SONO TEK CORP

FORM 10-Q
(Quarterly Report)

Filed 10/15/19 for the Period Ending 08/31/19

Address	2012 RT 9W BLDG 3
	MILTON, NY, 12547
Telephone	8457952020
CIK	0000806172
Symbol	SOTK
SIC Code	3690 - Miscellaneous Electrical Machinery, Equipment and Supplies
Industry	Industrial Machinery & Equipment
Sector	Industrials
Fiscal Year	02/28

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

FORM 10-Q

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

For the quarterly period ended: August 31, 2019

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 (State or other jurisdiction of incorporation or organization)	14-1568099 (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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-Accelerated Filer ☐	Smaller reporting company ☑
	Emerging Growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 October 12, 2019**
Common Stock, par value $.01 per share	15,301,613

SONO-TEK CORPORATION

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SONO-TEK CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	August 31, 2019 (Unaudited)	February 28, 2019
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,280,981	$ 3,144,123
Marketable securities	3,417,604	2,365,706
Accounts receivable (less allowance of $46,000)	1,272,400	1,397,891
Inventories, net	2,578,914	1,658,016
Prepaid expenses and other current assets	182,364	395,005
Total current assets	9,732,263	8,960,741
Land	250,000	250,000
Buildings, net	1,692,699	1,731,547
Equipment, furnishings and building improvements, net	976,939	802,932
Intangible assets, net	114,860	122,941
Deferred tax asset	332,017	332,017
TOTAL ASSETS	$ 13,098,778	$ 12,200,178
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 797,512	$ 585,694
Accrued expenses	773,012	632,706
Customer deposits	1,584,452	1,149,558
Current maturities of long term debt	166,160	162,816
Income taxes payable	14,744	6,272
Total current liabilities	3,335,880	2,537,046
Deferred tax liability	370,757	370,757
Long term debt, less current maturities	623,676	707,715
Total liabilities	4,330,313	3,615,518
Commitments and Contingencies – (Note 10)	—	—
Stockholders' Equity		
Common stock, $.01 par value; 25,000,000 shares authorized, 15,301,613 and 15,197,563 shares issued and outstanding, at August 31 and February 28, respectively	153,016	151,976
Additional paid-in capital	8,972,394	8,929,607
Accumulated deficit	(356,945)	(496,923)
Total stockholders' equity	8,768,465	8,584,660
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 13,098,778	$ 12,200,178

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended August 31,		Three Months Ended August 31,	
	2019	2018	2019	2018
Net Sales	$ 6,168,250	$ 5,518,591	$ 3,345,822	$ 2,817,731
Cost of Goods Sold	3,316,323	2,902,949	1,798,830	1,473,286
Gross Profit	2,851,927	2,615,642	1,546,992	1,344,445
Operating Expenses				
Research and product development costs	658,870	653,764	321,697	319,898
Marketing and selling expenses	1,476,696	1,326,701	799,284	696,913
General and administrative costs	619,475	589,200	333,662	313,808
Total Operating Expenses	2,755,041	2,569,665	1,454,643	1,330,619
Operating Income	96,886	45,977	92,349	13,826
Interest Expense	(17,465)	(20,817)	(8,518)	(10,203)
Interest and Dividend Income	56,983	71,522	25,812	36,916
Realized gain (loss) on sale of marketable securities	—	119,075	—	89,683
Net unrealized loss on marketable securities	—	(129,657)	—	(80,596)
Other income (expense)	16,877	19,515	12,122	16,995
Income Before Income Taxes	153,281	105,615	121,765	66,621
Income Tax Expense	13,303	25,061	7,000	7,497
Net Income	$ 139,978	$ 80,554	$ 114,765	$ 59,124
Basic Earnings Per Share	$ 0.01	$ 0.01	$ 0.01	$ 0.00
Diluted Earnings Per Share	$ 0.01	$ 0.01	$ 0.01	$ 0.00
Weighted Average Shares - Basic	15,285,024	15,036,644	15,301,613	15,085,660
Weighted Average Shares - Diluted	15,376,906	15,169,210	15,399,163	15,224,221

See notes to unaudited condensed consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
SIX AND THREE MONTHS ENDED AUGUST 31, 2019 AND 2018

Six Months Ended August 31, 2019 and 2018

	Common Stock Par Value $.01 Shares	Amount	Additional Paid – In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance – February 28, 2019	15,197,563	$ 151,976	$ 8,929,607	$ —	$ (496,923)	$ 8,584,660
Cashless exercise of stock options	104,050	1,040	(1,040)			
Stock based compensation expense			43,827			43,827
Net Income					139,978	139,978
Balance – August 31, 2019 (unaudited)	15,301,613	$ 153,016	$ 8,972,394	$ —	$ (356,945)	$ 8,768,465

