SONO TEK CORP
Form 10-Q
January 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: **November 30, 2015**

OR

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

Commission File No.: 0-16035

(Exact name of registrant as specified in its charter)

New York	14-1568099
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2012 Rt. 9W, Milton, NY 12547

(Address of Principal Executive Offices) (Zip Code)

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

Indicate by check mark whether the 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 |X| 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). |X | Yes | | No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer |_| Accelerated Filer |_| Smaller reporting company |X|

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding as of January 7, 2016
Common Stock, par value $.01 per share	14,946,274

SONO-TEK CORPORATION

INDEX

Part I - Financial Information	Page
Item 1 – Condensed Consolidated Financial Statements:	1 - 3
Condensed Consolidated Balance Sheets – November 30, 2015 (Unaudited) and February 28, 2015	1
Condensed Consolidated Statements of Income – Nine Months and Three Months Ended November 30, 2015 and 2014 (Unaudited)	2
Condensed Consolidated Statements of Cash Flows – Nine Months Ended November 30, 2015 and 2014 (Unaudited)	3
Notes to Condensed Consolidated Financial Statements	4 - 8
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	9 – 17
Item 3 – Quantitative and Qualitative Disclosures about Market Risk	18
Item 4 – Controls and Procedures	18
Part II - Other Information	19
Signatures and Certifications	20-24

SONO-TEK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	Unaudited November 30, 2015	**February 28, 2015**
ASSETS		
Current Assets:		
Cash and cash equivalents	$2,502,714	$2,562,782
Marketable Securities	1,630,185	1,652,485
Accounts receivable (less allowance of $43,000 and $43,047 at November 30 and February 28, respectively)	959,759	1,029,250
Inventories, net	2,393,969	2,059,177
Prepaid expenses and other current assets	64,905	94,487
Total current assets	7,551,532	7,398,181
Land	250,000	250,000
Buildings, net	1,955,874	2,015,625
Equipment, furnishings and building improvements, net	810,243	661,411
Intangible and other assets, net	175,928	175,412
Deferred tax asset	90,021	90,021
TOTAL ASSETS	$10,833,598	$10,590,650
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$618,116	$584,963
Accrued expenses	633,252	691,937
Customer deposits	358,938	462,168
Current maturities of long term debt	137,642	158,184
Income taxes payable	147,170	229,927
Total current liabilities	1,895,118	2,127,179
Long term debt, less current maturities	1,216,928	1,319,737
Total liabilities	3,112,046	3,446,916
Commitments and Contingencies	—	—
Stockholders' Equity		
Common stock, $.01 par value; 25,000,000 shares authorized, 14,946,274 and 14,933,107 shares issued and outstanding, at November 30 and February 28, respectively	149,463	149,331
Additional paid-in capital	8,802,670	8,766,160
Accumulated deficit	(1,230,581)	(1,771,757)
Total stockholders' equity	7,721,552	7,143,734

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$10,833,598	$10,590,650

See notes to condensed consolidated financial statements.

1

SONO-TEK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Unaudited Nine Months Ended November 30,		Unaudited Three Months Ended November 30,	
	2015	2014	2015	2014
Net Sales	$8,890,027	$7,906,332	$3,032,457	$2,851,906
Cost of Goods Sold	4,561,173	4,056,590	1,566,338	1,452,217
Gross Profit	4,328,854	3,849,742	1,466,119	1,399,689
Operating Expenses				
Research and product development costs	918,421	740,122	303,484	249,292
Marketing and selling expenses	1,738,078	1,646,979	574,377	549,285
General and administrative costs	810,535	769,639	266,246	276,375
Rental operations expense	120,779	118,011	42,447	36,437
Total Operating Expenses	3,587,813	3,274,751	1,186,554	1,111,389
Operating Income	741,041	574,991	279,565	288,300
Interest Expense	(44,395)	(49,135)	(14,331)	(15,754)
Interest Income	41,035	17,977	14,640	8,260
Other (expense) income	(49,637)	5,238	4,823	(2,091)
Income from Operations Before Income Taxes	688,044	549,071	284,697	278,715
Income Tax Expense	146,868	164,971	41,132	76,283
Net Income	$541,176	$384,100	$243,565	$202,432
Basic Earnings Per Share	$0.04	$0.03	$0.02	$0.01
Diluted Earnings Per Share	$0.04	$0.03	$0.02	$0.01
Weighted Average Shares - Basic	14,941,150	14,713,893	14,946,274	14,718,162
Weighted Average Shares - Diluted	15,040,273	14,942,137	15,043,873	14,958,070

