

SONO TEK CORP
Form 10-Q
October 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: **August 31, 2018**

OR

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

Commission File No.: 0-16035

(Exact name of registrant as specified in its charter)

New York 14-1568099
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

2012 Rt. 9W, Milton, NY 12547

(Address of Principal Executive Offices) (Zip Code)

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Issuer's telephone no., including area code: (845) 795-2020

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Outstanding as of October 12, 2018

Class
Common Stock, par value \$.01 per share 15,165,661

SONO-TEK CORPORATION

INDEX

| | Page |
|---|-------|
| Part I - Financial Information | |
| Item 1 – Condensed Consolidated Financial Statements: | 1 - 3 |
| Condensed Consolidated Balance Sheets – August 31, 2018 (Unaudited) and February 28, 2018 | 1 |
| Condensed Consolidated Statements of Operations and Comprehensive Income – Six Months and Three Months Ended August 31, 2018 and 2017 (Unaudited) | 2 |
| Condensed Consolidated Statements of Cash Flows – Six Months Ended August 31, 2018 and 2017 (Unaudited) | 3 |
| Notes to Condensed Consolidated Financial Statements | 4 - 8 |
| Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations | 9 –15 |
| Item 3 – Quantitative and Qualitative Disclosures about Market Risk | 15 |
| Item 4 – Controls and Procedures | 15 |
| Part II - Other Information | 16 |
| Signatures and Certifications | 17 |

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

| | August 31, 2018 (Unaudited) | February 28, 2018 |
|--|-----------------------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,655,405 | \$ 2,016,464 |
| Marketable securities | 4,091,994 | 4,405,900 |
| Accounts receivable (less allowance of \$46,000) | 1,293,477 | 774,778 |
| Inventories, net | 1,650,787 | 1,354,083 |
| Prepaid expenses and other current assets | 114,725 | 139,406 |
| Total current assets | 8,806,388 | 8,690,631 |
| Land | 250,000 | 250,000 |
| Buildings, net | 1,770,394 | 1,807,339 |
| Equipment, furnishings and building improvements, net | 531,241 | 498,401 |
| Intangible assets, net | 126,673 | 136,576 |
| Deferred tax asset | 396,387 | 396,387 |
| TOTAL ASSETS | \$ 11,881,083 | \$ 11,779,334 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 871,181 | \$ 652,863 |
| Accrued expenses | 746,721 | 893,192 |
| Customer deposits | 430,828 | 344,098 |
| Current maturities of long term debt | 159,404 | 156,119 |
| Income taxes payable | 8,256 | 84,621 |
| Total current liabilities | 2,216,390 | 2,130,893 |
| Deferred tax liability | 385,384 | 385,384 |
| Long term debt, less current maturities | 789,836 | 870,532 |
| Total liabilities | 3,391,610 | 3,386,809 |
| Commitments and Contingencies | — | — |
| Stockholders' Equity | | |
| Common stock, \$.01 par value; 25,000,000 shares authorized, 15,155,560 and 14,986,367 shares issued and outstanding, at August 31 and February 28, respectively | 151,556 | 149,864 |
| Additional paid-in capital | 8,915,873 | 8,901,171 |
| Accumulated deficit | (577,956) | (760,115) |
| Accumulated other comprehensive income | — | 101,605 |
| Total stockholders' equity | 8,489,473 | 8,392,525 |

| | | |
|--|--------------|--------------|
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$11,881,083 | \$11,779,334 |
|--|--------------|--------------|

See notes to unaudited condensed consolidated financial statements.

1

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

| | Six Months Ended | | Three Months Ended | |
|---|-------------------------|-------------|---------------------------|-------------|
| | August 31, | | August 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net Sales | \$5,518,591 | \$5,154,430 | \$2,817,731 | \$2,653,696 |
| Cost of Goods Sold | 2,902,949 | 2,645,405 | 1,473,286 | 1,325,188 |
| Gross Profit | 2,615,642 | 2,509,025 | 1,344,445 | 1,328,508 |
| Operating Expenses | | | | |
| Research and product development costs | 653,764 | 617,173 | 319,898 | 307,923 |
| Marketing and selling expenses | 1,326,701 | 1,215,471 | 696,913 | 627,674 |
| General and administrative costs | 589,200 | 564,980 | 313,808 | 302,590 |
| Total Operating Expenses | 2,569,665 | 2,397,624 | 1,330,619 | 1,238,187 |
| Operating Income | 45,977 | 111,401 | 13,826 | 90,321 |
| Interest Expense | (20,817) | (24,031) | (10,203) | (11,818) |
| Interest and Dividend Income | 71,522 | 36,211 | 36,916 | 19,068 |
| Realized gain (loss) on sale of marketable securities | 119,075 | (8,584) | 89,683 | (8,584) |
| Net unrealized loss on marketable securities | (129,657) | — | (80,596) | — |
| Other income (expense) | 19,515 | 7,592 | 16,995 | 9,251 |
| Income Before Income Taxes | 105,615 | 122,589 | 66,621 | 98,238 |
| Income Tax Expense | 25,061 | 52,075 | 7,497 | 43,593 |
| Net Income | 80,554 | 70,514 | 59,124 | 54,645 |
| Other Comprehensive Income | | | | |
| Net unrealized gain on marketable securities | — | 59,638 | — | 32,603 |
| Comprehensive Income | \$80,554 | \$130,152 | \$59,124 | \$87,248 |
| Basic Earnings Per Share | \$0.01 | \$0.00 | \$0.00 | \$0.00 |
| Diluted Earnings Per Share | \$0.01 | \$0.00 | \$0.00 | \$0.00 |
| Weighted Average Shares - Basic | 15,036,644 | 14,961,137 | 15,085,660 | 14,961,197 |
| Weighted Average Shares - Diluted | 15,169,210 | 15,060,026 | 15,224,221 | 15,064,631 |