	Common Stock Par Value $.01 Shares	Amount	Additional Paid – In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance – February 28, 2018	14,986,367	$ 149,864	$ 8,901,171	$ 101,605	$ (760,115)	$ 8,392,525
Reclassification of unrealized gain on marketable securities upon adoption of ASU 2016-01				(101,605)	101,605	—
Cashless exercise of stock options	169,193	1,692	(1,692)			—
Stock based compensation expense			16,394			16,394
Net Income					80,554	80,554
Balance – August 31, 2018 (Unaudited)	15,155,560	$ 151,556	$ 8,915,873	$ —	$ (577,956)	$ 8,489,473

Three Months Ended August 31, 2019 and 2018

	Common Stock Par Value $.01 Shares	Amount	Additional Paid – In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance – June 1, 2019	15,301,613	$ 153,016	$ 8,939,877	—	$ (471,710)	$ 8,621,183
Stock based compensation expense			32,517			32,517
Net Income					114,765	114,765
Balance – August 31, 2019 (Unaudited)	15,301,613	$ 153,016	$ 8,972,394	$ —	$ (356,945)	$ 8,768,465

	Common Stock Par Value $.01 Shares	Amount	Additional Paid – In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance – June 1, 2018	14,989,003	$ 149,890	$ 8,910,045	—	$ (637,080)	$ 8,422,855
Cashless exercise of stock options	166,557	1,666	(1,666)			—
Stock based compensation expense			7,494			7,494
Net Income					59,124	59,124
Balance – August 31, 2018 (Unaudited)	15,155,560	$ 151,556	$ 8,915,873	$ —	$ (577,956)	$ 8,489,473

See notes to unaudited condensed consolidated financial statements.

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

	Unaudited Six Months Ended August 31, 2019	Unaudited Six Months Ended August 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 139,978	$ 80,554
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	191,977	172,130
Stock based compensation expense	43,827	16,394
Inventory reserve	32,000	36,000
Unrealized loss on marketable securities	—	129,657
Decrease (Increase) in:		
Accounts receivable	125,491	(518,699)
Inventories	(952,898)	(332,704)
Prepaid expenses and other current assets	212,642	24,682
(Decrease) Increase in:		
Accounts payable and accrued expenses	352,124	71,845
Customer Deposits	434,894	88,398
Income taxes payable	8,472	(76,365)
Net Cash Provided by (Used In) Operating Activities	588,507	(308,108)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and furnishings	(319,055)	(159,790)
Sale (purchase) of marketable securities	(1,051,898)	184,249
Net Cash (Used in) Provided by Investing Activities	(1,370,953)	24,459
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long term debt	(80,696)	(77,410)
Net Cash (Used In) Financing Activities	(80,696)	(77,410)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(863,142)	(361,059)
CASH AND CASH EQUIVALENTS		
Beginning of period	3,144,123	2,016,464
End of period	$ 2,280,981	$ 1,655,405
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Interest paid	$ 17,465	$ 20,817
Income Taxes Paid	$ 4,831	$ 101,426

See notes to unaudited condensed consolidated financial statements.

NOTE 1: BUSINESS DESCRIPTION

Sono-Tek Corporation (the “Company”, “Sono-Tek”, “We” or “Our”) is the world leader in the design and manufacture of ultrasonic coating systems for applying precise, thin film coatings to protect, strengthen or smooth surfaces on parts and components for the microelectronics/electronics, alternative energy, medical, industrial and emerging research & development/other markets. We design and manufacture custom-engineered ultrasonic coating systems and also provide patented nozzles and generators for manufacturers’ equipment.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Accordingly, the Condensed Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company’s management, all adjustments considered necessary for a fair presentation (consisting of normal recurring adjustments) have been included. The results for the interim periods are not necessarily indicative of what the results will be for the fiscal year. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements as of and for the fiscal year ended February 28, 2019 (“fiscal year 2019”) contained in the Company’s 2019 Annual Report on Form 10-K filed with the SEC. The Company’s current fiscal year ends on February 29, 2020 (“fiscal 2020”).

NOTE 2: 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 the Company, include the accounts of the Company and its wholly owned subsidiary, Sono-Tek Industrial Park, LLC (“SIP”). 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 August 31, 2019 and February 28, 2019, respectively:

	Quoted Prices in Active Markets (Level 1)	
	August 31, 2019	**February 28, 2019**
Marketable Securities	$ 3,417,604	$ 2,365,706

Marketable Securities include mutual funds, certificates of deposit and US Treasury securities of $3,417,604 and $2,365,706 that are considered to be highly liquid and easily tradeable as of August 31, 2019, and February 28, 2019, 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 $165,832 and $160,433 at August 31, 2019 and February 28, 2019, 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 28, 2019, 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.

