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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: **May 31, 2016**

OR

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

Commission File No.: 0-16035

SONO-TEK Corporation

(Exact name of registrant as specified in its charter)

New York	14-1568099
(State or other jurisdiction of 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 ☑ NO ☐

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

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Smaller reporting company ☑
Non Accelerated Filer ☐ (Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding as of July 8, 2016
Common Stock, par value $.01 per share	14,961,076

SONO-TEK CORPORATION

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SONO-TEK CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	May 31, 2016 (Unaudited)	February 29, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,635,801	$ 2,388,355
Marketable securities	1,808,229	1,695,689
Accounts receivable (less allowance of $46,000 and $46,000 at May 31 and February 29, respectively)	818,419	1,214,713
Inventories, net	1,917,517	1,945,383
Prepaid expenses and other current assets	77,942	109,954
Deferred tax asset	154,914	154,914
Total current assets	7,412,822	7,509,008
Land	250,000	250,000
Buildings, net	1,923,554	1,939,714
Equipment, furnishings and building improvements, net	802,445	796,788
Intangible assets, net	169,234	174,027
TOTAL ASSETS	$ 10,558,055	$ 10,669,537
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 489,823	$ 475,297
Accrued expenses	566,737	746,036
Customer deposits	177,500	201,478
Current portion of long term debt	137,642	143,388
Income taxes payable	81,153	87,660
Total current liabilities	1,452,855	1,653,859
Deferred tax liability	171,719	171,719
Long term debt, less current maturities	1,146,588	1,176,349
Total liabilities	2,771,162	3,001,927
Stockholders' Equity		
Common stock, $.01 par value; 25,000,000 shares authorized, 14,961,076 and 14,955,400 shares issued and outstanding, respectively	149,611	149,554
Additional paid-in capital	8,819,719	8,812,224
Accumulated deficit	(1,168,238)	(1,224,028)
Accumulated other comprehensive loss	(14,199)	(70,140)
Total stockholders' equity	7,786,893	7,667,610
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 10,558,055	$ 10,669,537

See notes to condensed consolidated financial statements.

SONO-TEK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended May 31,	
	2016	**2015**
Net Sales	$ 2,240,211	$ 2,882,897
Cost of Goods Sold	1,216,809	1,509,766
Gross Profit	1,023,402	1,373,131
Operating Expenses		
Research and product development costs	303,794	282,131
Marketing and selling expenses	546,983	571,627
General and administrative costs	269,189	256,784
Rental operations expense	43,117	39,545
Total Operating Expenses	1,163,083	1,150,087
Operating (Loss) Income	(139,681)	223,044
Interest Expense	(13,745)	(15,288)
Interest Income	17,583	13,760
Other (expense) income	201,259	(14,280)
Income Before Income Taxes	65,416	207,236
Income Tax Expense	9,625	53,214
Net Income	$ 55,791	$ 154,022
Other Comprehensive income		
Net unrealized gain on marketable securities	55,941	—
Comprehensive Income	$ 111,732	$ 154,022
Basic Earnings Per Share	$ 0.00	$ 0.01
Diluted Earnings Per Share	$ 0.00	$ 0.01
Weighted Average Shares - Basic	14,961,076	14,833,107
Weighted Average Shares - Diluted	15,005,107	14,926,642

See notes to condensed consolidated financial statements.

SONO-TEK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended May 31,	
	2016	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 55,791	$ 154,022
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	114,813	102,176
Stock based compensation expense	7,552	11,061
Allowance for doubtful accounts	—	(3,047)
Inventory reserve	28,000	30,000
Unrealized loss on marketable securities	—	13,268
Decrease (Increase) in:		
Accounts receivable	396,294	306,835
Inventories	(134)	(226,145)
Prepaid expenses and other current assets	32,012	34,197
(Decrease) Increase in:		
Accounts payable and accrued expenses	(164,774)	80,228
Customer Deposits	(23,979)	(34,782)
Income taxes payable	(6,507)	(175,404)
Net Cash Provided by Operating Activities	439,068	292,409
CASH FLOWS FROM INVESTING ACTIVITIES:		
Patent application costs	—	(1,010)
Purchase of equipment and furnishings	(93,772)	(75,992)
(Purchase) of marketable securities	(62,343)	(11,377)
Net Cash (Used In) Investing Activities	(156,115)	(88,379)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable and loans	(35,507)	(49,636)
Net Cash (Used In) Financing Activities	(35,507)	(49,636)
NET INCREASE IN CASH AND CASH EQUIVALENTS	247,446	154,394
CASH AND CASH EQUIVALENTS		
Beginning of period	2,388,355	2,562,782
End of period	$ 2,635,801	$ 2,717,176
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Interest paid	$ 13,745	$ 15,288
Taxes Paid	$ 16,082	$ 228,618

See notes to condensed consolidated financial statements.

