

SONO TEK CORP

FORM 10-K (Annual Report)

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended: **February 28, 2019**

Commission File Number: **0-16035**

SONO•TEK Corporation

(Name of registrant as specified in its charter)

NEW YORK

(State or other Jurisdiction of
Incorporation or Organization)

14-1568099

(IRS Employer Identification Number)

2012 Route 9W, Milton, New York
(Address of Principal Executive Offices)

12547
(Zip Code)

Registrant's Telephone Number, Including Area Code: **(845) 795-2020**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class
None

Trading Symbol(s)
N/A

Name of each exchange
on which registered
N/A

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, \$.01 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting company

Emerging growth company

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

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

As of August 31, 2018 the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately \$34,185,178 computed by reference to the average of the bid and asked prices of the Common Stock on said date, which average was \$2.65.

The Registrant had 15,197,563 shares of Common Stock outstanding as of May 28, 2019.

DOCUMENTS INCORPORATED BY REFERENCE: None.

PART I

ITEM 1 BUSINESS

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

Our ultrasonic nozzle systems use high frequency ultrasonic vibrations that atomize liquids into minute drops that can be applied to surfaces at low velocity providing microscopic layers of protective materials over a wide variety of surfaces, including glass and metals. Our solutions are environmentally-friendly, efficient and highly reliable. They enable dramatic reductions in overspray, savings in raw material, water and energy usage and provide improved process repeatability, transfer efficiency, high uniformity and reduced emissions. We serve a variety of industries and applications and have a broad base of customers. Our largest customer accounted for 14% of revenue in fiscal 2019.

The applications that are employing our unique coating technology and expertise have been expanding as the advantages of ultrasonic coatings are more broadly recognized. The original application of our technology was to coat the inner surface of blood collection tubes used for medical diagnostic testing. Our products enable the application of a thin and uniform coating of material that prevents coagulation of blood. Following that initial breakthrough, our technology was then used for applying uniform flux coatings to printed circuit boards, a critical part of the fabrication process for all electronic devices. A later application for much larger surfaces was to address the many challenges that glass manufacturers faced. They needed a solution for specialized glass applications in the construction and automotive industries. Among other things, our ultrasonic nozzles are used to provide coatings that improve durability, create filters, increase clarity, reduce reflection, enable conductivity, and enhance safety. We have invested significant resources to enhance our market diversity by leveraging our core ultrasonic coating technology. As a result, we have increased our portfolio of products, the industries we serve, and the countries in which we sell our products.

We were founded by the inventor of the ultrasonic nozzle, Dr. Harvery Berger, and incorporated in New York on March 21, 1975. We became a public company in 1987 and our stock is traded on the OTCQX U.S. tier of the OTC exchange under the ticker symbol “SOTEK”. Our corporate offices are located in Milton, New York where our production facilities are co-located. We also have a sales and service office in Singapore and an application process development laboratory in Guangzhou, China. We are ISO 9001 qualified since registering in September 1998 and have been recertified annually since then.

Our fiscal year ends on February 28. We refer to the fiscal year ended February 28, 2019 as “fiscal 2019” and use similar protocol for previous fiscal years.

Our Products, Markets and Customers

Our products are used in a wide range of applications. We provide our customers a differentiated offering of ultrasonic spray solutions custom suited for their requirements and we continually expand our offerings to address new applications. Our products include fully-integrated Multi-Axis Coating Systems, Integrated Coating Systems, Fluxing Systems, OEM Systems and other related systems. We invest heavily in research and development to continually bring to market new solutions for our customers, to increase our market share and to solve high value problems in manufacturing.

Our Multi-Axis Coating Systems, Integrated Coating Systems and Fluxing Systems provide complete fully-integrated solutions for our customers, while we created the Universal Align to offer our customers subsystems that integrate our nozzles and generators that they can then incorporate into their original equipment.

We have built our brand and reputation on providing high quality, highly reliable products that provide consistent performance for critical applications in demanding operating environments. Our surface coating solutions are used in 24/7 work schedules, under harsh and challenging manufacturing environments, where they provide value in a continuous and dependable fashion.