See notes to unaudited condensed consolidated financial statements.

2

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

| | Unaudited Six Months Ended August 31, 2018 2017 | |
|---|---|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$80,554 | \$70,514 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 172,130 | 200,776 |
| Stock based compensation expense | 16,394 | 21,488 |
| Inventory reserve | 36,000 | 50,601 |
| Unrealized loss on marketable securities | 129,657 | — |
| Decrease (Increase) in: | | |
| Accounts receivable | (518,699) | 213,868 |
| Inventories | (332,704) | (275,643) |
| Prepaid expenses and other current assets | 24,682 | 28,857 |
| (Decrease) Increase in: | | |
| Accounts payable and accrued expenses | 71,845 | 220,863 |
| Customer Deposits | 88,398 | 533,485 |
| Income taxes payable | (76,365) | (2,813) |
| Net Cash (Used In) Provided by Operating Activities | (308,108) | 1,061,996 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of equipment and furnishings | (159,790) | (42,917) |
| Sale (purchase) of marketable securities | 184,249 | (1,141,754) |
| Net Cash Provided by (Used in) Investing Activities | 24,459 | (1,184,671) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of long term debt | (77,410) | (74,259) |
| Net Cash (Used In) Financing Activities | (77,410) | (74,259) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (361,059) | (196,934) |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of period | 2,016,464 | 2,557,223 |
| End of period | \$1,655,405 | \$2,360,289 |
| SUPPLEMENTAL CASH FLOW DISCLOSURE: | | |
| Interest paid | \$20,817 | \$24,031 |
| Income Taxes Paid | \$101,426 | \$58,969 |

See notes to unaudited condensed consolidated financial statements.

3

SONO-TEK CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED AUGUST 31, 2018 and 2017

(Unaudited)

NOTE 1: BUSINESS DESCRIPTION

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

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company’s management, all adjustments considered necessary for a fair presentation (consisting of normal recurring adjustments) have been included. The results for the interim periods are not necessarily indicative of what the results will be for the fiscal year. The accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements as of and for the fiscal year ended February 28, 2018 (“fiscal year 2018”) contained in the Company’s 2018 Annual Report on Form 10-K filed with the SEC. The Company’s current fiscal year ends on February 28, 2019 (“fiscal 2019”).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Marketable Securities - The Company adopted ASU 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The Company has evaluated the potential impact this standard may have on the condensed consolidated financial

statements and the fair value allowance of the securities from the prior year has been reclassified to Retained Earnings from Other Accumulated Comprehensive Income. The unrealized loss on the marketable securities during the three and six months ended August 31, 2018 has been disclosed a separate line item on the Income Statement.

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

Consolidation - The accompanying condensed consolidated financial statements of the Company, include the accounts of the Company and its wholly owned subsidiary, Sono-Tek Industrial Park, LLC (“SIP”). SIP operates as a real estate holding company for the Company’s real estate operations.

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

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

Fair Value of Financial Instruments - The Company follows the guidance in the “Fair Value Measurements and Disclosure Topic” of the Accounting Standards Codification for assets and liabilities measured at fair value on a recurring basis. This guidance establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, the guidance requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Quoted prices in active markets.

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

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

The fair values of financial assets of the Company were determined using the following categories at August 31, 2018 and February 28, 2018, respectively:

| Quoted Prices in Active Markets (Level 1) | |
|---|-------------------------|
| August 31, 2018 | February 28, 2018 |

| | | |
|-----------------------|-------------|-------------|
| Marketable Securities | \$4,091,994 | \$4,405,900 |
|-----------------------|-------------|-------------|

Marketable Securities include mutual funds of \$4,091,994 and \$4,405,900 that are considered to be highly liquid and easily tradeable as of August 31, 2018, and February 28, 2018, respectively. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within the Company's fair value hierarchy. The Company's marketable securities are considered to be available-for-sale investments as defined under ASC 320 "Investments – Debt and Equity Securities."

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

Intangible Assets - Include costs of patent applications which are deferred and charged to operations over seventeen years for domestic patents and twelve years for foreign patents. The accumulated amortization of patents is \$154,954 and \$149,654 at August 31, 2018 and February 28, 2018, respectively. Annual amortization expense of such intangible assets is expected to be approximately \$11,000 per year for the next five years.