SONO-TEK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MAY 31, 2016 and 2015
(Unaudited)

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

Available-For-Sale Investments **–** The Company's available for sale investments are carried at fair value with the unrealized gains or losses, net of tax, included as a component of accumulated other comprehensive income (loss) in stockholders' equity. Realized losses and declines in value below cost judged to be other than temporary, if any, are included as a component of asset impairments expense in the consolidated statement of operations. The fair value of the available-for-sale investments are based on quoted market prices. The Company's fair value determination method is discussed below in "Fair Value of Financial Instruments."

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 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.

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.

Equipment, Furnishings and Leasehold Improvements **–** Equipment, furnishings and leasehold 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.

Fair Value of Financial Instruments **-** The Company follows 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 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 May 31, 2016 and February 29, 2016, respectively:

	Quoted Prices in Active Markets (Level 1)	
	May 31, 2016	February 29, 2016
Marketable Securities	$ 1,808,229	$ 1,695,689

Marketable Securities include mutual funds of $1,808,229 and $1,695,689 that are considered to be highly liquid and easily tradeable as of May 31, 2016 and February 29, 2016, respectively. 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. The Company's marketable securities are considered to be available-for-sale investments as defined under ASC 320 "Investments – Debt and Equity Securities."

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.

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. The accumulated amortization of patents is $131,000 and $127,900 at May 31, 2016 and February 29, 2016, respectively. Annual amortization expense of such intangible assets is expected to be approximately $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 29, 2016, 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.

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.

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.

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.

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- 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 an impact on the Company.

Reclassifications – Where appropriate, certain reclassifications have been made to the prior period to conform to the presentations of the current period.

NOTE 3: INVENTORIES

Inventories consist of the following:

	May 31, 2016	February 29, 2016
Raw materials and subassemblies	$ 1,427,544	$ 1,452,566
Finished goods	538,428	549,106
Work in process	154,249	118,415
Total	2,120,221	2,120,087
Less: Allowance	(202,704)	(174,704)
Net inventories	$ 1,917,517	$ 1,945,383

NOTE 4: STOCK OPTIONS AND WARRANTS

Stock Options – Under the 2013 Stock Incentive Plan ("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 May 31, 2016, there were 246,600 options outstanding under the 2013 Plan.

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 shares of the Company's common stock. As of May 31, 2016, there were 207,500 options outstanding under the 2003 Plan, under which no additional options may be granted.

NOTE 5: STOCK BASED COMPENSATION

The weighted-average fair value of options are estimated on the date of grant using the Black-Scholes options-pricing model. For the three months ended May 31, 2016, no options were issued.

In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate; volatility; and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the number of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

For the three months ended May 31, 2016 and 2015, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated $8,000 and $11,000 in additional compensation expense during the three months ended May 31, 2016 and 2015, respectively. Such amounts are included in general and administrative expenses on the statement of operations. The expense for stock-based compensation is a non-cash expense item.

NOTE 6: EARNINGS PER SHARE

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

	Three Months Ended May 31, 2016	Three Months Ended May 31, 2015
Numerator for basic and diluted earnings per share	$ 55,791	$ 154,022
Denominator for basic earnings per share - weighted average	14,961,076	14,833,107
Effects of dilutive securities:		
Stock options for employees, directors and outside consultants	44,031	93,535
Denominator for diluted earnings per share	15,005,107	14,926,642
Basic Earnings Per Share	$ —	$ 0.01
Diluted Earnings Per Share	$ —	$ 0.01

NOTE 7: OTHER COMPREHENSIVE INCOME – (LOSS)

As of May 31, 2016, certain of the Company's marketable securities were in an unrealized loss position. Unrealized losses are principally due to changes in fair value of the investments held as available-for-sale. The Company has the ability and intent to hold the securities until maturity, or for the foreseeable future as classified as available-for-sale. The Company does not deem the decline to be other than temporary.

