SONO TEK CORP
Form 10QSB
January 09, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended: November 30, 2003

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 X 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 December 29, 2003
Common Stock, par value $.01 per share	9,200,161

SONO-TEK CORPORATION

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SONO-TEK CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS

	November 30, 2003 Unaudited	February 28, 2003 Audited
Current Assets		
Cash and cash equivalents	$ 245,527	$ 265,658
Accounts receivable (less allowance of $12,046 and $13,675 at November 30 and February 28, respectively)	624,023	375,040
Inventories	868,998	794,666
Prepaid expenses and other current assets	84,308	56,023
Total current assets	1,822,856	1,491,387
Equipment, furnishings and leasehold improvements (less accumulated depreciation of $665,925 and $638,341 at November 30 and February 28, respectively)	63,552	84,878
Intangible assets, net:		
Patents and patents pending	26,972	29,520
Deferred financing fees	5,923	11,251
Total intangible assets	32,895	40,771
Other assets	6,541	6,541

TOTAL ASSETS	$1,925,844	$1,623,577

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

Current Liabilities:		
Accounts payable	$203,975	$149,920
Accrued expenses	432,656	244,286
Line of Credit	312,000	312,000
Current maturities of long term loans -related parties	64,876	63,924
Current maturities of long term debt	9,072	9,072
Current maturities of subordinated mezzanine debt	212,508	141,672
Current maturities of subordinated loans	18,000	43,428
Total current liabilities	1,253,087	964,302
Subordinated mezzanine debt	637,492	690,722
Long term debt, less current maturities	220,904	250,033
Subordinated loans	109,674	100,674
Other long-term liabilities	69,076	69,076
Total liabilities	2,290,233	2,074,807
Commitments and Contingencies	-	-
Put Warrants	188,223	188,223
Stockholders' Equity		
Common stock, $.01 par value; 25,000,000 shares authorized, 9,200,161 shares issued and outstanding at November 30 and February 28, respectively	92,002	92,002
Additional paid-in capital	6,038,869	6,037,305
Accumulated deficit	(6,683,483)	(6,768,760)
Total stockholders' deficiency	(552,612)	(639,453)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$1,925,844	$1,623,577

See notes to consolidated financial statements.

SONO-TEK CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Nine Months Ended November 30, Unaudited		Three Months Ended November 30, Unaudited	
	2003	2002	2003	2002
Net Sales	$2,395,002	$2,234,027	$945,745	$748,036
Cost of Goods Sold	1,018,895	987,895	417,821	301,136
Gross Profit	1,376,107	1,246,132	527,924	446,900
Operating Expenses				
Research and product development costs	269,812	262,800	86,983	99,628
Marketing and selling expenses	477,647	433,318	189,677	150,277
General and administrative costs	420,157	411,863	145,028	123,745

Total Operating Expenses	1,167,616	1,107,981	421,688	373,650
Operating Income	208,491	138,151	106,236	73,250
Interest Expense	(130,209)	(168,432)	(38,004)	(53,104)
Interest and Other Income	8,105	90,300	250	2,407
Income from Operations Before Income Taxes	86,387	60,019	68,482	22,553
Income Tax Expense	1,110	3,085	0	2,020
Net Income	$ 85,277	$ 56,934	$ 68,482	$20,533
Basic Earnings Per Share	$0.01	$0.01	$0.01	$0.00
Diluted Earnings Per Share	$0.01	$0.01	$0.01	$0.00
Weighted Average Shares - Basic	9,200,161	9,105,422	9,200,161	9,200,161
Weighted Average Shares - Diluted	10,582,278	10,300,229	10,943,467	9,779,139

See notes to consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended November 30, Unaudited	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$85,277	$ 56,934
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	36,595	57,384
Imputed interest expense	17,608	54,815
Provision for doubtful accounts	(1,629)	(12,106)
(Decrease) Increase in:		
Accounts receivable	(247,354)	(100,430)
Inventories	(74,332)	(1,096)
Prepaid expenses and other current assets	(28,285)	18,647
Increase (Decrease) in:		
Accounts payable and accrued expenses	242,424	(96,202)
Net Cash Provided By (Used In) Continuing Operations	30,304	(22,054)
Net Cash (Used In) Discontinued Operations	0	(167,403)
Net Cash Provided By (Used In) Operating Activities	30,304	(189,457)
CASH FLOW FROM INVESTING ACTIVITIES:		
Patent Application Costs	(1,137)	(10,795)
Purchase of equipment and furnishings	(6,257)	(8,159)
Deposits	0	(375)
Net Cash Used In Investing Activities	(7,394)	(19,329)

CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of stock	0	18,000
Proceeds from the issuance of options	1,564	0
Repayments of loans - related parties	(21,373)	(44,385)
Repayments of note payable and equipment loans	(6,804)	(49,375)
Repayments of subordinated loans	(16,428)	(3,695)
Net Cash Used In Financing Activities	(43,041)	(79,455)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(20,131)	(288,241)
CASH AND CASH EQUIVALENTS		
Beginning of period	265,658	453,215
End of period	$245,527	$164,974
SUPPLEMENTAL DISCLOSURE:		
Interest paid	$103,964	$135,676

See notes to consolidated financial statements.

SONO-TEK CORPORATION
Notes to Consolidated Financial Statements
Nine Months Ended November 30, 2003 and 2002

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, 2003, 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 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 estimated fair value of options granted during Fiscal Year 2003 was $.22 per share and the estimated fair value of options granted during the nine months ended November 30, 2003 was $.20 per share. The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for the 1993 Plan. 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 nine and three month periods ended November 30, 2003 and 2002 would have been changed to the pro forma amounts indicated below:

	Nine Months Ended November 30,		Three Months Ended November 30,	
	2003	2002	2003	2002
Net income (loss):				
As reported	$85,277	$56,934	$68,482	$20,533
Deduct: Total stock based employee compensation under intrinsic value based method for all awards, net of taxes	6,363	89,483	2,326	66,567
Pro forma net income (loss)	$78,914	$(32,549)	$66,156	$(46,034)
Basic and diluted earnings per share:				
As reported	$0.01	$0.01	$0.01	$0.01
Pro forma	$0.01	$0.00	$0.01	$0.00

At the August 21, 2003 Annual Meeting of Shareholders, the Company adopted a new Stock Incentive Plan (the "2003 Plan"). Under this plan, up to 1,500,000 stock options can be granted until 2013. To date, no options have been granted under this plan.

Patent and Patent Pending Costs - Cost of patent applications are deferred and charged to operations over seventeen years for domestic patents and twelve years for foreign patents. However, if it appears that such costs are related to products that are not expected to be developed for commercial application within the reasonably foreseeable future, or are applicable to geographic areas where the Company no longer requires patent protection, they are written off to operations. The accumulated amortization is $69,455 and $65,770 at November 30, 2003 and February 28, 2003, respectively.

Accounting for Financial Instruments - In May 2003, the FASB issued Statements of Financial Accounting Standards No. 150 ("SFAS No. 150") "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 established standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. This SFAS is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of SFAS No. 150 has required the Company to have additional disclosures regarding the Put Warrants and did not have a material effect on the financial statements. The Company adopted SFAS No. 150 in the three months ended May 31, 2003.

NOTE 2: INVENTORIES

Inventories at November 30, 2003 are comprised of:

Finished goods	$424,924
Work in process	326,177
Consignment	3,342
Raw materials and subassemblies	312,587
Total	1,067,030
Less: Allowance	(198,032
Net inventories	$868,998

NOTE 3: RELATED PARTY TRANSACTIONS

Short-term loans - related parties - At Fiscal Year End 2002, loans from directors and former officers in the amount of $286,084 plus accrued interest of $62,728 were formalized into four-year notes bearing interest at 5% on the unpaid balance. Repayments of these notes commenced on March 31, 2002. Payments of $95,086 of principal and interest due in the period from August 31, 2002 to November 30, 2003 have been deferred in order to maintain the Company's liquidity.

Certain of the Company's directors, an officer and an affiliate are participants with Norwood Venture Corporation ("Norwood") in its subordinated mezzanine financing.

