SONO TEK CORP
Form 10KSB
May 23, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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

For the Fiscal Year ended: February 28, 2007

Commission File Number: 0-16035

SONO-TEK CORPORATION
(Name of Small Business Issuer 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)

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

Indicate by 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-KSB or any amendment to this Form 10-KSB. |X|

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

The Issuer had revenues of $6,886,453 for Fiscal Year ended February 28, 2007.

As of May 7, 2007, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $13,883,337 computed by reference to the average of the bid and asked prices of the Common Stock on said date, which average was $1.18.

The Registrant had 14,360,541 shares of Common Stock outstanding as of May 7, 2007.

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.

We operate in one business segment, spraying systems. The spraying systems business has had periods of sales growth and financial stability, but has had sales declines when the electronics industry, a principal market for our products, has had downturns due to lower levels of printed circuit boards being made. To offset this, we have diversified our product offerings to provide coating systems to medical device manufacturers, to provide spray drying systems for nanotechnology applications, and to provide wide area industrial precision coating equipment, including the manufacture of float glass.

Product Development

We have core technology and have developed the following products that have expanded our market opportunities:

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 (OEMs) that produce their own electronic circuit boards.

2. SonoFlux 2000FP and SonoFlux XL - 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.

3. MediCoat for stent coating - A table-top, fully-contained system 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 uses either the Accumist or MicroMist nozzle systems, which are precision nozzle configurations used in applications where precise patterns of lines and dots are required.

4. WideTrack - Wide area modular coating system - One module can cover substrates up to 24 inches wide. Much greater widths can be achieved by linking modules together. 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. Waste is greatly reduced, since the ultrasonic spray can be easily controlled.

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 manufacturers 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. Sales of EVS products were approximately 4% of our total revenues for the current fiscal year ended February 28, 2007. We plan to continue the distribution of EVS's products.

We have recently released a new line of Laboratory Ultrasonic Spray Drying Systems - The SonoDry Ultrasonic Spray Dryer. This new spray dryer is available in three sizes, providing the ability to choose the proper size machine for differing requirements. All SonoDry Spray Dryers are supplied with Sono-Tek's unique non-clogging ultrasonic atomizing nozzle incorporated into them. SonoDry systems also have the ability to use a traditional twin fluid air atomizing nozzle system as well. Nozzle requirements can be specified by the customer depending on application needs. The machines can handle both aqueous and solvent based liquids. All systems include software that allows for recipe storage and complete data logging of all system functions. The SonoDry series of spray dryers is of particular importance to product and process developers in the following industries: pharmaceuticals (e.g. for drug actives and intermediates, enzymes and low molecular weight proteins), foods (e.g. for nutriceuticals, herbal extracts and flavors) and specialty chemicals (e.g. for fragrances, cosmetics ingredients and nano-scale particles).

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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 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 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 $858,000 and $648,000 for Fiscal Years 2007 and 2006, respectively, on new engineering and product development. The increase reflects our view that future growth will benefit from current research and development expenditures.

Patents and Licenses

Our business is based in part on the technology covered by our United States patents. We have an unexpired patent on our ultrasonic nozzle designs which will expire in December 2007. We have recently applied for a patent covering a new design for our entire line of nozzle systems. We have also applied for a patent for our new air shaping technology in the United States and overseas. In addition, we rely on unpatented know-how in the 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 know-how. We also have an exclusive license from Cornell University for a patented vacuum deposition system using our ultrasonic nozzles.

Marketing and Distribution

Our products are marketed and distributed through independent 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.

Competition

We operate in competitive markets in the electronics industry. We compete against global and regional electronics manufacturers 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, there is limited competition based on the uniqueness of the ultrasonic technology in these applications.

Significant Customers

Two customers accounted for 5.2% and 3.9%, of our sales for Fiscal Year ended February 28, 2007.

Foreign and Export Sales

During Fiscal Years 2007 and 2006, sales to foreign customers accounted for approximately $3,509,000 and $3,037,000, or 51% and 44% respectively, of total revenues. The increase in foreign sales has resulted from an increased emphasis and related expenditures on international market development.

Employees

As of February 28, 2007, we employed forty-four full-time employees and six part-time employees. We believe that relations with our employees are generally good.

Available Information

The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. Information on the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file with the SEC at http://www.sec.gov.

Our Annual Reports on Form 10-KSB, Quarterly Reports on Form 10-QSB, Current Reports on Form 8-K, proxy statements and amendments to those reports, are also available free of charge on our internet website at http://www.sono-tek.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission.

ITEM 2 DESCRIPTION OF PROPERTIES

Our offices, product development, manufacturing and assembly facilities are located in an industrial park in Milton, New York. We presently lease a 13,000 square foot building and a 2,400 square foot storage building on a month to month basis. Our current manufacturing areas consist of (i) a machine shop, (ii) a nozzle assembly/test area, (iii) an electronics assembly area, and (iv) a receiving and shipping area.

During the current fiscal year, we added additional office space in an adjacent building located in the Milton industrial park. We are looking at additional sites to accommodate future growth.

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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 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5 MARKET FOR COMMON EQUITY, RELATED STOCKHOLDERS MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

(a) Our Common Stock trades in the over-the-counter market on the OTC Bulletin Board. 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 28, 2007		YEAR ENDED FEBRUARY 28, 2006	
	HIGH	LOW	HIGH	LOW
First Quarter	$1.85	$1.40	$2.92	$1.90
Second Quarter	1.68	1.35	2.55	2.07
Third Quarter	1.60	1.25	2.32	1.27
Fourth Quarter	1.30	0.96	2.15	1.20

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

(b) As of May 7, 2007, there were 283 shareholders of record of our Common Stock, according to our stock transfer agent. We estimate that there are between 1,000 and 1,400 total shareholders. The difference between the shareholders of record and the total shareholders is due to stock being held in street names at our transfer agent.

(c) 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.