See notes to condensed consolidated financial statements.

2

SONO-TEK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited Nine Months Ended November 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 541,176	$ 384,100
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	341,342	295,297
Stock based compensation expense	33,967	34,287
Allowance for doubtful accounts	(3,047)	9,000
Inventory reserve	90,000	90,000
Unrealized loss on marketable securities	55,980	—
(Increase) Decrease in:		
Accounts receivable	69,538	(78,288)
Inventories	(418,577)	(567,520)
Prepaid expenses and other current assets	29,582	78,733
Increase (Decrease) in:		
Accounts payable and accrued expenses	(25,532)	351,716
Customer Deposits	(103,230)	(35,631)
Income Taxes Payable	(82,757)	37,894
Net Cash Provided by Operating Activities	528,442	599,588
CASH FLOWS FROM INVESTING ACTIVITIES:		
Patent application and other asset costs	(14,786)	(21,225)
Purchase of equipment and furnishings	(419,368)	(208,702)
(Purchase) of marketable securities	(33,680)	(1,006,921)
Net Cash (Used In) Investing Activities	(467,834)	(1,236,848)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	2,675	—
Repayments of notes payable and loans	(123,351)	(143,913)
Net Cash (Used In) Financing Activities	(120,676)	(143,913)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(60,068)	(781,173)
CASH AND CASH EQUIVALENTS		
Beginning of period	2,562,782	3,232,021
End of period	$ 2,502,714	$ 2,450,848
SUPPLEMENTAL DISCLOSURE:		
Interest paid	$ 44,395	$ 49,135
Taxes Paid	$ 228,714	$ 127,046

See notes to condensed consolidated financial statements.

3

SONO-TEK CORPORATION

Notes to Condensed Consolidated Financial Statements

Nine Months November 30, 2015 and 2014

(Unaudited)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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.

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

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 November 30, 2015 and February 28, 2015:

	Quoted Prices in Active Markets (Level 1)	
	November 30, 2015	February 28, 2015
Marketable Securities	$1,630,185	$1,652,485

Marketable Securities include mutual funds of $1,630,185, which are considered to be highly liquid and easily tradable as of November 30, 2015. 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.

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

Intangible Assets – Include cost of patent applications that are deferred and charged to operations over seventeen years for domestic patents and twelve years for foreign patents. The accumulated amortization is $125,118 and $116,804 at November 30, 2015 and February 28, 2015, respectively. Annual amortization expense of such intangible assets is expected to be $11,000 per year for the next five years.

Interim Reporting - The attached summary condensed consolidated financial information does not include all disclosures required to be included in a complete set of financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Such disclosures were included with the financial statements of the Company at February 28, 2015, and included in its report on Form 10-K. Such statements should be read in conjunction with the data herein.

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

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

NOTE 2: INVENTORIES

Inventories consist of the following:

	November 30, 2015	February 28, 2015
Finished goods	$623,819	$441,026
Work in process	271,341	220,577
Raw materials and subassemblies	1,676,081	1,692,202
Total	2,571,241	2,353,805
Less: Allowance	(177,272)	(294,628)
Net inventories	$2,393,969	$2,059,177

NOTE 3: STOCK OPTIONS AND WARRANTS

Stock Options – Under the 2013 Stock Incentive Plan, as amended ("2013 Plan"), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 2,500,000 shares of the Company's common stock. Under the 2013 Plan, options expire ten years after the date of grant. As of November 30, 2015, there were 254,100 options outstanding under the 2013 plan.