NOTE 4: SUBORDINATED MEZZANINE DEBT

On September 30, 1999, the Company entered into a 12%, $450,000 Note and Warrant Purchase Agreement (the "Agreement") with Norwood. On December 22, 2000, Norwood amended the Agreement to increase the note to $550,000. On April 30, 2001, Norwood amended the Agreement to increase the note by $300,000 to $850,000 and the warrant shares to 2,077,777. The Norwood Note (the "Note"), as amended, requires interest payments through September 2002, followed by monthly principal payments of $23,612 and interest through September 2005. Certain assets of the Company collateralize the Note. The Note, among other things, restricts the payment of dividends. The monthly principal payments to commence in October 2001 were $23,612 per month and have been deferred until March 2004.

In addition, the original Note was issued with a detachable stock purchase warrant (the "Put Warrants") to purchase 1,100,000 shares of the Company's common stock at an exercise price of $.30 per share, the fair market value of the Company's common stock on September 30, 1999. The fair market value, as determined by an independent appraisal, of the Put Warrants was determined to be $0.07 per share, and is accounted for as a discount to the Norwood Noteand will be amortized over the life of the principal repayment term of the Agreement. In connection with the amendments, dated December 22, 2000 and April 30, 2001,an additional 244,444 and 733,333 warrant shares were granted at an exercise price of $0.30 and $.10 per share, respectively. In connection with an amendment to the Agreement in October 2001, the exercise price of certain of the warrants was reduced from $.30 to $.15 per share. This resulted in an increase in the value of the warrants of $13,445, which is accounted as a discount to the loan and is being imputed as additional interest over the term of the loan. The aggregate exercise price of the Put Warrants is $275,000 for the purchase of 2,077,777 shares of common stock

The Put Warrant holders may, commencing after the delivery of the February 28, 2006 audited financial statements and terminating one year thereafter, require the Company to purchase such warrants at a price equal to the result calculated by subtracting the aggregate exercise of the warrants to the extent remaining from the product of the greatest of:

a) the fair market value of the Company as determined by an independent appraiser as at the end of the Company's fiscal year end February 28, 2006 (the "Company's 2006 Fiscal Year"),

b) five times EBITDA for the Company's 2006 Fiscal Year or, if higher, average EBITDA for such year and the fiscal year of the Company immediately prior to such year, or

c) the book value of the Company as at the end of the Company's 2006 Fiscal Year,

multiplied by the fraction of (the "Put Fraction") the numerator of which is the total number of shares of common stock the Put Warrant holders would own upon such exercise of the warrants and the denominator would be the total number of common shares outstanding upon the exercise of all equity rights to acquire common stock. The Norwood Agreement provides for pre-emptive rights to purchase equity from the Company at the most favorable terms offered to others.

If the Company, based upon its fair value computed using its Fiscal Year 2006 results, is required to pay the Put under the warrants, warrant holders will have to pay up to $275,000 for the warrants. Upon measurement and exercise, one third of such put payment by the Company would be due immediately, with the balance payable over 36 months with interest at 12%.

NOTE 5: DEFERRAL OF PAYMENTS

The Company, in order to conserve its cash assets, has agreements to defer payment of certain of its obligations at November 30, 2003. Such deferrals were:

Current maturities of subordinated mezzanine debt	$330,568
Current maturities of long-term loans - related parties	81,518
Current maturities of subordinated loans	50,421
Incentive compensation	18,067

Interest	13,567
Total	$494,141

NOTE 6: STOCK OPTIONS AND WARRANTS

Stock Options - Under the 1993 Stock Incentive Plan, as amended ("1993 Plan"), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. Options granted under the 1993 Plan expire on various dates through 2013. As of November 30, 2003, there were 1,057,562 options outstanding under the 1993 Plan and no further grants are allowable.

The Company's shareholders approved the 2003 Stock Incentive Plan ("2003 Plan") at the August 21, 2003 meeting of shareholders. Under the 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. To date, there have been no options granted under this 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 terminate at a stipulated period of time after an employee's termination of employment.

Under the 1993 Plan, during Fiscal Year 2003, the Company granted options for 405,000 shares exercisable at between $0.15 per share and $0.30 per share to qualified employees and 40,000 shares exercisable at $0.37 to directors of the Company. The Company granted options for 20,000 shares exercisable at $0.25 to a director of the Company and options for 10,000 shares exercisable at $0.19 to a consultant in the nine months ended November 30, 2003.

