

SONO TEK CORP  
Form 10-K/A  
March 20, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K/A**

**(Amendment No. 1)**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

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

Commission File Number: 0-16035

**SONO-TEK CORPORATION**

(Name of registrant as specified in its charter)

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

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

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

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

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

(Title of Class)

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE: None.

**EXPLANATORY NOTE**

This Amendment No. 1 to Form 10-K amends our annual report on Form 10-K for the fiscal year ended February 28, 2011, filed with the Securities and Exchange Commission, on May 23, 2011, to revise the report of Sherb & Co. LLP, the Company's independent registered public accounting firm, by deleting the word "auditing" from the first line of the second paragraph which word had been included in the report inadvertently. Except as described above, no change has been made to the financial statements or any other portion of the Annual Report on Form 10-K as filed on May 23, 2011. The filing of this Amendment does not, and does not purport to, amend, update or restate the information in any other item of the annual report on Form 10-K as filed on May 23, 2011 or reflect any events that have occurred after such date.

**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

Sono-Tek Corporation

Milton, New York

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

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

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

/S/SHERB & CO., LLP

Certified Public Accountants

New York, New York

May 16, 2011

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

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

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$7,938,865	\$5,175,580
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See notes to consolidated financial statements.



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

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

See notes to consolidated financial statements.

## SONO-TEK CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED FEBRUARY 28, 2011 AND 2010

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

See notes to consolidated financial statements.

## SONO-TEK CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See notes to consolidated financial statements.

**SONO-TEK CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED FEBRUARY 28, 2011 AND FEBRUARY 28, 2010**

**NOTE 1: BUSINESS DESCRIPTION**

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

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

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Cash and Cash Equivalents** - Cash and cash equivalents consist of money market mutual funds, short term commercial paper and short-term certificates of deposit with original maturities of 90 days or less.

***Supplemental Cash Flow Disclosure -***

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

**Fair Value of Financial Instruments** - Effective June 1, 2008, the Company adopted the guidance in the Fair Value Measurements and Disclosure Topic of the Accounting Standards Codification for assets and liabilities measured at fair value on a recurring basis. This guidance establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of this guidance did not have an impact on the Company's financial position or operating results, but did expand certain disclosures. The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, the guidance requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Quoted prices in active markets.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.



Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The fair values of financial assets of the Company were determined using the following categories at February 28, 2011:

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

	\$	249,100
Marketable Securities		

Marketable Securities include mutual funds of \$249,100, that are considered to be highly liquid and easily tradeable as of February 28, 2011. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within the Company's fair value hierarchy.

In addition, the guidance of the Fair Value Option for Financial Assets and Financial Liabilities Topic of the Codification was effective for June 1, 2008. The guidance expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value.

**Management Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***New Accounting Pronouncements-***

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

NOTE 3: SEGMENT INFORMATION

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

**NOTE 4: STOCK-BASED COMPENSATION**

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

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

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

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

For the years ended February 28, 2011 and February 28, 2010, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated \$49,278 and \$56,871 in additional compensation expense for the years then ended, respectively. Such amount is included in general and administrative expenses on the statement of operations. The expense for stock-based compensation is a non-cash expense item.

**NOTE 5: INVENTORIES**

Inventories consist of the following:

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

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

Equipment, furnishings and building improvements consist of the following:

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

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

**NOTE 7: ACCRUED EXPENSES**

Accrued expenses consist of the following:

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

**NOTE 8: REVOLVING LINE OF CREDIT**

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

**NOTE 9: LONG-TERM DEBT**

Long-term debt consists of the following:

	February 28,	
	2011	2010
Note payable, individual, collateralized by land and buildings, payable in monthly installments of principal and interest of \$14,446 through January 2031. Interest rate 5.5%. 20 year term	\$2,095,179	\$0
Equipment loan, bank, collateralized by related production equipment, payable in monthly installments of principal and interest of \$832 through March 2010. Interest rate 6.51%. 60 month term	0	830
Equipment loan, bank, collateralized by related office equipment, payable in monthly installments of principal and interest of \$529 through September 2011. Interest rate 5.22%. 36 month term	2,647	9,632
Equipment loan, bank, collateralized by related engineering equipment, payable in monthly installments of principal and interest of \$770 through February 2011. Interest rate 6.54%. 60 month term	0	8,887
Total long term debt	2,097,826	19,349
Due within one year	62,247	15,727
Due after one year	\$2,035,579	\$3,622



Long-term debt is payable as follows:

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

**NOTE 10: COMMITMENTS AND CONTINGENCIES**

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

**NOTE 11: INCOME TAXES**

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

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

The net deferred tax asset is comprised of the following:

	February 28, 2011	February 28, 2010
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Inventory	\$ 135,000	\$ 110,000
Accrued expenses and other	60,000	34,000
Net operating losses	541,000	870,000
Deferred tax asset	736,000	1,014,000
Deferred tax liability	(152,000 )	(141,000 )
Valuation allowance	(584,000 )	(873,000 )
Net deferred tax asset	\$—	\$—

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Number      Weighted-      Weighted Number**

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

**NOTE 13: EARNINGS PER SHARE**

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

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

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

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

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

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

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



**NOTE 15: SUBSEQUENT EVENTS**

The Company has evaluated subsequent events for disclosure purposes.

**SIGNATURES**

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

Dated: March 20, 2012

Sono-Tek Corporation

(Registrant)

By: /s/ Dr. Christopher L. Coccio

Dr. Christopher L. Coccio,

Chief Executive Officer and Chairman