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SONO TEK CORP
Form 10QSB
July 14, 2005

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

FORM 10-QSB

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

For the quarterly period ended: May 31, 2005

OR

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

Commission File No.: 0-16035

SONO-TEK CORPORATION
(Exact name of small business issuer as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

14-1568099
(IRS Employer
Identification No.)

2012 Rt. 9W, Milton, NY 12547
(Address of Principal Executive Offices) (Zip Code)

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

Indicate by check mark whether the small business 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 small business issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class -----	Outstanding as of July 8, 2005 -----
Common Stock, par value \$.01 per share	14,168,497

SONO-TEK CORPORATION

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SONO-TEK CORPORATION CONSOLIDATED BALANCE SHEETS

ASSETS	May 31, 2005 Unaudited -----	February 28, 2005 Audited -----
Current Assets		
Cash and cash equivalents	\$ 591,803	\$ 421,043
Accounts receivable (less allowance of \$20,942 and \$18,123 at May 31 and February 28, respectively)	1,009,359	813,703
Inventories	1,417,118	1,338,410
Prepaid expenses and other current assets	61,875	111,714
Deferred tax asset	117,000	117,000
	-----	-----
Total current assets	3,197,155	2,801,870
	-----	-----
Equipment, furnishings and leasehold improvements (less accumulated depreciation of \$735,478 and \$720,386 at May 31 and February 28, respectively)	198,813	140,133
Intangible assets, net	21,805	22,894
Other assets	7,171	7,171
Deferred tax asset	468,000	468,000
	-----	-----
TOTAL ASSETS	\$ 3,892,944 =====	\$ 3,440,068 =====
 LIABILITIES AND STOCKHOLDERS' EQUITY 		
Current Liabilities:		
Accounts payable	\$ 245,360	\$ 292,729
Accrued expenses	464,018	491,828
Line of Credit	0	350,000
Current maturities of long term debt	7,442	0

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Total current liabilities	716,820	1,134,557
Long term debt, less current maturities	33,765	0
Total liabilities	750,585	1,134,557
Stockholders' Equity		
Common stock, \$.01 par value; 25,000,000 shares authorized, 14,168,497 and 13,825,640 shares issued and outstanding at May 31 and February 28, respectively	141,686	138,257
Additional paid-in capital	7,975,254	7,371,233
Stock Subscriptions	(15,750)	(15,750)
Accumulated deficit	(4,958,831)	(5,188,229)
Total stockholders' equity	3,142,359	2,305,511
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,892,944	\$ 3,440,068

See notes to consolidated financial statements.

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SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended May 31,	
	Unaudited	
	2005	2004
Net Sales	\$ 1,832,364	\$ 1,206,432
Cost of Goods Sold	944,278	529,496
Gross Profit	888,086	676,936
Operating Expenses		
Research and product development costs	145,773	96,136
Marketing and selling expenses	311,558	234,353
General and administrative costs	199,293	183,876
Total Operating Expenses	656,624	514,365
Operating Income	231,462	162,572
Interest Expense	(2,761)	(31,360)
Interest and Other Income	947	3,399
Income from Operations Before Income Taxes	229,648	134,610
Income Tax Expense	(250)	0

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Net Income	\$ 229,398	\$ 134,610
Basic Earnings Per Share	\$ 0.02	\$ 0.01
Diluted Earnings Per Share	\$ 0.02	\$ 0.01
Weighted Average Shares - Basic	13,952,488	10,853,471
Weighted Average Shares - Diluted	14,386,259	12,973,240

See notes to consolidated financial statements.

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SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended May 31, Unaudited	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 229,398	\$ 134,610
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,181	10,995
Provision for doubtful accounts	2,819	3,000
Decrease (Increase) in:		
Accounts receivable	(198,475)	135,518
Inventories	(78,708)	(202,831)
Prepaid expenses and other current assets	49,839	33,841
Decreases in:		
Accounts payable and accrued expenses	(75,178)	(594)
Net Cash (Used In) Provided By Operating Activities	(54,124)	114,539
CASH FLOWS FROM INVESTING ACTIVITIES:		
Patent Application Costs	--	(346)
Purchase of equipment and furnishings	(73,772)	(5,777)
Other	--	(630)
Net Cash Used In Investing Activities	(73,772)	(6,753)
CASH FLOWS FROM FINANCING ACTIVITIES:		

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Line of Credit Repayment	(350,000)	--
Proceeds from exercise of stock options and warrants	285,723	28,756
Proceeds from issuance of stock	321,727	--
Conversion of debt to equity	--	20,636
Loan payments/exchanges	--	(20,636)
Proceeds (Repayments) of notes payable	41,206	(7,182)
	-----	-----
Net Cash Provided By Financing Activities	298,656	21,574
	-----	-----
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 170,760	 129,360
 CASH AND CASH EQUIVALENTS		
Beginning of period	421,043	189,987
	-----	-----
End of period	\$ 591,803	\$ 319,347
	=====	=====
 SUPPLEMENTAL DISCLOSURE:		
Interest paid	\$ 2,761	\$ 23,120
	=====	=====
Income taxes paid	\$ 753	\$ 0
	=====	=====

See notes to consolidated financial statements.