Marketable Securities - The Company adopted ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The Company has evaluated the potential impact this standard may have on the condensed consolidated financial statements and the fair value allowance of the securities from the prior year has been reclassified to Retained Earnings from Other Accumulated Comprehensive Income. The unrealized loss on the marketable securities during the three and six months ended August 31, 2018 has been disclosed a separate line item on the Income Statement.

New Accounting Pronouncements-

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either operating or financing, with such classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, and early adoption is permitted. The adoption of ASU 2016-02 had no material impact on the Company's financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), "*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*". ASU 2018-02 was issued to allow the reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effect resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017. The Tax Cuts and Jobs Act, among other things, reduced the corporate tax rate from 35% to 21%, which required the re-evaluation of any deferred tax assets and liabilities at the lowered tax rate which potentially could leave a disproportionate tax effect in accumulated other comprehensive income. ASU 2018-02 allows for the election to reclassify these stranded tax effects to retained earnings. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period for public business entities for reporting periods for which financials statements have not yet been issued. The adoption of ASU 2018-02 had no material impact on the Company's financial statements.

Other than Accounting Standards Update ("ASU") ASU 2016-02 and ASU 2018-02 discussed above, 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, is 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: REVENUE RECOGNITION

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "*Revenue from Contracts with Customers" (Topic 606)*, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services. In addition, ASU 2014-09 requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2017.

The new revenue standard is principle based and interpretation of those principles may vary from company to company based on their unique circumstances. It is possible that interpretation, industry practice, and guidance may evolve as companies and the accounting profession work to implement this new standard. The implementation of the standard did not have a material impact on the financial statements.

A majority of the Company's sales revenue is derived primarily from short term contracts with customers, which, on average, are in effect for less than twelve months. Sales revenue from manufactured equipment transferred at a single point in time accounts for a majority of the Company's revenue.

Sales revenue is recognized when control of the Company's manufactured equipment is transferred to its customers, in an amount that reflects the consideration the Company expects to receive based upon the agreed transaction price. The Company's performance obligations are satisfied when its customers take control of the purchased equipment, which is based on the contract terms. Based on prior experience, the Company reasonably estimates its sales returns and warranty reserves. Sales are presented net of discounts and allowances. Discounts and allowances are determined when a sale is negotiated. The Company does not grant its customers or independent representatives, the ability to return equipment nor does it grant price adjustments after a sale is complete.

The Company does not capitalize any sales commission costs related to the acquisition of a contract. All commissions related to a performance obligation that are satisfied at a point in time are expensed when the customer takes control of the purchased equipment.

At August 31, 2019, the Company had received $1,584,000 in cash deposits, and had issued Letters of Credit in the amount of $659,000 to secure these cash deposits. The Company was utilizing $659,000 of its available credit line to collateralize these letters of credit. The Company's inventory included approximately $739,000 directly related to servicing these customer contracts.

NOTE 4: INVENTORIES

Inventories consist of the following:

	August 31, 2019	February 28, 2019
Raw materials and subassemblies	$ 862,495	$ 873,483
Finished goods	573,923	571,640
Contracts in process inventory	739,471	—
Work in process	563,305	483,271
Total	2,739,194	1,928,394
Less: Allowance	(160,280)	(270,378)
Net inventories	$ 2,578,914	$ 1,658,016

NOTE 5: STOCK OPTIONS

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 August 31, 2019, there were 475,834 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 August 31, 2019, there were 80,000 options outstanding under the 2003 Plan, under which no additional options may be granted.

During the six months ended August 31, 2019, 162,166 options were exercised on a cashless basis into 104,050 shares of common stock.

NOTE 6: STOCK BASED COMPENSATION

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

During the three and six months ended August 31, 2019, the Company granted options to acquire 10,000 shares to employees exercisable at $2.65, options to acquire 20,000 shares to members of the board of directors with an exercise price of $2.65 and options for 100,000 shares to an officer with an exercise price of $2.45. The options granted to employees and directors vest over three years and expire in ten years. The options granted to the officer vested upon grant and expire in ten years. The options had a weighted average grant date fair value of $0.35 per share.