Interim Reporting - The attached summary condensed consolidated financial information does not include all disclosures required to be included in a complete set of financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Such disclosures were included with the financial statements of the Company at February 28, 2018, and included in its report on Form 10-K. Such statements should be read in conjunction with the data herein.

The financial information reflects all adjustments, normal and recurring, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results for such interim periods are not necessarily indicative of the results to be expected for the year.

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

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

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

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

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

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

In January 2016, The FASB issued ASU 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. ASU 2016-01 is effective for all entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has evaluated the potential impact this standard may have on the condensed consolidated financial statements, the fair value of the securities from the prior year has been reclassified to Retained Earnings from Other Accumulated Comprehensive Income. The unrealized loss on the marketable securities during the three months ended May 31, 2018 has been recorded in Other Income on the Income Statement.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either operating or financing, with such classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2016-02.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), “*Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*”. ASU 2018-02 was issued to allow the reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effect resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017. The Tax Cuts and Jobs Act, among other things, reduced the corporate tax rate from 35% to 21%, which required the re-evaluation of any deferred tax assets and liabilities at the lowered tax rate which potentially could leave a disproportionate tax effect in accumulated other comprehensive income. ASU 2018-02 allows for the election to reclassify these stranded tax effects to retained earnings. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period for public business entities for reporting periods for which financials statements have not yet been issued. The Company is currently evaluating the impact of adopting ASU 2018-02.

Other than ASU No. 2014-09, ASU 2016-01, ASU 2016-02 and ASU 2018-02 discussed above, all new accounting pronouncements issued but not yet effective have been deemed to be not applicable to the Company. Hence, the adoption of these new accounting pronouncements, once effective, is not expected to have an impact on the Company.

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

NOTE 3: INVENTORIES

Inventories consist of the following:

| | August 31, 2018 | February 28, 2018 |
|---------------------------------|--------------------|----------------------|
| Raw materials and subassemblies | \$871,012 | \$ 673,969 |
| Finished goods | 602,099 | 395,410 |
| Work in process | 418,054 | 489,082 |
| Total | 1,891,165 | 1,558,461 |
| Less: Allowance | (240,378) | (204,378) |
| Net inventories | \$1,650,787 | \$ 1,354,083 |

NOTE 4: STOCK OPTIONS

Stock Options – Under the 2013 Stock Incentive Plan ("2013 Plan"), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 2,500,000 shares of the Company's common stock. Under the 2013 Plan options expire ten years after the date of grant. As of August 31, 2018, there were 512,200 options outstanding under the 2013 Plan.

Under the 2003 Stock Incentive Plan, as amended ("2003 Plan"), until May 2013, options were available to be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 shares of the Company's common stock. As of August 31, 2018, there were 103,500 options outstanding under the 2003 Plan, under which no additional options may be granted.

During the six months ended August 31, 2018, 301,400 options were exercised on a cashless basis into 169,193 shares of common stock.

NOTE 5: 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 are estimated on the date of grant using the Black-Scholes options-pricing model. For the three and six months ended August 31, 2018 12,500 were issued to employees. The options vest annually over three years, have an exercise price of \$2.55 per share and expire in ten years. The options had a grant date fair value of \$0.81 per share, determined using the Black-Scholes options-pricing model with the following assumptions: expected life of 8 years, risk free interest rate of 2.68%, expected volatility of 24.82%, and expected dividend yield of 0%.

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

For the three and six months ended August 31, 2018 and 2017, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated \$7,000 and \$11,000 in additional compensation expense during the three months ended August 31, 2018 and 2017, respectively. The impact of applying ASC 718 approximated \$16,000 and \$21,000 in additional compensation expense during the six months ended August 31, 2018 and 2017, respectively. Such amounts are included in general and administrative expenses on the statement of operations. The expense for stock-based compensation is a non-cash expense item.

NOTE 6: EARNINGS PER SHARE

The denominators for the calculation of diluted earnings per share at August 31, 2018 and 2017 are calculated as follows:

| | Six Months Ended | | Three Months Ended | |
|--|--------------------|------------|--------------------|------------|
| | August 31, 2018 | 2017 | August 31, 2018 | 2017 |
| Numerator for basic and diluted earnings per share | \$80,554 | \$70,514 | \$59,124 | \$54,645 |
| Denominator for basic earnings per share – weighted average | 15,036,644 | 14,961,137 | 15,085,660 | 14,961,197 |
| Effects of dilutive securities | | | | |
| Stock options for employees, directors and outside consultants | 132,566 | 98,889 | 138,561 | 103,434 |
| Denominator for diluted earnings per share | 15,169,210 | 15,060,026 | 15,224,221 | 15,064,631 |
| Basic earnings per share | \$0.01 | \$0.00 | \$0.00 | \$0.00 |
| Diluted earnings per share | \$0.01 | \$0.00 | \$0.00 | \$0.00 |

