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SONO TEK CORP  
Form 10QSB  
January 06, 2006

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, 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

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 3, 2006   |
| -----                                   | -----             |
| Common Stock, par value \$.01 per share | 14,295,846        |

SONO-TEK CORPORATION

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### SONO-TEK CORPORATION CONSOLIDATED BALANCE SHEETS

|   | November 30,<br>2005<br>Unaudited<br>----- | February 28,<br>2005<br>Audited<br>----- |
|---|--|--|
| ASSETS  |  |  |
| Current Assets  |  |  |
| Cash and cash equivalents   | \$ 933,312                                 | \$ 421,043                               |
| Accounts receivable (less allowance of \$29,922 and \$18,123<br>At November 30 and February 28, respectively)   | 1,051,663                                  | 813,703                                  |
| Inventories   | 1,424,122                                  | 1,338,410                                |
| Prepaid expenses and other current assets   | 37,462                                     | 111,714                                  |
| Deferred tax asset  | 270,000                                    | 117,000                                  |
| Total current assets  | 3,716,559                                  | 2,801,870                                |
| Equipment, furnishings and leasehold improvements (less accumulated<br>depreciation of \$770,368 and \$720,384 at November 30 and<br>February 28, respectively) | 217,095                                    | 140,133                                  |
| Intangible assets, net  | 28,513                                     | 22,894                                   |
| Other assets  | 7,171                                      | 7,171                                    |
| Deferred tax asset  | 315,000                                    | 468,000                                  |
| TOTAL ASSETS  | \$ 4,284,338                               | \$ 3,440,068                             |

### LIABILITIES AND STOCKHOLDERS' EQUITY

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|   |              |              |
|---|--------------|--------------|
| Current Liabilities:  |              |              |
| Accounts payable  | \$ 171,941   | \$ 292,729   |
| Accrued expenses  | 447,844      | 491,828      |
| Line of Credit  | 0            | 350,000      |
| Current maturities of long term debt  | 18,537       | 0            |
|   | -----        | -----        |
| Total current liabilities   | 638,322      | 1,134,557    |
| Long term debt, less current maturities   | 51,232       | 0            |
|   | -----        | -----        |
| Total liabilities   | 689,554      | 1,134,557    |
|   | -----        | -----        |
| Commitments and Contingencies   | --           | --           |
| Stockholders' Equity  |              |              |
| Common stock, \$.01 par value; 25,000,000 shares authorized,<br>14,203,997 and 13,825,640 shares issued and outstanding<br>at November 30 and February 28, respectively | 142,041      | 138,257      |
| Additional paid-in capital  | 7,990,344    | 7,371,233    |
| Stock Subscription Receivable   | (15,750)     | (15,750)     |
| Accumulated deficit   | (4,521,851)  | (5,188,229)  |
|   | -----        | -----        |
| Total stockholders' equity  | 3,594,784    | 2,305,511    |
|   | -----        | -----        |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | \$ 4,284,338 | \$ 3,440,068 |
|   | =====        | =====        |

See notes to consolidated financial statements.

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SONO-TEK CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME

|  | Nine Months Ended November 30, |              | Three Months Ended |       |
|--|--------------------------------|--------------|--------------------|-------|
|  | Unaudited                      |              | Unaudited          |       |
|  | 2005                           | 2004         | 2005               |       |
|  | -----                          | -----        | -----              | ----- |
| Net Sales                              | \$ 5,082,730                   | \$ 4,391,653 | \$ 1,670,586       | \$    |
| Cost of Goods Sold                     | 2,596,543                      | 1,963,183    | 853,436            |       |
|  | -----                          | -----        | -----              | ----- |
| Gross Profit                           | 2,486,187                      | 2,428,470    | 817,150            |       |
|  | -----                          | -----        | -----              | ----- |
| Operating Expenses                     |                                |              |                    |       |
| Research and product development costs | 446,512                        | 361,781      | 151,618            |       |
| Marketing and selling expenses         | 831,605                        | 755,078      | 252,810            |       |
| General and administrative costs       | 600,711                        | 639,567      | 188,338            |       |
|  | -----                          | -----        | -----              | ----- |
| Total Operating Expenses               | 1,878,828                      | 1,756,426    | 592,766            |       |