5

Under the 2003 Stock Incentive Plan, as amended ("2003 Plan"), until May 2013, options were available to be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. As of November 30, 2015, there were 240,500 options outstanding under the 2003 Plan, under which no additional options may be granted.

NOTE 4: STOCK BASED COMPENSATION

The weighted-average fair value of options are estimated on the date of grant using the Black-Scholes options-pricing model.

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 nine months ended November 30, 2015 and 2014, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated $34,000 in additional compensation expense during the nine months ended November 30, 2015 and 2014. Such amounts are included in general and administrative expenses on the statement of operations. The expense for stock-based compensation is a non-cash expense item.

NOTE 5: EARNINGS PER SHARE

The denominator for the calculation of diluted earnings per share at November 30, 2015 and 2014 are calculated as follows:

	Nine Months Ended November 30,	Three Months Ended November 30,

	2015	2014	2015	2014
Denominator for basic earnings per share	14,941,150	14,713,893	14,946,274	14,718,162
Dilutive effect of stock options	99,123	228,244	97,599	239,908
Denominator for diluted earnings per share	15,040,273	14,942,137	15,043,873	14,958,070

6

NOTE 6: LONG TERM DEBT

Long-term debt consists of the following:

	November 30, 2015	February 28, 2015
Equipment loan, bank, collateralized by related production equipment, payable in monthly installments of principal and interest of $5,158 through June 2015. Interest rate 2.12%. 48 month term.	$—	$20,542
Note payable, bank, collateralized by land and buildings, payable in monthly installments of principal and interest of $16,358 through January 2024. Interest rate 4.15%. 10 year term.	1,354,570	1,457,379
Total long term debt	1,354,570	1,477,921
Due within one year	137,642	158,184
Due after one year	$1,216,928	$1,319,737

NOTE 7: REVOLVING LINE OF CREDIT

The Company has a $750,000 revolving line of credit at prime which was 3.25% at November 30, 2015. The loan is collateralized by all of the assets of the Company, except for the land and buildings. The line of credit is payable on demand and must be retired for a 30 day period once annually. If the Company fails to perform the 30 day annual pay down or if the bank elects to terminate the credit line, the bank may at its option convert the outstanding balance to a 36 month term note with payments including interest in 36 equal installments. As of November 30, 2015, the Company’s outstanding balance was $0, and the unused credit line was $750,000.

NOTE 8: SEGMENT INFORMATION

The Company operates in two segments: ultrasonic spray coating systems, which is the business of developing, manufacturing, selling, installing and servicing ultrasonic spray coating equipment; and real estate operations, which is the business of owning and operating the Sono-Tek Industrial Park.

All inter-company transactions are eliminated in consolidation. For the nine and three months ended November 30, 2015 and 2014, segment information is as follows:

	Nine Months Ended November 30, 2015				Three Months Ended November 30, 2015			
	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated
Net Sales	$8,819,278	$ 217,972	$147,223	$8,890,027	$3,008,458	$ 73,073	$49,074	$3,032,457
Rental Expense	$147,223	$ 120,779	$(147,223)	$120,779	$49,074	$ 42,447	$(49,074)	$42,447
Interest Expense	$75	$ 44,320		$44,395	$—	$ 14,331		$14,331
Net Income (Loss)	$635,526	($94,350)		$541,176	$271,220	($27,655)		$243,565
Assets	$8,369,038	$ 2,464,560		$10,833,598	$8,369,038	$ 2,464,560		$10,833,598
Debt	$—	$ 1,354,570		$1,354,570	$—	$ 1,354,570		$1,354,570