(d) Recent Sales of Unregistered Securities - We issued 7,035 shares of common stock to an attorney for patent application work in lieu of fees for services rendered during the year ended February 28, 2005. On May 3, 2005, we sold 125,000 shares of our common stock at $2.30 per share and issued a warrant to purchase an additional 25,000 shares of common stock at $2.45

per share to an institutional investor in a private placement. On May 9, 2005, a warrant for 50,000 shares was exercised for $1.00 per share. On May 11, 2005 and January 4, 2006, two warrants for a total of 285,714 shares of our common stock were exercised at $1.75 per share by Empire State Development Corporation, Small Business Technology Investment Fund. These securities were offered and sold to "accredited investors" as defined in Regulation D promulgated under the Securities Act of 1933, as amended, in reliance on the exemption from the registration requirements under Section 4(2) of the Securities Act of 1933 and/or Rule 506 of Regulation D.

ITEM 6 MANAGEMENT'S DISCUSSION AND ANALYSIS

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. The following risks are by no means all inclusive but are designed to highlight what we believe are important factors to consider when evaluating our trends and future results.

- Our ability to respond to competition in national and global markets.

- General economic conditions in our markets.

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

Overview

Sono-Tek has developed a unique and proprietary series of ultrasonic atomizing nozzles, which are being used in an increasing variety of electronic, medical, industrial, and nanotechnology 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.

We have a well established position in the electronics industry with our SonoFlux spray fluxing equipment. It saves customers from 40% to 80% of the liquid flux required to solder printed circuit boards over more labor intensive methods, such as foam fluxing. Less flux equates to less material cost, fewer chemicals in the workplace, and less clean-up. Also, the SonoFlux equipment reduces the number of soldering defects, which reduces the level of rework.

Several years ago, we recognized that the trend in the electronics assembly industry was a move toward offshore production into China and other developing countries. The change in the global structure of this business created the need for Sono-Tek to change as well.

One change that has proven successful is our diversification into the medical device market. In the past two years, we have focused engineering resources on the medical device market, with emphasis on providing coating solutions for the new generation of drug coated stents. We have sold a significant number of specialized ultrasonic nozzles and MediCoat stent coating systems to large medical device customers. Sono-Tek's stent coating systems are superior compared to pressure nozzles in their ability to uniformly coat the very small arterial stents without creating webs or gaps in the coatings. We sell a bench-top, fully outfitted stent coating system to a wide range of customers that are manufacturing stents and/or applying coatings to be used in developmental trials.

Another change that has stimulated an increase in business has been the development of the WideTrack coating system, a broad based platform for applying a variety of coatings to moving webs of glass, textiles, plastic, metal, food products and packaging materials. The WideTrack is a long term product and market development effort. Thus far, we have made successful inroads with WideTrack systems into the glass, medical textile (bandages) and solar and fuel cell industries. We plan to increase our marketing efforts into the broader textile and food industry markets. This will require a continuation of market and technology development in these areas in the years ahead. Some of these WideTrack applications involve nano-technology based liquids. We believe there is an excellent fit between the thin, precise films required in nano-technology coating applications and our ultrasonic nozzle systems.

In the electronics, medical device and WideTrack coating markets, it has been incumbent upon us to focus our attention and resources on the development of a much greater international presence. We believe we have accomplished this and plan to continue our marketing efforts. Our international sales have risen from approximately 20% of total revenues in Fiscal Year 2003 to over 51% today, and we expect to increase that percentage in the years ahead.

Past history shows the cyclical nature of the electronics business. This cycle, coupled with the increasing trend toward moving electronics production offshore, created a need to diversify. As expected, our US based electronics business has declined this year and is approximately 17% below previous levels, as a result of the trend toward production moving offshore, coupled with a slower economy and the reduced competitiveness of our US based automotive customers. We have been able to offset this reduction in US electronics sales with an increase in our international electronics and medical device sales.

The creation of technological innovations and the expansion into new geographical markets requires the investment of both time and capital. These investments are clearly shown in the year over year increase in both R&D and Marketing and Sales expenses, resulting in a reduction in our reported net income. However, we are able to make these expenditures based on our strong balance sheet with an excellent cash position and virtually no debt. Although there is no guarantee of success, we expect that over time, these newer markets will be the basis for Sono-Tek's continued growth and will contribute to future profitability. It is management's opinion that this strategy will be a better one than being bound to a shrinking domestic market.

Liquidity and Capital Resources

Working Capital - Our working capital increased $533,000 from a working capital of $3,699,000 at February 28, 2006 to $4,232,000 at February 28, 2007. The increase in working capital is due to the current year net income. Our current ratio is 6.8 to 1 at February 28, 2007, as compared to 5.33 to 1 at February 28, 2006.

Stockholders' Equity - Stockholders' equity increased $621,000 from $4,230,000 at February 28, 2006 to $4,851,000 at February 28, 2007. The increase in stockholders' equity is the result of net income of $544,000, stock option exercises of $2,000, stock issuance of $16,000 and stock based compensation of $59,000.

Operating Activities - In 2007, our operations provided $731,000 of cash compared to $880,000 in the prior year, a decrease of $149,000 or 17%. The decrease is primarily due to a decrease in net income when compared to the prior year. A majority of our cash provided by operating activities is a result of our current year's net income. In 2007, we decreased our inventories by $114,000 and also decreased our accounts payable and accrued expenses by $144,000.

Investing Activities - In 2007, we used $190,000 for the purchase of capital equipment and $5,000 for patent application costs.

Financing Activities - In 2007, our net cash used in financing activities was $7,000, resulting from: the issuance of stock for $16,000, exercise of stock options and warrants for $2,000 and the repayments of notes payable of $26,000.

We currently have a revolving credit line of $500,000 and a $150,000 equipment purchase facility, both of these are with a bank. At February 28, 2007, there were no outstanding borrowings under the line of credit. The revolving credit line is collateralized by all of the assets of the Company and requires a 30 day annual payoff, which took place between April 12, 2005 and May 12, 2005. There have been no borrowing's under the revolving credit line after it was paid off in May 2005.

We had outstanding borrowings of $79,000 under the equipment facility at February 28, 2007. The borrowings have repayment terms which vary from 36 - 60 months and bear interest at rates from 6.2% to 6.6%.

