manufacturing areas consist of (i) a machine shop, (ii) a nozzle assembly/test area, (iii) an electronics assembly area, and (iv) a receiving and shipping area.



We presently maintain a sales and service office in Hong Kong and an equipment demonstration room in Shenzhen, China. The office and demonstration room are located on the premises of one of our product distributors.

**ITEM 3 LEGAL PROCEEDINGS – None**

**ITEM 4 RESERVED**

**PART II**

**ITEM 5 MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Prior to February 21, 2011, our Common Stock traded in the over-the-counter market on the OTC Bulletin Board. Since February 22, 2011 our common stock has been traded on the over-the-counter QB platform. The following table sets forth the range of high and low closing bid quotations for our Common Stock for the periods indicated.

|                | <b>YEAR<br/>ENDED<br/>FEBRUARY<br/>28,<br/>2011</b> |            | <b>YEAR<br/>ENDED<br/>FEBRUARY<br/>28,<br/>2010</b> |            |
|----------------|---|------------|---|------------|
|                | <b>HIGH</b>   | <b>LOW</b> | <b>HIGH</b>   | <b>LOW</b> |
| First Quarter  | \$1.13  | \$0.95     | \$0.55  | \$0.40     |
| Second Quarter | 1.00  | 0.86       | 0.72  | 0.42       |
| Third Quarter  | 1.05  | 0.70       | 1.25  | 0.62       |
| Fourth Quarter | 1.06  | 0.92       | 1.40  | 0.97       |

The above quotations are believed to represent inter-dealer quotations without retail markups, markdowns or commissions and may not represent actual transactions.

As of May 2, 2011, there were 206 shareholders of record of our Common Stock, according to our stock transfer agent. We estimate that we have between 1,000 and 1,400 beneficial shareholders of our common stock. The difference between the shareholders of record and the total shareholders is due to stock being held in street names at

our transfer agent.

We have not paid any cash dividends on our Common Stock since inception. We intend to retain earnings, if any, for use in our business and for other corporate purposes.

**ITEM 6    SELECTED FINANCIAL DATA – Not Required for Smaller Reporting Companies.**

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## **ITEM 7 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**

In the past two 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.

Most of our sales now originate outside the USA, 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 the company's future sales growth and enhanced profitability.

### **Liquidity and Capital Resources**

**Working Capital** - Our working capital increased \$247,000 from a working capital of \$3,075,000 at February 28, 2010 to \$3,322,000 at February 28, 2011. The increase in working capital is primarily a result of the current year's net income. Our current ratio is 3.1 to 1 at February 28, 2011, as compared to 3 to 1 at February 28, 2010.

**Stockholders' Equity** - Stockholders' equity increased \$647,000 from \$3,670,000 at February 28, 2010 to \$4,317,000 at February 28, 2011. The increase in stockholders' equity is the result of the current year's net income of \$594,000, stock based compensation of \$49,000 and the exercise of stock options for \$3,000.

**Operating Activities** - Our operating activities provided \$1,158,000 of cash for the year ended February 28, 2011 as compared to providing \$494,000 for the year ended February 28, 2010. During the year ended February 28, 2011, we had net income of \$594,000, accounts receivable increased \$12,000, inventories increased \$111,000, prepaid expenses increased \$74,000 and accounts payable, accrued expenses and customer deposits increased \$389,000. In addition, we incurred non-cash expenses of \$313,000 for depreciation and amortization, \$49,000 for stock based compensation expense and an increase in our allowance for doubtful accounts of \$10,000.

**Investing Activities** - For the year ended February 28, 2011, we used \$2,993,000 in our investing activities as compared to using \$255,000 for the year ended February 28, 2010. In 2011 we used \$2,540,000 for the purchase of land, buildings and improvements and \$249,000 for the purchase of marketable securities. In 2011 and 2010, we used \$195,000 and \$290,000, respectively, for the purchase or manufacture of equipment, furnishings and building improvements. In addition, in 2011 and 2010 we used \$9,000 and \$26,000, respectively, for patent application costs. The purchases of equipment and patent costs were offset by the sale of depreciable equipment of \$61,000 during the year ended February 28, 2010.

**Financing Activities** - Our financing activities provided \$1,731,000 of cash for the year ended February 28, 2011 as compared to providing \$76,000 for the year ended February 28, 2010. During the year ended February 28, 2011, we had proceeds of a note payable for \$2,100,000 for the purchase of land, buildings and improvements. We repaid the outstanding balance of our line of credit of \$350,000. We had proceeds of \$3,000 for stock option exercises and repayments of notes payable of \$22,000.

**Net Decrease in Cash** - For the year ended February 28, 2011, our cash balance decreased by \$104,000 as compared to an increase of \$315,000 for the year ended February 28, 2010. During the year ended February 28, 2011, our

operations provided \$1,158,000 of cash, we used \$2,993,000 in investing activities and our financing activities provided \$1,731,000 of cash.

We currently have a revolving credit line of \$750,000 and a \$250,000 equipment purchase facility, both of which are with a bank. The revolving credit line is collateralized by all of the assets of the Company and requires a 30 day annual payoff. As of February 28, 2011, we had no outstanding borrowings under the line of credit as compared to \$350,000 at February 28, 2010.

We had outstanding borrowings of \$3,000 under the equipment facility at February 28, 2011. The borrowings have repayment terms which vary from 36 – 60 months and bear interest at rates from 5.2% to 6.6%.

We had outstanding borrowings under a note payable of \$2,095,000 at February 28, 2011. The note is payable over 20 years and bears interest at 5.5%. The note payable is secured by a mortgage on our land and buildings.

### **Results of Operations**

For the year ended February 28, 2011, our sales increased by \$2,672,000 to \$9,914,000 as compared to \$7,242,000 for the year ended February 28, 2010, an increase of 37%. For the year ended February 28, 2011, we experienced an increase in sales in all of our product lines except for stent coater units and hypersonic units. Noteworthy increases took place in EZ-Flux units, Widetrack units and our Flexicoat and Exactacoat (XYZ) Platform units. Our sales to customers located in Asian countries increased by \$1,537,000 or 67% for the year ended February 28, 2011. Our sales to US based customers increased by \$1,781,000 or 71% for the year ended February 28, 2011.

Our gross profit increased \$1,098,000, to \$4,772,000 for the year ended February 28, 2011 from \$3,674,000 for the year ended February 28, 2010. Our gross margin percentage was 48% for the year ended February 28, 2011 compared to 51% for the year ended February 28, 2010. For the year ended February 28, 2011, our gross profit margin was impacted by a shift in the mix of products sold during the year. Compared to the year ended February 28, 2010, there was a decline in the number of stent coater units sold and an increase in our XYZ Platform units sold. Historically, our XYZ units have a lower gross profit margin when compared to our stent coater units. In addition, we experienced a lower gross profit margin on our Widetrack units this year as we utilized the resources of a subcontractor for the manufacture of some of these units. The outsourced units were manufactured in the United States under our supervision.

Research and product development costs increased \$105,000 to \$823,000 for the year ended February 28, 2011 as compared to \$718,000 for the year ended February 28, 2010. The increase is due to increased engineering personnel and engineering materials required by additional research and development and product development. The increase in these expenses was offset by a decrease depreciation expense.

Marketing and selling costs increased \$378,000 to \$2,180,000 for the year ended February 28, 2011 from \$1,802,000, for the year ended February 28, 2010. During the year ended February 28, 2011, our trade show and travel expenses increased by approximately \$129,000 when compared to the prior year. In addition, we also saw an increase in salaries, commissions, insurance and depreciation expenses.



General and administrative expense increased \$95,000 to \$1,167,000 for the year ended February 28, 2011 from \$1,072,000, for the year ended February 28, 2010. During the year ended February 28, 2011, we saw an increase in salaries, insurance, consulting and corporate expenses. The increase in these expenses was offset by a decrease in bad debt expense and stock based compensation expense.

Interest income remained flat at \$2,000 for the years ended February 28, 2011 and 2010. Our present investment policy is to invest excess cash in short term cash equivalents with an S & P rating of at least A1+.