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

	Six Months Ended August 31, 2019
Expected Life	1-8 years
Risk free interest rate	1.58% - 2.05%
Expected volatility	27.46% - 29.05%
Expected dividend yield	0%

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

For the three and six months ended August 31, 2019 and 2018, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated $33,000 and $7,000 in additional compensation expense during the three months ended August 31, 2019 and 2018, respectively. The impact of applying ASC 718 approximated $44,000 and $16,000 in additional compensation expense during the six months ended August 31, 2019 and 2018, 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 7: EARNINGS PER SHARE

The denominators for the calculation of diluted earnings per share at August 31, 2019 and 2018 are calculated as follows:

	Six Months Ended August 31,		Three Months Ended August 31,	
	2019	2018	2019	2018
Numerator for basic and diluted earnings per share	$ 139,978	$ 80,554	$ 114,765	$ 59,124
Denominator for basic earnings per share – weighted average	15,285,024	15,036,644	15,301,613	15,085,660
Effects of dilutive securities				
Stock options for employees, directors and outside consultants	91,882	132,566	97,550	138,561
Denominator for diluted earnings per share	15,376,906	15,169,210	15,399,163	15,224,221
Basic earnings per share	$ 0.01	$ 0.01	$ 0.01	$ 0.00
Diluted earnings per share	$ 0.01	$ 0.01	$ 0.01	$ 0.00

NOTE 8: LONG TERM DEBT

Long-term debt consists of the following:

	August 31, 2019	February 28, 2019
Note payable, bank, collateralized by land and buildings, payable in monthly installments of principal and interest of $16,358 through January 2024 with an interest rate of 4.15% and a 10-year term.	$ 789,836	$ 870,531
Total long term debt	789,836	870,531
Due within one year	166,160	162,816
Due after one year	$ 623,676	$ 707,715

NOTE 9: REVOLVING LINE OF CREDIT

The Company has a $1,500,000 revolving line of credit at prime which was 5.25% at August 31, 2019. The revolving credit line is collateralized by the Company's accounts receivable and inventory. The line of credit is payable on demand and must be retired for a 30-day period, once annually. If the Company fails to perform the 30-day annual pay down or if the bank elects to terminate the credit line, the bank may, at its option, convert the outstanding balance to a 36-month term note with payments including interest in 36 equal installments.

As of August 31, 2019, $659,000 of the Company's credit line was being utilized to collateralize letters of credit issued to customers that have remitted cash deposits to the Company on existing orders. The letters of credit expire in 2020. As of August 31, 2019, there were no outstanding borrowings under the line of credit and the unused portion of the credit line was $841,000 as of August 31, 2019.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Other than the letters of credit disclosed in Note 9, the Company did not have any material commitments or contingencies as of August 31, 2019.

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, technological and trade barrier 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; completion of backlog during the current fiscal year and the ability to achieve increased sales volume at projected levels and continued profitability.

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

OVERVIEW

Founded in 1975, Sono-Tek Corporation designs and manufactures ultrasonic coating systems that apply precise, thin film coatings to a multitude of products for the microelectronics/electronics, alternative energy, medical and industrial markets, including specialized glass applications in construction and automotive. We also sell our products to emerging research and development and other markets. We have invested significant resources to enhance our market diversity by leveraging our core ultrasonic coating technology. As a result, we have increased our portfolio of products, the industries we serve and the countries in which we sell our products.

Our ultrasonic nozzle systems use high frequency, ultrasonic vibrations that atomize liquids into minute drops that can be applied to surfaces at low velocity providing thin layers of protective materials over a surface such as glass or metals. Our solutions are environmentally-friendly, efficient and highly reliable. They enable dramatic reductions in overspray, savings in raw material, water and energy usage and provide improved process repeatability, transfer efficiency, high uniformity and reduced emissions.

We believe product superiority is imperative and that it is attained through the extensive experience we have in the coatings industry, our proprietary manufacturing know-how and skills and our unique work force we have built over the years. Our growth strategy is to leverage our innovative technologies, proprietary know-how, unique talent and experience, and global reach to further advance the use of ultrasonic coating technologies for the microscopic coating of surfaces in a broader array of applications that enable better outcomes for our customers' products and processes.

We are a global business with approximately 65% of our sales generated from outside the United States and Canada. Our direct sales team and our distributor and sales representative network is located in North America, Latin America, Europe and Asia. Over the last few years, we have expanded our sales capabilities by increasing the size of our direct sales force, adding new distributors and sales representatives ("reps"). In addition, we have established testing labs at our distribution partner sites in China, Taiwan, Germany, Turkey, Korea and Japan, while also expanding our first testing lab that is co-located with our manufacturing facilities in New York. These labs provide significant value for demonstrating to prospective customers the capabilities of our equipment and enabling us to develop custom solutions to meet their needs.

