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SONO TEK CORP
Form 10QSB
January 11, 2008

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: November 30, 2007

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

14-1568099

(State or other jurisdiction of
incorporation or organization)

(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

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:

Class	Outstanding as of January 8, 2008
-----	-----
Common Stock, par value \$.01 per share	14,360,541

SONO-TEK CORPORATION

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SONO-TEK CORPORATION CONSOLIDATED BALANCE SHEETS

	November 30, 2007 Unaudited	February 28, 2007
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,952,627	\$ 2,268,976
Accounts receivable (less allowance of \$18,500 at November 30 and February 28, respectively)	945,806	946,833
Inventories	1,581,754	1,406,231
Prepaid expenses and other current assets	55,114	69,107
Deferred tax asset	270,000	270,000
Total current assets	----- 4,805,302	----- 4,961,147
Equipment, furnishings and leasehold improvements (less accumulated depreciation of \$1,000,249 and \$896,773 at November 30 and February 28, respectively)	338,872	301,360
Intangible assets, net	27,641	30,744
Other assets	7,171	7,171
Deferred tax asset	446,239	411,239
TOTAL ASSETS	----- \$ 5,625,225	----- \$ 5,711,661
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

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Current Liabilities:			
Accounts payable	\$	230,068	\$ 209,202
Accrued expenses		305,581	476,140
Current maturities of long term debt		26,585	27,373
Deferred tax liability		16,239	16,239
		-----	-----
Total current liabilities		578,473	728,954
Long term debt, less current maturities		31,852	51,506
Deferred tax liability		80,000	80,000
		-----	-----
Total liabilities		690,325	860,460
		-----	-----
Commitments and Contingencies		--	--
Stockholders' Equity			
Common stock, \$.01 par value; 25,000,000 shares authorized, 14,360,541 shares issued and outstanding at November 30 and February 28		143,606	143,606
Additional paid-in capital		8,336,368	8,308,301
Accumulated deficit		(3,545,074)	(3,600,706)
		-----	-----
Total stockholders' equity		4,934,900	4,851,201
		-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	5,625,225	\$ 5,711,661
		=====	=====

See notes to consolidated financial statements.

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SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Nine Months Ended November 30, Unaudited		Three Months Ended N Unaudited	
	2007	2006	2007	
	-----	-----	-----	-----
Net Sales	\$ 4,207,724	\$ 5,239,698	\$ 1,560,558	\$
Cost of Goods Sold	2,256,956	2,624,967	869,071	
	-----	-----	-----	-----
Gross Profit	1,950,768	2,614,731	691,487	
	-----	-----	-----	-----
Operating Expenses				
Research and product development costs	617,652	596,624	184,824	
Marketing and selling expenses	755,662	965,940	261,576	
General and administrative costs	626,881	629,188	241,570	
	-----	-----	-----	-----
Total Operating Expenses	2,000,194	2,191,752	687,970	
	-----	-----	-----	-----

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Operating (Loss) Income	(49,426)	422,979	3,517
Interest Expense	(3,394)	(4,834)	(1,017)
Interest Income	66,030	49,254	18,201
Other Income	8,609	8,692	2,948
	-----	-----	-----
Income from Operations Before Income Taxes	21,819	476,091	23,649
Income Tax Expense (Benefit)	(33,813)	3,281	0
	-----	-----	-----
Net Income	\$ 55,632	\$ 472,810	\$ 23,649
	=====	=====	=====
Basic Earnings Per Share	\$ 0.00	\$ 0.03	\$ 0.00
	=====	=====	=====
Diluted Earnings Per Share	\$ 0.00	\$ 0.03	\$ 0.00
	=====	=====	=====
Weighted Average Shares - Basic	14,360,541	14,359,738	14,360,541
	=====	=====	=====
Weighted Average Shares - Diluted	14,412,523	14,456,780	14,409,178
	=====	=====	=====

See notes to consolidated financial statements.