Interest expense decreased \$2,000 to \$8,000 for the year ended February 28, 2011 as compared to \$10,000 for the year ended February 28, 2010. The decrease in interest expense is due to decreased borrowing under our line of credit.

Income from real estate operations is the net income from the Company's operation of the Milton Industrial Park which was purchased in December 2010 and began operating January 2011.

Income tax expense was \$14,500 for the year ended February 28, 2011 as compared to a benefit of \$2,000 for the year ended February 28, 2010.

For the year ended February 28, 2011, we had net income of \$594,000 compared to \$82,000 for the year ended February 28, 2010. The improvement in our net income is due primarily to an increase in sales.

### **Critical Accounting Policies**

The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's 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 its critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, please see the notes to the Company's consolidated financial statements.

*Accounting for Income Taxes*

As part of the process of preparing the consolidated financial statements, the Company is required to estimate 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. We currently use a Black-Scholes option pricing model to calculate the fair value of stock options. We primarily use historical data to determine the assumptions to be used in the Black-Scholes model and have 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 pronouncement is not expected to have a material impact on the financials.

**ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK – Not Required for Smaller Reporting Companies.**

**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our financial statements are presented on pages 29 to 45 of this Report.

**ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE – None.**

**ITEM 9A CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures

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Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Act") as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of such date, at a reasonable level of assurance, in ensuring that the information required to be disclosed by us in the reports we file or submit under the Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

#### Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chairman & CEO (principal executive officer) and Chief Financial Officer (principal accounting officer), we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management has concluded that our internal control over financial reporting was effective as of February 28, 2011. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting pursuant to temporary rules of the Securities and Exchange Commission.

#### Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 9B OTHER INFORMATION - None.**

**PART III**

**ITEM 10 DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

(a) Identification of Directors

| <u>Name</u>              | <u>Age</u> | <u>Position with the Company</u>                 |
|--------------------------|------------|--|
| Christopher L. Coccio    | 70         | Chief Executive Officer, Chairman and a Director |
| Edward J. Handler, Esq.  | 74         | Director*  |
| Eric Haskell, CPA        | 64         | Director*  |
| Donald F. Mowbray        | 73         | Director   |
| Joseph Riemer            | 62         | President and Director                           |
| Samuel Schwartz          | 91         | Chairman Emeritus and Director                   |
| Philip A. Strasburg, CPA | 72         | Director*  |

\* Member of the Audit Committee.

The Board of Directors is divided into two classes. The directors in each class serve for a term of two years. The terms of the classes are staggered so that only one class of directors is elected at each annual meeting of the Company. The terms of Drs. Coccio and Riemer and Mr. Strasburg run until the annual meeting to be held in 2011. The terms of Dr. Mowbray and Messrs. Handler, Haskell and Schwartz run until the annual meeting to be held in 2012, and in each case until their respective successors are duly elected and qualified.

**Audit Committee**

The Company's Board of Directors has an Audit Committee composed of Edward J. Handler, Eric Haskell, CPA and Philip A. Strasburg, CPA, as Chairman of the Audit Committee. The "audit committee financial expert" designated by the Board is Philip A. Strasburg. The Company considers Mr. Strasburg to be an "independent director".

The Audit Committee is responsible for (i) selecting an independent public accountant for ratification by the stockholders, (ii) reviewing material accounting items affecting the consolidated financial statements of the Company, and (iii) reporting its findings to the Board of Directors.

Nominating Committee

There have been no changes to the procedures by which shareholders may recommend nominees to the Board of Directors.

Identification of Executive Officers

| Name                   | Age | Position with the Company                        |
|------------------------|-----|--|
| Stephen J. Bagley, CPA | 48  | Chief Financial Officer                          |
| Christopher L. Coccio  | 70  | Chief Executive Officer, Chairman and a Director |
| R. Stephen Harshbarger | 43  | Vice President – Director of Advanced Energy SBU |
| Joseph Riemer          | 62  | President and Director                           |

The foregoing officers are elected for terms of one year or until their successors are duly elected and qualified or until terminated by the action of the Board of Directors. There are no arrangements or understandings between any executive officer and any other persons(s) pursuant to which he was or is to be selected as an officer.

### Business Experience

STEPHEN J. BAGLEY, CPA was appointed Chief Financial Officer in June 2005. From 1987 to 1991 he worked in public accounting in various capacities. From 1992 to 2005, he held various leadership positions as Controller, Chief Financial Officer and Vice President of Finance for companies with up to \$45,000,000 in revenues. Mr. Bagley earned a Bachelor of Science degree from The State University of NY – College at Oneonta and an MBA from Marist College. He was licensed as a CPA in 1990. Mr. Bagley is a volunteer member of the Audit and Finance Committee for the New Paltz Central School District.

DR. CHRISTOPHER L. COCCIO was appointed President and Chief Executive Officer of Sono-Tek on April 30, 2001, has been a Director of the Company since June 1998, and was appointed Chairman in August 2007. From 1964 to 1996, he held various engineering, sales, marketing and management positions at General Electric Company, with P&L responsibilities for up to \$100 million in sales and 500 people throughout the United States. He also won an ASME Congressional Fellowship and served with the Senate Energy Committee in 1976. His business experience includes both domestic and international markets and customers. He founded a management consulting business in 1996, and was appointed a legislative Fellow on the New York State Assembly's Legislative Commission on Science and Technology from 1996 to 1998. From 1998 to 2001, he worked with Accumetrics Associates, Inc., a manufacturer of digital wireless telemetry systems, as Vice President of Business Development and member of the Board of Advisors. Dr. Coccio received a B.S.M.E. from Stevens Institute of Technology, an M.S.M.E. from the University of Colorado, and a Ph.D. from Rensselaer Polytechnic Institute in Chemical Engineering.

*Key attributes, Experience and Skills:* Dr. Coccio brings his strategic vision for our Company to the Board together with his leadership, business experience and investor relations skills. Dr. Coccio has an immense knowledge of our Company and its related applications which is beneficial to the Board. Dr. Coccio's service as Chairman and CEO bridges a critical gap between the Company's management and the Board, enabling the Board to benefit from management's perspective on the Company's business while the Board performs its oversight function.

EDWARD J. HANDLER, III, Esq., is a retired partner from Kenyon & Kenyon, a law firm that provided intellectual property advice to the Company. Mr. Handler became a Director of the Company on October 1, 2004, coincident with his retirement from his law firm. Mr. Handler has 40 years experience in all aspects of intellectual property, including patents, trade secrets, trademarks and copyrights, including litigation and other adversarial proceedings. Mr. Handler is President and COO of The Bronx Project, Inc., a private Delaware corporation active in the area of therapeutics for acute (CNS) inflammatory conditions. Mr. Handler is past President of the West Point Society of New York and a past Trustee of the Association of Graduates, U.S. Military Academy. He holds a J.D. degree from the University of Virginia Law School and a B.S. in Engineering Science from the United States Military Academy.





*Key attributes, Experience and Skills:* Mr. Handler's extensive experience as an attorney enables him to bring valuable strategic insights to the Board. Mr. Handler's past experience as the Company's intellectual property attorney provides him with an in depth knowledge of the Company and its related market applications. Mr. Handler also brings leadership and oversight experience to the Board.

R. STEPHEN HARSHBARGER has been Vice President of the Company since June 2000. He joined the Company in October 1993 as a Sales Engineer and served in various sales management capacities from 1997 to 2000. Prior to joining the Company, Mr. Harshbarger was the Sales and Marketing Coordinator at Plasmaco, Inc., a developer and manufacturer of state-of-the-art flat panel displays. He is a graduate of Bentley College, with a major in Finance and a minor in Marketing.