NOTE 7: LONG TERM DEBT

Long-term debt consists of the following:

| | August 31, 2018 | February 28, 2018 |
|---|-----------------------|-------------------------|
| Note payable, bank, collateralized by land and buildings, payable in monthly installments of principal and interest of \$16,358 through January 2024 with an interest rate of 4.15% and a 10-year term. | \$949,240 | \$1,026,651 |
| Total long term debt | 949,240 | 1,026,651 |
| Due within one year | 159,404 | 156,119 |
| Due after one year | \$789,836 | \$870,532 |

NOTE 8: REVOLVING LINE OF CREDIT

The Company has a \$750,000 revolving line of credit at prime which was 5.0% at August 31, 2018. The loan is collateralized by all of the assets of the Company, except for the land and buildings. The line of credit is payable on demand and must be retired for a 30-day period, once annually. If the Company fails to perform the 30-day annual pay down or if the bank elects to terminate the credit line, the bank may, at its option, convert the outstanding balance to a 36-month term note with payments including interest in 36 equal installments. As of August 31, 2018 and February 28, 2018, the Company's outstanding balance was \$0, and the unused credit line was \$750,000.

NOTE 9: SUBSEQUENT EVENTS

The Company has evaluated subsequent events for disclosure purposes.

ITEM 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

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

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

OVERVIEW

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

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

We believe product superiority is imperative in all that we produce and that it is developed through the extensive experience we have in the coatings industry, our proprietary manufacturing know-how and skills and our unique work force we have built over the years. Our growth strategy is focused on leveraging our innovative technologies, proprietary know-how, unique talent and experience, and global reach to further develop microscopic coating technologies that enable better outcomes for our customers’ products and processes.

We are a global business with approximately 62% of our sales generated from outside the United States in the first half of fiscal 2019. Our direct sales team and our distributor and sales representative network are located in North America, Latin America, Europe and Asia. Over the last few years, we have expanded our sales capabilities by increasing the size of our direct sales force and adding new distributors and sales representatives (“reps”). Of note, we have developed demonstration labs in Asia and at our facility in New York that are used to train our distributors and reps. These labs are also very valuable for demonstrating to prospective customers the capabilities of our equipment and enable us to develop custom solutions to meet their needs.

Over the last few years, we have shifted our business from primarily selling our ultrasonic nozzles and components to a more complex business providing complete machine solutions and higher value subsystems to original equipment manufacturers (“OEMs”). The range for our average unit selling price has broadened as a result to \$50 thousand per unit to over \$240 thousand per unit. As a result, we can experience wide variations in both order flow and shipments from quarter to quarter.

Second Quarter Fiscal 2019 Highlights (compared with the second quarter of fiscal 2018 unless otherwise noted) We refer to the three-month periods ended August 31, 2018 and 2017 as the second quarter of fiscal 2019 and fiscal 2018, respectively.

Net sales were \$2,818,000, up 6% or \$164,000, driven by higher sales of highly customized, more complex systems to the Medical and Alternative Energy markets. These machines are primarily our multi-axis machines that also require advanced motion control systems developed by outsourced providers. Sales of subsystems, such as our Align solution, to original equipment manufacturers for the development of their coating equipment using our technology was strong in the quarter driven by customers in the Medical industry primarily.

Gross profit margin was 47.7% as compared to 50.0%. The decline in gross profit margin despite higher volume reflects the change in product mix from primarily ultrasonic nozzles and components to higher dollar value, but more complex, highly engineered systems that require larger outsourced hardware content.

Operating income declined to \$14,000, compared with operating income of \$90,000. Growth in revenue was offset by across-the-board increases in operating expenses, investments in research & development and sales & marketing, as well as professional expenses.

Higher interest and dividend income combined with net rental income and other income partially offset lower operating income. As a result, net income grew 7% to \$59,000 from \$55,000 in the prior-year period.

9

Backlog on August 31, 2018 was up 63% to \$2,015,000, compared with backlog of \$1,238,000 on February 28, 2018, and was up 39% from backlog of \$1,448,000 at the end of the first quarter fiscal 2019, which ended May 31, 2018. Orders can be highly variable from quarter-to-quarter resulting in large fluctuations in backlog, as product shipments are more systematically managed for both customer timing requirements and staffing management.

First Half Fiscal 2019 Highlights (compared with the first half of fiscal 2018 unless otherwise noted) We refer to the six-month periods ended August 31, 2018 and 2017 as the first half of fiscal 2019 and fiscal 2018, respectively.

Net sales were \$5,519,000, up 7% or \$365,000, driven primarily by demand from the Electronics/Microelectronics and Medical and Alternative Energy markets as the effectiveness of our efforts to provide application engineering expertise and more complete subsystems increased demand for custom-designed, higher value complex machines as well as for subsystems from original equipment manufacturers.

Gross profit margin was 47.4% as compared with 48.7%, primarily as a result of changes in product mix toward more complex machines requiring more outsourced hardware content.

Operating income declined to \$46,000, compared with \$111,000. Growth in revenue was offset by across the board increases in operating expenses, investments in research & development and sales & marketing as well as professional expenses.

Higher interest and dividend income, net rental income and other income partially offset decreased operating income. Net income increased 14% from \$71,000 to \$81,000.