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SONO-TEK CORPORATION
Notes to Consolidated Financial Statements
Three Months Ended May 31, 2005 and 2004

NOTE 1: 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") that the Company acquired on August 3, 1999. SCS is a non-operating entity. All significant intercompany accounts and transactions are eliminated in consolidation.

Interim Reporting - The attached summary 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, 2005, and included in its report on Form 10-KSB. Such statements should be read in conjunction with the data herein.

The financial information reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The results for such interim periods are not necessarily indicative of the results to be expected for the year.

Stock-Based Employee Compensation - The Company accounts for stock-based compensation plans utilizing the provisions of Accounting Principles Board

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Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and the Financial Accounting Statement of Financial Accounting Standards No. 123 and No. 148 (SFAS 123 and SFAS 148), "Accounting for Stock-Based Compensation". Under SFAS 123, the Company will continue to apply the provisions of APB 25 to its stock-based employee compensation arrangements, and is only required to supplement its financial statements with additional pro-forma disclosures. The Company has elected to provide the related pro-forma disclosures utilizing an intrinsic value method of accounting for such stock based compensation.

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for the 2003 and 1993 Plans. Had compensation cost for the Company's stock option plan been determined based on the intrinsic value at the option grant dates for awards in accordance with the accounting provisions of SFAS 123, the Company's net income and basic and diluted earnings per share for the three month periods ended May 31, 2005 and 2004 would have been changed to the pro forma amounts indicated below:

	Three Months Ended May 31,	
	2005	2004
	----	----
Net income:		
As reported	\$229,398	\$134,610
Deduct: Total stock based employee compensation under intrinsic value based method for all awards, net of tax effects	53,111	8,999
	-----	-----
Pro forma net income (loss)	\$176,287	\$125,611
	=====	=====
 Basic and diluted earnings per share:		
As reported	\$ 0.02	\$ 0.01
Pro-forma	\$ 0.01	\$ 0.01

Intangible Assets - Include cost of patent applications that are deferred and charged to operations over seventeen years for domestic patents and twelve years for foreign patents. The accumulated amortization is \$46,576 and \$45,488 at May 31, 2005 and February 28, 2005, respectively.

Reclassifications - Certain reclassifications have been made to the prior period to conform with the presentations of the current period.

NOTE 2: INVENTORIES

Inventories at May 31, 2005 are comprised of:

Finished goods	\$ 505,671
Work in process	546,072
Consignment	9,305
Raw materials and subassemblies	616,320

Total	1,677,368
Less: Allowance	(260,250)

Net inventories	\$ 1,417,118
	=====

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NOTE 3: EQUITY TRANSACTIONS

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, a warrant for 142,857 shares of the Company's common stock was exercised at \$1.75 per share by Empire State Development Corporation, Small Business Technology Investment Fund.

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NOTE 4: STOCK OPTIONS AND WARRANTS

Stock Options - 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 Stock Incentive Plan (the "1993 Plan"), under which no further options may be granted. Options granted under the 1993 Plan expire on various dates through 2013. As of May 31, 2005 there were 152,062 options outstanding under the 1993 Plan and 749,000 options outstanding under the 2003 plan.

Under both the 1993 and 2003 Stock Incentive Plans, 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 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 terminating at a stipulated period of time after an employee's termination of employment.

Warrants - On May 11, 2005, a warrant for 142,857 shares of the Company's common stock was exercised at \$1.75 per share by Empire State Development Corporation, Small Business Technology Investment Fund.

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NOTE 5: EARNINGS PER SHARE

The denominator for the calculation of diluted earnings per share at May 31, 2005 and 2004 are calculated as follows:

	May 31, 2005	May 31, 2004
	-----	-----
Denominator for basic earnings per share	13,952,488	10,853,471
Dilutive effect of warrants	51,888	1,940,209
Dilutive effect of stock options	381,883	179,560
	-----	-----
Denominator for diluted earnings per share	14,386,259	12,973,240
	=====	=====

NOTE 6: NEW ACCOUNTING DEVELOPMENTS

FASB 123 (revised 2004) - Share-Based Payments

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In December 2004, the FASB issued a revision to FASB Statement No. 123, Accounting for Stock Based Compensation. This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, Employers' Accounting for Employee Stock Ownership Plans.