ERIC HASKELL, CPA has been a Director since August 2009. He has over 30 years of experience in senior financial positions at several public and private companies. He has significant expertise in the areas of acquisitions and divestitures, strategic planning and investor relations. From December 2005 through March 2008, Mr. Haskell served as the Executive Vice President and Chief Financial Officer of SunCom Wireless Holdings, Inc., a company providing digital wireless communications services which was publicly traded until its merger with a wholly-owned subsidiary of T-Mobile USA, Inc. in February 2008. He also served as a member of SunCom's Board of Directors from November 2003 through May 2007. From 1989 until April 2004, Mr. Haskell served as the Chief Financial Officer of Systems & Computer Technology Corp., a NASDAQ listed software and services corporation. Mr. Haskell received his Bachelors Degree in Business Administration from Adelphi University in 1969.

*Key attributes, Experience and Skills:* Mr. Haskell's training and extensive experience in financial management at both public and private companies provide the Board with valuable insights. Mr. Haskell's significant experience in acquisitions and divestitures and investor relations bring strategic judgement and experience to the Board. Mr. Haskell's strong operational and business background complement his accounting and finance experience and are valuable resources to the Board as it exercises its oversight duties and support of the Company's growth strategies.

DR. DONALD F. MOWBRAY has been a Director since August 2003. He has been an independent consultant since August 1997. From September 1992 to August 1997 he was the Manager of the General Electric Company's Corporate Research and Development Mechanical Engineering Laboratory. From 1962 to 1992 he worked for the General Electric Company in a variety of engineering and managerial positions. Dr. Mowbray received a B.S. in Aeronautical Engineering from the University of Minnesota in 1960, a Master of Science in Engineering Mechanics from the University of Minnesota in 1962 and a Ph.D. from Rensselaer Polytechnic Institute in Engineering Mechanics in 1968.

*Key attributes, Experience and Skills:* Dr. Mowbray's extensive research and managerial experience enables him to bring valuable insights to the Board. His knowledge of the Company's products and the materials sciences technology underlying them has enabled him to contribute to our advanced products development and designs. Dr. Mowbray also brings leadership and oversight experience to the Board from his GE management background.

DR. JOSEPH RIEMER joined the Company in January 2007 as Vice President of Engineering, became a Director in August 2007 and was appointed President in September 2007. Dr. Riemer holds a Ph.D. in Food Science and Technology from the Massachusetts Institute of Technology (MIT), focusing on food technology, food chemistry, biochemical analysis, and food microbiology. His experience includes seven years with Pfizer in its Adams Confectionary Division, where he was Director, Global Operations Development. Dr. Riemer has also held leading positions with several food, food ingredients, and personal care products companies. He has served in the capacities of research and development, operations, and general management. Prior to joining the Company, he was a management consultant serving clients in the food, biotech and pharmaceutical industries

*Key attributes, Experience and Skills:* Dr. Riemer's extensive research and management experience enables him to bring valuable insights to the Board. His extensive experience in the biotech, food and pharmaceutical industries bring specific product application insights to the Board. Dr. Riemer's service as President helps to bridge the gap between the Company's management and the Board. Dr. Riemer also brings leadership and oversight experience to the Board.

SAMUEL SCHWARTZ has been a Director of the Company since August 1987, and was Chairman of the Board from February 1993 to May 1999 and August 2001 to August 2007. From 1959 to 1992, he was the Chairman and Chief Executive Officer of Krystinel Corporation, a manufacturer of ceramic magnetic components used in electronic circuitry. He received a B.Ch.E. from Rensselaer Polytechnic Institute in 1941 and an M.Ch.E. from New York University in 1948.

*Key attributes, Experience and Skills:* Mr. Schwartz's long-time experience as a businessman and manufacturer enables him to bring valuable operational insights to the Board. Mr. Schwartz's experience as former Chairman of the Board enable him to bring operational insights to the Board. Mr. Schwartz also brings leadership and oversight experience to the Board.

PHILIP STRASBURG, CPA, has been a Director since August 2004. He is a retired partner from the firm of Anchin Block and Anchin, LLP and has 40 years of experience in auditing. He served as Audit Committee Chairman from August 2004 until February 2005, when he was elected Treasurer. Mr. Strasburg was reappointed Audit Committee chairman in May 2005 concurrent with his resignation as Treasurer. He was the lead partner on the Sono-Tek account from Fiscal 1994 to Fiscal 1996. Mr. Strasburg is a certified public accountant in New York State. He has a Master of Science in economics from The London School of Economics and Political Science and a Bachelors of Science degree from Lehigh University, where he majored in business administration.



*Key attributes, Experience and Skills:* Mr. Strasburg's training and extensive experience in auditing provide the Board with valuable insights and skills necessary to lead the Audit Committee. Mr. Strasburg's strong operational and business background complement his accounting and finance experience, and are valuable resources to the Board as it exercises its oversight duties and support of the Company's growth strategies.

(b) Identification of Certain Significant Employees

Not applicable.

(c) Family Relationships

None.

(d) Involvement in certain legal proceedings

None.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors, executive officers and persons who own more than ten percent of the Company's common stock to file with the Securities and Exchange Commission initial reports of beneficial ownership and reports of changes of beneficial ownership of common stock. Such persons are also required by Securities and Exchange Commission regulations to furnish the Company with copies of all such reports. Based solely on a review of such filings, during the year ended February 28, 2011, all of the Company's Directors and executive officers and holders of more than ten percent of the Company's stock have made timely filings of such reports.

Code of Ethics

The Company has adopted a Code of Ethics for senior executives and financial officers. The Board intends that this Code satisfy the requirements of the Securities and Exchange Commission rules for a Code of Ethics that applies to senior management. A copy of the Company's Code of Ethics is posted on the "information for investors" web page located at <http://www.sono-tek.com/corporate/page/91/88> and is available in print to any shareholder who requests a copy.

**ITEM 11 EXECUTIVE COMPENSATION**

The following table sets forth the aggregate remuneration paid or accrued by the Company for the Fiscal Years ended February 28, 2011 and 2010 for each named officer of the Company.

**Summary Compensation Table**

| Name and Principal Position                         | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock<br>Awards | Option<br>Awards<br>(\$) | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|---|------|----------------|---------------|-----------------|--------------------------|-----------------------------------|---------------|
| Christopher L. Coccio<br>CEO, Chairman and Director | 2011 | 198,462        | 26,000        | 0               | 0                        | 2,797                             | 227,259       |
|   | 2010 | 190,615        | 0             | 0               | 0                        | 1,446                             | 192,061       |
| Joseph Riemer, President                            | 2011 | 153,556        | 20,000        | 0               | 18,207                   | 3,471                             | 195,234       |
|   | 2010 | 147,368        | 0             | 0               | 22,382                   | 1,214                             | 170,964       |
| R. Stephen Harshbarger<br>Vice-President            | 2011 | 189,954        | 0             | 0               | 0                        | 3,799                             | 193,753       |
|   | 2010 | 141,599        | 0             | 0               | 0                        | 1,401                             | 143,000       |

All Other Compensation represents Company contributions to the Company's 401K plan.

Option awards in the above table are calculated using the Black-Scholes options pricing model which is further discussed in Note 4 – Stock Based Compensation, in the Company's financial statements.

**Officer Compensation Arrangements**

During the year ended February 28, 2011, Dr. Coccio was compensated at a rate of \$200,000 per annum. Effective April 1, 2011, the Board of Directors increased his salary to \$225,000 per annum.

During the year ended February 28, 2011, Dr. Riemer was compensated at a rate of \$150,000 per annum. Effective April 1, 2011, the Board of Directors increased his salary to \$170,000 per annum.

Mr. Harshbarger is compensated at a rate of \$75,000 per annum plus a commission on sales that his business unit originates.