Over the last decade, we have shifted our business from primarily selling our ultrasonic nozzles and components to a more complex business providing complete machine solutions and higher value subsystems to original equipment manufacturers ("OEMs"). The range for our average unit selling price has increased as a result from less than $8,000 for a nozzle and generator package to a range of $50 thousand per unit to over $240 thousand per unit. As a result of this transition, we have broadened our addressable market and we believe that we can grow sales on a larger scale and we expect that we will experience wide variations in both order flow and shipments from quarter to quarter.

Second Quarter Fiscal 2020 Highlights (compared with the second quarter of fiscal 2019 unless otherwise noted) We refer to the three-month periods ended August 31, 2019 and 2018 as the second quarter of fiscal 2020 and fiscal 2019, respectively.

- Net sales were $3,346,000, up 19% or $528,000, driven by increased sales of highly customized, multi axis coating systems to the Electronics/Microelectronics market.
- Gross profit margin was 46.2% as compared to 47.7%. The decline in gross profit margin is primarily a result of product mix.
- Operating income increased to $92,000, compared with operating income of $14,000. Growth in revenue and gross profit improved gross margin during the quarter.

  Backlog on August 31, 2019 was up 37% to $4,175,000, compared with backlog of $3,038,000 on February 28, 2019

First Half Fiscal 2020 Highlights (compared with the first half of fiscal 2019 unless otherwise noted) We refer to the six-month periods ended August 31, 2019 and 2018 as the first half of fiscal 2020 and fiscal 2019, respectively.

- Net sales were $6,168,000, up 12% or $649,000, driven primarily by demand from the Electronics/Microelectronics and Alternative Energy markets, as the effectiveness of our efforts to provide application engineering expertise and custom-designed complex coating solutions, of high customer value and greater selling price and increased revenue.
- Gross profit margin was 46.2% as compared with 47.4% primarily as a result of changes in product mix.
- Operating income increased to $97,000, compared with $46,000. Growth in revenue and gross profit were key factors in the improvement of operating income during the first half of fiscal 2020.

RESULTS OF OPERATIONS

Sales:

Product Sales

	Three Months Ended August 31,		Change		Six Months Ended August 31,		Change	
	2019	**2018**	**$**	**%**	**2019**	**2018**	**$**	**%**
Fluxing Systems	$ 211,000	$ 233,000	(22,000)	(9%)	$ 602,000	$ 573,000	29,000	5%
Integrated Coating Systems	413,000	283,000	130,000	46%	810,000	631,000	179,000	28%
Multi-Axis Coating Systems	1,815,000	1,270,000	545,000	43%	2,888,000	2,132,000	756,000	35%
OEM Systems	246,000	527,000	(281,000)	(53%)	565,000	978,000	(413,000)	(42%)
Other	661,000	505,000	156,000	31%	1,303,000	1,205,000	98,000	8%
TOTAL	$ 3,346,000	$ 2,818,000	528,000	19%	$ 6,168,000	$ 5,519,000	649,000	12%

Sales growth was driven by demand for our more complex, highly-engineered and higher value multi-axis and integrated coating machines, primarily for the Electronics/Microelectronics and Alternative Energy markets in in the first six months of fiscal 2020. This equipment's average selling price can range from $100 thousand to over $300 thousand per unit and is typically ordered in one-or two-unit volumes. Growth in these product categories more than offset the decline in OEM Systems, greatly influenced by a dip in sales to several China based OEM partners.

Market Sales

	Three Months Ended August 31,		Change		Six Months Ended August 31,		Change	
	2019	**2018**	**$**	**%**	**2019**	**2018**	**$**	**%**
Electronics/Microelectronics	$ 1,376,000	$ 685,000	691,000	100%	$ 2,913,000	$ 2,014,000	899,000	45%
Medical	1,250,000	1,169,000	81,000	7%	1,792,000	2,082,000	(290,000)	(14%)
Alternative Energy	223,000	325,000	(102,000)	(31%)	610,000	501,000	109,000	22%
Emerging R&D and Other	400,000	516,000	(116,000)	(22%)	685,000	685,000	—	—
Industrial	97,000	123,000	(26,000)	(21%)	168,000	237,000	(69,000)	(29%)
TOTAL	$ 3,346,000	$ 2,818,000	528,000	19%	$ 6,168,000	$ 5,519,000	649,000	12%

Customer use of our application process development laboratories, located throughout the world, continue to reach record levels in the first half of FY2020, which we believe demonstrates the success of our strategy to provide excellent application engineering expertise as well as paid coating services to prospects and customers to validate the capabilities of our coating technologies for their uses. These service-based customers are guided by our applications engineering team, to develop successful coating processes for their unique needs. Upon achieving coating results that meet the application requirements, the customer's next step is typically to purchase the newly defined coating solution. We believe a high percentage of prospects and customers that use our lab services to develop their products results in sales of our ultrasonic coating solutions.