A nonpublic entity will measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of those instruments, except in certain circumstances.

A public entity will initially measure the cost of employee services received in exchange for an award of liability instruments based on its current fair value; the fair value of that award will be re-measured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. A nonpublic entity may elect to measure its liability awards at their intrinsic value through the date of settlement.

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The grant-date fair value of employee share options and similar instruments will be estimated using the option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available).

Excess tax benefits, as defined by this Statement, will be recognized as an addition to paid-in-capital. Cash retained as a result of those excess tax benefits will be presented in the statement of cash flows as financing cash inflows. The write-off of deferred tax assets relating to unrealized tax benefits associated with recognized compensation cost will be recognized as income tax expense unless there are excess tax benefits from previous awards remaining in paid-in capital to which it can be offset.

The notes to the financial statements of both public and nonpublic entities will disclose information to assist users of financial information to understand the nature of share-based payment transactions and the effects of those transactions on the financial statements.

For public entities that file as small business issuers the effective date will be as of the beginning of the first interim or annual reporting period that begins after December 15, 2005, Management intends to comply with this Statement at the scheduled effective date for the relevant financial statements of the Company.

NOTE 7: SUBSEQUENT EVENTS

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As previously disclosed 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 time. The Company has previously expensed substantially all of the misappropriated funds and the net effect on the Company's results for the quarter ended May 31, 2005 is approximately \$18,000.

As of July 5, 2005, the Company had pursued appropriate remedies to recover the majority of the funds, and is proceeding to do so. However, the Company can offer no assurance that it will be successful in its efforts to collect some or all of the anticipated remaining restitution according to the negotiated schedule of payments.

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SONO-TEK CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Forward-Looking Statements

Certain statements made in this report may constitute "forward-looking statements" within the meaning of the Federal Securities Laws. Such forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, the following:

- The Company's ability to respond to competition in its markets;
- General economic conditions in the Company's markets.

The Company undertakes no obligation to update publicly any forward-looking statement.

Overview

Sono-Tek has developed a unique and proprietary series of ultrasonic atomization 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.

The Company has a well established position in the electronics industry with its 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 lower 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. The electronics industry market appears to be in a stable to moderate growth period.

In the past two years, the Company has focused engineering resources on the medical device market, with emphasis on providing coating solutions for the new

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generation of drug coated stents. The Company has sold many specialized ultrasonic nozzles and AccuMist(TM) and Micromist stent coating systems to large pharmaceutical and 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. The Company sells 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. The Company is licensed to use a unique patented vacuum-based ultrasonic system capable of uniformly coating batches of stents with anti-restenosis coatings, and has offered this technology to selected manufacturers.

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The Company also committed engineering resources to develop a general industrial coating product, the WideTrack coating system, which is finding increasing applications in the glass, food and textile manufacturing industries. The WideTrack is saving customers money by reducing the use of materials and lessening the environmental impact by significantly reducing overspray, which is common with other types of coating systems.

In conclusion, the Company's sales levels have increased as the result of an improved economy, product development efforts, related marketing thrusts and international expansion which have had the effects of improving net income, reducing debt, and increasing shareholders' equity.

Liquidity and Capital Resources

The Company's working capital increased \$813,022 from a working capital of \$1,667,313 at February 28, 2005 to \$2,480,335 at May 31, 2005. The Company's current ratio is 4.46 to 1 at May 31, 2005 as compared to 2.47 to 1 at February 28, 2005. Stockholders' equity increased \$836,848 from \$2,305,511 at February 28, 2005 to \$3,142,359 at May 31, 2005. The increase in stockholders' equity was the result of the net profit of \$229,000 for the three months ended May 31, 2005, warrant exercises of \$286,000 and stock issuance of \$322,000.

Inventory increased \$79,000 from \$ 1,338,000 to \$1,417,000 as the result of diversification of the Company's product lines.

The Company repaid \$350,000 of its \$500,000 revolving credit line with M&T bank on April 12, 2005. The Company has no outstanding borrowings under this line as of July 8, 2005.

Results of Operations

For the three months ended May 31, 2005, the Company's sales increased \$626,000 or 52% to \$1,832,000 as compared to \$1,206,000 for the three months ended May 31, 2004. The increase was principally the result of sales of new products, such as stent coaters, SonoDry spray dryers, WideTrack systems and the expansion into new geographical markets.