Cash and marketable securities declined by \$361,000 and \$314,000, respectively, for a total of \$675,000 during the six months ended August 31, 2018. The principal reasons for this decline are an increase in accounts receivable of \$519,000 and an increase in inventories of \$332,000. The increase in accounts receivable is due to approximately 61% of the quarter's shipments occurring in August which were driven by customer scheduling requests. Inventory increased to support orders in the backlog. These uses of cash were partially offset by non-cash expenses of \$172,000 for depreciation and amortization, \$16,000 for stock based compensation expense, \$36,000 for our inventory reserve and \$130,000 as an unrealized loss on our marketable securities.

RESULTS OF OPERATIONS

Sales

Product Sales

| | Three Months Ended | | | | Six Months Ended | | | |
|-------------------------------|--------------------|--------------------|----------------|-----------|--------------------|--------------------|----------------|-----------|
| | August 31, 2018 | 2017 | Change \$ | % | August 31, 2018 | 2017 | Change \$ | % |
| Fluxing Systems | \$233,000 | \$193,000 | 40,000 | 21% | \$573,000 | \$485,000 | 88,000 | 18% |
| Integrated Coating Systems | 283,000 | 668,000 | (385,000) | (58%) | 631,000 | 1,250,000 | (619,000) | (50%) |
| Multi-Axis Coating Systems | 1,270,000 | 1,004,000 | 266,000 | 26% | 2,132,000 | 1,765,000 | 367,000 | 21% |
| OEM Systems | 520,000 | 301,000 | 219,000 | 73% | 978,000 | 611,000 | 367,000 | 60% |
| Other | 512,000 | 488,000 | 24,000 | 5% | 1,205,000 | 1,043,000 | 162,000 | 16% |
| TOTAL | \$2,818,000 | \$2,654,000 | 164,000 | 6% | \$5,519,000 | \$5,154,000 | 365,000 | 7% |

For both the first half and second quarter of fiscal 2019, sales growth was driven by higher sales of more complex, highly engineered and higher value multi-axis coating machines primarily for the Medical and Alternative Energy markets. This equipment can range from \$100 thousand to over \$240 thousand per unit and are typically ordered in one or two unit volumes. Our ability to provide subsystems and components including our custom-designed Align system, which OEMs include in their equipment, drove higher sales of this product category. Growth in these product categories more than offset the decline in integrated coating systems which primarily are for more mature applications in the Medical market and can be highly variable in order volume. Improved sales of Fluxing Systems reflect the

success of the introduction of a newly developed camera recognition system, InSight, which automatically identifies different PCBs and changes the process recipes for more precise coating results.

10

Market Sales

| | Three Months Ended | | | | Six Months Ended | | | |
|------------------------------|--------------------|-------------|-----------|-------|------------------|-------------|-----------|-------|
| | August 31, | | Change | | August 31, | | Change | |
| | 2018 | 2017 | \$ | % | 2018 | 2017 | \$ | % |
| Electronics/Microelectronics | \$687,000 | \$737,000 | (50,000) | (7%) | \$1,694,000 | \$1,713,000 | (19,000) | (1%) |
| Medical | 1,170,000 | 825,000 | 345,000 | 42% | 2,051,000 | 1,396,000 | 655,000 | 47% |
| Alternative Energy | 325,000 | 306,000 | 19,000 | 6% | 640,000 | 630,000 | 10,000 | 2% |
| Emerging R&D and Other | 30,000 | 59,000 | (29,000) | (49%) | 101,000 | 184,000 | (83,000) | (45%) |
| Industrial | 606,000 | 727,000 | (121,000) | (17%) | 1,033,000 | 1,231,000 | (198,000) | (16%) |
| TOTAL | \$2,818,000 | \$2,654,000 | 164,000 | 6% | \$5,519,000 | \$5,154,000 | 365,000 | 7% |

Use of our development laboratory by customers has recently reached record levels, which we believe demonstrates the success of our strategy to provide excellent application engineering expertise as well as paid coating services to prospects and customers to validate the capabilities of our coating technologies for their uses. These service based customers are guided by our applications engineering team, to develop successful coating processes for their unique needs. Upon achieving coating results that meet the application requirements, a sale of the needed equipment is then the next step. We believe a high level of prospects and customers that use our lab services to develop their products results in sales.

In the first half and second quarter of fiscal 2019, the Medical industry has been especially active in our labs and has resulted in growth in sales to this market. While sales to the Alternative Energy market was down for the first half due to the timing of customer delivery schedules, demand was stronger as expected in the second quarter. This market was the primary reason for the large increase in backlog for the quarter as well, and we expect that this market will see growth for the fiscal year.

Declines in sales to the Industrial and Emerging R&D/Other markets are mostly the result of variations in demand and applications from period to period.