Results of Operations

For the year ended February 28, 2007, our sales increased by $15,000 to $6,886,000 as compared to $6,871,000 for the year ended February 28, 2006. For the year ended February 28, 2007, we continued to see an increase in our sales to customers located in Asian countries and a corresponding decrease in our sales to US based customers. Our sales to customers located in Asian countries increased by $545,000 or 53% for the year ended February 28, 2007. Our sales to US based customers decreased by $457,000 or 12% for the year ended February 28, 2007. The increase in our Asian markets was driven by a demand for our medical device products which was offset by a decrease in our US based electronics sales.

Our gross profit increased $33,000, to $3,462,000 for the year ended February 28, 2007 from $3,429,000 for the year ended February 28, 2006. Our gross margin percentage remained level at 50% for the two years ended February 28, 2007 and 2006.

Marketing and selling costs increased $154,000 to $1,281,000 for the year ended February 28, 2007 from $1,127,000, for the year ended February 28, 2006. The increase is due to increased international travel expenses, international representative commissions and trade show expenses.

General and Administrative expense increased $72,000 to $850,000 for the year ended February 28, 2007 from $778,000, for the year ended February 28, 2006. The increase was principally a result of stock based compensation expense of $59,000 being recorded for the year ended February 28, 2007.

Research and product development costs increased $210,000 to $858,000 for the year ended February 28, 2007 as compared to $648,000 for the year ended February 28, 2006. The increase is due to increased engineering personnel, engineering materials, food industry initiatives and depreciation expense.

Interest income increased $56,000 to $72,000 for the year ended February 28, 2007 as compared to $16,000 for the year ended February 28, 2006. Our present investment policy is to invest excess cash in short term commercial paper with an S & P rating of at least A1+.

Our operating income decreased $402,000 to $474,000 for the year ended February 28, 2007 as compared to $876,000 for the year ended February 28, 2006. Net income decreased $499,000 to $544,000 or $.04 per share on a diluted basis for the year ended February 28, 2007 from $1,043,000 or $0.07 per share for the year ended February 28, 2006. The decrease in operating income is a result of our emphasis on new product research and development and international market expenditures, both of which are being made to create future growth for the Company.

Other Income

As previously reported on Form 8-K, filed on July 5, 2005, the Company determined that a former employee had misappropriated approximately $250,000 of the Company's monies, primarily through unauthorized check writing from the Company's accounts over a period of three calendar years. The Company had previously expensed substantially all of the misappropriated funds over the years.

For the Fiscal years ended February 28, 2007 and February 28, 2006, the Company recovered $11,323 and $157,605, respectively; these amounts are recorded as other income. The Company is pursuing appropriate remedies to recover the balance of the funds, including, receiving regular payments from the former employee. As previously discussed, the Company can offer no assurances that it will be successful in its attempt to collect the balance of the remaining restitution.

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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. The Company believes that its critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, please see the notes to the Company's consolidated financial statements.

Accounting for Income Taxes

As part of the process of preparing the consolidated financial statements, the Company is required to estimate income taxes. Management judgment is required in determining the provision for the deferred tax asset. During the fourth quarter of the year ended February 29, 2004, the Company reduced the valuation reserve for the deferred tax asset resulting from the net operating losses carried forward due to the Company having demonstrated consistent profitable operations. In the event that actual results differ from these estimates, the Company may need to again adjust such valuation reserve.

Stock-Based Compensation

Prior to fiscal year 2007, the Company accounted for employee stock options under the fair value provisions of SFAS No. 123. On March 1, 2006, the Company adopted SFAS No. 123R, "Share Based Payments." SFAS No. 123R requires companies to expense the value of employee stock options and similar awards for periods beginning after December 15, 2005, and applies to all outstanding and vested stock-based awards at a company's adoption date. Results from prior periods have not been restated in the Company's historical financial statements.

Impact of New Accounting Pronouncements

FASB 157 - Fair Value Measurements

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements,

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the FASB having previously concluded in those accounting pronouncements that fair value is a relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practices. This Statement is effective for financial statements for fiscal years beginning after November 15, 2007. Earlier application is permitted provided that the reporting entity has not yet issued financial statements for that fiscal year. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

FASB 159 - Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" (SFAS 159). This Statement provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company that adopts SFAS 159 will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This Statement is effective for fiscal years beginning after November 15, 2007. We do not believe that the adoption of SFAS 159 will have a material impact on our results of operations or financial condition.

FIN 48 - Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that we recognize in our financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. This Interpretation is effective for fiscal years beginning after December 15, 2006. Earlier application of the provisions of this Interpretation is encouraged if the reporting entity has not yet issued financial statements, including interim financial statements, in the period this Interpretation is adopted. Management believes this interpretation will have no impact on the financial statements of the Company once adopted.

ITEM 7 FINANCIAL STATEMENTS

Our financial statements are presented on pages 23 to 41.

ITEM 8 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE - None.

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ITEM 8A CONTROLS AND PROCEDURES

(a) We carried out an evaluation, under the supervision and with the participation of the Company's management, including our President & CEO (principal executive officer) and Chief Financial Officer (principal accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Company's President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective as of the period covered by this report. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms.

(b) There were no changes in our internal control system over financial reporting in the last fiscal year that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 8B OTHER INFORMATION - None.

PART III

ITEM 9 DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPIANCE WITH 16(a) OF THE EXCHANGE ACT

(a) Identification of Directors

Name	Age	Position with the Company
Harvey L. Berger	68	Chief Technology Officer and Director
Christopher L. Coccio	66	Chief Executive Officer, President, Vice Chairman and a Director
Edward J. Handler, Esq.	70	Director*
Donald F. Mowbray	69	Director*
Samuel Schwartz	87	Chairman and Director
Philip A. Strasburg, CPA	68	Director*

* Member of the Audit Committee and Compensation 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 Drs. Berger and Coccio and Mr. Strasburg run until the annual meeting to be held in 2007. The terms of Dr. Mowbray, and Messrs. Handler and Schwartz run until the annual meeting to be held in 2008, and in each case until their respective successors are duly elected and qualified.

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Audit Committee

The Company's Board of Directors has an Audit Committee composed of Edward J. Handler, Donald F. Mowbray and Philip A. Strasburg, CPA, as Chairman of the Audit Committee. The "audit committee financial expert' designated by the Board is Philip A. Strasburg. Mr. Strasburg is not considered an independent Director under the NASDAQ rules as he is a former employee.