As of May 31, 2016, the unrealized loss on available-for-sale securities was $14,199.

The following table sets forth the changes in Accumulated Other Comprehensive Loss for the three months ended May 31, 2016:

	Unrealized Losses on Available for Sale Securities
Beginning Balance February 29, 2016	$ (70,140)
Current Period Unrealized Gains	55,941
Ending Balance May 31, 2016	$ (14,199)

NOTE 8: LONG TERM DEBT

Long-term debt consists of the following:

	May 31, 2016	February 29, 2016
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.	1,284,230	1,319,737
Total long term debt	1,284,230	1,319,737
Due within one year	137,642	143,388
Due after one year	$ 1,146,588	$ 1,176,349

NOTE 9: REVOLVING LINE OF CREDIT

The Company has a $750,000 revolving line of credit at prime which was 3.50% at May 31, 2016. The loan is collateralized by all of the assets of the Company, except for the land and buildings. The line of credit is payable on demand and must be retired for a 30 day period once annually. If the Company fails to perform the 30 day annual pay down or if the bank elects to terminate the credit line, the bank may at its option convert the outstanding balance to a 36 month term note with payments including interest in 36 equal installments. As of May 31, 2016, the Company's outstanding balance was $0, and the unused credit line was $750,000.

NOTE 10: SEGMENT INFORMATION

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

All inter-company transactions are eliminated in consolidation. For the three months ended May 31, 2016 and 2015, segment information is as follows:

	Three Months Ended May 31, 2016				Three Months Ended May 31, 2015			
	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated
Net Sales	$ 2,216,211	$ 73,074	$ 49,074	$ 2,240,211	$ 2,858,597	$ 73,374	$ 49,074	$ 2,882,897
Rental Expense	$ 49,074	$ 43,117	$ (49,074)	$ 43,117	$ 49,074	$ 39,545	$ (49,074)	$ 39,545
Interest Expense	—	$ 13,745		$ 13,745	$ 75	$ 15,213		$ 15,288
Net Income (Loss)	$ 88,653	$ (32,862)		$ 55,791	$ 184,480	$ (30,458)		$ 154,022
Assets	$ 8,120,830	$ 2,437,225		$ 10,558,055	$ 8,078,215	$ 2,497,922		$ 10,576,137
Debt	—	$ 1,284,230		$ 1,284,230	$ 5,149	$ 1,423,136		$ 1,428,285

NOTE 11: 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 and systems, 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.

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 diverse offerings have positioned us to provide 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 the production of 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 semi-conductor industry utilizes our ultrasonic atomizing nozzles and robotic XYZ coating platforms for the application and deposition of photo-resist onto semiconductor wafers. Certain of our semiconductor 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, compared to conventional systems. Our systems also afford our energy industry clients with the capabilities of saving up to 80% of the expensive catalysts and nano-materials used in these manufacturing processes. Some examples of our products marketed to the advanced energy industry include: ExactaCoat FC & SC, Sonic Syringe, VersiCoat, and 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 and balloon catheters with precise and uniform micron layers of polymers and drugs; coating of various implantable devices with biomedical 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; MedXT; MediCoat BCC and ExactaCoat MD.

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. Advanced Textiles Industry.

The textiles industry is expanding the introduction of 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 creates 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 and energy usage by as much as 90%.

6. Food Safety and Food Coatings 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.

<u>Products</u>

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 to smaller manufacturers.

3. SonoFlux Servo – a higher end 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 also sell 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 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 patented ultrasonic syringe pump and patented sonic syringe to agitate and suspend nano-particles, which are often used in our applications.

Other Product Offerings – EVS Solder Recovery System

We have an exclusive distribution relationship with EVS to distribute EVS's line of solder recovery systems and spare parts in the United States and Canada. EVS manufactures the EVS 10K and EVS 8K 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 $105,000 from a working capital of $5,855,000 at February 29, 2016 to $5,960,000 at May 31, 2016. The increase in working capital is due to the current period's net income of $56,000, offset by cash outflows of $94,000 for the purchase of equipment and furnishings and $36,000 for the repayment of notes payable. In addition, we incurred non-cash expenses for depreciation and amortization of $115,000 and stock based compensation expense of $8,000. The Company's current ratio is 5.1 to 1 at May 31, 2016 as compared to 4.5 to 1 at February 29, 2016.