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|  |            |            |            |    |
|--|------------|------------|------------|----|
| Operating Income                           | 607,359    | 672,044    | 224,384    |    |
| Interest Expense                           | (4,642)    | (82,171)   | (1,212)    |    |
| Interest Income                            | 7,811      | 6,793      | 3,931      |    |
| Other Income                               | 56,100     | 0          | 53,100     |    |
| Income from Operations Before Income Taxes | 666,628    | 596,666    | 280,203    |    |
| Income Tax Expense                         | 250        | 6,000      | 0          |    |
| Net Income                                 | \$ 666,378 | \$ 590,666 | \$ 280,203 | \$ |
| Basic Earnings Per Share                   | \$ 0.05    | \$ 0.05    | \$ 0.02    | \$ |
| Diluted Earnings Per Share                 | \$ 0.05    | \$ 0.05    | \$ 0.02    | \$ |
| Weighted Average Shares - Basic            | 14,111,339 | 11,134,960 | 14,048,236 |    |
| Weighted Average Shares - Diluted          | 14,417,106 | 13,014,931 | 14,163,279 |    |

See notes to consolidated financial statements.

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SONO-TEK CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Nine Months Ended Novembe |      |
|---|---------------------------|------|
|   | Unaudited                 |      |
|   | 2005                      |      |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                           |      |
| Net Income  | \$ 666,378                | \$ 5 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |      |
| Depreciation and amortization   | 52,890                    |      |
| Provision for doubtful accounts   | 11,798                    |      |
| Decrease (Increase) in:   |                           |      |
| Accounts receivable   | (249,758)                 | (    |
| Inventories   | (85,712)                  | (4   |
| Prepaid expenses and other current assets   | 74,252                    |      |
| (Decrease) Increase in:   |                           |      |
| Accounts payable and accrued expenses   | (164,772)                 | 2    |

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|  |            |      |
|--|------------|------|
| Net Cash Provided By Operating Activities            | 305,076    | 3    |
| CASH FLOW FROM INVESTING ACTIVITIES:                 |            |      |
| Patent Application Costs                             | (8,525)    |      |
| Purchase of equipment and furnishings                | (126,946)  |      |
| Other  | 0          |      |
| Net Cash (Used In) Investing Activities              | (135,471)  |      |
| CASH FLOW FROM FINANCING ACTIVITIES:                 |            |      |
| Line of Credit Repayment                             | (350,000)  |      |
| Proceeds from exercise of stock options and warrants | 335,395    | 1    |
| Proceeds from issuance of stock                      | 287,500    |      |
| Conversion of debt to equity                         | 0          |      |
| Loan payments/exchanges                              | 0          |      |
| Repayments of notes payable and loans                | (6,637)    | (2)  |
| Proceeds from Notes Payable                          | 76,406     |      |
| Net Cash Provided by (Used In) Financing Activities  | 342,664    |      |
| NET INCREASE IN CASH AND CASH EQUIVALENTS            | 512,269    | 2    |
| CASH AND CASH EQUIVALENTS                            |            |      |
| Beginning of period                                  | 421,043    | 1    |
| End of period  | \$ 933,312 | \$ 4 |
| SUPPLEMENTAL DISCLOSURE:                             |            |      |
| Interest paid  | \$ 4,642   | \$   |

See notes to consolidated financial statements.

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

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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 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 2005 was \$1.64 per share and the estimated fair value of options granted during the nine months ended November 30, 2005 was \$2.34 per share. 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 and nine month periods ended November 30, 2005 and 2004 would have been changed to the pro forma amounts indicated below:

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|   | Nine Months Ended<br>November 30, |           | Three Months Ended<br>November 30, |           |
|---|-----------------------------------|-----------|------------------------------------|-----------|
|   | 2005                              | 2004      | 2005                               | 2004      |
|   | -----                             | -----     | -----                              | -----     |
| Net Income:   |                                   |           |                                    |           |
| As reported   | \$666,378                         | \$590,666 | \$280,203                          | \$248,942 |
| Deduct: Total stock based<br>employee compensation<br>under intrinsic value based<br>method for all<br>awards, net of tax effects | 27,029                            | 547,560   | 7,816                              | 182,520   |
|   | -----                             | -----     | -----                              | -----     |
| Pro forma   | \$639,349                         | \$ 43,106 | \$272,387                          | \$ 66,422 |
|   | =====                             | =====     | =====                              | =====     |
| Basic and diluted earnings per share:   |                                   |           |                                    |           |
| As reported   | \$ 0.05                           | \$ 0.05   | \$ 0.02                            | \$ 0.02   |
| Pro forma   | \$ 0.04                           | \$ 0.00   | \$ 0.02                            | \$ 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 \$48,393 and \$45,487 at November 30, 2005 and February 28, 2005, respectively.