**Outstanding Equity Awards At Fiscal Year End**

| Name                   | Number of Securities<br>Underlying Unexercised<br>Options (#) Exercisable | Number of Securities<br>Underlying Unexercised<br>Options (#) Unexercisable | Option<br>Exercise Price (\$) | Option<br>Expiration Date |
|------------------------|---|---|-------------------------------|---------------------------|
| Christopher L. Coccio  | 91,893  |   | 0.74                          | 11/12/2014                |
|                        | 50,000  |   | 0.74                          | 03/05/2018                |
|                        | 20,000  |   | 0.95                          | 05/19/2014                |
|                        | 100,000   |   | 1.00                          | 11/12/2014                |
|                        | 225,000   |   | 1.75                          | 11/12/2014                |
| Joseph Riemer          | 39,000  | 10,000  | 0.74                          | 03/05/2018                |
|                        | 50,000  |   | 0.95                          | 09/04/2017                |
|                        | 25,000  |   | 1.18                          | 04/13/2017                |
|                        | 22,500  | 27,500  | 1.04                          | 10/22/2019                |
|                        | 125,000 <sup>1</sup>  | 125,000   | 1.04                          | 2/28/2021                 |
| R. Stephen Harshbarger | 10,000  |   | 0.95                          | 5/19/2014                 |

<sup>1</sup> The Board of Directors waived the net income target under Dr. Riemer's option agreement dated October 22, 2009, permitting him to earn these options subject to the vesting schedule in the agreement.



Estimated Payments and Benefits Upon Termination or Change in Control

On September 1, 2007, the Company entered into identical Executive Agreements with Stephen J. Bagley, Chief Financial Officer, Christopher L. Coccio, Chief Executive Officer and Joseph Riemer, President. The Company also entered into this Executive Agreement with R. Stephen Harshbarger, Vice President, on March 5, 2008. In the event of a change of control of the Company followed by a termination of the executives' employment under certain circumstances, the Executive Agreements provide for severance payments to each officer equal to one year of the executive's annual base and bonus compensation paid by the Company for the previous calendar year.

Based on last year's salary arrangements, if the rights of the foregoing officers were to be triggered following a change of control, they would be entitled to the following payments from the Company: Stephen J. Bagley \$124,000, Christopher L. Coccio \$215,000, R. Stephen Harshbarger \$181,000 and Joseph Riemer \$162,000.

Compensation of Directors

Each non-employee director receives \$500 for each meeting attended. Committee Chairmen and committee members receive \$100 for each committee meeting attended. Directors who are employees of the Company receive no additional compensation for serving as directors. For the year ended February 28, 2011, director compensation was as follows:

**2011 Director Compensation**

| Name              | Fees<br>Earned<br>or Paid in<br>Cash (\$) | Stock<br>Awards (\$) | Option<br>Awards (\$) | Non-Equity<br>Incentive Plan<br>Compensation (\$) | Nonqualified<br>Deferred<br>Compensation<br>Earnings (\$) | All Other<br>Compensation (\$) | Total (\$) |
|-------------------|---|----------------------|-----------------------|---|---|--------------------------------|------------|
| Edward J. Handler | 1,500                                     | -                    | -                     | -   | -   | -                              | 1,500      |
| Eric Haskell      | 1,500                                     | -                    | 1,587                 | -   | -   | -                              | 3,087      |
| Donald F. Mowbray | 1,500                                     | -                    | -                     | -   | -   | -                              | 1,500      |
| Samuel Schwartz   | 1,500                                     | -                    | -                     | -   | -   | -                              | 1,500      |
| Philip Strasburg  | 1,500                                     | -                    | -                     | -   | -   | -                              | 1,500      |

The number of vested and unvested stock options held by non-employee directors as of February 28, 2011 was as follows:

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|                   | Number of<br>Vested Options | Number of<br>Unvested Options |
|-------------------|-----------------------------|-------------------------------|
| Edward J. Handler | 30,000                      | -                             |
| Eric Haskell      | 20,000                      | 20,000                        |
| Donald F. Mowbray | 40,000                      | -                             |
| Samuel Schwartz   | 50,000                      | -                             |
| Philip Strasburg  | 40,000                      | -                             |

**ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following information is furnished as of May 10, 2011 to indicate beneficial ownership of the Company's Common Stock by each Director, by each named executive officer who has a salary and bonus in excess of \$100,000, by all Directors and executive officers as a group, and by each person known to the Company to be the beneficial owner of more than 5% of the Company's outstanding Common Stock. Such information has been furnished to the Company by the indicated owners. Unless otherwise indicated, the named person has sole voting and investment power.

| Name (and address if more than 5% of Beneficial owner)                    | Amount Beneficially Owned | Percent |
|---|---------------------------|---------|
| Directors and Officers  |                           |         |
| *Christopher L. Coccio  | 1,011,484 <sup>1</sup>    | 6.78%   |
| *Edward J. Handler  | 127,508 <sup>2</sup>      | **      |
| *R. Stephen Harshbarger   | 10,000 <sup>3</sup>       | **      |
| *Eric Haskell   | —                         | **      |
| *Donald F. Mowbray  | 65,000 <sup>4</sup>       | **      |
| *Joseph Riemer  | 167,725 <sup>5</sup>      | 1.15%   |
| *Samuel Schwartz  | 1,585,147 <sup>6</sup>    | 10.8%   |
| *Philip A. Strasburg  | 75,000 <sup>7</sup>       | **      |
| All Executive Officers and Directors as a Group                           | 3,070,114 <sup>8</sup>    | 20.10%  |
| Additional 5% owners  |                           |         |
| Herbert Spiegel<br>425 East 58 <sup>th</sup> Street<br>New York, NY 10022 | 756,931                   | 5.24%   |
| Norwood Venture Corporation<br>65 Norwood Avenue<br>Montclair, NJ 07043   | 1,084,672                 | 7.51%   |
| Norman H. Pessin<br>366 Madison Avenue<br>New York, NY 10017              | 619,990                   | 4.29%   |
| Sandra Pessin<br>366 Madison Avenue<br>New York, NY 10017                 | 196,588                   | 1.36%   |

\*c/o Sono-Tek Corporation, 2012 Route 9W, Milton, NY 12547.

*\*\* Less than 1%*

<sup>1</sup> *Includes 2,000 shares in the name of Dr. Coccio's wife and 486,893 options currently exercisable issued under the Company's Stock Incentive Plans.*

<sup>2</sup> *Includes 61,579 shares owned jointly with Mr. Handler's wife, 35,929 shares in the name of Mr. Handler's wife and 30,000 options currently exercisable issued under the Company's Stock Incentive Plans.*

<sup>3</sup> *Represents 10,000 options currently exercisable under the Company's Stock Incentive Plans.*

<sup>4</sup> *Includes 40,000 options currently exercisable issued under the Company's Stock Incentive Plans.*

<sup>5</sup> *Includes 126,500 options currently exercisable issued under the Company's Stock Incentive Plans.*

<sup>6</sup> *Includes 50,000 options currently exercisable issued under the Company's Stock Incentive Plans.*

<sup>7</sup> *Includes 40,000 options currently exercisable issued under the Company's Stock Incentive Plans.*

<sup>8</sup> *The group total includes 831,393 options currently exercisable issued under the Company's Stock Incentive Plans. The group total includes 250 shares and 48,000 exercisable options held by Mr. Bagley.*

**Securities Authorized for Issuance Under Equity Compensation Plans:****EQUITY COMPENSATION PLAN INFORMATION**

|   | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|--|---|
|   | (a)   | (b)  | (c)   |
| Equity compensation plans approved by security holders: |   |  |   |
| 1993 Stock Incentive Plan                               | 40,000  | \$0.31   | -   |
| 2003 Stock Incentive Plan                               | 1,321,268   | \$1.12   | 109,000   |
| Total   | 1,361,268   |  | 109,000   |

**Description of Equity Compensation Plans:**1993 Stock Incentive Plan

Under the 1993 Stock Incentive Plan, as amended ("1993 Plan"), options have been granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase the Company's common shares. Options granted under the 1993 Plan expire on various dates through 2013. There can be no further grants under the 1993 Plan.

Under the 1993 Stock Incentive Plan, option prices were at least 100% of the fair market value of the common stock at time of grant. For qualified employees, except under certain circumstances specified in the 1993 plan or unless otherwise specified at the discretion of the Board of Directors, no option may be exercised prior to one year after date of grant, with the balance becoming exercisable in cumulative installments over a three year period during the term of the option.

2003 Stock Incentive Plan

Under the 2003 Stock Incentive Plan, as amended ("2003 Plan"), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares.