As expected, the Alternative Energy market continued to grow in the first half of fiscal 2020 as applications and new requirements for fuel cell manufacturing equipment increased. A significant increase in the Electronics/Microelectronics market was seen, primarily as a result of sales to the semiconductor market for applying photoresist.

The medical market showed a decline in the first half of fiscal 2020 which was primarily influenced by a reduction in customized medical coating solutions which can be highly variable quarter to quarter.

Geographic Sales

	Three Months Ended August 31,		Change		Six Months Ended August 31,		Change	
	2019	2018	$	%	2019	2018	$	%
U.S. & Canada	$ 933,000	$ 1,068,000	(135,000)	(13%)	$ 2,162,000	$ 2,071,000	91,000	4%
Asia Pacific (APAC)	857,000	576,000	281,000	49%	1,340,000	1,376,000	(36,000)	(3%)
Europe, Middle East, Asia (EMEA)	883,000	922,000	(39,000)	(4%)	1,512,000	1,550,000	(38,000)	(2%)
Latin America	673,000	252,000	421,000	167%	1,154,000	522,000	632,000	121%
TOTAL	$ 3,346,000	$ 2,818,000	528,000	19%	$ 6,168,000	$ 5,519,000	649,000	12%

In the first half of fiscal 2020, approximately 65% of sales originated outside of the United States and Canada compared with 62% in the prior year period.

In the second quarter of fiscal 2020, approximately 72% of sales originated outside of the United States and Canada compared with 62% in the prior year period.

Gross Profit:

	Three Months Ended August 31,		Change		Six Months Ended August 31,		Change	
	2019	2018	$	%	2019	2018	$	%
Net Sales	$ 3,346,000	$ 2,818,000	528,000	19%	$ 6,168,000	$ 5,519,000	649,000	12%
Cost of Goods Sold	1,799,000	1,473,000	326,000	22%	3,316,000	2,903,000	413,000	14%
Gross Profit	$ 1,547,000	$ 1,345,000	202,000	15%	$ 2,852,000	$ 2,616,000	236,000	9%
Gross Profit %	*46.2%*	*47.7%*			*46.2%*	*47.4%*		

For the second quarter of fiscal 2020, gross profit increased $202,000, or 15%, compared with the prior-year period. Gross profit margin was 46.2% compared with 47.7% in the second quarter of fiscal 2019.

Gross profit increased $236,000, or 9%, to $2,852,000 for the first half of fiscal 2020 compared with $2,616,000 in the prior year period. Gross profit margin was 46.2% compared with 47.4% for the prior year period.

The decline in gross profit margin for the second quarter and first half of fiscal 2020 reflects the change in product mix from primarily OEM ultrasonic nozzles and components, to larger, highly complex engineered machines with a higher average selling price, requiring an increase of outsourced components from our strategic partners. In addition, in the second quarter and first half of fiscal 2020, service department costs increased due to the current period’s increase in volume.

Operating Expenses:

	Three Months Ended August 31,		Change		Six Months Ended August 31,		Change	
	2019	2018	$	%	2019	2018	$	%
Research and product development	$ 322,000	$ 320,000	2,000	1%	$ 659,000	$ 654,000	5,000	1%
Marketing and selling	799,000	697,000	102,000	15%	1,477,000	1,327,000	150,000	11%
General and administrative	334,000	314,000	20,000	6%	619,000	589,000	30,000	5%
Total Operating Expenses	$ 1,455,000	$ 1,331,000	124,000	9%	$ 2,755,000	$ 2,570,000	185,000	7%

Research and Product Development:
The minor increases in research and product development expense in the second quarter and the first half of fiscal 2020 were the result of increases in salaries and health insurance premiums. These increases were partially offset by decreased engineering materials and supplies and depreciation expense.

Marketing and Selling:
Higher marketing and selling costs for the second quarter of fiscal 2020 were related to increases in salaries, commissions, health insurance premiums and travel expense. These increases were partially offset by decreases in trade show expense and international distributor training expense.

Higher marketing and selling costs for the first half of fiscal 2020 were due to increased salaries, commissions, health insurance premiums, and trade show expense. These increases were partially offset by decreases in travel expense and international distributor training expense.

In the second quarter of fiscal 2020, we expended approximately $175,000 for commissions as compared with $101,000 for the prior year fiscal period, an increase of $75,000. In the first half of fiscal 2020, we expended approximately $276,000 for commissions as compared with $209,000 for the prior year fiscal period, an increase of $67,000. The increase in commission expense in both periods is due to the increase in revenue.

General and Administrative:
Higher general and administrative costs in the second quarter and first half of fiscal 2020 were the result of increases in health insurance premiums, corporate expense and stock-based compensation expense. These increases were partially offset by lower professional fees, bank fees and other miscellaneous expenses.