For the three months ended May 31, 2016, our working capital also increased due to a reduction in our accumulated comprehensive loss on our Available-For-Sale Investments. Our accumulated loss decreased $56,000 from $70,000 at February 29, 2016 to $14,000 at May 31, 2016.

At May 31, 2016, our working capital included $2,636,000 of cash and $1,808,000 of marketable securities, a total of $4,444,000. At February 29, 2016, our working capital included $2,388,000 of cash and $1,696,000 of marketable securities, a total of $4,084,000. The aggregate balance of cash and marketable securities increased $360,000 during the three month period ended May 31, 2016.

Stockholders' Equity – Stockholder's Equity increased $119,000 from $7,668,000 at February 29, 2016 to $7,787,000 at May 31, 2016. The increase is a result of the current period's net income of $56,000, stock based compensation expense of $8,000 and a reduction in our accumulated other comprehensive loss of $56,000.

Operating Activities – Our operating activities provided $439,000 of cash for the three months ended May 31, 2016 as compared to providing $292,000 for the three months ended May 31, 2015. During the three months ended May 31, 2016, we had net income of $56,000, accounts receivable decreased $396,000, prepaid expenses decreased $32,000, accounts payable and accrued expenses decreased $165,000, customer deposits decreased $24,000 and income taxes payable decreased $6,000. In addition, in the current period we incurred non-cash expenses of $115,000 for depreciation and amortization, $8,000 for stock based compensation expense and $28,000 for our inventory reserve.

Investing Activities – For the three months ended May 31, 2016, we used $156,000 in our investing activities as compared to $88,000 for the three months ended May 31, 2015. In 2016 and 2015 we used $94,000 and $76,000, respectively for the purchase or manufacture of equipment, furnishings and leasehold improvements. In 2016 and 2015 we used $62,000 and $11,000, respectively for the purchase of marketable securities.

Financing Activities – For the three months ended May 31, 2016 and 2015, we used $36,000 and $50,000, respectively, for the repayment of our notes payable.

Net Increase in Cash – For the three months ended May 31, 2016, our cash balance increased by $247,000 as compared to an increase of $154,000 for the three months ended May 31, 2015. During the three months ended May 31, 2016, our operations provided $439,000 of cash, of this, we used $94,000 for the purchase or manufacture of equipment, furnishings and leasehold improvements, $62,000 for the purchase of marketable securities and $36,000 for the repayment of notes payable.

Results of Operations

Ultrasonic Spraying – Sales and Gross Profit:

Sales:

	Three Months Ended May 31,		Increase (Decrease)	
	2016	2015	$	%
Net Sales	$ 2,216,000	$ 2,859,000	$ (643,000)	(22%)
Cost of Goods Sold	1,217,000	1,510,000	(293,000)	(19%)
Gross Profit	$ 999,000	$ 1,349,000	$ (350,000)	(26%)
Gross Profit %	45%	47%		

For the three months ended May 31, 2016, our sales decreased $643,000 to $2,216,000 as compared to $2,859,000 for the three months ended May 31, 2015. During the three month period ended May 31, 2016, we experienced a decrease in sales of our Widetrack units and stent coating units. The decrease was offset by a increase in sales of XYZ Platform Units.

When compared to the prior year period, the decrease in sales occurred primarily in our Asian and Latin American markets, in our float glass, stent coating and fluxer product lines.

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.

Based on our current backlog, we anticipate that sales for the quarter ending August 31, 2016, will be comparable to sales for the quarter ended May 31, 2016.

Gross Profit:
Our gross profit decreased $350,000 to $999,000 for the three months ended May 31, 2016 from $1,349,000 for the three months ended May 31, 2015. Our gross profit margin was 45% of sales for the three months ended May 31, 2016 compared to 47% for the prior year period. The decrease in the current period's gross profit margin is due to decreases in sales of our higher gross margin Widetrack units and stent coating units. These decreases were offset by improvements in the margins of our fluxer units and related spare parts, during the three months ended May 31, 2016. In addition, our Service Department installation costs decreased due to the current period's decrease in sales revenue.