	Nine Months Ended November 30, 2014				Three Months Ended November 30, 2014			
	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated
Net Sales	$7,838,982	$ 214,573	$147,223	$7,906,332	$2,827,606	$ 73,374	$49,074	$2,851,906
Rental Expense	$147,223	$ 118,011	$(147,223)	$118,011	$49,074	$ 36,437	$(49,074)	$36,437
Interest Expense	$1,071	$ 48,064		$49,135	$236	$ 15,518		$15,754
Net Income (Loss)	$482,825	($98,725)		$384,100	$230,087	($27,655)		$202,432
Assets	$7,871,820	$ 2,535,792		$10,407,612	$7,871,820	$ 2,535,792		$10,407,612
Debt	$35,849	$ 1,490,763		$1,526,612	$35,849	$ 1,490,763		$1,526,612

NOTE 9: SUBSEQUENT EVENTS

The Company has evaluated subsequent events for disclosure purposes.

ITEM 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, press releases, and other written and oral statements. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from our expectations. These factors include, among other considerations, general economic and business conditions; political, regulatory, competitive and technological developments affecting our operations or the demand for our products; timely development and market acceptance of new products; adequacy of financing; capacity additions, the ability to enforce patents and the ability to achieve increased sales volume and continued profitability.

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

Overview

We have developed a unique and proprietary series of ultrasonic atomizing nozzles, which are being used in an increasing variety of electronics, advanced energy (solar and fuel cells), medical device, glass, textiles and food applications. These nozzles are electrically driven and create a fine, uniform, low velocity spray of atomized liquid particles, in contrast to common pressure nozzles. These characteristics create a series of commercial applications that benefit from the precise, uniform, thin coatings that can be achieved. When combined with significant reductions in liquid waste and less overspray than can be achieved with ordinary pressure nozzle systems, there is lower environmental impact and lower energy use.

Market Diversity

During the past five 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 sell our products.

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

In recent years, a substantial portion of our sales originated outside the United States, and we are geographically present directly and through distributors and trade representatives in North and Latin America, Europe and Asia. The infrastructure upon which this diversified market approach is based, includes a newly equipped process development laboratory, a strengthened sales organization with application engineers, an engineering team with additional talent and the latest, most sophisticated design software tools, as well as an expanded, highly trained installation and service organization.

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

Markets

Our growth and diversification program over the past several years has positioned us to offer a unique and superior family of customized products to the six major industries that 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 manufacturing environments, where they provide value in a continuous and reliable fashion.

1. Electronics Industry.

We serve this industry primarily in two sectors; Printed Circuit Board (PCB) manufacturing and Semiconductor manufacturing.

We provide manufacturers of PCBs with state-of-the-art solder fluxers. Spray fluxers are used in the manufacturing process of PCBs to apply flux, which removes oxidation and prepares the PCB for the process of soldering components onto it.

Our ultrasonic spray fluxers reduce the amount of fluxing chemical needed, enhance the quality of the boards, and provide our customers with a better product at reduced costs of operations, when compared with conventional foam fluxers and pressure assisted fluxers.

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

Pursuant to an exclusive distribution agreement with EVS International Ltd (“EVS”) for the territories of the United States and Canada, we offer the EVS solder recovery system to our PCB customer base.

We also have a significant established customer base in the semiconductor industry. The semiconductor industry utilizes our ultrasonic atomizing nozzles and XYZ coating platforms for the application and deposition of photo-resist onto semiconductor wafers. Certain of our semi-conductor manufacturing industry customers engaged in the production of micro-electro-mechanical systems, “MEMS”, have proven the ability of our technology to apply micron thick coatings to these complex wafers.

2. Advanced Energy Industry.

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

Our precision coating systems provide superior surface uniformity and density, 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 compared to ordinary pressure nozzles. Some examples of our products marketed to the advanced energy industry include: ExactaCoat FC & SC, FlexiCoat FC & SC, and SonoFlow Fusion.

