SONO TEK CORP
Form 10-K
May 11, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended: **February 29, 2012**

Commission File Number: **0-16035**

SONO-TEK CORPORATION

(Name of registrant as specified in its charter)

NEW YORK (State or other Jurisdiction of Incorporation or Organization)	14-1568099 (IRS Employer Identification Number)
2012 Route 9W, Milton, New York (Address of Principal Executive Offices)	12547 (Zip Code)

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

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

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

(Title of Class)

Indicate by checkmark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller reporting company

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

As of August 31, 2011, the last business day of the Registrant’s most recently completed second fiscal quarter, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $15,642,525 computed by reference to the average of the bid and asked prices of the Common Stock on said date, which average was $1.28.

The Registrant had 14,455,444 shares of Common Stock outstanding as of April 27, 2012.

DOCUMENTS INCORPORATED BY REFERENCE: None.

PART I

ITEM 1 DESCRIPTION OF BUSINESS

Organization and Business

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

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

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

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

Markets

An outcome of our rapid growth and diversification program over the past two years, is that we are now capable of offering a unique and superior family of customized products to the six major industries we serve. All of these systems are based on our core technology of ultrasonic spray coating. Many of these systems have been commercially proven in 24/7 working schedules, under harsh and challenging industrial manufacturing environments, where they

provide value in a continuous and reliable fashion.

1. Electronics Industry.

We serve this industry by providing manufacturers of electronic printed circuit boards with state-of-the-art solder fluxers. Our ultrasonic spray fluxers reduce the amount of fluxing chemical needed, enhance the quality of the boards, and provide our customers with a better product at reduced costs of operations, when compared with conventional foam fluxers and pressure assisted fluxers.

We are recognized as a standard setter in the industry, and our systems are incorporated by various original equipment manufacturers (OEM), in their own manufacturing lines for making electronic printed circuit boards. Some examples include: SonoFlux 2000F, SonoFlux 2000FP, SonoFlux XL, SonoFlux EZ and SonoFlux Servo.

We also offer to the same customer base, EVS solder recovery systems, as per our exclusive distribution agreement with EVS International Ltd for the territory of the United States and Canada.

2. Advanced Energy Industry.

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

Our precision coating systems are now presented in scientific conferences and trade shows around the world for the superior surface uniformity and density they provide, which are directly related to enhanced energy efficiency. Our systems also afford our energy industry clients with the capabilities of saving up to 80% of the expensive catalysts and nano-materials used in these manufacturing processes. Some examples include: ExactaCoat, FlexiCoat, Hypersonic and SonoFlow CSP.

3. Medical Device Industry.

Our ultrasonic coating technology is being used by medical device manufacturers worldwide. The leading applications for this industry are coating of arterial stents with precise and uniform micronic layers of polymers and drugs; coating of various implantable devices with lubricous materials and coating of blood collection tubes with anti-coagulants. These applications are typically performed under strict regulatory supervision of governmental agencies in different countries, and the continuing demand for our systems from these customers is indicative of the high quality performance that our systems provide these customers.

Some examples include: MediCoat I; Medicoat II; Medicoat SPI; AccuMist; MicroMist.

4. **Glass Industry.**

The manufacture of float glass occurs under extremely harsh conditions of elevated temperatures. Our ultrasonic coating technology provides this manufacturing process with the means of precise and uniform application of

anti-stain, and other specialty chemical agents, on the hot glass. Our customers benefit from an improved quality product, enhanced productivity and significantly reduced expenditures on annual maintenance, often resulting in a return on investment of less than one year. Based on this equipment's recent successful performance, our systems are now specified by global glass manufacturers as their equipment of choice.

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

5. Textiles Industry.

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

This industry coats expensive chemicals such as flame retardant, anti-stain, anti-microbial as well as moisture barriers, which are currently applied using inefficient dip or padding methods, resulting in significant waste of material, energy and water. We have demonstrated to a few leading textile manufacturers the technical advantages and financial benefits of our WideTrack coating system for their specific operations, and we are hopeful that these manufacturers will prioritize the WideTrack in their capital investment budgets, as soon as the general economy improves.