Operating Expenses:

	Three Months Ended May 31,		Change	
	2016	2015	$	%
Research and product development	$304,000	$282,000	$ 22,000	8%
Marketing and selling	$547,000	$572,000	$(25,000)	(4%)
General and administrative	$269,000	$257,000	$ 12,000	5%

Research and Product Development:
Research and product development costs increased $22,000 to $304,000 for the three months ended May 31, 2016 compared to $282,000 for the three months ended May 31, 2015. During the three months ended May 31, 2016 we experienced increases in engineering salaries and depreciation.

The increase in salaries is due to the continuing efforts of our New Product Development team, which has recently completed two new products; the SPT200 and SonoBraze. We believe that our long-term growth and stability are linked to the development and release of products that provide solutions to customer needs across a wide spectrum of industries.

Marketing and Selling:
Marketing and selling costs decreased $25,000 to $547,000 for the three months ended May 31, 2016 as compared to $572,000 for the three months ended May 31, 2015. For the three months ended May 31, 2016 we experienced a decrease in commission expense due to decreased sales in the current period. We also experienced increases in advertising and trade show expenses and sales salaries, these increases were offset by the decrease in commission expense.

General and Administrative:
General and administrative costs increased $12,000 to $269,000 for the three months ended May 31, 2016 as compared to $257,000, for the three months ended May 31, 2015. For the three months ended May 31, 2016, we experienced increases in professional fees, corporate and other miscellaneous expenses. These increases were offset by decreases in insurance and stock based compensation expense.

Operating (Loss) Income – Ultrasonic Spraying:
Our operating loss for the three months ended May 31, 2016 was ($121,000) as compared to operating income of $238,000 for the three months ended May 31, 2015, a decrease of $359,000. For the three months ended May 31, 2016, our gross profit decreased by $350,000 when compared to the three months ended May 31, 2015. The decrease in gross profit, was accompanied by increases in Research and Development costs and General and Administrative expenses and a decrease in Marketing and Selling expenses, which collectively increased by $9,000 when compared to the three months ended May 31, 2015.

Rental Real Estate Operations:
For the three months ended May 31, 2016, our real estate operations generated $24,000 in rental income from unrelated third parties and incurred $43,000 in operating expenses and $14,000 in interest expense resulting in a net loss of $33,000. The $33,000 loss excludes any inter-company rent.

Other Income:
During the three months ended May 31, 2016, we received a payout of $200,000 in life insurance proceeds from the death of a former employee.

Condensed Consolidated Results:
We had net income of $56,000 for the three months ended May 31, 2016 as compared to $154,000 for the three months ended May 31, 2015. The decrease in net income is due to a decrease in our sales revenue combined with a decrease in our gross profit margin, which was offset by the receipt of life insurance proceeds.

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 29, 2016.

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 $2,636,000 in cash and $1,808,000 in marketable securities, the market rate risk associated with changing interest rates in the United States is not material.

ITEM 4 – Controls and Procedures

The Company has established and maintains "disclosure controls and procedures" (as those terms are defined in Rules 13a – 15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act'). Christopher L. Coccio, Chief Executive Officer (principal executive) and Stephen J. Bagley, Chief Financial Officer (principal accounting officer) of the Company, have evaluated the Company's disclosure controls and procedures as of May 31, 2016. Based on this evaluation, they have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to Management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding timely disclosure.

In addition, there were no changes in the Company's internal controls over financial reporting during the first fiscal quarter of 2017 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 1A. Risk Factors
Note Required for Smaller Reporting Companies

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

Item 3. Defaults Upon Senior Securities
None

Item 4. Mine Safety Disclosures
None

Item 5. Other Information
None

Item 6. Exhibits and Reports

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

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

101.INS – XBRL Instance Document.

101.SCH – XBRL Taxonomy Extension Schema Document

101.CAL – XBRL Taxonomy Calculation Linkbase Document

101.DEF – XBRL Taxonomy Extension Definition Linkbase Document

101.LAB – XBRL Extension Label Linkbase Document

101.PRE – XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Dated: July 15, 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