Warrants - There were no warrants issued during Fiscal 2004 and 2003. 370,175 warrants issued in 1999 in conjunction with the retirement of subordinated debt expired in Fiscal 2003.

NOTE 7: EARNINGS PER SHARE

The denominator for the calculation of diluted earnings per share at November 30, 2003 and 2002 are calculated as follows:

	Nine Months Ended November 30,		Three Months Ended November 30,	
	2003	2002	2003	2002
Denominator for basic earnings per share	9,200,161	9,105,422	9,200,161	9,200,161
Dilutive effect of warrants	1,161,111	1,129,501	1,423,015	550,000
Dilutive effect of stock options	221,007	65,305	320,290	28,978

Denominator for dilutive earnings per share	10,582,278	10,300,229	10,943,467	9,779,139

SONO-TEK CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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; and

- Ability to continue to obtain deferral of principal payments from its note holders.

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

Liquidity and Capital Resources

The Company's working capital increased $42,684 from $527,085 at February 28, 2003 to $569,769 at November 30, 2003. The increase in working capital was a result of an increase in accounts receivable of $249,000, an increase in inventory of $74,000 an increase in prepaid expenses of $28,000, that was offset by an increase in accounts payable of $54,000, an increase in accrued expenses of $188,000, an increase in the current maturities of debt of $46,000 and a decrease in cash of $20,000. The stockholders' deficiency decreased $86,841 from $639,453 at February 28, 2003 to $552,612 at November 30, 2003. The decrease in stockholders' deficiency was principally the result of the net profit of $85,277 for the nine months ended November 30, 2003.

Accounts receivable at November 30, 2003 increased $248,983 or 66% from February 28, 2003 due to higher sales levels in the last month of this quarter as compared to the last month of the fourth quarter of the prior fiscal year.

Inventory increased $74,332 or 9% as the result of increased demand for the Company's products in the current quarter. The increase was the result of newly introduced products.

Prepaid expenses increased $28,285 or 50% as the result of a deposit made for contractual work being performed on equipment to be delivered next quarter.

Accounts payable and accrued expenses increased $54,055 or 36% as compared to February 28, 2003 due to purchases made to support increased shipments.

Accrued expenses increased $188,370 or 7% principally as the result of increased accrued compensation expense, increased commissions and increased customer deposits.

The Company currently has a $350,000 line of credit with a bank, in the form of a demand note. The loan is collateralized by accounts receivable, inventory and all other personal property of the Company and is guaranteed by the former Chief Executive Officer of the Company. As of November 30, 2003 and February 28, 2003 the outstanding balance was $312,000. New borrowings are presently precluded under this note.

Results of Operations

For the nine months ended November 30, 2003, the Company's sales increased $160,975, or 7.2%, to $2,395,002 as compared to $2,234,027 for the nine months ended November 30, 2002. The increase was a result of an increase in fluxer sales of $341,000, an increase in nozzle sales of $15,000, partially offset by a decrease in sales of specialty spraying systems of $190,000 and cleaning system spare part sales of $6,000.

For the three months ended November 30, 2003, the Company's sales increased $197,709, or 26.4%, to $945,745 as compared to $748,036 for the three months ended November 30, 2002. The increase was a result of an increase in fluxer sales of $300,000, nozzle sales of $2,000, and cleaning system spare part sales of $15,000, partially offset by a decrease in sales of specialty spraying systems of $120,000.

The Company's gross profit increased $129,974 to $1,376,107 for the nine months ended November 30, 2003 from $1,246,133 for the nine months ended November 30, 2002. The gross profit margin was 57.5% of sales for the nine months ended November 30, 2003 as compared to 55.8% of sales for the nine months ended November 30, 2002. The change in margin occurred as the result of the changing mix of products in each period.

The Company's gross profit increased $15,959 to $409,179 for the three months ended August 31, 2003 from $393,220 for the three months ended August 31, 2002. The gross profit margin was 59.2% of sales for the three months ended August 31, 2003 as compared to 55.8% of sales for the three months ended August 31, 2002. The change in margin occurred as the result of the changing mix of products in each period.