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.

Identification of Executive Officers

Name	Age	Position with the Company
Stephen J. Bagley, CPA	44	Chief Financial Officer
Harvey L. Berger	68	Chief Technology Officer and Director
Christopher L. Coccio	66	Chief Executive Officer, President, Vice Chairman and a Director
Vincent F. DeMaio	69	Vice President
R. Stephen Harshbarger	39	Vice President
Joseph Riemer	58	Vice President

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.

DR. HARVEY L. BERGER was appointed Chief Technologist in April 2001 and Chief Technology Officer in August 2004 and has been a Director of the Company since June 1975. He was President of the Company from November 1981 to September 1984 and from September 1985 until April 2001. From September 1986 to September 1988, he also served as Treasurer. He was Vice Chairman of the Company from March 1981 to September 1985. Dr. Berger holds a Ph.D. in physics from Rensselaer Polytechnic Institute and is a member of the Marist College Advisory Board.

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 Vice-Chairman in August 2006. 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. His business experience includes both domestic and international markets and customers. He founded a management consulting business in 1996, and worked with 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.

VINCENT F. DEMAIO has been Vice President of Manufacturing of the Company since March 2003. He joined the Company in August 1991 as Production Manager and has served as Field Service Manager and Director of Operations. Prior to joining the Company, Mr. DeMaio was an independent real estate developer from 1987 to 1991. From 1956 to 1987, Mr. DeMaio was employed by IBM Corporation in various manufacturing positions, the last being Manufacturing Supervisor over 600 employees.

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 experience in all aspects of intellectual property, including patents, trade secrets, trademarks and copyrights, including litigation and other adversarial proceedings. Mr. Handler is President and COO of Storm Bio, Inc., a private Delaware corporation active in the area of therapeutics for acute 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.

R. STEPHEN HARSHBARGER has been Vice President of the Company since June 2000. He joined the Company in October 1993 as a Sales Engineer and served in various sales management capacities from 1997 to 2000. Prior to joining the Company, Mr. Harshbarger was the Sales and Marketing Coordinator at Plasmaco, Inc., a developer and manufacturer of state-of-the-art flat panel displays. He is a graduate of Bentley College, with a major in Finance and a minor in Marketing.

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.

Dr. JOSEPH RIEMER joined the Company in January 2007 as Vice President of Engineering. 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 7 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

SAMUEL SCHWARTZ has been a Director of the Company since August 1987, and was Chairman of the Board from February 1993 to May 1999. In April 2001, he accepted the position as Acting Chairman of the Board. He became Chairman in August 2001. 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.

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. He is a member of the Board of Directors of the Westchester Public/Private Partnership for Aging Services.

(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 28, 2007, 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.

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 www.sono-tek.com/investors/IRcodeofethics.php and is available in print to any shareholder who requests a copy.

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ITEM 10 EXECUTIVE COMPENSATION

The following table sets forth the aggregate remuneration paid or accrued by the Company for the Fiscal Years ended February 28, 2007 and 2006 for each named officer of the Company.

Summary Compensation Table

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards (e)	Option Awards (f)	All Oth Compensa ($) (i)
Christopher L. Coccio	2007	159,766	47,000	0	0	3,909
CEO, President, Director and Vice Chairman	2006	160,169	85,000	0	0	2,779
R. Stephen Harshbarger	2007	135,357	9,500	0	0	2,861
Vice-President	2006	137,985	16,000	0	0	2,316
Stephen J. Bagley	2007	105,000	9,500	0	0	2,280
Chief Financial Officer	2006	77,000	16,000	0	20,750	656

All Other Compensation represents Company contributions to the Company's 401K plan.

Outstanding Equity Awards At Fiscal Year End

Name (a)	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Option Exercise Price ($) (e)	Op Expirat (
Christopher L. Coccio	20,000		0.95	5/
	475,000		1.75	11/
R. Stephen Harshbarger	7,500		0.60	6/
	10,000		0.95	5/
Stephen J. Bagley (1)	20,000	5,000(1)	2.25	9

(1) Mr. Bagley's 5,000 unvested options will be exercisable on Sept. 9, 2007.

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Compensation of Directors

Each non-employee director receives $500 for each meeting attended. Committee Chairmen and committee members receive $100 for each committee meeting attended. Directors who are employees of the Company receive no additional compensation for serving as directors. For the year ended February 28, 2007, director compensation is as follows:

2007 Director Compensation

Name (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($) (c)	Option Awards ($) (d)	Non-Equity Incentive Plan Compensation ($) (e)	Nonqualified Deferred Compensation Earnings ($) (f)	Comp
Edward J. Handler	2,100	--	--	--	--	
Donald F. Mowbray	2,700	--	--	--	--	
Samuel Schwartz	2,700	--	--	--	--	
Philip Strasburg	2,200	--	--	--	--	

The number of vested and unvested stock options held by non-employee directors as of February 28, 2007 is as follows:

Name	Number of Vested Options	Number of Unvested Options
Edward J. Handler	20,000	--
Donald F. Mowbray	30,000	--
Samuel Schwartz	60,000	--
Philip Strasburg	20,000	10,000

ITEM 11 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following information is furnished as of May 7, 2007, to indicate beneficial ownership of the Company's Common Stock by each Director, by each named executive officer who has a salary and bonus in excess of $100,000, by all Directors and executive officers as a group, and by each person known to the Company to be the beneficial owner of more than 5% of the Company's outstanding Common Stock. Such information has been furnished to the Company by the indicated owners. Unless otherwise indicated, the named person has sole voting and investment power.