We target the following markets where our product quality and consistency and application knowledge are valued by our customers:

- **Micro-Electronics/Electronics:**
 - o Printed circuit boards: Ultrasonic flux application removes oxidation and is more efficient than standard, historic processes.
 - o Semiconductors: Applications of micron-thin photo-resist layers onto complex wafers.
 - o Sensors: Application of chemical, biological or other detection coatings as well as physical photoelectric elements for conversion of input and output signals.
 - o Display/panel glass on personal electronic devices: for sensitivity to temperature, imprint, pressure and for physical protection.
- **Medical:** Our systems are used in this industry to apply micron layers of polymers and drugs; biomedical materials and anti-coagulants.
 - o Implanted medical devices such as:
 - Stents and balloons
 - Artificial joints
 - o Blood collection tubes
 - o Diagnostic devices
 - o Bandages/protective wraps
 - o Lenses
- **Industrial**
 - o Flat (“float”) glass used for windows in buildings and vehicles

- o Textiles: high performance value adding coatings such as anti-microbial, anti-stain, flame retardant and moisture barriers
- o Food packaging and food safety: anti-microbial coatings
- o Food: coatings of flavors, ingredients and other additives
- **Alternative Energy** : Our systems provide coatings of chemicals and other materials that act as catalysts, barriers, symbiosis or other interactions between surfaces.
 - o Fuel cells
 - o Solar cells
 - o Batteries
- **Emerging Research and Development / Other Markets**
 - o Research and development efforts at universities, research institutions and government agencies that are not part of already established Sono-Tek markets
 - o A variety of other small industries using Sono-Tek coating technology, that have not yet matured into a developed marketplace for our ultrasonic coating machines

Our principal customers include original equipment manufacturers, distributors and end users of our products in the industries that we serve.

Our products are sold primarily through select independent distributors and sales representatives around the world that are trained on our technologies and products. Our distributors are typically experts in their industries and recognize the significant value our technology provides their customers. We provide extensive training and on-site support with our direct sales force and application engineers, who also respond to leads generated by our web site and the trade shows in which we participate. To grow sales, we have strengthened our applications engineering team, expanding our presence in Singapore. We also expanded our worldwide process development laboratories with additional ultrasonic coating equipment. We sponsor various technical training and during fiscal 2019, our distribution network in Asia participated in a technical program on Sono-Tek ultrasonic coating solutions at our Guangzhou, China laboratory. Distributors that attended the program represented six countries in Asia, including two new organizations from Malaysia and Thailand.

We also provide application consulting services enabling our customers to rely on our surface coating expertise and specific customer process optimization. We offer these services both in our application process development laboratory and at our customers' sites where we can assist in the design and development of customized coating systems.

We are a global business and our geographical sales mix can vary from year to year depending on the timing of orders from customers. In fiscal 2019, 65% of our sales were from outside the U.S.

Our Strengths

Our core strengths and capabilities include:

- We have built a strong reputation in the industry based on our ability to solve our customers' complex problems and provide custom engineered, value-added solutions.

- We are renowned for our product quality, customer service and responsiveness and critical thinking that enables a strong problem-solving culture throughout our organization.
- We have expanded our ability to provide coating services for low to mid-volume demand to support our customers' product development and testing.
- We are continually developing new technologies and solutions to address an ever-changing marketplace.

Our Strategy

Our strategy is to further advance the use of ultrasonic coating technologies for the microscopic coating of surfaces in a broader array of applications which enable better outcomes for our customers' products and processes. We believe product superiority is imperative and that it is attained through the extensive experience we have in the coatings industry, our proprietary manufacturing know-how and skills, and our unique work force we have built over the years.

We intend to leverage our innovative technologies, proprietary know-how, unique talent and experience, and global reach to:

- Grow the business globally by reaching new markets and further penetrating the markets and customers we currently serve;
- Improve our earnings power through lean manufacturing processes, automation and continuous improvement;
- Develop new and unique technologies that solve our customers' most challenging problems;
- Meet or exceed our customers' expectations; and
- Provide an acceptable return to our shareholders.