6. Food Industry.

The food industry is traditionally a slow adapter to new technologies. Accordingly, we focus our efforts on a select few global food companies, where our technical advantages and economic benefits could translate into successful market penetration and sales growth. We have introduced our ultrasonic coating systems to various segments of the food industry. These include: baked goods, dairy, meat and biodegradable food packaging. The leading applications are coating of flavors, oils, nutriceuticals, anti-microbial agents, decorative glazes and coating of moisture barrier compounds on films, trays and cups. Most of our food industry equipment is designed on the WideTrack platform.

Products

We have core technology and have developed and market the following products:

1. SonoFlux 2000F – spray fluxer product – designed for high volume operations with standard width lines requiring low maintenance using a variety of solder fluxes, including rosin flux. It is designed to be used by electronic circuit board manufacturers to apply solder flux to fixed width circuit boards. The major customers for the SonoFlux 2000F are original equipment manufacturers that produce their own electronic circuit boards.

2. SonoFlux 2000FP, SonoFlux XL and SonoFlux EZ- spray fluxer product - applies solder flux to electronic printed circuit boards that vary from two inches to up to 24 inches in width in a cost-effective and uniform manner. They are designed to be used by either OEMs or contract manufacturers of electronic circuit assemblies. All SonoFlux products provide substantial benefits in terms of reduced use of fluxing agents, reduced need for maintenance and reduced cost of operations compared to foam fluxers and competitive pressure nozzle fluxing products.

5

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

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

5. WideTrack – Wide area modular coating system – One module can cover substrates from 6 inches to 24 inches wide, depending on the application. Much greater widths can be achieved by linking modules together, and these systems have been applied in glass lines of up to four meters wide. A number of systems have been sold over the past four years, and this application holds promise for the future due to cost and environmental savings demonstrated at customer sites. It uses non-clogging ultrasonic atomizing nozzles to produce a low velocity, highly controllable spray. It is designed to be used in applications that require efficient web-coating or wide area spraying capability. The WideTrack System offers significant advantages over conventional pressure-spray methods in a broad range of applications such as non-woven fabrics, float glass, or odd-shaped industrial or consumer products. Since the ultrasonic spray can be easily controlled, it is possible to use fewer chemicals and less water and energy in applying coatings to glass, textiles, food products and packaging materials than with traditional nozzles. This also results in reduced environmental impact due to less overspray

6. Advanced Energy Applications – We now offer a line of equipment for applications involving coatings for fuel cell membranes and solar energy panels. This equipment is offered in bench-top configurations as our Exactacoat product and standalone as our Flexicoat product. These are robotic XYZ platforms that position and move our nozzle systems in a precise application pattern. We have also introduced a new product, the Hypersonic, a high speed reciprocator spraying system for this market. We have seen increasing sales in these growing industries, especially when combined with a novel ultrasonic syringe pump (patent pending) to agitate and suspend the carbon based suspensions needed in fuel cell applications.

Other Product Offerings

We have an exclusive distribution relationship with EVS International. Ltd. (“EVS”), a U.K. Company, to distribute EVS’s line of solder recovery systems and spares parts. The territory for this distribution relationship is the United States and Canada. EVS manufactures the EVS6000, EVS3000 and the EVS1000 solder recovery systems which are used to reclaim solder from the dross which accumulates in the wave-solder equipment of circuit board manufacturers. The customer base for distribution of these systems is synergistic with Sono-Tek’s existing customer base for spray fluxer sales in the printed circuit board industry.

Manufacturing

We purchase circuit board assemblies and sheet metal components from outside suppliers. These materials are available from a wide range of suppliers throughout the world. All raw materials used in our products are readily available from many different domestic suppliers. We also purchase certain systems and subsystems to supplement our in-house manufacturing. These items are integrated with our ultrasonic system technology to meet specific applications.

We provide a limited warranty on all of our products covering parts and labor for a period of one year from the date of sale.

We own an industrial park in Milton, NY. The park has 50,000 square feet of leaseable area and we use more than half the space.