The 2003 Plan supplemented and replaced the 1993 Plan. Under the 2003 Stock Incentive Plan, option prices must be at least 100% of the fair market value of the common stock at time of grant. For qualified employees, except under certain circumstances specified in the 2003 plan or unless otherwise specified at the discretion of the Board of Directors, no option may be exercised prior to one year after date of grant, with the balance becoming exercisable in cumulative installments over a three year period during the term of the option.

**ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Independence of Directors

The Company's Board of Directors is comprised of five "independent directors", as that term is defined under NASDAQ rules, and two directors who are not "independent directors". The Company's "independent directors" are Samuel Schwartz, Donald Mowbray, Edward Handler, Eric Haskell and Philip Strasburg. Christopher Coccio and Joseph Riemer are employees of the Company and are therefore not independent.

**ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES**

Audit Fees

For the Fiscal Years ended February 28, 2011 and 2010, the Company paid or accrued fees of approximately \$44,500 and \$44,500 for services rendered by Sherb & Co., LLP, its independent auditors. These fees included audit and review services.

Audit Related Fees - None

Tax Fees

For the Fiscal Years ended February 28, 2011 and 2010, the Company paid or accrued tax preparation fees of approximately \$8,000 and \$5,500 for services rendered by Sherb & Co., LLP, its independent auditors.

All Other Fees – None

Pre-Approval Policies and Procedures

The Audit Committee's current policy is to pre-approve all audit and non-audit services that are to be performed and fees to be charged by our independent auditor to assure that the provision of these services does not impair the independence of the auditor. The Audit Committee pre-approved all audit and non-audit services rendered by our principal accountant in 2011 and 2010.



**PART IV**

**ITEM 15 EXHIBITS**

Ex. No. Description

- 3(a)<sup>1</sup> Certificate of Incorporation of the Company and all amendments thereto.
- 3(b)<sup>1</sup> By-laws of the Company as amended.
- 10(a)<sup>1</sup> Sono-Tek Corporation 1993 Stock Incentive Plan as amended.
- 10(b)<sup>1</sup> Sono-Tek Corporation 2003 Stock Incentive Plan.
- 10(c)<sup>2</sup> Equipment Line Credit Agreement between Sono-Tek Corporation and M&T Bank, dated March 24, 2005.
- 10(d)<sup>2</sup> General Security Agreement between Sono-Tek Corporation and M&T Bank, dated December 21, 2004.
- 10(e)<sup>3</sup> Executive Agreement between Sono-Tek Corporation and Stephen J. Bagley dated September 1, 2007.
- 10(f)<sup>3</sup> Executive Agreement between Sono-Tek Corporation and Christopher L. Coccio dated September 1, 2007.
- 10(g)<sup>3</sup> Executive Agreement between Sono-Tek Corporation and Joseph Riemer dated September 1, 2007.
- 10(h)<sup>4</sup> Executive Agreement between Sono-Tek Corporation and R. Stephen Harshbarger dated March 5, 2008.
- 10(i)<sup>5</sup> Non Plan Stock Option Agreement between Sono-Tek Corporation and Joseph Riemer dated October 22, 2009.
- 10(j)<sup>6</sup> Purchase Money Mortgage dated December 17, 2010, between Sono-Tek Industrial Park LLC and Jean K. Woodward.
- 10(k)<sup>6</sup> Contract of Sale dated December 17, 2010, between Sono-Tek Industrial Park LLC and Jean K. Woodward.
- 10(l)<sup>6</sup> Purchase Money Note dated December 17, 2010, between Sono-Tek Industrial Park LLC and Jean K. Woodward.
- 14<sup>7</sup> Code of Ethics.
- 21 Subsidiaries of Issuer.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 31.1 Rule 13a-14/15d – 14(a) Certification.
- 31.2 Rule 13a-14/15d – 14(a) Certification.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

<sup>1</sup>Incorporated herein by reference to the Company's Registration Statement No. 333-11913 on Form S-8 filed on February 18, 2004.

<sup>2</sup>Incorporated herein by reference to the Company's Form 10-KSB for the year ended February 28, 2005.

<sup>3</sup>Incorporated herein by reference to the Company's Form 10-QSB for the quarter ended August 31, 2007

<sup>4</sup>Incorporated herein by reference to the Company's Form 10-Q for the quarter ended May 31, 2008.

<sup>5</sup>Incorporated herein by reference to the Company's Form 10-K for the year ended February 28, 2010.

<sup>4</sup>Incorporated herein by reference to the Company's Form 10-Q for the quarter ended May 31, 2008.

<sup>6</sup>Incorporated herein by reference to the Company's Form 10-Q for the quarter ended November 30, 2010.

<sup>7</sup>Incorporated herein by reference to the Company's Form 10-KSB for the year ended February 29, 2004.

**SONO-TEK CORPORATION**

**FORM 10-K**

**ITEM 7**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES**

**FOR THE YEARS ENDED FEBRUARY 28, 2011 and FEBRUARY 28, 2010**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**CONSOLIDATED FINANCIAL STATEMENTS:**

Consolidated Balance Sheets at February 28, 2011 and February 28, 2010

Consolidated Statements of Operations

For the Years Ended February 28, 2011 and February 28, 2010

Consolidated Statements of Stockholders' Equity

For the Years Ended February 28, 2011 and February 28, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

Sono-Tek Corporation

Milton, New York

We have audited the accompanying consolidated balance sheets of Sono-Tek Corporation as of February 28, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years ended February 28, 2011 and 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sono-Tek Corporation, as of February 28, 2011 and 2010 and the results of their operation and their cash flows for each of the years then ended February 28, 2011 and 2010 in conformity with accounting principles generally accepted in the United States.

/S/ SHERB & CO., LLP

Certified Public Accountants

New York, New York

May 16, 2011

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**SONO-TEK CORPORATION****CONSOLIDATED BALANCE SHEETS**

|   | February 28,       |                    |
|---|--------------------|--------------------|
|   | 2011               | 2010               |
| <b>ASSETS</b>   |                    |                    |
| Current Assets:   |                    |                    |
| Cash and cash equivalents   | \$1,683,801        | \$1,787,516        |
| Marketable Securities   | 249,100            | —                  |
| Accounts receivable (less allowance of \$26,000 and \$16,000, respectively)   | 976,339            | 974,429            |
| Inventories, net  | 1,868,144          | 1,757,153          |
| Prepaid expenses and other current assets   | 131,404            | 57,775             |
| Total current assets  | 4,908,788          | 4,576,873          |
| Land  | 250,000            | —                  |
| Buildings, net  | 2,280,175          | —                  |
| Equipment, furnishings and building improvements, net   | 414,210            | 514,623            |
| Intangible assets, net  | 79,150             | 76,913             |
| Other assets  | 6,542              | 7,171              |
| <b>TOTAL ASSETS</b>   | <b>\$7,938,865</b> | <b>\$5,175,580</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                    |                    |
| Current Liabilities:  |                    |                    |
| Accounts payable  | \$643,315          | \$595,174          |
| Accrued expenses  | 507,517            | 466,656            |
| Customer Deposits   | 373,577            | 73,954             |
| Line of credit – Bank   | —                  | 350,000            |
| Current maturities of long term debt  | 62,247             | 15,727             |
| Total current liabilities   | 1,586,656          | 1,501,511          |
| Long term debt, less current maturities   | 2,035,579          | 3,622              |
| Total Liabilities   | 3,622,235          | 1,505,133          |
| Commitments and Contingencies   | —                  | —                  |
| Stockholders' Equity  |                    |                    |
| Common stock, \$.01 par value; 25,000,000 shares authorized, 14,441,511 and 14,437,511 issued and outstanding, respectively | 144,416            | 144,376            |
| Additional paid-in capital  | 8,599,122          | 8,546,924          |
| Accumulated deficit   | (4,426,908)        | (5,020,853)        |
| Total stockholders' equity  | 4,316,630          | 3,670,447          |

|  |             |             |
|--|-------------|-------------|
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$7,938,865 | \$5,175,580 |
|--|-------------|-------------|

See notes to consolidated financial statements.