To accomplish these objectives, we believe we must judiciously deploy our monetary and human capital, in order to expand our presence in our targeted markets and create a broader offering for our customers.

Availability of Raw Materials and Working Capital Practices

Historically, we have not been adversely impacted by the availability of raw materials or components used in the manufacture of our products. All raw materials used in our products are readily available from many different domestic suppliers. We purchase circuit board assemblies and sheet metal components from a wide range of suppliers throughout the world.

We carefully manage our inventory using lean manufacturing processes. We provide a limited warranty on all of our products that covers parts and labor for a period of one year from the date of sale.

Research and Development

We believe that our long-term growth is dependent upon the development and commercialization of ultrasonic coating technologies to solve customers' high value problems across a wide spectrum of applications in various industries, while also advancing the utility of our core technology. During fiscal 2019 and fiscal 2018, we spent \$1,325,000 and \$1,280,000, respectively, on research and development activities related to new products and services and the ongoing improvement of existing products and services. As a percentage of sales, research and development expenses were 11.4% and 11.6% in fiscal 2019 and 2018, respectively.

Intellectual Property

Our business is based in part on the technology covered by our U.S. patents. We also rely on unpatented know-how in the design and production of our nozzle systems, subsystems and complete solutions. We have executed non-disclosure and non-compete agreements with all of our employees to safeguard our intellectual property. We execute reciprocal non-disclosure agreements with our key customers to safeguard any jointly developed intellectual property.

Competition

We operate in competitive markets in many of our industry segments. We compete against alternative coating technologies, as well as global and regional manufacturers of nozzles and other products based on price, quality, product features, application engineering and follow up service. We maintain our competitive position by providing highly effective solutions that meet our customers' requirements and needs. In several emerging markets, we encounter less competition compared to more established markets based on the uniqueness of our ultrasonic technology in these applications.

Information Regarding Sales Outside the United States

During fiscal 2019 and fiscal 2018, sales to customers outside the U.S. accounted for approximately \$7,559,000, or 65% of total revenue, and \$6,193,000, or 56% of total revenue, respectively.

Employees

As of February 28, 2019, we employed 61 full-time and 7 part-time employees. We believe that relations with our employees are generally good.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. Therefore, we file reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). The SEC maintains a website at www.sec.gov that contains the reports, proxy statements and other information for registrants that file electronically, as we do. Additionally, these reports may be read and copied at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, DC 20549. Information regarding the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330.

We maintain a website at <http://www.sono-tek.com>. On our site, we provide copies of our Forms 8-K, 10-K, 10-Q, Proxy and Annual Report at no charge as soon as reasonably practicable after filing electronically such material with the SEC. Copies are also available, without charge, from Sono-Tek Corporation, 2012 Route 9W, Milton, NY 12547.

ITEM 1A **RISK FACTORS – Not Required for Smaller Reporting Companies.**

ITEM 1B **UNRESOLVED STAFF COMMENTS - None.**

ITEM 2 **DESCRIPTION OF PROPERTIES**

We own an industrial park located in Milton, New York that is subject to a ten-year mortgage, of which five years remain. The industrial park consists of approximately 50,000 square feet of office and warehouse space. Our offices, product development, manufacturing and assembly facilities are located in the industrial park. We presently utilize 33,000 square feet or 66% of the park for our operations. We believe our facilities will be adequate for the foreseeable future and the ownership of the industrial park provides us opportunity to expand as we grow.

Approximately 17,000 square feet of the park is leased or available for lease to unrelated third parties at any given time.

ITEM 3 **LEGAL PROCEEDINGS – None**

ITEM 4 **MINE SAFETY DISCLOSURES – Not Applicable**

PART II

ITEM 5 **MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock currently trades on the OTCQX U.S. tier of the OTC exchange under the ticker symbol “SOTK”.

As of February 28, 2019, there were 119 shareholders of record of our Common Stock.

We have not paid any cash dividends on our Common Stock since inception. We intend to retain earnings, if any, for use in our business and for other corporate purposes.