Health Insurance Premiums:
The Company's health insurance program requires employee contributions. In the second quarter of fiscal 2020, the Company's net health insurance expense was approximately $91,000 as compared with $73,000 for the prior year fiscal period, an increase of $18,000 or 25%. In the first half of fiscal 2020, the Company's net health insurance expense was approximately $191,000 as compared with $146,000 for the prior year fiscal period, an increase of $45,000 or 31%.

Operating Income:
Our operating income increased $78,000, to $92,000 in the second quarter of fiscal 2020 compared with $14,000 for the prior year period. Growth in revenue and gross profit were key factors in the improvement of operating income in the second quarter of fiscal 2020. Operating margin for the quarter increased to 2.8% compared with 0.5% in the prior year period. We continue to invest in our marketing and selling activities in order to expand our future market opportunities.

For the first half of fiscal 2020, operating income increased $51,000, to $97,000 compared with $46,000 for the prior year period. Growth in revenue and gross profit were key factors in the improvement of operating income in the first half of fiscal 2020. Operating margin for the first half of fiscal 2020 increased to 1.6% compared with 0.8% in the prior year period. We continue to invest in our research and product development, marketing and selling activities as well as professional and other staffing to support our anticipated future market opportunities.

Interest Expense:
Interest expense of $9,000 in the second fiscal quarter of 2020 compared with $10,000 for the prior year period. Interest expense of $17,000 in the first half of 2020 compared with $21,000 for the prior year period.

Interest and Dividend Income:
Interest and dividend income decreased $11,000 to $26,000 in the second quarter of fiscal 2020 as compared with $37,000 for the second quarter of fiscal 2019. In the first half of fiscal 2020 interest and dividend income decreased $15,000 to $57,000 as compared with $72,000 for the first half of fiscal 2019. The decrease in interest and dividend income, in both periods, is due to the reallocation of our investments into US treasury securities.

Our present investment policy is to invest excess cash in highly liquid, low risk US Treasury securities. At August 31, 2019, the majority of our holdings are rated at or above investment grade.

Net unrealized loss on marketable securities:
The Company adopted ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" in the first quarter of fiscal 2019. ASU 2016-01 requires the Company to measure its equity investments at fair value and changes in fair value are to be recognized in net income. Further information is available in NOTE 2: SIGNIFICANT ACCOUNTING POLICIES in our financial statements.

In the second quarter and the first half of fiscal 2019, net income and earnings per share reflect the actual deduction of $81,000 and $130,000, respectively, for the unrealized loss on our marketable securities.

For the second quarter and the first half of fiscal 2020, there was no unrealized gain or loss recorded for the Company's marketable securities.

Other Income:
Included in other income is the net revenue related to the rental of the Company's real estate.

For the second quarter of fiscal 2020, the Company's rental revenue was $20,000, expenses were $13,000 and net revenue was $7,000. This compares with the second quarter of fiscal 2019 when rental revenue was $23,000, expenses were $14,000 and net revenue was $9,000.

For the first half of fiscal 2020, the Company's rental revenue was $40,000, expenses were $28,000 and net revenue was $12,000. This compares with the first half of fiscal 2019 when rental revenue was $41,000, expenses were $30,000 and net revenue was $11,000.

Income Tax Expense:
We recorded income tax expense of $7,000 for the second quarter of fiscal 2020 and fiscal 2019.

We recorded income tax expense of $13,000 for the first half of fiscal 2020 compared with $25,000 for the first half of fiscal 2019.

Net Income:
Net income increased by $56,000 to $115,000 for the second quarter of fiscal 2020 compared with $59,000 for the prior year period.

Net income increased by $59,000 to $140,000 for the first half of fiscal 2020 compared with $81,000 for the prior year period.

Fiscal Year 2020 Outlook

We expect that all of our backlog of $4,175,000 as of August 31, 2019 to ship during the fiscal year ending February 29, 2020, supporting our expectation that current fiscal year sales will grow in the range of 15% to 25%. Furthermore, we expect that this increased sales volume will expand margins and drive stronger earnings. Part of our anticipated growth is due to a $1,650,000 order for a newly introduced Robotic Coating Platform. This new platform will allow us to pursue additional prospects for six-axis robotic coating which presents an opportunity for ongoing growth.

Liquidity and Capital Resources

Working Capital – Our working capital decreased $28,000 to $6,396,000 at August 31, 2019 from $6,424,000 at February 28, 2019. This slight decrease in working capital was mostly the result of purchases of equipment and repayment of long-term debt partially offset by the current period's net income and noncash charges.