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

New Accounting Pronouncements - In May 2005, the FASB issued FASB Statement No. 154, which replaces APB Opinion No.20 and FASB No. 3. This Statement provides guidance on the reporting of accounting changes and error corrections. It established, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements to a newly adopted accounting principle. The Statement also provides guidance when the retrospective application for reporting of a change in accounting principle is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed by this Statement. This Statement is effective for financial statements for fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date of this Statement is issued. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

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### NOTE 2: INVENTORIES

Inventories at November 30, 2005 are comprised of:

|                                 |              |
|---------------------------------|--------------|
| Finished goods                  | \$ 419,165   |
| Work in process                 | 613,252      |
| Consignment                     | 9,305        |
| Raw materials and subassemblies | 656,692      |
|                                 | -----        |
| Total                           | 1,698,414    |
| Less: Allowance                 | (274,292)    |
|                                 | -----        |
| Net inventories                 | \$ 1,424,122 |
|                                 | =====        |

### 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. During the nine months ended November 30, 2005, the Board of Directors approved the issuance of 50,000 options. The 50,000 options were issued at the then exercisable market price, hence, no compensation expense has been recorded. As of November 30, 2005, there were 129,062 options outstanding under the 1993 Plan and 761,500 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

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stock was exercised at \$1.75 per share by Empire State Development Corporation, Small Business Technology Investment Fund.

On October 20, 2005, the Company's Board of Directors extended the expiration date for a warrant issued to the Empire State Development Corporation for ninety days until January 26, 2006. The warrant entitled the Empire State Development Corporation to purchase 142,857 shares of stock at \$1.75 per share and was exercised in full on January 4, 2006.

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### NOTE 4: EARNINGS PER SHARE

The denominator for the calculation of diluted earnings per share at November 30, 2005 and 2004 are calculated as follows:

|  | November 30, 2005 | November 30, 2004 |
|--|-------------------|-------------------|
|  | -----             | -----             |
| Denominator for basic earnings per share   | 14,111,339        | 11,134,960        |
| Dilutive effect of warrants                | 41,010            | 1,878,293         |
| Dilutive effect of stock options           | 264,757           | 1,679             |
|  | -----             | -----             |
| Denominator for diluted earnings per share | 14,417,106        | 13,014,932        |
|  | =====             | =====             |

NOTE 5: 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 has previously expensed substantially all of the misappropriated funds over the years.

The Company is pursuing appropriate remedies to recover the majority of the misappropriated funds and is continuing to do so. The Company recovered \$56,000 during the nine month period ended November 30, 2005; this amount is recorded as Other Income. As previously discussed, the Company can offer no assurances that it will be successful in its attempt to collect the balance of the remaining restitution.

### NOTE 6: Subsequent Event

Additional Equity Investment - On January 4, 2006, a warrant for 142,857 shares of the Company's common stock was exercised at \$1.75 per share by Empire State Development Corporation.

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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



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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 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. The Company recently sold a MediSonic system for use in the diabetes management field.

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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 addition to the engineering initiatives discussed above, the Company has been

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focusing on expanding its geographic markets. The Company began to place emphasis on developing new markets overseas in places such as China, India, Southeast Asia, Europe, and Eastern Europe. Over the last twelve months, the Company has more than doubled the number of countries where it has an established sales distribution channel.

In conclusion, the Company's sales levels have increased as the result of an improved economy, product development efforts, and related marketing thrusts which have had the effects of improving net income, reducing debt, and bringing shareholders' equity from a deficit position to a positive position.

### Liquidity and Capital Resources

Working Capital - The Company's working capital increased \$1,410,924 from a working capital of \$1,667,313 at February 28, 2005 to \$3,078,237 at November 30, 2005. The Company's current ratio is 5.82 to 1 at November 30, 2005, as compared to 2.47 to 1 at February 28, 2005. The increase in working capital was the result of the Company's net income, cash proceeds from the issuance of stock and the exercise of stock options and warrants, the repayment of the outstanding line of credit, an increase in the current deferred tax asset and a decrease in accounts payable.

Accounts Receivable increased \$237,960 or 29% from \$813,703 at February 28, 2005 to \$1,051,663 at November 30, 2005, resulting primarily from an increase of orders received during the month ended November 30, 2005.