Geographic Sales

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|--------------------|-------------|-----------|-------|------------------|-------------|-----------|-------|
| | August 31, | | Change | | August 31, | | Change | |
| | 2018 | 2017 | \$ | % | 2018 | 2017 | \$ | % |
| U.S. & Canada | \$1,068,000 | \$1,454,000 | (386,000) | (27%) | \$2,071,000 | \$2,290,000 | (219,000) | (10%) |
| Asia Pacific (APAC) | 576,000 | 225,000 | 351,000 | 156% | 1,376,000 | 1,072,000 | 304,000 | 28% |
| Europe, Middle East, Asia (EMEA) | 922,000 | 676,000 | 246,000 | 36% | 1,550,000 | 1,234,000 | 316,000 | 26% |
| Latin America | 252,000 | 299,000 | (47,000) | (16%) | 522,000 | 558,000 | (36,000) | (7%) |
| TOTAL | \$2,818,000 | \$2,654,000 | 164,000 | 6% | \$5,519,000 | \$5,154,000 | 365,000 | 7% |

In the first half of fiscal 2019, approximately 62% of sales originated outside of the United States and Canada compared with 56% in the prior year period.

In the second quarter of fiscal 2019, approximately 62% of sales originated outside of the United States and Canada compared with 45% in the prior year period.

Gross Profit:

Three Months Ended

Six Months Ended

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| | August 31, | | Change | | August 31, | | Change | |
|--------------------|-------------|-------------|---------|-----|-------------|-------------|---------|-----|
| | 2018 | 2017 | \$ | % | 2018 | 2017 | \$ | % |
| Net Sales | \$2,818,000 | \$2,654,000 | 164,000 | 6% | \$5,519,000 | \$5,154,000 | 365,000 | 7% |
| Cost of Goods Sold | 1,473,000 | 1,325,000 | 148,000 | 11% | 2,903,000 | 2,645,000 | 258,000 | 10% |
| Gross Profit | \$1,345,000 | \$1,329,000 | 16,000 | 1% | \$2,616,000 | \$2,509,000 | 107,000 | 4% |

Gross Profit % 47.7% 50.1% 47.4% 48.7%

For the second quarter of fiscal 2019, gross profit increased \$16,000, or 1%, compared with the prior-year period. Gross profit margin was 47.7% compared with 50.1% in the second quarter of fiscal 2018.

Gross profit increased \$107,000, or 4%, to \$2,616,000 for the first half of fiscal 2019 compared with \$2,509,000 in the prior year period. Gross profit margin was 47.4% compared with 48.7% for the prior year period.

The change in gross profit and margin for both the second quarter and first half of fiscal 2019 was the result of the change in product mix as well as an increase in direct labor and service department costs, which was partially offset by the benefit of higher volume.

Operating Expenses:

| | Three Months Ended | | Change | | Six Months Ended | | Change | |
|----------------------------------|--------------------|------------|--------|-----|------------------|------------|---------|----|
| | August 31, | August 31, | | | August 31, | August 31, | | |
| | 2018 | 2017 | \$ | % | 2018 | 2017 | \$ | % |
| Research and product development | \$320,000 | \$308,000 | 12,000 | 4% | \$654,000 | \$617,000 | 37,000 | 6% |
| Marketing and selling | 697,000 | 628,000 | 69,000 | 11% | 1,327,000 | 1,215,000 | 112,000 | 9% |
| General and administrative | \$314,000 | \$302,000 | 12,000 | 4% | \$589,000 | \$565,000 | 24,000 | 4% |

Research and Product Development: For the second quarter of fiscal 2019, research and development were up mostly as a result of salary expense from additional personnel. The increase was partially offset by decreases in engineering supplies and materials and depreciation expense.

For the first six months of fiscal 2019, research and product development costs increased \$37,000 from higher investments in research and development materials and supplies, and salaries, including the addition of engineering staff. These expenses were partially offset by a decrease in depreciation expense.

Marketing and Selling:

Higher marketing and selling costs for the second quarter of fiscal 2019 were related to increases in salaries, commissions, health insurance premiums and travel expense. In addition, the Company conducted international distributor training, which had not been held in the prior year. These increases were partially offset by decreases in trade show and depreciation expense.

Higher marketing and selling costs for the first half of fiscal 2019 were due to increased salaries, health insurance premiums, travel expenses and international distributor training. These increases were partially offset by decreases in trade show and depreciation expenses.

General and Administrative:

Higher general and administrative costs in the second quarter of fiscal 2019 were the result of increases in professional fees and health insurance. These increases were partially offset by lower corporate expenses, stock based compensation expense and depreciation expense.

General and administrative costs were up 4% during first half of fiscal 2019 as health insurance premiums, other corporate expenses and professional fees increased. Higher professional services costs included the services of an investor relations firm during the second quarter of the fiscal year. These increases were partially offset by decreases in stock based compensation expense and depreciation expense.

Operating Income:

Our operating income decreased \$76,000, or 84%, to \$14,000 in the second quarter of fiscal 2019 compared with \$90,000 for the prior year period. Higher gross profit was offset by the 8% increase in operating expenses. Operating margin for the first half of fiscal 2019 decreased to 0.5% compared with 3.4% in the prior year period. We continue to invest in our research and product development as well as marketing and selling activities in order to expand our future market opportunities. We expect with continued growth, we will begin to demonstrate operating leverage and improved margins.