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

Research and Development

We believe that our long-term growth and stability is linked to the development and release of products that provide solutions to customer needs across a wide spectrum of industries, while advancing the utility of our core technology. We expended approximately $1,129,000 and $823,000 for Fiscal Years 2012 and 2011**,** respectively, on new engineering and product development. In addition, we added application engineers to our sales organizations, and these engineers work closely with customers and technical staff to develop new applications for our technology and equipment.

7

Patents and Licenses

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

During the fiscal year ended February 29, 2012, we have made significant progress on building our intellectual property portfolio. We have a patent pending covering a new design for our entire line of nozzle systems. We have also applied for patents on the following projects:

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

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

Marketing and Distribution

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

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

Competition

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

Significant Customers

We have significant geographic and market diversification. One customer accounted for 6.7% of our sales for Fiscal Year ended February 29, 2012.

Foreign and Export Sales

During Fiscal Years 2012 and 2011, sales to foreign customers accounted for approximately $7,385,000 and $5,624,000, or 62% and 57% respectively, of total revenues.

Employees

As of February 29, 2012, we employed 55 full-time employees and 8 part-time employees. We believe that relations with our employees are generally good.

Available Information

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

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

ITEM 1B UNRESOLVED STAFF COMMENTS - None.

ITEM 2 DESCRIPTION OF PROPERTIES

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

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

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

ITEM 3 LEGAL PROCEEDINGS – None

ITEM 4 MINE SAFETY DISCLOSURES – Not Applicable

PART II

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

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

	YEAR ENDED FEBRUARY 29, 2012		YEAR ENDED FEBRUARY 28, 2011	
	HIGH	LOW	HIGH	LOW
First Quarter	$1.45	$1.02	$1.13	$0.95
Second Quarter	1.45	1.13	1.00	0.86
Third Quarter	1.38	1.07	1.05	0.70
Fourth Quarter	1.30	0.88	1.06	0.92

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

As of February 29, 2012, there were 195 shareholders of record of our Common Stock, according to our stock transfer agent. We estimate that we have between 1,000 and 1,400 beneficial shareholders of our common stock. The difference between the shareholders of record and the total shareholders is due to stock being held in street names at

our transfer agent.

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

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

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

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

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

Overview

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

Market Diversity

During the past four years we have invested significant time, monies and efforts to enhance our market diversity. Based on our core ultrasonic coating technology, we increased our portfolio of products, the industries we serve and the countries in which we operate.

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

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

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

Liquidity and Capital Resources

Working Capital - Our working capital increased $1,333,000 from a working capital of $3,322,000 at February 28, 2011 to $4,655,000 at February 29, 2012. The increase in working capital this year is due to the current year's net income which resulted in an increase in cash. Our current ratio is 4 to 1 at February 29, 2012, as compared to 3.1 to 1 at February 28, 2011.

Stockholders' Equity - Stockholders' equity increased $1,491,000 from $4,317,000 at February 28, 2011 to $5,808,000 at February 29, 2012. The increase in stockholders' equity is the result of the current year's net income of $1,432,000, stock based compensation of $49,000 and the exercise of stock options for $10,000.

Operating Activities – Our operating activities provided $1,192,000 of cash for the year ended February 29, 2012 as compared to providing $1,158,000 for the year ended February 28, 2011. During the year ended February 29, 2012, we had net income of $1,432,000, accounts receivable decreased $222,000, inventories increased $691,000, prepaid expenses and other assets decreased $25,000, deferred tax assets increased $86,000 and accounts payable, accrued expenses and customer deposits decreased $125,000 and income taxes payable increased $37,000. In addition, we incurred non-cash expenses of $330,000 for depreciation and amortization and $48,000 for stock based compensation expense.

For the year ended February 29, 2012, our inventories increased $691,000 when compared to February 28, 2011. During the current year, raw materials increased $497,000, work in process decreased $50,000, finished goods increased $176,000 and our allowance for obsolescence decreased $68,000. The increase in raw materials is a result of our accelerated purchasing strategy. The change in purchasing was to reduce our time needed to fulfill customer orders and a build-up in anticipation of increased sales volume. As of February 29, 2012, we have eliminated our accelerated purchasing strategy and purchase materials only when needed for customer orders. Our finished goods increased due to customer orders that were shipped after February 29, 2012.