Name (and address if more than 5%) of Beneficial owner	Amount Beneficially Owned	Percent
Directors and Officers		
*Stephen J. Bagley	20,000(1)	**
*Harvey L. Berger	384,418(2)	2.68%
*Christopher L. Coccio	971,125(3)	6.54%
*Edward J. Handler	117,508(4)	**
*R. Stephen Harshbarger	29,000(5)	**
*Donald F. Mowbray	55,000(6)	**
*Samuel Schwartz	1,575,147(7)	10.92%
*Philip A. Strasburg	40,000(8)	**
All Executive Officers and Directors as a Group	3,280,001(9)	21.80%
Additional 5% owners		
Herbert Spiegel 425 East 58th Street New York, NY 10022	756,931	5.27%
Norwood Venture Corporation 65 Norwood Avenue Montclair, NJ 07043	1,084,672	7.55%

* c/o Sono-Tek Corporation, 2012 Route 9W, Milton, NY 12547.
** Less than 1%

(1) Represents 20,000 options currently exercisable under the Company's Stock Incentive Plans.
(2) Includes 289,918 shares owned jointly with Dr. Berger's wife, 65,500 shares in the name of Dr. Berger's wife and 5,000 options currently exercisable issued under the Company's Stock Incentive Plans.
(3) Includes 3,000 shares owned jointly with Dr. Coccio's father, 2,000 shares in the name of Dr. Coccio's wife and 495,000 options currently exercisable issued under the Company's Stock Incentive Plans.
(4) Includes 61,579 shares owned jointly with Mr. Handler's wife, 35,929

shares in the name of Mr. Handler's wife and 20,000 options currently exercisable issued under the Company's Stock Incentive Plans.

(5) Includes 17,500 options currently exercisable under the Company's Stock Incentive Plans.

(6) Includes 30,000 options currently exercisable issued under the Company's Stock Incentive Plans.

(7) Includes 60,000 options currently exercisable issued under the Company's Stock Incentive Plans.

(8) Includes 20,000 options currently exercisable issued under the Company's Stock Incentive Plans.

(9) The group total includes 685,000 options currently exercisable issued under the Company's Stock Incentive Plans. The group total includes 75,303 shares and 12,500 exercisable options held by Mr. DeMaio.

Securities Authorized for Issuance Under Equity Compensation Plans:

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (excluding securities reflected in column (a)) (b)	se av is
Equity compensation plans approved by security holders:			
1993 Stock Incentive Plan	119,000	$ .67	
2003 Stock Incentive Plan	830,375	$1.71	
Total	949,375		

Description of Equity Compensation Plans:

1993 Stock Incentive Plan

Under the 1993 Stock Incentive Plan, as amended ("1993 Plan"), options have been granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase the Company's common shares. Options granted under the 1993 Plan expire on various dates through 2013. There can be no further grants under the 1993 Plan.

Under the 1993 Stock Incentive Plan, option prices were 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 the 1993 plan 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.

2003 Stock Incentive Plan

Under the 2003 Stock Incentive Plan, as amended ("2003 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.

The 2003 Plan supplemented and replaced the 1993 Plan. Under the 2003 Stock Incentive Plan, option prices must be 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 the 2003 plan 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.

ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 13 EXHIBITS

Ex. No.	Description
3(a)(1)	Certificate of Incorporation of the Company and all amendments thereto.
3(b)(1)	By-laws of the Company as amended.
10(a)(2)	Lease for the Company's facilities in Milton, NY dated December 1, 1999.
10(b)(1)	Sono-Tek Corporation 1993 Stock Incentive Plan as amended.
10(c)(1)	Sono-Tek Corporation 2003 Stock Incentive Plan.
10(d)(5)	Equipment Line Credit Agreement between Sono-Tek Corporation and M&T Bank, dated March 24, 2005.
10(e)(5)	General Security Agreement between Sono-Tek Corporation and M&T Bank, dated December 21, 2004.
14(4)	Code of Ethics.
21(3)	Subsidiaries of Small Business Issuer.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14/15d - 14(a) Certification.
31.2	Rule 13a-14/15d - 14(a) Certification.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated herein by reference to the Company's Registration Statement No. 333-11913 on Form S-8 filed on February 18, 2004.

(2) Incorporated herein by reference to the Company's Form 10-K for the year ended February 29,2000.

(3) Incorporated herein by reference to the Company's Form 10-KSB for the year ended February 28, 2003. (4) Incorporated herein by reference to the Company's Form 10-KSB for the year ended February 29, 2004.

(5) Incorporated herein by reference to the Company's Form 10-KSB for the year ended February 28, 2005.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

For the Fiscal Years ended February 28, 2007 and February 28, 2006, the Company paid or accrued fees of approximately $41,000 and $38,500 for services rendered by Sherb & Co., LLP and Radin Glass & Co., LLP, respectively, its independent auditors. These fees included audit and review services.

For the Fiscal Years ended February 28, 2007 and February 28, 2006, the Company paid or accrued tax preparation fees of approximately $4,000 and $4,000 for services rendered by Sherb & Co., LLP, its independent auditors.

There were no other fees for services rendered by Sherb & Co., LLP other than for services described above.

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SONO-TEK CORPORATION

FORM 10-KSB

ITEM 7

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

FOR THE YEARS ENDED FEBRUARY 28, 2007 and 2006

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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 sheet of Sono-Tek Corporation as of February 28, 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years ended February 28, 2007 and 2006. 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 auditing 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, 2007 and the results of their operation and their cash flows for each of the years then ended February 28, 2007 and 2006 in conformity with accounting principles generally accepted in the United States.

/S/ SHERB & CO., LLP

Certified Public Accountants
New York, New York
April 27, 2007

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SONO-TEK CORPORATION
CONSOLIDATED BALANCE SHEET

ASSETS

	February 28, 2007
Current Assets	
Cash and cash equivalents	$ 2,268,976
Accounts receivable (less allowance of $18,500)	946,833
Inventories, net	1,406,231
Prepaid expenses and other current assets	69,107
Deferred tax asset	270,000
Total current assets	4,961,147
Equipment, furnishings and leasehold improvements (less accumulated depreciation of $896,773)	301,360
Intangible assets, net	30,744
Other assets	7,171
Deferred tax asset	411,239
TOTAL ASSETS	$ 5,711,661

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	$ 209,202
Accrued expenses	476,140
Current maturities of long term debt	27,373
Deferred tax liability	16,239
Total current liabilities	728,954
Long term debt, less current maturities	51,506

Deferred tax liability	80,000
Total Liabilities	860,460
Commitments and Contingencies	--
Stockholders' Equity	
Common stock, $.01 par value; 25,000,000 shares authorized, 14,360,541 issued and outstanding	143,606
Additional paid-in capital	8,308,301
Accumulated deficit	(3,600,706)
Total stockholders' equity	4,851,201
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 5,711,661

See notes to consolidated financial statements.