For the first half of fiscal 2019, operating income decreased \$65,000, or 59%, to \$46,000 compared with \$111,000 for the prior year period. Higher gross profit was offset by the 7% increase in operating expenses. Operating margin for the first half of fiscal 2019 decreased to 0.8% compared with 2.1% in the prior year period. We continue to invest in our research and product development, marketing and selling activities as well as professional and other staffing to support our anticipated future market opportunities. We expect with continued growth and higher volume, we will begin to demonstrate operating leverage and improved margins.

Interest Expense:

Interest expense of \$10,000 in the second fiscal quarter of 2019 compared with \$12,000 for the prior year period. Interest expense of \$21,000 in the first half of 2019 compared with \$24,000 for the prior year period.

Interest and Dividend Income:

Interest and dividend income increased to \$37,000 in the second quarter of fiscal 2019 as compared with \$19,000 for the second quarter of fiscal 2018. Our present investment policy is to invest excess cash in highly liquid, lower risk fixed income mutual funds. At August 31, 2018, the majority of our holdings are rated at or above investment grade.

Interest and dividend income increased to \$72,000 in the first half of fiscal 2019 as compared with \$36,000 for the first half of fiscal 2018. Our present investment policy is to invest excess cash in highly liquid, lower risk fixed income mutual funds. At August 31, 2018, the majority of our holdings are rated at or above investment grade.

Net unrealized loss on marketable securities:

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

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

In the second quarter of fiscal 2018, changes in the fair value of our marketable securities were not recognized in net income, they were recorded as a component of Other Comprehensive Income. In the second quarter of fiscal 2018, the Company reported \$32,000 as an unrealized gain on marketable securities in Other Comprehensive Income.

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

In the first half of fiscal 2018, changes in the fair value of our marketable securities were not recognized in net income, they were recorded as a component of Other Comprehensive Income. In the first quarter of fiscal 2018, the company reported \$60,000 as an unrealized gain on marketable securities in Other Comprehensive Income.

Other Income:

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

For the second quarter of fiscal 2019, the Company's rental revenue was \$23,000, expenses were \$14,000 and net revenue was \$9,000. This compares with the second quarter of fiscal 2018 when rental revenue was \$21,000, expenses were \$12,000 and net revenue was \$9,000.

For the first half of fiscal 2019, the Company's rental revenue was \$41,000, expenses were \$30,000 and net revenue was \$11,000. This compares with the first half of fiscal 2018 when rental revenue was \$32,000, expenses were \$25,000 and net revenue was \$7,000.

Income Tax Expense:

We recorded income tax expense of \$7,000 for the second quarter of fiscal 2019 compared with \$44,000 for the second quarter of fiscal 2018.

We recorded income tax expense of \$25,000 for the first half of fiscal 2019 compared with \$52,000 for the first half of fiscal 2018.

Net Income:

Net income increased by \$4,000 to \$59,000 for the second quarter of fiscal 2019 compared with \$55,000 for the prior year period. Driving the increase in net income was the \$19,000 net increase in interest income and dividends and interest expense, the \$9,000 net gain on marketable securities (\$90,000 realized gain offset by \$81,000 unrealized loss), the \$15,000 increase in other income, and lower income tax expense of \$37,000, all of which combined more than offset \$76,000 in lower operating profit.

Net income increased by \$10,000 to \$81,000 for the first half of fiscal 2019 compared with \$71,000 for the prior year period. Driving the increase in net income was the \$38,000 net increase in interest income and dividends and interest expense, the \$21,000 increase in other income, and lower income tax expense of \$27,000 which combined offset \$65,000 in lower operating profit and the \$11,000 net loss on marketable securities (\$119,000 realized gain offset by \$130,000 unrealized loss).

LIQUIDITY AND CAPITAL RESOURCES

Working Capital – Our working capital increased \$30,000 from \$6,560,000 at February 28, 2018 to \$6,590,000 at August 31, 2018. The increase in working capital was mostly a result of the current periods net income and non cash charges offset by a reduction in cash used for investments in equipment and repayment of long term debt. The Company's current ratio is 4.0 to 1 at August 31, 2018 as compared with 4.08 to 1 at February 28, 2018.

At August 31, 2018, working capital included \$1,655,000 of cash and \$4,092,000 of marketable securities, for a total of \$5,747,000. At February 28, 2018, working capital included \$2,016,000 of cash and \$4,406,000 of marketable securities, for a total of \$6,422,000. Cash and marketable securities declined by \$361,000 and \$314,000, respectively, for a total of \$675,000 during the six months ended August 31, 2018. The principal reasons for this decline are an increase in accounts receivable of \$519,000 and an increase in inventories of \$332,000. The increase in accounts receivable is due to approximately 61% of the quarter's shipments occurring in August which were driven by customer scheduling requests. Inventory increased to support orders in the backlog. These uses of cash were partially offset by non-cash expenses of \$172,000 for depreciation and amortization, \$16,000 for stock based compensation expense, \$36,000 for our inventory reserve and \$130,000 as an unrealized loss on our marketable securities.