**SONO-TEK CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS**

|                                    | Years Ended February 28, |             |
|------------------------------------|--------------------------|-------------|
|                                    | 2011                     | 2010        |
| Net Sales                          | \$9,914,312              | \$7,242,324 |
| Cost of Goods Sold                 | 5,142,229                | 3,568,174   |
| Gross Profit                       | 4,772,083                | 3,674,150   |
| Operating Expenses                 |                          |             |
| Research and product development   | 823,089                  | 717,816     |
| Marketing and selling              | 2,180,268                | 1,801,941   |
| General and administrative         | 1,166,690                | 1,071,636   |
| Total Operating Expenses           | 4,170,047                | 3,591,393   |
| Operating Income                   | 602,036                  | 82,757      |
| Other Income (Expense):            |                          |             |
| Interest Expense                   | (7,921 )                 | (10,214 )   |
| Interest Income                    | 1,870                    | 1,929       |
| Other Income                       | —                        | 5,661       |
| Income from real estate operations | 12,460                   | —           |
| Income before Income Taxes         | 608,445                  | 80,133      |
| Income Tax Expense (Benefit)       | 14,500                   | (1,543 )    |
| Net Income                         | \$593,945                | \$81,676    |
| Basic Earnings Per Share           | \$.04                    | \$.01       |
| Diluted Earnings Per Share         | \$.04                    | \$.01       |
| Weighted Average Shares – Basic    | 14,439,166               | 14,414,969  |
| Weighted Average Shares – Diluted  | 15,028,047               | 14,524,417  |

See notes to consolidated financial statements.



## SONO-TEK CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED FEBRUARY 28, 2011 AND 2010

|                                  | Common Stock    |            | Additional  | Accumulated   | Total         |
|----------------------------------|-----------------|------------|-------------|---------------|---------------|
|                                  | Par Value \$.01 | Amount     | Paid – In   | Deficit       | Stockholders' |
|                                  | Shares          |            | Capital     |               | Equity        |
| Balance – February 28, 2009      | 14,414,714      | \$ 144,148 | \$8,490,071 | \$(5,102,529) | \$ 3,531,690  |
| Exercise of stock options        | 22,797          | 228        | (18 )       | —             | 210           |
| Stock based compensation expense | —               | —          | 56,871      | —             | 56,871        |
| Net Income                       | —               | —          | —           | 81,676        | 81,676        |
| Balance – February 28, 2010      | 14,437,511      | 144,376    | 8,546,924   | (5,020,853)   | 3,670,447     |
| Exercise of stock options        | 4,000           | 40         | 2,920       | —             | 2,960         |
| Stock based compensation expense | —               | —          | 49,278      | —             | 49,278        |
| Net Income                       | —               | —          | —           | 593,945       | 593,945       |
| Balance – February 28, 2011      | 14,441,511      | \$ 144,416 | \$8,599,122 | \$(4,426,908) | \$ 4,316,630  |

See notes to consolidated financial statements.

## SONO-TEK CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Years Ended February 28, |                |
|---|--------------------------|----------------|
|   | 2011                     | 2010           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                          |                |
| Net Income  | \$593,945                | \$81,676       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |                |
| Depreciation and amortization   | 312,823                  | 309,575        |
| Stock based compensation expense  | 49,278                   | 56,871         |
| Allowance for doubtful accounts   | 10,000                   | (2,500 )       |
| (Increase) Decrease in:   |                          |                |
| Accounts receivable   | (11,910 )                | (170,639 )     |
| Inventories   | (110,991 )               | (93,579 )      |
| Prepaid expenses and other current assets   | (73,629 )                | 41,030         |
| (Decrease) Increase in:   |                          |                |
| Accounts payable and accrued expenses   | 89,002                   | 271,546        |
| Customer deposits   | 299,623                  | —              |
| Net Cash Provided by Operating Activities   | 1,158,141                | 493,980        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                          |                |
| Purchase of equipment, furnishings and building improvements                      | (195,035 )               | (290,301 )     |
| Purchase of land, buildings and improvements                                      | (2,539,716)              | —              |
| Purchase of marketable securities   | (249,100 )               | —              |
| Sale of equipment   | —                        | 60,862         |
| Patent application costs  | (9,442 )                 | (25,785 )      |
| Net Cash (Used In) Investing Activities   | (2,993,293)              | (255,224 )     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                          |                |
| Proceeds from exercise of options   | 2,960                    | 210            |
| Proceeds from note payable  | 2,100,000                | —              |
| Proceeds from line of credit – Bank   | —                        | 350,000        |
| Repayment of line of credit – Bank  | (350,000 )               | (250,000 )     |
| Repayment of long term debt   | (21,523 )                | (23,504 )      |
| Net Cash Provided by Financing Activities   | 1,731,437                | 76,706         |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                  | <b>(103,715 )</b>        | <b>315,462</b> |
| <b>CASH AND CASH EQUIVALENTS:</b>   |                          |                |
| Beginning of year   | 1,787,516                | 1,472,054      |
| End of year   | \$1,683,801              | \$1,787,516    |

See notes to consolidated financial statements.

**SONO-TEK CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED FEBRUARY 28, 2010 AND FEBRUARY 28, 2009**

**NOTE 1: BUSINESS DESCRIPTION**

The Company was incorporated in New York on March 21, 1975 for the purpose of engaging in the development, manufacture, and sale of ultrasonic liquid atomizing nozzles, which are sold world-wide. Ultrasonic nozzle systems atomize low to medium viscosity liquids by converting electrical energy into mechanical motion in the form of high frequency ultrasonic vibrations that break liquids into minute drops that can be applied to surfaces at low velocity.

Based on its core technology of ultrasonic liquid atomizing nozzles, the Company has developed intellectual property in the area of precision spray coating of liquids. The Company is presently engaged in the development, manufacture, sales, installation and servicing of diverse ultrasonic coating equipment for various manufacturing industries worldwide.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

**Consolidation** - The accompanying consolidated financial statements of Sono-Tek Corporation, a New York corporation (the "Company"), include the accounts of the Company and its wholly owned subsidiaries, Sono-Tek Cleaning Systems Inc. and Sono-Tek Industrial Park, LLC. Sono-Tek Cleaning Systems, Inc., a New Jersey Corporation ("SCS"), ceased operations during the Fiscal Year Ended February 28, 2002. Sono-Tek Industrial Park, LLC ("SIP"), operates as a real estate holding company for the Company's real estate operations and started operating in December 2010.

**Reclassifications** – Where appropriate, prior year's financial statements reflect reclassifications to conform to the current year's presentation.

**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.

***Supplemental Cash Flow Disclosure -***

|                   | Years Ended  |          |
|-------------------|--------------|----------|
|                   | February 28, |          |
|                   | 2011         | 2010     |
| Interest paid     | \$14,546     | \$10,214 |
| Income taxes paid | \$216        | \$—      |

***Inventories*** - Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method for raw materials, subassemblies and work-in-progress and the specific identification method for finished goods.

**Allowance for doubtful accounts** - The Company records a bad debt expense/allowance based on management's estimate of uncollectible accounts. All outstanding accounts receivable accounts are reviewed for collectability on an individual basis. The bad debt expense recorded for the years ended February 28, 2011 and 2010 was \$10,000 and \$32,470, respectively.

**Equipment, Furnishings and Building Improvements** – Equipment, furnishings and building improvements are stated at cost. Depreciation of equipment and furnishings is computed by use of the straight-line method based on the estimated useful lives of the assets, which range from three to five years.

**Land and Buildings** – Land and buildings are stated at cost. Buildings are being depreciated by use of the straight-line method based on an estimated useful life of forty years.

**Product Warranty** - Expected future product warranty expense is recorded when the product is sold.

**Intangible Assets** -Include costs of patent applications which are deferred and charged to operations over seventeen years for domestic patents and twelve years for foreign patents and the unamortized portion of deferred financing costs. The accumulated amortization of patents is \$78,058 and \$70,852 at February 28, 2011 and 2010, respectively. Annual amortization expense of such intangible assets is expected to be \$6,700 per year for the next five years.