Investing Activities - For the year ended February 29, 2012, we used $491,000 in our investing activities as compared to using $2,993,000 for the year ended February 28, 2011. In 2012 and 2011, we used $475,000 and $195,000, respectively, for the purchase or manufacture of equipment, furnishings and leasehold improvements. In addition, in 2012 and 2011 we used $12,000 and $9,000, respectively, for patent application costs. In 2012 and 2011 we used $5,000 and $249,000, respectively for the purchase of marketable securities. In 2011 we used $2,540,000 for the purchase of land, buildings and improvements.

Financing Activities – Our financing activities provided $147,000 of cash for the year ended February 29, 2012 as compared to providing $1,731,000 for the year ended February 28, 2011. During the year ended February 29, 2012, we had proceeds of a note payable for $237,000 for the purchase of additional production equipment. During the year ended February 28, 2011, we had proceeds of a note payable for $2,100,000 for the purchase of land, buildings and improvements. In 2011, we repaid the outstanding balance of our line of credit of $350,000. We had proceeds of $10,000 and $3,000 for stock option exercises in 2012 and 2011, respectively. In addition, we made repayments of notes payable of $100,000 and $22,000 in 2012 and 2011, respectively.

Net Increase in Cash – For the year ended February 29, 2012, our cash balance increased by $848,000 as compared to a decrease of $104,000 for the year ended February 28, 2011. During the year ended February 29, 2012, our operations provided $1,192,000 of cash, we used $491,000 in investing activities and our financing activities provided $147,000 of cash.

We currently have a revolving credit line of $750,000 and a $250,000 equipment purchase facility, both of which are with a bank. The revolving credit line is collateralized by all of the assets of the Company, 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. As of February 29, 2012, we had no outstanding borrowings under the line of credit.

We had outstanding borrowings of $199,000 under the equipment facility at February 29, 2012. The borrowing has a repayment term of 48 months and bears interest at 2.12%.

We had outstanding borrowings under a note payable of $2,036,000 at February 29, 2012. The note is payable over 20 years and bears interest at 5.5%. The note payable is secured by a mortgage on our land and buildings.

Results of Operations

For the year ended February 29, 2012, our sales increased by $2,139,000 to $12,053,000 as compared to $9,914,000 for the year ended February 28, 2011, an increase of 22%. For the year ended February 29, 2012, we experienced an increase in sales of our stent coater units, fluxers and related accessories and our Flexicoat and Exactacoat (XYZ) Platform units. During the current year, we did experience a decrease in sales of our WideTrack units due to a decrease in demand from float glass manufacturers. For the year ended February 29, 2012, sales to customers located in European countries increased by $1,580,000 or 126%, sales to customers located in Asian countries increased by $212,000 or 6% and sales to U.S. based customers increased by $272,000 or 6%.

Our gross profit increased $1,394,000, to $6,166,000 for the year ended February 29, 2012 from $4,772,000 for the year ended February 28, 2011. Our gross margin percentage was 50% for the year ended February 29, 2012 compared to 48% for the year ended February 28, 2011. The improvement in the current year's gross profit is due to an increase in sales of our stent coater units, an increase in sales of our XYZ platform units and an increase in sales of our fluxer units and related accessories. In addition to the increase in sales of the above product lines, we also saw an increase in the gross margin percentages of our fluxer units and related accessories, our WideTrack units and our XYZ platform units.

Research and product development costs increased $305,000 to $1,129,000 for the year ended February 29, 2012 as compared to $823,000 for the year ended February 28, 2011. The increase is due to increased engineering personnel and engineering materials. During the year ended February 29, 2012, we expended approximately $711,000 for engineering personnel as compared to $534,000 during the year ended February 28, 2011. During the year ended February 29, 2012, we expended approximately $218,000 for additional research, materials and product development as compared to $50,000 during the year ended February 28, 2011. The increase in these expenses was offset by a decrease in depreciation expense and rental expense.