Stockholders' Equity – Stockholder's Equity increased \$97,000 from \$8,393,000 at February 28, 2018 to \$8,490,000 at August 31, 2018. The increase is a result of the current period's net income of \$81,000 and stock based compensation expense of \$16,000.

Operating Activities – We used \$308,000 of cash in our operating activities in the first half of fiscal 2019 compared with our operating activities providing \$1,062,000 in the first half of fiscal 2018. During the first half of fiscal 2019, we had net income of \$81,000, accounts receivable increased \$519,000, inventories increased \$334,000, prepaid expenses decreased \$25,000, accounts payable and accrued expenses increased \$72,000, customer deposits increased \$89,000 and income taxes payable decreased \$76,000. The increase in our accounts receivable is due to a large number of orders being shipped in the last month of the quarter to accommodate customer scheduling requests. In addition, in the current period we incurred non-cash expenses of \$172,000 for depreciation and amortization, \$16,000 for stock based compensation expense, \$36,000 for our inventory reserve and \$130,000 as an unrealized loss on our marketable securities.

Investing Activities – For the first half of fiscal 2019, cash provided by investing activities was \$24,000 as compared with using \$1,185,000 of cash for the first half of fiscal 2018. For the first halves of fiscal years 2019 and 2018, we used \$160,000 and \$43,000, respectively, for the purchase or manufacture of equipment, furnishings and leasehold improvements. For the first half of 2019 our marketable securities provided \$184,000 and we used \$1,142,000 in the first half of 2018.

Financing Activities – In the first halves of fiscal years 2019 and 2018, we used \$77,000 and \$74,000, respectively, for the repayment of our note payable.

Net (Decrease) in Cash – In the first half of fiscal 2019 our cash balance decreased by \$361,000 as compared to a decrease of \$197,000 in the first half of 2018. In the first half of fiscal 2019, we used \$308,000 in our operations. In addition, we used \$160,000 for the purchase or manufacture of equipment, furnishings and leasehold improvements, received \$184,000 from the sale of marketable securities and used \$77,000 for the repayment of our notes payable.

CRITICAL ACCOUNTING POLICIES

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

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and may potentially result in materially different results under different assumptions and conditions. The Company believes that critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies see Note 2 to the Company's consolidated financial statements included in Form 10-K for the year ended February 28, 2018.

Accounting for Income Taxes

As part of the process of preparing the Company's condensed consolidated financial statements, the Company is required to estimate its income taxes. Management judgment is required in determining the provision for the deferred tax asset.

Stock-Based Compensation

The computation of the expense associated with stock-based compensation requires the use of a valuation model. ASC 718 is a complex accounting standard, the application of which requires significant judgment and the use of estimates, particularly surrounding Black-Scholes assumptions such as stock price volatility, expected option lives, and expected option forfeiture rates, to value equity-based compensation. The Company currently uses a Black-Scholes option pricing model to calculate the fair value of its stock options. The Company primarily uses historical data to determine the assumptions to be used in the Black-Scholes model and has no reason to believe that future data is likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility and future stock award exercise experience could result in a change in the assumptions used to value awards in the future and

may result in a material change to the fair value calculation of stock-based awards. ASC 718 requires the recognition of the fair value of stock compensation in net income. Although every effort is made to ensure the accuracy of our estimates and assumptions, significant unanticipated changes in those estimates, interpretations and assumptions may result in recording stock option expense that may materially impact our financial statements for each respective reporting period.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

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

ITEM 3 - Quantitative and Qualitative Disclosures about Market Risk

The Company does not issue or invest in financial instruments or derivatives for trading or speculative purposes. Substantially all of the operations of the Company are conducted in the United States, and, as such, are not subject to material foreign currency exchange rate risk. All of our sales transactions are completed in US dollars.

Although the Company's assets included \$1,655,000 in cash and \$4,092,000 in marketable securities, the market rate risk associated with changing interest rates in the United States is not material.

ITEM 4 – Controls and Procedures

The Company has established and maintains “disclosure controls and procedures” (as those terms are defined in Rules 13a –15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the “Exchange Act”). Christopher L. Coccio, Chief Executive Officer (principal executive) and Stephen J. Bagley, Chief Financial Officer (principal accounting officer) of the Company, have evaluated the Company’s disclosure controls and procedures as of August 31, 2018. Based on this evaluation, they have concluded that the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to Management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding timely disclosure.

In addition, there were no changes in the Company’s internal controls over financial reporting during the second fiscal quarter of 2019 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Note Required for Smaller Reporting Companies

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits and Reports

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

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

101.INS – XBRL Instance Document.

101.SCH – XBRL Taxonomy Extension Schema Document

101.CAL – XBRL Taxonomy Calculation Linkbase Document

101.DEF – XBRL Taxonomy Extension Definition Linkbase Document

101.LAB – XBRL Extension Label Linkbase Document

101.PRE – XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Dated: October 15, 2018

SONO-TEK CORPORATION
(Registrant)

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

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