**Research and Product Development Expenses** - Research and product development expenses represent engineering and other expenditures incurred for developing new products, for refining the Company's existing products and for developing systems to meet unique customer specifications for potential orders or for new industry applications and are expensed as incurred. Engineering costs directly applicable to the manufacture of existing products are included in cost of goods sold.

**Income Taxes** - The Company accounts for income taxes under the asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

**Earnings Per Share** - Basic earnings per share ("EPS") is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

***Shipping and Handling Costs*** – Shipping and handling costs are included in cost of sales in the accompanying consolidated statements of operations.

**Advertising Expenses** - The Company expenses the cost of advertising in the period in which the advertising takes place. Advertising expense for the years ended February 28, 2011 and 2010 was \$206,271 and \$138,676, respectively.

**Long-Lived Assets** - The Company periodically evaluates the carrying value of long-lived assets, including intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

**Recognition of Revenue** – Sales are recorded at the time title passes to the customer, which, based on shipping terms, generally occurs when the product is shipped to the customer. Based on prior experience, the Company reasonably estimates its sales returns and warranty reserves. Sales are presented net of discounts and allowances. Discounts and allowances are determined when a sale is negotiated. The Company does not grant its customers or independent representatives the ability to return equipment nor does it grant price adjustments after a sale is complete.

**Concentration of Credit Risk** - The Company does not believe that it is subject to any unusual or significant risks, in the normal course of business. The Company also had one customer, which accounted for 8.5% of sales during the year ended February 28, 2011. Two customers accounted for 21.9% of the outstanding accounts receivables at February 28, 2011.

**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.





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 February 28, 2011:

**Quoted prices in active markets (Level 1)**

|                       |    |         |
|-----------------------|----|---------|
|                       | \$ | 249,100 |
| Marketable Securities |    |         |

Marketable Securities include mutual funds of \$249,100, that are considered to be highly liquid and easily tradeable as of February 28, 2011. 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.

**Management Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

***New Accounting Pronouncements-***

Accounting pronouncements issued but not yet effective have been deemed to be not applicable or the adoption of such accounting pronouncement is not expected to have a material impact on the financials.

NOTE 3: SEGMENT INFORMATION

The Company currently operates in one business segment, ultrasonic spray coating systems and is primarily engaged in the business of developing, manufacturing, selling, installing and servicing ultrasonic spray coating equipment.

**NOTE 4: STOCK-BASED COMPENSATION**

The Company adopted ASC 718, “Share Based Payments.” which requires companies to expense the value of employee stock options and similar awards.

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

|                         | <b>2011</b>  | <b>2010</b>  |
|-------------------------|--------------|--------------|
| Expected life           | 4 years      | 4 years      |
| Risk free interest rate | .57% - 1.17% | 1.39% - 2.7% |
| Expected volatility     | 37% - 53%    | 66% - 96%    |
| Expected dividend yield | 0%           | 0%           |

In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate; volatility; and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management’s best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company’s stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company’s forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the 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 years ended February 28, 2011 and February 28, 2010, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated \$49,278 and \$56,871 in additional compensation expense for the years then ended, respectively. Such amount is included in general and administrative expenses on the statement of operations. The expense for stock-based compensation is a non-cash expense item.

**NOTE 5: INVENTORIES**

Inventories consist of the following:

|                 | February 28, |              |
|-----------------|--------------|--------------|
|                 | 2011         | 2010         |
| Raw Materials   | \$ 799,355   | \$ 477,845   |
| Work-in-process | 594,744      | 527,553      |
| Consignment     | 7,861        | 9,042        |
| Finished Goods  | 729,142      | 951,671      |
| Totals          | 2,131,102    | 1,966,111    |
| Less: Allowance | (262,958 )   | (208,958 )   |
|                 | \$ 1,868,144 | \$ 1,757,153 |

**NOTE 6: BUILDINGS, EQUIPMENT, FURNISHINGS AND BUILDING IMPROVEMENTS**

Equipment, furnishings and building improvements consist of the following:

|                                       | February 28, |             |
|---------------------------------------|--------------|-------------|
|                                       | 2011         | 2010        |
| Buildings                             | \$ 2,289,716 | \$—         |
| Laboratory equipment                  | 423,286      | 414,112     |
| Machinery and equipment               | 376,518      | 363,167     |
| Building improvements                 | 138,810      | 126,529     |
| Tradeshaw and demonstration equipment | 721,246      | 621,561     |
| Furniture and fixtures                | 579,369      | 540,786     |
| Totals                                | 4,528,945    | 2,066,155   |
| Less: accumulated depreciation        | (1,834,560)  | (1,551,532) |
|                                       | \$ 2,694,385 | \$ 514,623  |

Depreciation expense for the years ended February 28, 2011 and February 28, 2010 was \$305,618 and \$302,290, respectively.

**NOTE 7: ACCRUED EXPENSES**

Accrued expenses consist of the following:

|                          | February 28, |           |
|--------------------------|--------------|-----------|
|                          | 2011         | 2010      |
| Accrued compensation     | \$288,929    | \$235,980 |
| Estimated warranty costs | 28,050       | 21,900    |
| Accrued commissions      | 126,092      | 168,831   |
| Professional fees        | 14,850       | 25,014    |
| Other accrued expenses   | 49,596       | 14,931    |
|                          | \$507,517    | \$466,656 |

**NOTE 8: REVOLVING LINE OF CREDIT**

The Company has a \$750,000 revolving line of credit at prime which was 3.25% at February 28, 2011. The loan is collateralized by all of the assets of the Company. The line of credit is payable on demand and must be retired for a 30 day period once annually. As of February 28, 2011 and February 28, 2010, the Company had outstanding borrowings of \$0 and \$350,000, respectively, under the revolving line of credit.

**NOTE 9: LONG-TERM DEBT**

Long-term debt consists of the following:

|   | February 28, |         |
|---|--------------|---------|
|   | 2011         | 2010    |
| 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        | \$2,095,179  | \$0     |
| Equipment loan, bank, collateralized by related production equipment, payable in monthly installments of principal and interest of \$832 through March 2010. Interest rate 6.51%. 60 month term     | 0            | 830     |
| Equipment loan, bank, collateralized by related office equipment, payable in monthly installments of principal and interest of \$529 through September 2011. Interest rate 5.22%. 36 month term     | 2,647        | 9,632   |
| Equipment loan, bank, collateralized by related engineering equipment, payable in monthly installments of principal and interest of \$770 through February 2011. Interest rate 6.54%. 60 month term | 0            | 8,887   |
| Total long term debt  | 2,097,826    | 19,349  |
| Due within one year   | 62,247       | 15,727  |
| Due after one year  | \$2,035,579  | \$3,622 |

Long-term debt is payable as follows:

| <b><u>Fiscal Year ending February 28,</u></b> |           |
|---|-----------|
| 2012  | \$ 62,247 |
| 2013  | 62,962    |
| 2014  | 66,514    |
| 2015  | 70,265    |
| 2016  | 74,229    |
| Thereafter                                    | 1,761,609 |

**NOTE 10: COMMITMENTS AND CONTINGENCIES**

Leases – Total rent expense was approximately \$116,321 and \$142,094, for the years ended February 28, 2011 and 2010, respectively.

**NOTE 11: INCOME TAXES**

The annual provision (benefit) for income taxes differs from amounts computed by applying the maximum U.S. Federal income tax rate of 35% to pre-tax income as follows:

|                                       | February 28,<br>2011 | February 28,<br>2010 |
|---------------------------------------|----------------------|----------------------|
| Expected federal income tax (benefit) | \$ 212,880           | \$ 28,587            |
| State tax, net of federal             | 36,494               | 3,430                |
| Permanent timing difference           | 53,721               | 22,748               |
| (Decrease) in valuation allowance     | (288,595 )           | (56,308 )            |
| Income tax expense (benefit)          | \$ 14,500            | (\$ 1,543 )          |

The net deferred tax asset is comprised of the following:

|  | February 28,<br>2011 | February 28,<br>2010 |
|--|----------------------|----------------------|
|--|----------------------|----------------------|



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|                            |            |            |
|----------------------------|------------|------------|
| Inventory                  | \$ 135,000 | \$ 110,000 |
| Accrued expenses and other | 60,000     | 34,000     |
| Net operating losses       | 541,000    | 870,000    |
| Deferred tax asset         | 736,000    | 1,014,000  |
| Deferred tax liability     | (152,000 ) | (141,000 ) |
| Valuation allowance        | (584,000 ) | (873,000 ) |
| Net deferred tax asset     | \$—        | \$—        |

The change in the valuation allowance was \$289,000 for the year ended February 28, 2011. This represents a \$289,000 decrease in the net operating loss valuation allowance and includes an \$11,000 change in depreciable timing differences.