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SONO-TEK CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended	
	February 28, 2007	February 28, 2006
Net Sales	$ 6,886,453	$ 6,871,069
Cost of Goods Sold	3,424,183	3,442,501
Gross Profit	3,462,270	3,428,568
Operating Expenses		
Research and product development	857,718	647,681
Marketing and selling	1,280,553	1,126,507
General and administrative	850,238	778,451
Total Operating Expenses	2,988,509	2,552,639
Operating Income	473,761	875,929
Other Income (Expense):		
Interest Expense	(6,133)	(6,008)
Interest Income	72,313	15,611
Other Income	11,523	158,038
Income before Income Taxes	551,464	1,043,570
Income Tax (Expense)	(7,261)	(250)
Net Income	$ 544,203	$ 1,043,320

Basic Earnings Per Share	$ .04	$ .07
Diluted Earnings Per Share	$ .04	$ .07
Weighted Average Shares - Basic	14,359,936	14,156,972
Weighted Average Shares - Diluted	14,439,808	14,274,493

See notes to consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED FEBRUARY 28, 2007 AND FEBRUARY 28, 2006

	Common Stock Par Value $.01		Additional Paid-In Capital	Stock Subscription Receivable	Accumulated Deficit
	Shares	Amount			
Balance - February 29, 2005	13,825,640	$138,257	$7,371,233	$(15,750)	$(5,188,229)
Exercise of non-employee stock options	7,562	76	2,475	--	--
Stock Sold/Issued	125,000	1,250	286,250	--	--
Exercise of warrants	345,714	3,457	564,043	--	--
Exercise of stock options	50,500	505	23,090	--	--
Net Income	--	--	--	--	1,043,320
Balance - February 28, 2006	14,354,416	143,545	8,247,091	(15,750)	(4,144,909)
Exercise of non-employee stock options	5,000	50	900		
Stock Sold/Issued				15,750	
Exercise of stock options	1,125	11	1,587		
Stock Based Compensation Expense			58,723		
Net Income					544,203
Balance - February 28, 2007	14,360,541	$143,606	$8,308,301	--	$(3,600,706)

See notes to consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended February 28, 2007	Years Ended February 28, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 544,203	$ 1,043,320
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	132,401	72,155
Provision for doubtful accounts	--	377
Stock based compensation expense	58,723	
Gain on sale of equipment	17,723	
(Increase) Decrease in:		
Accounts receivable	8,261	(141,768)
Inventories	114,166	(181,987)
Prepaid expenses and other current assets	(1,083)	43,690
(Decrease) Increase in:		
Accounts payable and accrued expenses	(143,863)	44,648
Net Cash Provided by Operating Activities	730,531	880,435
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furnishings and leasehold improvements	(189,615)	(185,029)
Patent filing costs	(5,392)	(11,320)
Net Cash Used In Investing Activities	(195,007)	(196,349)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of stock	15,750	287,500
Proceeds from exercise of warrants and options	2,548	593,646
Line of Credit Repayment	--	(350,000)
Repayment of long term debt	(25,650)	(11,112)
Proceeds from long term debt	--	115,641
Net Cash (Used in) Provided by Financing Activities	(7,352)	635,675
NET INCREASE IN CASH AND CASH EQUIVALENTS	528,172	1,319,761
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,740,804	421,043
End of year	$ 2,268,976	$ 1,740,804

See notes to consolidated financial statements.

SONO-TEK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2007 AND 2006

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.

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 subsidiary, Sono-Tek Cleaning Systems, Inc., a New Jersey Corporation ("SCS"), which the Company acquired on August 3, 1999, and whose operations have been discontinued. There have been no operations of this subsidiary since Fiscal Year Ended February 28, 2002. All significant intercompany accounts and transactions are eliminated in consolidation.

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. The Company occasionally has cash or cash equivalents on hand in excess of the $100,000 insurable limits at a given bank. At February 28, 2007, the Company had $2,168,976 over the insurable limit.

Supplemental Cash Flow Disclosure -

	Years Ended	
	February 28, 2007	February 28, 2006
Interest paid	$5,923	$6,008
Income taxes paid	$7,261	--

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 managements estimate of uncollectible accounts. All outstanding accounts receivable accounts are reviewed for collectibility on an individual basis. The bad debt expense recorded for the years ended February 28, 2007 and February 28, 2006 was $3,750 and $3,862, respectively.

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

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 $54,350 at February 28, 2007. Annual amortization expense of such intangible assets is expected to be $4,272 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. Stock options granted but not yet exercised under the Company's stock option plans are included for Diluted EPS calculations under the treasury stock method.

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, 2007 and February 28, 2006 was $116,274 and $100,205, 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 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 does have cash in excess of the federal insurable limits as noted above. The Company also has two customers, which accounted for 5.2% and 3.9% of sales, respectively, during the year ended February 28, 2007. One customer accounted for 10.5% of the outstanding accounts receivables at February 28, 2007.

Fair Value of Financial Instruments - The carrying amounts reported in the balance sheet for cash, receivables, accounts payable and accrued expenses approximate fair value based on the short-term maturity of these instruments.

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-

FASB 157 - Fair Value Measurements

In September 2006, the FASB issued FASB Statement No. 157. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is a relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practices. This Statement is effective for

financial statements for fiscal years beginning after November 15, 2007. Earlier application is permitted provided that the reporting entity has not yet issued financial statements for that fiscal year. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

FASB 159 - Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" (SFAS 159). This Statement provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company that adopts SFAS 159 will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This Statement is effective for fiscal years beginning after November 15, 2007. We do not believe that the adoption of SFAS 159 will have a material impact on our results of operations or financial condition.

FIN 48 - Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109 In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that we recognize in our financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. This Interpretation is effective for fiscal years beginning after December 15, 2006. Earlier application of the provisions of this Interpretation is encouraged if the reporting entity has not yet issued financial statements, including interim financial statements, in the period this Interpretation is adopted. Management believes this interpretation will have no impact on the financial statements of the Company once adopted.