Marketing and selling costs increased $218,000 to $2,398,000 for the year ended February 29, 2012 from $2,180,000, for the year ended February 28, 2011. The increase is due to increased sales personnel, commissions and trade show and travel expenses. During the year ended February 29, 2012, we expended approximately $1,691,000 for salaries and commissions as compared to $1,503,000 during the year ended February 28, 2011. During the year ended February 29, 2012, we expended approximately $429,000 for travel and trade show expenses as compared to $337,000 during the year ended February 28, 2011. The increase in these expenses was offset by a decrease in depreciation expense and rental expense.

General and administrative costs increased $83,000 to $1,249,000 for the year ended February 29, 2012 from $1,167,000, for the year ended February 28, 2011. The increase is due to salary increases, additional professional and consulting fees and increased corporate expenses. The increase in these expenses was offset by decreases in bad debt expense, rental expense and other miscellaneous expenses.

The twelve month period ended February 28, 2011 includes rent expense of $125,000 allocated as follows:

Cost of Goods Sold	$51,000
Research and Development	32,000
Marketing and Selling	25,000
General and Administrative	17,000
	$125,000

The twelve months ended February 29, 2012 results do not include any rental expense as all inter-company transactions are eliminated in consolidation due to our purchase of the Sono-Tek Industrial Park in December 2010.

Real estate operations expense are expenses for the operations of the Sono-Tek Industrial Park. All inter-company revenue is eliminated in consolidation. For the year ended February 29, 2012, the results of our rental real estate operations are as follows:

Rental Income	$86,377
Depreciation	57,415
Insurance	10,913
Grounds and Landscaping	20,676
Property taxes	38,900
Miscellaneous	678
Total expenses	128,582

Loss before Interest	(42,205)
Interest Expense	113,747
Net Loss	$(155,952)

It should be noted that the Company's elimination of rental expense as detailed in the statements of operations was replaced by rental operations expense as detailed in the preceding table. The rental income detailed in the table on the preceding page is included in the net sales amount on the statements of operations on page 32.

Interest income increased to $6,000 for the year ended February 29, 2012 as compared to $2,000 for the year ended February 28, 2011. Our present investment policy is to invest excess cash in short term cash equivalents with an S & P rating of at least A1+.

Interest expense increased to $118,000 for the year ended February 29, 2012 as compared to $8,000 for the year ended February 28, 2011. The increase in interest expense is due to the outstanding note payable we have for the acquisition of the Sono-Tek Industrial Park.

We recorded an income tax benefit of $291,000 for the year ended February 29, 2012 as compared to an expense of $14,500 for the year ended February 28, 2011. As of February 29, 2012, we have no net operating loss deductions available to carryforward. The details of the current years tax benefit are explained in Note 11 in our financial statements.

For the year ended February 29, 2012, we had net income of $1,432,000 compared to $594,000 for the year ended February 28, 2011. The improvement in our net income is due to an increase in sales, an improved gross profit margin and an income tax benefit.

Off - Balance Sheet Arrangements

We do not have any Off - Balance Sheet Arrangements as of February 29, 2012.

Critical Accounting Policies

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

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and may potentially result in materially different results under different assumptions and conditions. As of February 29, 2012, management believes there are no critical accounting policies applicable to the Company that are reflective of significant judgments and or uncertainties.

Stock-Based Compensation

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

Impact of New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") amended its guidance related to Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. generally accepted accounting principles ("U.S. GAAP") and the International Financial Reporting Standards ("IFRS"), that results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value. The new guidance clarifies and changes some fair value measurement principles and disclosure requirements under U.S. GAAP. Among them is the clarification that the concepts of highest and best use and valuation premise in a fair value measurement should only be applied when measuring the fair value of nonfinancial assets. Additionally, the new guidance requires quantitative information about unobservable inputs, and disclosure of the valuation processes used and narrative descriptions with regard to fair value measurements within the Level 3 categorization of the fair value hierarchy. The requirements of the amended accounting guidance are effective for us March 1, 2012 and early adoption is prohibited. The adoption of the new accounting guidance is not expected to have a material impact on our consolidated financial statements.