3. Medical Device Industry.

Our ultrasonic coating technology is used by medical device manufacturers worldwide. The leading applications for this industry are coating of arterial stents with precise and uniform micronic layers of polymers and drugs; coating of various implantable devices with lubricous materials and coating of blood collection tubes with anti-coagulants. These applications are typically performed under strict regulatory supervision of governmental agencies in different countries, and the continuing demand for our systems from these customers is indicative of the high quality performance that our systems provide these customers. Some examples of our products marketed to the medical device industry include: MediCoat I; Medicoat II; Medicoat PSI; AccuMist; MicroMist; and Balloon Catheter Coater.

4. Glass Industry.

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

The equipment we offer to the glass industry is the WideTrack – wide area modular coating system.

5. Textiles Industry.

The textiles industry is rapidly expanding to introduce high performance value adding coatings onto fabrics, such as anti-microbial, anti-stain, flame retardant and moisture barriers. The current manufacturing process for applying these expensive coatings has significant waste of material, energy and water. We are working with this industry to incorporate our ultrasonic technology, often in combination with unique pre and post treatments of the coating materials, to reduce the effective material usage by as much as 90%.

We have demonstrated to several leading textile manufacturers the technical advantages and financial benefits of our WideTrack coating system for their specific operations, and we are hopeful that these manufacturers will prioritize the WideTrack in their future capital investment budgets.

6. Food Industry.

The food industry is evolving in response to greater demands for reduction of food borne illnesses. We have successfully introduced an anti-microbial coating system for sliced packaged meats, and we are focusing efforts on those global food companies that will need this technology to meet the new demands. We have also introduced our systems to other segments of the food industry for the coating of flavors, ingredients and other additives of interest. 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 primary customers for the SonoFlux 2000F are original equipment manufacturers that produce their own electronic circuit boards.

2. SonoFlux EZ- spray fluxer product - applies solder flux to electronic printed circuit boards that vary from two inches to up to 18 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. This is an economically priced system which sells effectively in the price competitive Asian market.

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

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

5. WideTrack – Wide area modular coating system – designed to be used in applications that require efficient web-coating or wide area spraying capability. One module can cover substrates from six 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 13 feet wide. A large number of systems have been sold over the past six years, and this application holds promise for the future due to cost and environmental savings demonstrated at customer sites. It uses non-clogging ultrasonic atomizing nozzles to produce a low velocity, highly controllable spray. The WideTrack System offers significant advantages over conventional pressure-spray methods in a broad range of applications such as non-woven fabrics, float glass, or odd-shaped industrial or consumer products. Since the ultrasonic spray can be easily controlled, it is possible to use fewer chemicals and less water and energy in applying coatings to glass, textiles, food products and packaging materials than with traditional nozzles. This also results in reduced environmental impact due to less overspray.

6. Exactacoat/Flexicoat – We offer a line of robotic XYZ coating equipment for applications involving 3D coatings for fuel cell membranes, solar energy panels and specialty lens products. This equipment is offered in bench-top

configurations as our ExactaCoat product and standalone as our FlexiCoat product. These platforms position and move our nozzle systems in a precise three dimensional application pattern. These coaters are extremely efficient especially when combined with our novel ultrasonic syringe pump (patent pending) to agitate and suspend the carbon based suspensions needed in fuel cell applications.

12

Other Product Offerings – EVS Solder Recovery System

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

Rental Real Estate Operations

In December 2010, we purchased the industrial park where our facilities are located in Milton, NY. The park is an improved 3.13 acre parcel of land comprised of five buildings of office/industrial space, with 50,000 square feet of gross leasable floor area. We currently utilize 29,000 square feet of the park for our operations. We presently lease 21,000 square feet of the park to unrelated third parties.