The Company aggregates cash and cash equivalents and marketable securities in managing its balance sheet and liquidity. For purposes of the following analysis, the total is referred to as "Cash." At August 31, 2019 and February 28, 2019, our working capital included:

	August 31, 2019	February 28, 2019	Cash Increase (Decrease)
Cash and cash equivalents	$ 2,281,000	$ 3,144,000	$ (863,000)
Marketable securities	3,418,000	2,366,000	1,052,000
Total	$ 5,699,000	$ 5,510,000	$ 189,000

The following table summarizes the accounts and the major reasons for the $189,000 increase in "Cash":

	Impact on Cash	Reason
Accounts receivable decrease	$ 125,000	Cash receipts.
Inventories increase	(921,000)	Required to support backlog.
Prepaid expenses decrease	213,000	Previous deposits on inventory.
Equipment purchases	(319,000)	Equipment upgrade for productivity.
Customer deposits increase	435,000	Received for new orders.
Accounts payable increase	347,000	Timing of disbursements.
Repayment of long-term debt	(81,000)	Repayment of debt.
Other - net	390,000	Timing of disbursements and other miscellaneous items.
Net increase in cash	$ 189,000	

Stockholders' Equity – Stockholders' Equity increased $183,000 from $8,585,000 at February 28, 2019 to $8,768,000 at August 31, 2019. The increase is a result of the current period's net income of $140,000 and stock-based compensation expense of $44,000.

Operating Activities – Our operating activities generated $589,000 of cash in the first half of fiscal 2020 compared with using $308,000 in the first half of fiscal 2019. The increase in cash generated by operating activities was mostly the result of increased accounts payable and accrued expenses and customer deposits and a decrease in accounts receivable. These sources of cash were partially offset by increased inventories and a decrease in prepaid expenses directly related to inventory. Our accounts payable and accrued expenses increased $352,000 when compared to February 28, 2019.

Investing Activities – For the first half of fiscal 2020, we used $1,371,000 of cash in our investing activities compared with their providing $24,000 of cash for the first half of fiscal 2019. For the first halves of fiscal years 2020 and 2019, we used $319,000 and $160,000, respectively, for the purchase or manufacture of equipment, furnishings and leasehold improvements. For the first half of 2020, we used $1,052,000 for the purchase of marketable securities and for the first half of 2019 our marketable securities provided $184,000.

Financing Activities – In the first halves of fiscal years 2020 and 2019, we used $81,000 and $77,000, respectively, for the repayment of our note payable.

Net (Decrease) in Cash – In the first half of fiscal 2020, our cash balance decreased by $863,000 as compared to a decrease of $361,000 in the first half of 2019. In the first half of fiscal 2020, our operating activities generated $589,000 of cash. In addition, we used $319,000 for the purchase or manufacture of equipment, furnishings and leasehold improvements, used $1,052,000 for the purchase of marketable securities and $81,000 for the repayment of our notes payable.

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, 2019.

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

For information regarding new accounting pronouncements and their effect on the Company, see "New Accounting Pronouncements" in Note 2 of the unaudited notes to the condensed consolidated financial statements.

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 $2,281,000 in cash and $3,418,000 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 August 31, 2019. Based on this evaluation, they have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to Management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding timely disclosure.

In addition, there were no changes in the Company's internal controls over financial reporting during the second fiscal quarter of 2020 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Note Required for Smaller Reporting Companies

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits and Reports

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

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

101.INS – XBRL Instance Document.

101.SCH – XBRL Taxonomy Extension Schema Document

101.CAL – XBRL Taxonomy Calculation Linkbase Document

101.DEF – XBRL Taxonomy Extension Definition Linkbase Document

101.LAB – XBRL Extension Label Linkbase Document

101.PRE – XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Dated: October 15, 2019

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

Exhibit 31.1

RULE 13a-14/15d – 14(a) CERTIFICATION

I, Christopher L. Coccio, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sono-Tek Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for the periods presented in this report;

4. Sono-Tek Corporation's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d – 15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. Sono-Tek Corporation's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: October 15, 2019

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

Exhibit 31.2

RULE 13a-14/15d – 14(a) CERTIFICATION

I, Stephen J. Bagley, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sono-Tek Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for the periods presented in this report;

4. Sono-Tek Corporation's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d – 15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. Sono-Tek Corporation's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: October 15, 2019

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

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sono-Tek Corporation (the “Company”) on Form 10Q for the period ended August 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”). I, Christopher L. Coccio, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: October 15, 2019

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

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sono-Tek Corporation (the “Company”) on Form 10Q for the period ended August 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”). I, Stephen J. Bagley, Chief Financial Officer, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: October 15, 2019

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