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

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

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chairman & CEO (principal executive officer) and Chief Financial Officer (principal accounting officer), we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management has concluded that our internal control over financial reporting was effective as of February 29, 2012. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B OTHER INFORMATION - None.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

(a) Identification of Directors

Name	Age	Position with the Company
Christopher L. Coccio	71	Chief Executive Officer, Chairman and a Director
Edward J. Handler, Esq.	75	Director*
Eric Haskell, CPA	65	Director*
Donald F. Mowbray	74	Director
Joseph Riemer	63	President and Director
Samuel Schwartz	92	Chairman Emeritus and Director
Philip A. Strasburg, CPA	73	Director*

* Member of the Audit Committee.

The Board of Directors is divided into two classes. The directors in each class serve for a term of two years. The terms of the classes are staggered so that only one class of directors is elected at each annual meeting of the Company. The terms of Dr. Mowbray and Messrs. Handler, Haskell and Schwartz run until the annual meeting to be held in 2012. The terms of Drs. Coccio and Riemer and Mr. Strasburg run until the annual meeting to be held in 2013, and in each case until their respective successors are duly elected and qualified.

Audit Committee

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

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

Nominating Committee

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

Identification of Executive Officers

Name	Age	Position with the Company
Stephen J. Bagley, CPA	49	Chief Financial Officer
Christopher L. Coccio	71	Chief Executive Officer, Chairman and a Director
R. Stephen Harshbarger	44	Executive Vice President – Director of Advanced Energy SBU
Joseph Riemer	63	President and Director

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

Business Experience

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

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

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

19

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

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

R. STEPHEN HARSHBARGER joined the Company in 1993 and was appointed Executive Vice President in August 2011. Prior to assuming his present position he served as Sales Engineer, World Wide Sales and Marketing Manager, VP Sales & Marketing, VP & Director of Electronics and Advanced Energy (E&AE). In the last four years serving as Director E&AE he has increased revenue greater than 300%. He has 17 years of experience in ultrasonic coating equipment for the electronics, medical device and advanced energy industries. He is a graduate of Bentley University, with a major in Finance and a minor in Marketing.

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

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

DR. DONALD F. MOWBRAY has been a Director since August 2003. He has been an independent consultant since August 1997. From September 1992 to August 1997, he was the Manager of the General Electric Company's Corporate Research and Development Mechanical Engineering Laboratory. From 1962 to 1992 he worked for the

General Electric Company in a variety of engineering and managerial positions. Dr. Mowbray received a B.S. in Aeronautical Engineering from the University of Minnesota in 1960, a Master of Science in Engineering Mechanics from the University of Minnesota in 1962 and a Ph.D. from Rensselaer Polytechnic Institute in Engineering Mechanics in 1968.

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

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

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

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

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

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

21

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

(b) Identification of Certain Significant Employees

Not applicable.

(c) Family Relationships

None.

(d) Involvement in certain legal proceedings

None.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors, executive officers and persons who own more than ten percent of the Company's common stock to file with the Securities and Exchange Commission initial reports of beneficial ownership and reports of changes of beneficial ownership of common stock. Such persons are also required by Securities and Exchange Commission regulations to furnish the Company with copies of all such reports. Based solely on a review of such filings, during the year ended February 29, 2012, all of the Company's Directors and executive officers and holders of more than ten percent of the Company's stock have made timely filings of such reports, except for one late report by Dr. Riemer and one late report by Stephen J. Bagley.

Code of Ethics

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

ITEM 11 EXECUTIVE COMPENSATION

The following table sets forth the aggregate remuneration paid or accrued by the Company for the Fiscal Years ended February 29, 2012 and February 28, 2011 for each named officer of the Company.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards	Option Awards ($)	All Other Compensation ($)	Total ($)
Christopher L. Coccio	2012	222,137	45,698	0	0	2,595	270,430
CEO, Chairman and Director	2011	198,462	26,000	0	0	2,797	227,259
Joseph Riemer, President	2012	166,698	14,861	0	34,015	3,391	218,965
	2011	153,556	20,000	0	18,207	3,471	195,234
R. Stephen Harshbarger	2012	199,628	1,442	0	0	4,021	