Stockholders' Equity - Stockholders' equity increased \$1,289,273 from \$2,305,511 at February 28, 2005 to \$3,594,784 at November 30, 2005. The increase in stockholders' equity was the result of net income of \$666,378 for the nine months ended November 30, 2005, stock option and warrant exercises of \$335,395, and stock issuance of \$287,500.

Operating Activities - During the nine months ended November 30, 2005, the net cash provided by operating activities was \$305,000, resulting from the Company's net income, increases in accounts receivable and inventories and a decrease in accounts payable and accrued expenses.

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Investing Activities - During the nine months ended November 30, 2005, the net cash used in investing activities was \$135,000, resulting from the purchase of equipment.

Financing Activities - During the nine months ended November 30, 2005, the net cash provided by financing activities was \$343,000, resulting from the issuance of stock, exercise of stock options and warrants; repayment of the outstanding line of credit and the proceeds of notes payable to finance equipment purchases.

### Results of Operations

For the nine months ended November 30, 2005, the Company's sales increased \$691,000 to \$5,083,000 as compared to \$4,392,000 for the nine months ended November 30, 2004. For the three months ended November 30, 2005, the Company's sales remained level at \$1,670,000 when compared to the three months ended November 30, 2004.

The Company's gross profits increased \$58,000 to \$2,486,000 for the nine months ended November 30, 2005 from \$2,428,000 for the nine months ended November 30, 2004. The gross profit margin was 48.91% of sales for the nine months ended November 30, 2005 as compared to 55.3% of sales for the nine months ended

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November 30, 2004. The Company's gross profit decreased \$95,000 to \$817,000 for the three months ended November 30, 2005 from \$912,000 for the three months ended November 30, 2004. The gross profit margin was 48.9% of sales for the three months ended November 30, 2005 as compared to 54.6% of sales for the three months ended November 30, 2004. The changes in gross margin occurred as the result of the changing mix of products in each period and increases in both internal and external costs associated with business growth.

Research and product development costs increased \$85,000 to \$447,000 for the nine months ended November 30, 2005 from \$362,000 for the nine months ended November 30, 2004 and \$18,000 to \$152,000 for the three months ended November 30, 2005 from \$134,000 for the three months ended November 30, 2004. The increases were principally due to an increase in engineering personnel in the current periods.

Marketing and selling costs increased \$77,000 and \$3,000 for the respective nine and three months ended November 30, 2005 as compared to the same periods ended November 30, 2004. The increases were due principally to increased labor and fringe benefit costs, travel expenses and increased commissions.

General and administrative costs decreased \$39,000 and \$65,000 for the respective nine and three months ended November 30, 2005 as compared to the same periods ended November 30, 2004. The decrease is a result of the reallocation of payroll costs across departments and is offset by increased legal, consulting and accounting costs.

Interest expense decreased \$78,000 to \$5,000 for the nine months ended November 30, 2005 compared to the period ended November 30, 2004. Interest expense decreased \$23,000 to \$1,000 for the three months ended November 30, 2005 from \$24,000 for the three months ended November 30, 2004. The decrease is primarily due to reduced interest and amortization on related party and bank loans.

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The Company's net income was \$666,000 and \$280,000 for the nine and three months ended November 30, 2005 as compared to \$591,000 and \$249,000 for the nine and three month periods ended November 30, 2004.

The Company's backlog of firm orders was \$354,000 at November 30, 2005. All of these orders are deliverable before the end of the Company's current fiscal year, which is February 28, 2006.

### 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

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statements included in Form 10-KSB for the year ended February 28, 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.

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### Impact of New Accounting Pronouncements

#### FASB 154 - Accounting Changes and Error Corrections

In May 2005, the FASB issued FASB Statement No. 154, which replaces APB Opinion No.20 and FASB No. 3. This Statement provides guidance on the reporting of accounting changes and error corrections. It established, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements to a newly adopted accounting principle. The Statement also provides guidance when the retrospective application for reporting of a change in accounting principle is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed by this Statement. This Statement is effective for financial statements for fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date of this Statement is issued. 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 -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 officer) 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, 2005. 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.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls after November 30, 2005. There were no significant deficiencies or material weaknesses, and therefore there were no corrective actions taken.

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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 - Rule 13a - 14(a)/15d - 14(a) Certification

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

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

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

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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 6, 2006

SONO-TEK CORPORATION  
(Registrant)

By: /s/ Christopher L. Coccio

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Christopher L. Coccio  
Chief Executive Officer and President

By: /s/ Stephen J. Bagley

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Stephen J. Bagley  
Chief Financial Officer

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