Research and product development costs increased $7,012 to $269,812 for the nine months ended November 30, 2003 from $262,800 for the nine months ended November 30, 2002. The increase was due to increased labor and fringes of $13,000, partially offset by reduced travel of $3,000 and reduced costs for facility, utilities and supplies. Research and product development costs of $50,000 incurred in the nine months ended November 30, 2002 were used to manufacture saleable inventory items, and accordingly, were recorded in inventory. During the nine months ended November 30, 2003 research and development personnel were not utilized for manufacturing.

Research and product development costs decreased $12,645 to $86,983 for the three months ended November 30, 2003 from $99,628 for the three months ended November 30, 2002. The decrease was due to less engineering materials purchased this year.

Marketing and selling costs increased $44,329 and $39,400 for the respective nine and three month periods ended November 30, 2003 as compared to the same periods ended November 30, 2002. The increases were due principally to increased commissions partially offset by reduced labor and fringe benefits, facility, utility and trade show costs.

General and administrative costs increased $21,283 and $8,294 for the respective six and three month periods ended November 30, 2003 as compared to the same periods ended November 30, 2002. The increase was due principally to increased payroll, legal, travel and relocation costs partially offset by reduced bank fees and consulting expenses.

Interest expense decreased $38,223 to $130,209 for the nine months ended November 30, 2003 from $168,432 for the nine months ended November 30, 2002. Interest expense decreased $15,100 to $38,004 for the three months ended November 30, 2003 from $53,104 for the three months ended November 30, 2002. The decrease is primarily due to reduced interest and amortization on the Norwood loans and reduced interest on related party and bank loans.

Interest and other income decreased $82,195 for the nine months ended November 30, 2003 as compared to the nine months ended November 30, 2002 and $2,157 for the three months period ended November 30, 2003 as compared to the three month period ended November 30, 2002. The decreases are primarily due to settlements with former vendors and sales representatives, and a reduction of the accrual for future rent expense recorded in the prior year's periods.

The Company's net income was $85,277 and $68,482 for the six and three month periods ended November 30, 2003 as compared to $56,934 and $20,533 for the nine and three month periods ended November 30, 2002.

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 3 to the Company's consolidated financial statements included in Form 10-KSB for the year ended February 28, 2003.

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 recorded a valuation reserve for the full deferred tax asset from the net operating losses carried forward due to the Company not demonstrating consistent profitable operations. In the event that actual results differ from these estimates or the Company adjusts these estimates in future periods, the Company may need to adjust such valuation reserve recorded.

Impact of New Accounting Pronouncements

In May 2003, the FASB issued Statements of Financial Accounting Standards No. 150 ("SFAS No. 150"), "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 established standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. This SFAS is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of SFAS No. 150 has required the Company to have additional disclosures regarding the Put Warrants and did not have a material effect on the financial statements. The Company adopted SFAS No. 150 in the three months ended May 31, 2003.

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 accounting officer) of the Company, has evaluated the Company's disclosure controls and procedures as of November 30, 2003. Based on his evaluation, Dr. Coccio has 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.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls after November 30, 2003. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 2. Changes in 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 on Form 8-K

(a) Exhibits
31 - Rule 13a - 14(a)/15d - 14(a) Certification
32 - Certification Pursuant to 18 U.S.C. Section 1350

(b) Reports on Form 8-K
The Company filed a report on Form 8-K on October 15, 2003 relating to a press release on the results of operations for the quarter ended August 31, 2003.

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: December 29, 2003

SONO-TEK CORPORATION
(Registrant)

/s/ Christopher L. Coccio
By: ______________________________
Christopher L. Coccio
Chief Executive Officer and President
(principal executive and accounting officer)

Exhibit 31

RULE 13a-14/15d - 14(a) CERTIFICATION

I, Christopher L. Coccio, Chief Executive Officer and President (principal executive and accounting officer), certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Sono-Tek Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstance under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d - 15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the small business issuer and I have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal controls over financial reporting.

Date: December 29, 2003

/s/ Christopher L. Coccio
Christopher L. Coccio
Chief Executive Officer and President
(principal executive and accounting officer)

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sono-Tek Corporation on Form 10QSB for the period ended November 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Christopher L. Coccio, Chief Executive Officer and President (principal executive and accounting officer) of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: December 29, 2003

/s/ Christopher L. Coccio
Christopher L. Coccio
Chief Executive Officer and President
(principal executive and accounting officer)