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

Liquidity and Capital Resources

Working Capital – Our working capital increased $385,000 from a working capital of $5,271,000 at February 28, 2015 to $5,657,000 at November 30, 2015. The increase in working capital is due to the current period's net income of $541,000 and $3,000 for the exercise of stock options, offset by expenditures of $432,000 for the purchase of equipment and furnishings and for patent costs and $102,000 for the net repayment of notes payable. In addition, we incurred non-cash expenses for depreciation and amortization of $341,000 and stock based compensation expense of $34,000. The Company's current ratio is 3.9 to 1 at November 30, 2015 as compared to 3.5 to 1 at February 28, 2015.

At November 30, 2015, our working capital includes $2,503,000 of cash and $1,630,000 of marketable securities, a total of $4,133,000. At February 28, 2015, our working capital inclued $2,563,000 of cash and $1,652,000 of marketable securities, a total of $4,215,000. The aggregate balance of cash and marketable securities decreased $82,000 during the nine month period ended November 30, 2015.

Stockholders' Equity – Stockholder's Equity increased $578,000 from $7,144,000 at February 28, 2015 to $7,722,000 at November 30, 2015. The increase is a result of net income of $541,000, stock based compensation expense of $34,000 and $3,000 for the exercise of stock options.

Operating Activities – Our operating activities provided $528,000 of cash for the nine months ended November 30, 2015 as compared to providing $600,000 for the nine months ended November 30, 2014. During the nine months ended November 30, 2015, net income was $541,000, accounts receivable decreased $70,000, inventories increased $419,000, prepaid expenses decreased $30,000, accounts payable and accrued expenses decreased $26,000, customer deposits decreased $103,000 and income taxes payable decreased $83,000 when compared to the prior year period. In addition, in the current period we incurred non-cash expenses of $341,000 for depreciation and amortization, $34,000 for stock based compensation expense, ($3,000) for bad debt expense, $90,000 for our inventory reserve and $56,000 for an unrealized loss on our marketable securities.

Inventories increased $419,000 during the nine months ended November 30, 2015. At November 30, 2015, our raw material and finished goods inventories increased by $288,000. The increase in these inventories is due to our forecasted sales for the remainder of our fiscal year. In addition, our work in process inventory increased $51,000. The work in process increase is due to shipments that are planned for our fourth fiscal quarter. Subsequent to November 30, 2015, we sold approximately $224,000 of these inventories.

Investing Activities – Our investing activities used $468,000 of cash for the nine months ended November 30, 2015 as compared to using $1,237,000 for the nine months ended November 30, 2014. We used $419,000 for the purchase of capital equipment, $15,000 for patent application costs and $34,000 for the purchase of marketable securities.

During the nine months ended November 30, 2014, we used $209,000 for the purchase of capital equipment, $21,000 for patent application costs and $1,007,000 for the purchase of marketable securities.

Financing Activities – For the nine months ended November 30, 2015, we used $123,000 for the repayment of our notes payable compared to $144,000 for the prior year period.

Net Decrease in Cash – For the nine months ended November 30, 2015, our cash balance decreased by $60,000 as compared to a decrease of $781,000 for the nine months ended November 30, 2014. During the nine months ended November 30, 2015, our operations provided $528,000 of cash, we used $434,000 for the purchase of equipment, improvements and patent application costs and we used $123,000 for the repayment of notes payable.

Results of Operations

Ultrasonic Spraying Systems Segment:

	Nine Months Ended November 30,		Change		Three Months Ended November 30,		Change	
	2015	2014	$	%	2015	2014	$	%
Net Sales	$8,819,278	$7,838,982	$980,296	13%	$3,008,458	$2,827,606	$180,852	6%
Cost of Goods Sold	4,561,173	4,056,590	504,583	12%	1,566,338	1,452,217	114,121	8%
Gross Profit	$4,258,105	$3,782,392	$475,713	13%	$1,442,120	$1,375,389	$66,731	5%
Gross Profit Margin %	48%	48%			48%	49%		

14

For the nine months ended November 30, 2015, our sales increased $980,000 or 13% to $8,819,000 as compared to $7,839,000 for the nine months ended November 30, 2014. During the nine month period ended November 30, 2015, we experienced an increase in sales of our Fluxing units and WideTrack Coating units. These increases were offset by a decrease in sales of our Stent Coater units, XYZ platform units and Solder Recovery Systems.