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SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended November	
	2007	2006
	Unaudited	
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 55,632	\$ 47,810
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	106,580	8,692
Provision for doubtful accounts	--	--
Stock based compensation expense	28,067	4,834
Gain on sale of equipment	--	1,017
Decrease (Increase) in:		
Accounts receivable	1,027	8,609
Inventories	(175,523)	--
Prepaid expenses and other current assets	13,993	--
Deferred tax asset	(35,000)	--
(Decrease) Increase in:		
Accounts payable and accrued expenses	(149,694)	(7,834)

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Net Cash (Used In) Provided By Operating Activities	(154,918)	63
CASH FLOW FROM INVESTING ACTIVITIES:		
Patent Application Costs	--	(
Purchase of equipment and furnishings	(140,989)	(20
Net Cash (Used In) Investing Activities	(140,989)	(21
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options and warrants	--	
Repayments of notes payable and loans	(20,442)	(1
Net Cash Provided by (Used In) Financing Activities	(20,442)	(1
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(316,349)	40
CASH AND CASH EQUIVALENTS		
Beginning of period	2,268,976	1,74
End of period	\$ 1,952,627	\$ 2,14
SUPPLEMENTAL DISCLOSURE:		
Interest paid	\$ 3,394	\$

See notes to consolidated financial statements.

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SONO-TEK CORPORATION
Notes to Consolidated Financial Statements
Nine Months Ended November 30, 2007 and 2006

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") which the Company acquired on August 3, 1999, whose operations have been discontinued. There have been no operations of this subsidiary since Fiscal Year Ended February 28, 2002. All significant intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents - Cash and cash equivalents consist of money market mutual funds, short term commercial paper and short term certificates of deposit with original maturities of 90 days or less. The Company occasionally has cash or cash equivalents on hand in excess of the \$100,000 insurable limits at a given bank.

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

Interim Reporting - The attached summary consolidated financial information does

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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, 2007, 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, 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.

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 \$57,452 and \$54,350 at November 30, 2007 and February 28, 2007, respectively. Annual amortization expense of such intangible assets is expected to be \$4,272 per year for the next five years.

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NOTE 2: INVENTORIES

Inventories at November 30, 2007 are comprised of:

Finished goods	\$ 769,103
Work in process	459,277
Consignment	9,770
Raw materials and subassemblies	556,802

Total	1,794,952
Less: Allowance	(213,198)

Net inventories	\$1,581,754
	=====

NOTE 3: 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 November 30, 2007, there were 111,500 options outstanding under the 1993 Plan and 904,875 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

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employee's termination of employment.

NOTE 4: STOCK BASED COMPENSATION

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

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

	2007	2006
Expected life	4 years	4 years
Risk free interest rate	4.01% - 5.07%	4% - 4.25%
Expected volatility	39% - 78%	40%
Expected dividend yield	0%	0%

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

For the nine months ended November 30, 2007 and 2006, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying SFAS 123R approximated \$28,067 and \$49,958 in additional compensation expense during the nine months ended November 30, 2007 and 2006, respectively. Such amount is included in general and administrative expenses on the statement of operations. The expense for stock-based compensation is a non-cash expense item.

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NOTE 5: EARNINGS PER SHARE

The denominator for the calculation of diluted earnings per share at November 30, 2007 and 2006 are calculated as follows:

November 30, 2007 November 30, 2006

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Denominator for basic earnings per share	14,360,541	14,359,738
Dilutive effect of stock options	51,982	97,042
Denominator for diluted earnings per share	14,412,523	14,456,780

NOTE 6: OTHER INCOME

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 three calendar years. The Company had previously expensed substantially all of the misappropriated funds over the years.

The Company has recovered approximately 70% of these funds to date. The Company has a note that is being paid down by the former employee. As previously discussed, the Company can offer no assurances that it will be successful in its attempts to collect the balance of the remaining restitution.

SONO-TEK CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Forward-Looking Statements

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

We undertake no obligation to update 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.

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We have a well established position in the electronics industry with our SonoFlux spray fluxing equipment. It saves customers from 40% to 80% of the liquid flux required to solder printed circuit boards over more labor intensive methods, such as foam fluxing. Less flux equates to 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 amount of rework.