NOTE 3: SEGMENT INFORMATION

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

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NOTE 4: STOCK-BASED COMPENSATION

On March 1, 2006, the Company adopted SFAS No. 123R, "Share Based Payments." SFAS No. 123R requires companies to expense the value of employee stock options and similar awards for periods beginning after December 15, 2005, and applies to all outstanding and vested stock-based awards at a company's adoption date.

During the transition period of the Company's adoption of SFAS 123R, 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:

	2007	2006
Expected life	4 years	4 years
Risk free interest rate	4.35% - 5.07%	4% - 4.25%
Expected volatility	39% - 78%	40%
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 amount 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 we have recorded in the current period.

For the year ended February 28, 2007, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying SFAS 123R approximated $58,723 in additional compensation expense during the year ended February 28, 2007. 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.

Under the requirements of FAS 123R, the Company is not required to restate prior period earnings, however, the Company is required to supplement its financial statements with additional pro forma disclosures. Had compensation cost for the Company's stock option plan been determined based on the fair value at the date of grant, the Company's net income and basic and diluted earnings per share would have been reduced to the pro forma amounts for the periods indicated below.

	Year Ended February 28, 2006
Net Income:	
As reported	$ 1,043,320
Deduct: Stock based employee compensation expense under fair value based method for all awards, net of tax effects	117,181
Pro forma net income	$ 926,139
Basic earnings per share:	
As reported	$ 0.07
Pro forma	$ 0.07
Diluted earnings per share:	
As reported	$ 0.07
Pro Forma	$ 0.06

NOTE 5: INVENTORIES

Inventories consist of the following:

	February 28, 2007
Raw Materials	$ 583,706
Work-in-process	481,158
Consignment	9,770
Finished Goods	535,794
Totals	1,610,428
Less: Allowance	(204,197)
	$ 1,406,231

NOTE 6: EQUIPMENT, FURNISHINGS AND LEASEHOLD IMPROVEMENTS

Equipment, furnishings and leasehold improvements consist of the following:

	February 28, 2007

Laboratory equipment	$ 261,513
Machinery and equipment	357,702
Leasehold improvements	49,913
Furniture and fixtures	529,005
Totals	1,198,133
Less: accumulated depreciation	(896,772)
	$ 301,360

Depreciation expense for the years ended February 28, 2007 and February 28, 2006 was $127,831 and $67,682, respectively.

NOTE 7: ACCRUED EXPENSES

Accrued expenses consist of the following:

	February 28, 2007
Accrued compensation	$ 271,575
Accrued marketing expense	5,515
Estimated warranty costs	24,900
Accrued commissions	89,352
Professional fees	31,758
Customer deposits	40,097
Other accrued expenses	12,943
	$ 476,140

NOTE 8: REVOLVING LINE OF CREDIT

The Company has a $500,000 revolving line of credit at prime which was 8.25% at February 28, 2007. 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, 2007, the Company had no outstanding borrowings under the revolving line of credit.

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NOTE 9: LONG-TERM DEBT

Long-term debt consists of the following:

	February 28, 2007
Equipment loan, bank, collateralized by related production equipment, payable in monthly installments of principal and interest of $832. Interest rate 6.51%. 60 month term.	$27,788
Equipment loan, bank, collateralized by related office equipment, payable in monthly installments of principal and interest of $1,039. Interest rate 6.21%. 36 month term.	18,725

Equipment loan, bank, collateralized by related engineering

equipment, payable in monthly installments of principal and interest of $770. Interest rate 6.54%. 60 month term.	32,366
Total long term debt	78,879
Due within one year	27,373
Due after one year	$51,506

Long-term debt is payable as follows:

Fiscal Year ending February 28,	
2009	$23,881
2010	17,853
2011	9,772

NOTE 10: COMMITMENTS AND CONTINGENCIES

Leases - Total rent expense was approximately $100,769 and $94,595, for the two years ended February 28, 2007 and February 28, 2006, respectively.

The Company presently leases its office and production facilities on a month-to-month basis.

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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 to pre-tax income (loss) as follows:

	February 28, 2006	%	February 28, 2006	%
Computed tax at maximum rate	$ 193,000	35.0	$ 365,000	35.0
Franchise taxes due, net of federal benefit	23,000	4.2	43,000	4.5
Temporary Difference - Depreciation	(27,000)	(4.8)	(34,000)	(3.3)
Permanent Difference - FASB 123R	23,000	4.2	--	--
Utilization or change in valuation allowance for tax effect of operating loss carryforwards	(212,000)	(37.3)	(374,000)	(36.2)
Income tax (benefit)	$ 0	1.3	$ 0	0

The net deferred tax asset is comprised of the following:

	February 28, 2007
Allowance for doubtful accounts	$ 7,000

Inventory	118,000
Accrued expenses	131,000
Net operating losses and other carryforwards	505,239
Net deferred tax assets before valuation allowance	761,239
Deferred tax asset valuation allowance	(80,000)
Net deferred tax asset	$ 681,239
Deferred tax liability - Depreciation	$ 96,239

The change in the valuation allowance was $335,000 for the year ended February 28, 2007. This represents a $325,000 decrease in the net operating loss valuation allowance offset by a $10,000 change in other timing differences. A $681,239 tax benefit has been reflected as a tax asset in the financial statements, of which $270,000 is a current asset.

At February 28, 2007, the Company has available net operating loss carryforwards of approximately $1,449,000 for income tax purposes, which expire between fiscal 2006 and fiscal 2022. The Company also has research and development credits of approximately $136,000, which expire between fiscal 2010 and fiscal 2021. The net operating loss and credit carryforwards generated by a subsidiary are subject to limitations under Section 382 and Section 383 of the Internal Revenue Code.

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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 119,000 options remain outstanding under the 1993 Plan. Under the 2003 Plan options expire at various dates through 2015. A total of 830,375 options are outstanding under the 2003 Plan.

During Fiscal Year 2007, the Company granted options for 45,000 shares exercisable at prices from $1.00 to $1.99 to employees of the Company.