For the three months ended November 30, 2015, our sales increased $181,000 or 6% to $3,008,000 as compared to $2,828,000 for the three months ended November 30, 2014. During the three month period ended November 30, 2015, we experienced an increase in sales of our Fluxing units, WideTrack Coating units and Nozzles and Generators. These increases were offset by a decrease in sales of our Stent Coater units XYZ platform units.

For the nine months ended November 30, 2015, we have sold approximately $406,000 in WideTrack units and $160,000 in Nozzles and Generators that are being utilized by the food industry.

During the three months ended November 30, 2015, we sold a WideTrack unit that will be utilized in the textile industry.

Sales of our Stent Coater units, XYZ platform units, Widetrack Units and Servo Units typically vary from quarter to quarter. Demand for our products fluctuates and is dependent upon market conditions. The continuing expansion of our product lines has reduced our dependence on any specific market and provides us flexibility to adapt to changing economic conditions.

For the nine months ended November 30, 2015, our gross profit increased $476,000 or 13% to $4,258,000 as compared to $3,782,000 for the nine months ended November 30, 2014. The gross profit margin was 48% of sales for the nine months ended November 30, 2015 and 2014.

For the three months ended November 30, 2015, our gross profit increased $67,000 to $1,442,000 from $1,375,000 for the three months ended November 30, 2014. The gross profit margin was 48% of sales for the three months ended November 30, 2015 and 49% for the three months ended November 30, 2014.

Research and product development costs increased $178,000 to $918,000 for the nine months ended November 30, 2015 from $740,000 for the nine months ended November 30, 2014. The increase is due to increased salaries, depreciation and materials. During the three months ended November 30, 2015, salaries, depreciation and materials increased when compared to the prior year period. The increase in research and product development costs is a result of our ongoing development of new systems for the food and electronics segments.

Marketing and selling costs increased $91,000 to $1,738,000 for the nine months ended November 30, 2015 from $1,647,000 for the nine months ended November 30, 2014. The increase is due to increased international commission expense, increased salaries, increased trade show expense and expenses related to international distributor training that occurred during the quarter. During the three months ended November 30, 2015, salary expense and trade show expenses increased when compared to the prior year.

General and administrative costs increased $41,000 to $811,000 for the nine months ended November 30, 2015 from $770,000 for the nine months ended November 30, 2014. The increase is due to an increase in corporate expenses.

Rental Real Estate Operations:

For the nine months ended November 30, 2015, our real estate operations generated $71,000 in rental income from unrelated third parties as compared to $67,000 for the nine months ended November 30, 2014. Our real estate operations incurred $121,000 in operating expenses compared to $118,000 for the prior year period and $44,000 in interest expense compared to $48,000 for the prior year period. For the nine months ended November 30, 2015 our real estate operations reported a net loss of $94,000 compared to a net loss of $99,000 for the prior year period. The reported losses exclude any inter-company rent. A summary of our real estate operations is as follows:

	Nine Months Ended November 30,	
	2015	2014
Statements of Operations		
Rental Income	$71,000	$67,000
Real Estate Taxes	38,000	36,000
Interest Expense	44,000	48,000
Other Expenses	83,000	82,000
Net Loss From Real Estate Operations	$(94,000)	$(99,000)
Per Square Foot Cost Based on 50,000 sq. feet	$(1.88)	$(1.98)
Statements of Cash Flows		
Net Loss	$(94,000)	$(99,000)
Adjustments to reconcile net loss to net cash used in real estate operations:		
Depreciation	55,000	52,000
Debt Service	(103,000)	(99,000)
Net Cash (Used) in Real Estate Operations	$(142,000)	$(146,000)
Cash Outlay Per Square Foot Based on 50,000 sq. feet	$(2.84)	$(2.92)