In the past three years, we have focused engineering resources on the medical device market, with emphasis on providing coating solutions for the new generation of drug coated stents. We have sold a significant number of specialized ultrasonic nozzles and MediCoat stent coating systems to large medical device customers. Sono-Tek's stent coating systems are superior compared to pressure nozzles in their ability to uniformly coat the very small arterial stents without creating webs or gaps in the coatings. We also sell a bench-top, fully outfitted stent coating system to a wide range of customers that are manufacturing stents and/or applying coatings to be used in developmental trials. We have also recently introduced and have received our first order for our Medicoat II multi-stent coating system, the first system of its type in the industry to our knowledge. With our success in the medical device market, we have demonstrated that we can grow new markets by developing new applications with our technology.

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We have also committed engineering resources to the development of the WideTrack coating system, a broad based platform for applying a variety of coatings to moving webs of glass, textiles, plastic, metal, food products and packaging materials. The WideTrack is a long term product and market development effort. Thus far, we have made successful inroads with WideTrack systems into the glass, medical textile (bandages) and solar and fuel cell industries. The WideTrack system has also recently been extended to cover applications in the food industry, a new area of focus for the Company. We have submitted a patent application for this new product application, and have been actively marketing this product to the food industry. We believe there is an excellent fit between the food industry and our spraying and coating technology.

Our new product offering, the SonoDry ultrasonic spray dryer, has shown great potential since its introduction earlier this year. The product has been well received and we have sold and shipped a number of these units in this new ultrasonic application field. The SonoDry series of spray dryers is of particular importance to product and process developers in the following industries: Pharmaceuticals (e.g. for drug actives and intermediates, enzymes and low molecular weight proteins), Foods (e.g. for nutraceuticals, herbal extracts and flavors) and Specialty Chemicals (e.g. for fragrances, cosmetics ingredients and nano-scale particles).

During the third quarter, the Company experienced an increase in its sales over the first and second quarters of this year. We believe this improving trend is related to our new business development program which was implemented this fiscal year. We continue to use current income for product and market development, believing it to be well justified for the future growth of the Company.

Liquidity and Capital Resources

Working Capital - Our working capital decreased \$5,000 to \$4,227,000 at November 30, 2007 from a working capital of \$4,232,000 at February 28, 2007. The Company's current ratio is 8.3 to 1 at November 30, 2007 as compared to 6.8 to 1 at February 28, 2007.

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Stockholders' Equity - Stockholder's Equity increased \$84,000 from \$4,851,000 at February 28, 2007 to \$4,935,000 at November 30, 2007. The increase is the result of net income of \$56,000 and an adjustment for stock based compensation expense of \$28,000.

Operating Activities - We used \$155,000 in our operating activities during the nine months ended November 30, 2007, a decrease of \$793,000 when compared to the nine months ended November 30, 2006. The decrease is primarily a result of a decrease in net income for the current period combined with an increase in inventory and a decrease in accounts payable and accrued expenses.

Investing Activities - We used \$141,000 for the purchase of capital equipment during the nine months ended November 30, 2007 compared to the use of \$210,000 during the nine months ended November 30, 2006.

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Financing Activities - For the nine months ended November 30, 2007, we used \$20,000 for the repayment of our notes payable. For the nine months ended November 30, 2006, we used \$16,500 in financing activities resulting from the repayment of notes payable of \$19,000 and the proceeds of stock option exercises of \$2,500.

Results of Operations

During the nine month period ended November 30, 2007, our sales decreased \$1,032,000 or 20% to \$4,208,000 as compared to \$5,240,000 for the nine months ended November 30, 2006. For the three months ended November 30, 2007, our sales decreased \$63,000 or 4% to \$1,561,000 as compared to \$1,624,000 for the three months ended November 30, 2006. During the nine month period ended November 30, 2007, we continued to see a decrease in sales of both fluxer units and nozzles when compared to the nine month period ended November 30, 2006. The decrease in sales of these units was partially offset by sales of our Spray Dryer units, EVS Systems used for solder recovery and our programmable XYZ precision coating units.

Our gross profit decreased \$664,000 to \$1,951,000 for the nine months ended November 30, 2007 from \$2,615,000 for the nine months ended November 30, 2006. The gross profit margin was 46% of sales for the nine months ended November 30, 2007 as compared to 50% of sales for the nine months ended November 30, 2006. Our gross profit decreased \$120,000 to \$691,000 for the three months ended November 30, 2007 as compared to \$811,000 for the three months ended November 30, 2006. The gross profit margin was 44% of sales for the three months ended November 30, 2007 as compared to 50% of sales for the three months ended November 30, 2006. The decrease in the gross profit margin is due to the mix of products sold in the current quarter.