During Fiscal Year 2006, the Company granted options for 25,000 shares exercisable at $2.25 to an officer of the Company, options for 40,000 shares exercisable at prices from $1.06 to $2.43 to directors of the Company and options for 37,500 shares exercisable at prices from $1.42 to $2.95 to employees of the Company. During Fiscal Year 2006, no compensation expense was recognized based on the fair value of any options granted.

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.

A summary of the activity of both plans for the years ended February 28, 2007 and February 28, 2006 is as follows:

	Stock Options Outstanding	Stock Options Exercisable	Weighted Average Exercise Price Outstanding	Weighted Average Exercise Price Exercisable
Balance - February 28, 2005	941,062	642,062	1.46	1.47
Granted Fiscal Year 2006	102,500		2.18	
Exercised Fiscal Year 2006	(58,062)		(.51)	
Canceled Fiscal Year 2006	(50,000)		(1.63)	
Balance - February 28, 2006	935,500	762,425	1.61	1.83
Granted Fiscal Year 2007	45,000		1.41	
Exercised Fiscal Year 2007	(6,125)		(.42)	
Canceled Fiscal Year 2007	(25,000)		(1.82)	
Balance - February 28, 2007	949,375	871,500	1.58	1.63

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Information, at date of issuance, regarding stock option grants for the years ended February 28, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Year ended February 28, 2007:			
Exercise price exceeds market price	--	--	--
Exercise price equals market price	45,000	$ 1.41	$ .59
Exercise price is less than market price	--	--	--

The following table summarizes information about stock options outstanding and exercisable at February 28, 2007:

	Number Outstanding	Weighted-Average Remaining Life in Years	Weighted Average Exercise Price	Number Exercisable
Range of exercise prices:				
$.09 to $.50	56,500	5.5	$.29	56,500
$.51 to $1.00	94,000	5.5	$.84	88,200
$1.01 to $1.75	632,375	7.6	$1.62	592,875
$1.76 to $2.30	126,500	8.2	$2.18	108,550
$2.31 to $3.00	40,000	8.4	$2.48	25,375

Warrants -

On February 15, 2000, the Company entered into a 90 day $100,000 subordinated convertible loan with a non-affiliated individual convertible into common stock at $1.00 per share. The loan and related interest of 8 % was repaid upon maturity, May 15, 2000. As part of the loan agreement, the lender was eligible to receive a warrant to purchase 50,000 shares of the Company's common stock, if the loan was not converted to equity or was not repaid. When the loan was repaid, the lender received a five-year warrant to purchase 50,000 shares of the Company's common stock at $1.00 per share in accordance with the provisions of the agreement. This warrant was exercised on May 9, 2005.

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On December 3, 2004, in conjunction with a private offering of 307,000 shares of the Company's common stock, the Company issued two year warrants to purchase 76,750 shares of the Company's common stock at $1.75 per share to eight accredited investors. In April 2005, 10,000 of these warrants were exercised.

On May 3, 2005, the Company sold 125,000 shares of its common stock at $2.30 per share and issued a warrant to purchase an additional 25,000 shares of common stock at $2.45 per share to an institutional investor in a private placement. On May 9, 2005, a warrant for 50,000 shares was exercised for $1.00 per share. On May 11, 2005 and January 4, 2006, two warrants for a total of 285,714 shares of the Company's common stock were exercised at $1.75 per share by Empire State Development Corporation, Small Business Technology Investment Fund.

NOTE 13: EARNINGS PER SHARE

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

	February 28, 2007	February 28, 2006
Numerator for basic and diluted Earnings per share	$ 544,203	$ 1,043,320
Denominator:		
Denominator for basic earnings per share-weighted average shares	14,359,936	14,156,972
Effects of dilutive securities:		
Stock options for employees, directors and outside consultants	79,872	117,521
Denominator for diluted earnings per share	14,439,808	14,274,493
Basic Earnings Per Share	$ .04	$ .07
Diluted Earnings Per Share	$ .04	$ .07

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NOTE 14: SIGNIFICANT CUSTOMERS AND FOREIGN SALES

One customer accounted for 5.2% of the Company's sales for Fiscal Year ended February 28, 2007.

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

	February 28, 2007	February 28, 2006
Western Europe	$ 886,000	$ 839,000
Far East	1,567,000	1,021,000
Other	1,056,000	1,176,000
	$3,509,000	$3,036,000

During Fiscal Years 2007 and 2006, sales to foreign customers accounted for approximately $3,509,000 and $3,036,000, or 51% and 44% respectively, of total revenues.

NOTE 15: OTHER INCOME

As previously reported on Form 8-K, filed on July 5, 2005, the Company determined that a former employee had misappropriated approximately $250,000 of the Company's monies, primarily through unauthorized check writing from the Company's accounts over a period of three calendar years. The Company has previously expensed substantially all of the misappropriated funds over the years.

For the Fiscal years ended February 28, 2007 and February 28, 2006, the Company recovered $11,323 and $157,605, respectively; these amounts are recorded as other income. The Company is pursuing appropriate remedies to recover the balance of the funds. As previously discussed, the Company can offer no assurances that it will be successful in its attempt to collect the balance of the remaining restitution.

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SIGNATURES

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

Dated: May 23, 2007
Sono-Tek Corporation
(Registrant)

By: /s/ Dr. Christopher L. Coccio

Dr. Christopher L. Coccio,
Chief Executive Officer and President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Dr. Christopher L Coccio May 23, 2007

Christopher L. Coccio
Chief Executive Officer,
President and Director

/s/ Stephen J. Bagley May 23, 2007

Stephen J. Bagley
Chief Financial Officer

/s/ Edward J. Handler, III May 23, 2007

Edward J. Handler, III
Director

/s/ Samuel Schwartz May 23, 2007

Samuel Schwartz
Chairman and Director

/s/ Dr. Harvey L Berger May 23, 2007

Dr. Harvey L. Berger
Chief Technology Officer
and Director

/s/ Philip A. Strasburg May 23, 2007

Philip A. Strasburg
Director

/s/ Dr. Donald F. Mowbray May 23, 2007

Donald F. Mowbray
Director