Interest Income - Other (Expense) Income:

During the nine months ended November 30, 2015, we recorded interest and investment income of approximately $41,000 as compared to $18,000 for the nine months ended November 30, 2014. During the nine months ended November 30, 2015, we recorded an unrealized loss on our marketable securities of $56,000. The loss of $56,000 in the current year period was due to a drop in the values of our marketable securities. Based on the structure of our investment portfolio, we do not believe that we will be required to recognize a material loss when our current investments mature.

Interest Expense:

Interest expense decreased $5,000 to $44,000 for the nine months ended November 30, 2015 as compared to $49,000 for the prior year period.

16

Condensed Consolidated Results:

We had net income of $541,000 for the nine months ended November 30, 2015 as compared to $384,000 for the nine months ended November 30, 2014. For the nine months ended November 30, 2015, our sales increased $980,000, gross profit increased $479,000, operating expenses increased $313,000, and net interest/other expense increased $27,000.

Our basic and diluted earnings per share was $0.04 for the nine months ended November 30, 2015 as compared to the basic and diluted earnings per share of $0.03 for the nine months ended November 30, 2014. Our basic and diluted earnings per share was $0.02 for the three months ended November 30, 2015 as compared to the basic and diluted earnings per share of $0.01 for the three months ended November 30, 2014.

Critical Accounting Policies

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

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and may potentially result in materially different results under different assumptions and conditions. The Company believes that critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies see Note 2 to the Company's consolidated financial statements included in Form 10-K for the year ended February 28, 2015.

Accounting for Income Taxes

As part of the process of preparing the Company's condensed consolidated financial statements, the Company is required to estimate its income taxes. Management judgment is required in determining the provision for the deferred tax asset.

Stock-Based Compensation

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

Impact of New Accounting Pronouncements

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

ITEM 3 - Quantitative and Qualitative Disclosures about Market Risk

The Company does not issue or invest in financial instruments or derivatives for trading or speculative purposes. Substantially all of the operations of the Company are conducted in the United States, and, as such, are not subject to material foreign currency exchange rate risk. All of our sales transactions are completed in US dollars.

Although the Company's assets included $2,503,000 in cash and $1,630,000 in marketable securities, the market rate risk associated with changing interest rates in the United States is not material.

ITEM 4 – Controls and Procedures

The Company has established and maintains “disclosure controls and procedures” (as those terms are defined in Rules 13a –15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the “Exchange Act’). Christopher L. Coccio, Chief Executive Officer (principal executive) and Stephen J. Bagley, Chief Financial Officer (principal accounting officer) of the Company, have evaluated the Company’s disclosure controls and procedures as of November 30, 2015. Based on this evaluation, they have concluded that the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to Management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding timely disclosure.

In addition, there were no changes in the Company’s internal controls over financial reporting during the third fiscal quarter of 2016 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

18

PART II - OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 1A. Risk Factors

Note Required for Smaller Reporting Companies

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
None

Item 3. Defaults Upon Senior Securities
None

Item 4. Mine Safety Disclosures
None

Item 5. Other Information
None

Item 6. Exhibits and Reports

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

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

101.INS – XBRL Instance Document.

101.SCH – XBRL Taxonomy Extension Schema Document

101.CAL – XBRL Taxonomy Calculation Linkbase Document

101.DEF – XBRL Taxonomy Extension Definition Linkbase Document

101.LAB – XBRL Extension Label Linkbase Document

101.PRE – XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Dated: January 14, 2016

SONO-TEK CORPORATION
(Registrant)

By: /s/ Christopher L. Coccio
Christopher L. Coccio
Chief Executive Officer

By: /s/ Stephen J. Bagley
Stephen J. Bagley
Chief Financial Officer