The Company's gross profit increased \$211,000 to \$888,000 for the three months ended May 31, 2005 from \$677,000 for the three months ended May 31, 2004. The gross profit margin was 48.5% of sales for the three months ended May 31, 2005 as compared to 56.1% of sales for the three months ended May 31, 2004. The changes in gross margin occurred due to a changing mix of products in each period.

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Research and product development costs increased \$50,000 to \$146,000 for the three months ended May 31, 2005 from \$96,000 for the three months ended May 31, 2004. The increase was principally due to an increase in engineering personnel and increased purchases of research and development materials in the current period.

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Marketing and selling costs increased \$77,000 to \$312,000 for the three months ended May 31, 2005 from \$234,000 for the three months ended May 31, 2004. The increase was due principally to increased commissions, increased travel expenses, increased salaries and fringe benefit costs.

General and administrative costs increased \$15,000 to \$199,000 for the three months ended May 31, 2005 from \$184,000 for the three months ended May 31, 2004. The increase was due principally to increased salaries and fringe benefit costs.

Interest expense decreased \$29,000 to \$3,000 for the three months ended May 31, 2005 from \$32,000 for the three months ended May 31, 2004. The decrease is primarily due to reduced interest and amortization on the Norwood loans and reduced interest on related party and bank loans.

The Company's net income was \$229,000 for the three months ended May 31, 2005 as compared to \$135,000 for three months ended May 31, 2004. The increase is primarily due to an increase in sales of \$626,000 or 52% to \$1,832,000 as compared to \$1,206,000 for the three months ended May 31, 2004.

The Company's backlog of firm orders was \$512,000 at May 31, 2005. All of these orders are deliverable before the end of the Company's current fiscal year, which is February 28, 2006.

As previously disclosed on Form 8-K, filed on July 5, 2005, the Company determined that a former employee had misappropriated Company monies, primarily through unauthorized check writing from Company accounts over a period of time. The Company has previously expensed these monies and the net effect on the Company's results for the quarter ended May 31, 2005 is approximately \$18,000. The current effect of this misappropriation was an increase in Marketing and Selling costs of approximately \$15,000 and an increase in General and Administrative costs of approximately \$3,000.

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 the one described below. For a detailed discussion on the application of this and other accounting policies see note 2 to the Company's consolidated financial statements included in Form 10-KSB for the year ended February 29, 2005.

Accounting for Income Taxes

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

Impact of New Accounting Pronouncements

FASB 123 (revised 2004) - Share-Based Payments

In December 2004, the FASB issued a revision to FASB Statement No. 123, Accounting for Stock Based Compensation. This Statement supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, Employers' Accounting for Employee Stock Ownership Plans.

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The grant-date fair value of employee share options and similar instruments will be estimated using the option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available).

Excess tax benefits, as defined by this Statement, will be recognized as an

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addition to paid-in-capital. Cash retained as a result of those excess tax benefits will be presented in the statement of cash flows as financing cash inflows. The write-off of deferred tax assets relating to unrealized tax benefits associated with recognized compensation cost will be recognized as income tax expense unless there are excess tax benefits from previous awards remaining in paid-in capital to which it can be offset.

The notes to the financial statements of both public and nonpublic entities will disclose information to assist users of financial information to understand the nature of share-based payment transactions and the effects of those transactions on the financial statements.

For public entities that file as small business issuers the effective date will be as of the beginning of the first interim or annual reporting period that begins after December 15, 2005, Management intends to comply with this Statement at the scheduled effective date for the relevant financial statements of the Company.

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SONO-TEK CORPORATION CONTROLS AND PROCEDURES

The Company has established and maintains "disclosure controls and procedures" (as those terms are defined in Rules 13a -14(c) and 15d- 14(c) under the Securities and Exchange Act of 1934 (the "Exchange Act"). Christopher L. Coccio, Chief Executive Officer and President (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 May 31, 2005. Except as set forth below, based on this evaluation, they have concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms.

As previously disclosed on Form 8-K, filed on July 5, 2005, the Company determined that a former employee had misappropriated Company monies, primarily through unauthorized check writing from Company accounts over a period of time. In response, the Company has taken steps to improve its internal controls to minimize the risk of recurrence. The steps include the expansion of the accounting department, thus enabling a greater segregation of duties. All cash disbursements are subject to increased review and scrutiny. The Company's payroll is now prepared by an employee with no check writing authority.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

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

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. Such shares

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and warrants were issued in reliance of the exemption of Section 4(2) of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports

(a) Exhibits

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.

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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: July 14, 2005

SONO-TEK CORPORATION
(Registrant)

/s/ Christopher L. Coccio

By: _____
Christopher L. Coccio
Chief Executive Officer and President

/s/ Stephen J. Bagley

By: _____
Stephen J. Bagley
Chief Financial Officer

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