At February 28, 2011, the Company has available net operating loss carryforwards of approximately \$1,300,000 for income tax purposes, which expire between fiscal 2019 and fiscal 2029. The net operating loss carryforwards generated by a subsidiary are subject to limitations under Section 382 of the Internal Revenue Code.

## **NOTE 12: STOCKHOLDERS' EQUITY**

**Stock Options** – The Company has two stock option plans, the 1993 Stock Incentive Plan, as Amended (“1993 Plan”) and the 2003 Stock Incentive Plan (“2003 Plan”). Under each Plan, options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. Options granted under the 1993 Plan expire on various dates through 2013. The 1993 Plan expired in October 2003 and no further options can be granted under the 1993 Plan. A total of 40,000 options remain outstanding under the 1993 Plan. Under the 2003 Plan options expire at various dates through 2020. A total of 1,321,268 options are outstanding under the 2003 Plan.

During Fiscal Year 2011, the Company granted options for 125,000 shares exercisable at \$1.04 to an officer of the Company, options for 20,000 shares exercisable at \$.95 to a director of the Company and options for 43,500 shares exercisable at prices from \$.88 to \$.97 to employees of the Company.

During Fiscal Year 2010, the Company granted options for 50,000 shares exercisable at \$1.04 to an officer of the Company, options for 5,500 shares exercisable at prices from \$.53 to \$1.04 to independent consultants and options for 17,500 shares exercisable at prices from \$.54 to \$1.03 to employees of the Company.

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

A summary of the activity of both plans for the years ended February 28, 2011 and February 28, 2010 is as follows:

|                             | Stock Options |             | Weighted Average Exercise Price |             | Fair Value |
|-----------------------------|---------------|-------------|---------------------------------|-------------|------------|
|                             | Outstanding   | Exercisable | Outstanding                     | Exercisable | Vested     |
| Balance – February 29, 2009 | 1,205,565     | 920,906     | \$ 1.10                         | \$ 1.08     | \$.33      |
| Granted                     | 73,000        |             | .98                             |             |            |
| Exercised                   | (47,797 )     |             | (.74 )                          |             |            |
| Cancelled                   | (1,000 )      |             | (.42 )                          |             |            |
| Balance – February 28, 2010 | 1,229,768     | 1,018,418   | 1.11                            | 1.06        | .34        |
| Granted                     | 191,000       |             | 1.01                            |             |            |
| Exercised                   | (4,000 )      |             | (.74 )                          |             |            |
| Cancelled                   | (55,500 )     |             | (1.11 )                         |             |            |
| Balance – February 28, 2011 | 1,361,268     | 1,104,293   | \$ 1.11                         | \$ 1.06     | \$.34      |

The intrinsic value of the Company's options exercised during the years ended February 28, 2011 and 2010 was \$1,560 and \$31,356, respectively.

Information, at date of issuance, regarding stock option grants for the years ended February 28, 2011:

|  | Shares  | Weighted Average Exercise Price | Weighted Average Fair Value |
|--|---------|---------------------------------|-----------------------------|
| Year ended February 28, 2011:            |         |                                 |                             |
| Exercise price exceeds market price      | -       | -                               | -                           |
| Exercise price equals market price       | 191,000 | \$ 1.01                         | \$ .50                      |
| Exercise price is less than market price | -       | -                               | -                           |

The aggregate intrinsic value of the Company's outstanding options at February 28, 2011 was \$137,440.

The following table summarizes information about stock options outstanding and exercisable at February 28, 2011:

**Number      Weighted-      Weighted Number**

|                           | <b>Outstanding</b> | <b>Average</b>   | <b>Average</b>  | <b>Exercisable</b> |
|---------------------------|--------------------|------------------|-----------------|--------------------|
|                           |                    | <b>Remaining</b> | <b>Exercise</b> |                    |
|                           |                    | <b>Life in</b>   | <b>Price</b>    |                    |
|                           |                    | <b>Years</b>     |                 |                    |
| Range of exercise prices: |                    |                  |                 |                    |
| \$.25 to \$.50            | 87,000             | 5.5              | \$ .39          | 81,000             |
| \$.51 to \$1.00           | 647,893            | 6.8              | \$ .83          | 556,393            |
| \$1.01 to \$1.75          | 553,875            | 8.3              | \$1.49          | 394,400            |
| \$1.76 to \$2.30          | 65,000             | 3.9              | \$2.15          | 65,000             |
| \$2.31 to \$3.00          | 7,500              | 4.1              | \$2.58          | 7,500              |

**NOTE 13: EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share:

|  | February 28,<br>2011 | February 28,<br>2010 |
|--|----------------------|----------------------|
| Numerator for basic and diluted<br>Earnings per share            | \$593,945            | \$81,676             |
| Denominator:   |                      |                      |
| Denominator for basic earnings per share-weighted average shares | 14,439,166           | 14,414,969           |
| Effects of dilutive securities:                                  |                      |                      |
| Stock options for employees, directors and outside consultants   | 588,881              | 109,448              |
| Denominator for diluted earnings per share                       | 15,028,047           | 14,524,417           |
| Basic Earnings Per Share   | \$.04                | \$.01                |
| Diluted Earnings Per Share                                       | \$.04                | \$.01                |

**NOTE 14: SIGNIFICANT CUSTOMERS AND FOREIGN SALES**

Export sales to customers located outside the United States were approximately as follows:

|                | February<br>28,<br>2011 | February<br>28,<br>2010 |
|----------------|-------------------------|-------------------------|
| Western Europe | \$1,252,000             | \$1,324,000             |
| Far East       | 3,841,000               | 2,304,000               |
| Other          | 531,000                 | 1,108,000               |
|                | \$5,624,000             | \$4,736,000             |

During Fiscal Years 2011 and 2010, sales to foreign customers accounted for approximately \$5,624,000 and \$4,736,000, or 57% and 65% respectively, of total revenues.

One customer accounted for 8.5% of our sales for Fiscal Year ended February 28, 2011.

**NOTE 15: SUBSEQUENT EVENTS**

The Company has evaluated subsequent events for disclosure purposes.

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SIGNATURES

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

Dated: May 20, 2011

Sono-Tek Corporation

(Registrant)

By: /s/ Dr. Christopher L. Coccio

Dr. Christopher L. Coccio,

Chief Executive Officer and Chairman

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

|  |              |   |              |
|--|--------------|---|--------------|
| <u>/s/ Dr. Christopher L Coccio</u><br>Christopher L. Coccio<br>Chief Executive Officer, Chairman and Director | May 20, 2011 | <u>/s/ Samuel Schwartz</u><br>Samuel Schwartz<br>Director                   | May 20, 2011 |
| <u>/s/ Stephen J. Bagley</u><br>Stephen J. Bagley<br>Chief Financial Officer                                   | May 20, 2011 | <u>/s/ Dr. Joseph Riemer</u><br>Dr. Joseph Riemer<br>President and Director | May 20, 2011 |
| <u>/s/ Edward J. Handler, III</u><br>Edward J. Handler, III<br>Director  | May 20, 2011 | <u>/s/ Philip A. Strasburg</u><br>Philip A. Strasburg<br>Director           | May 20, 2011 |
| <u>/s/ Eric Haskell</u><br>Eric Haskell<br>Director  | May 20, 2011 | <u>/s/ Dr. Donald F. Mowbray</u><br>Donald F. Mowbray<br>Director           | May 20, 2011 |