Research and product development costs increased \$21,000 to \$618,000 for the nine months ended November 30, 2007 from \$597,000 for the nine months ended November 30, 2006. The increase during the nine month period is due to increased engineering personnel and related fringes. For the three months ended November 30, 2007, research and product development costs decreased \$34,000 to \$185,000 from \$219,000 for the three months ended November 30, 2006. The decrease during the three month period is due to decreased supplies, consulting fees and payroll expense.

Marketing and selling costs decreased \$210,000 to \$756,000 for the nine months ended November 30, 2007 from \$966,000 for the nine months ended November 30, 2006 and \$44,000 to \$262,000 for the three months ended November 30, 2007 from

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\$306,000 for the three months ended November 30, 2006. The decrease was due to decreased salaries, commissions and travel expenses.

General and administrative costs decreased \$2,000 to \$627,000 for the nine months ended November 30, 2007 from \$629,000 for the nine months ended November 30, 2006 and increased \$52,000 to \$242,000 for the three months ended November 30, 2007 from \$190,000 for the three months ended November 30, 2006. The increase is primarily due to an increase in salaries.

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Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations are based upon the 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-KSB for the year ended February 28, 2007.

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. The Company reduced the valuation reserve for the deferred tax asset resulting from the net operating losses carried forward due to the Company having demonstrated consistent profitable operations. In the event that actual results differ from these estimates, the Company may need to again adjust such valuation reserve.

Stock-Based Compensation

The computation of the expense associated with stock-based compensation requires the use of a valuation model. SFAS 123(R) is a new and very complex accounting standard, the application of which requires significant judgment and the use of estimates, particularly surrounding Black-Scholes assumptions such as stock price volatility, expected option lives, and expected option forfeiture rates, to value equity-based compensation. We currently use a Black-Scholes option pricing model to calculate the fair value of stock options. We primarily use historical data to determine the assumptions to be used in the Black-Scholes model and have no reason to believe that future data is likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility and future stock award exercise experience could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards. SFAS 123(R) 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

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that may materially impact our financial statements for each respective reporting period.

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Impact of New Accounting Pronouncements

FASB 141 (revised 2007) - Business Combinations

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), Business Combinations. This Statement replaces FASB Statement No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This Statement's scope is broader than that of Statement 141, which applied only to business combinations in which control was obtained by transferring consideration. By applying the same method of accounting--the acquisition method--to all transactions and other events in which one entity obtains control over one or more other businesses, this Statement improves the comparability of the information about business combinations provided in financial reports.

This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. That replaces Statement 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values.

This Statement applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquirer), including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. This Statement applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for some business combinations. It does not apply to: (a) The formation of a joint venture, (b) The acquisition of an asset or a group of assets that does not constitute a business, (c) A combination between entities or businesses under common control, (d) A combination between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

FASB 160 - Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51

In December 2007, the FASB issued FASB Statement No. 160 - Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more

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subsidiaries or that deconsolidate a subsidiary. Not-for-profit organizations should continue to apply the guidance in Accounting Research Bulletin No. 51, Consolidated Financial Statements, before the amendments made by this Statement, and any other applicable standards, until the Board issues interpretative guidance.

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This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Before this Statement was issued, limited guidance existed for reporting noncontrolling interests. As a result, considerable diversity in practice existed. So-called minority interests were reported in the consolidated statement of financial position as liabilities or in the mezzanine section between liabilities and equity. This Statement improves comparability by eliminating that diversity.

A noncontrolling interest, sometimes called a minority interest, is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The objective of this Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards that require: (a) The ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity, (b) The amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income, (c) Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. A parent's ownership interest in a subsidiary changes if the parent purchases additional ownership interests in its subsidiary or if the parent sells some of its ownership interests in its subsidiary. It also changes if the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. All of those transactions are economically similar, and this Statement requires that they be accounted for similarly, as equity transactions, (d) When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment, (e) Entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners.

This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. This Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

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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 -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 November 30, 2007. 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 third fiscal quarter of 2008 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

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

None

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: January 11, 2008

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