ITEM 6 **SELECTED FINANCIAL DATA – Not Required for Smaller Reporting Companies.**

ITEM 7 **MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Forward-Looking Statements

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, 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, technological and trade barrier developments affecting our operations or the demand for our products; timely development and market acceptance of new products; adequacy of financing; capacity additions; the ability to enforce patents; completion of backlog during the current fiscal year and the ability to achieve increased sales volume at projected levels and continued profitability.

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

Overview

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

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

We believe product superiority is imperative and that it is attained through the extensive experience we have in the coatings industry, our proprietary manufacturing know-how and skills and our unique work force we have built over the years. Our growth strategy is to leverage our innovative technologies, proprietary know-how, unique talent and experience, and global reach to further advance the use of ultrasonic coating technologies for the microscopic coating of surfaces in a broader array of applications that enable better outcomes for our customers’ products and processes.

We are a global business with approximately 65% of our sales generated from outside the United States and Canada. Our direct sales team and our distributor and sales representative network is located in North America, Latin America, Europe and Asia. Over the last few years, we have expanded our sales capabilities by increasing the size of our direct sales force, adding new distributors and sales representatives ("reps"). In addition, we have established testing labs at our distribution partner sites in China, Taiwan, Germany, Turkey, Korea and Japan, while also expanding our first testing lab that is co-located with our manufacturing facilities in New York. These labs provide significant value for demonstrating to prospective customers the capabilities of our equipment and enabling us to develop custom solutions to meet their needs.

Over the last decade, we have shifted our business from primarily selling our ultrasonic nozzles and components to a more complex business providing complete machine solutions and higher value subsystems to original equipment manufacturers ("OEMs"). The range for our average unit selling price has broadened as a result from less than \$8,000 for a nozzle and generator package to a range of \$50 thousand per unit to over \$240 thousand per unit. As a result of this transition, we have broadened our addressable market and we believe that we can grow sales on a larger scale and we expect that we will experience wide variations in both order flow and shipments from quarter to quarter.

Highlights

Highlights for fiscal 2019 include:

- Net sales for fiscal 2019 were \$11,610,000, up 5.5% compared with \$11,008,000 for fiscal 2018. Higher net sales were driven by demand for highly customized ultrasonic coating systems in China for the alternative energy market, specifically fuel cells, as well as advanced ultrasonic coating solutions for the medical market.
- Gross profit and operating margins for fiscal 2019 decreased to 45.2% and 0.7%, respectively, from 48.1% and 3.5%, respectively, for fiscal 2018. Lower gross profit margin reflects the change in mix toward complex coating machines with increased outsourced content combined with an aggressive pricing strategy to establish a leading market position in the China fuel cell market. We believe our pricing strategy for the fuel cell industry in China could result in gaining a sizable share of a significant potential market. This could ultimately lead to high production volumes and the opportunity for reduction in manufacturing costs and realization of operating leverage.
- Basic Earnings and Diluted Earnings per share were \$0.01 in fiscal 2019 compared with \$0.02, for fiscal 2018
- Backlog on February 28, 2019 achieved a record \$3,038,000, up 145% from backlog of \$1,238,000 on February 28, 2018. Backlog growth resulted from an order for a highly automated, complex ultrasonic coating solution for the electronics/microelectronics industry as well as continued demand for more advanced coating solutions from the alternative energy and medical markets.
- Cash and cash equivalents and short-term investments at February 28, 2019 were \$5,510,000 compared with \$6,422,000 as of February 28, 2018, a decrease of \$912,000. Capital expenditures in fiscal 2019 were \$547,000, up from \$189,000 in the prior fiscal year, primarily as a result of the \$337,000 purchase of CNC machine tools for expanding production capacity and capabilities. The equipment provides the needed precision machining required for our latest generation of proprietary ultrasonic nozzles. Cash used in operating activities was related to higher receivables and inventories, reflecting the growth in demand.
- We have a strong balance sheet with debt accounting for approximately 10% of total capitalization. We believe that provides us with the financial flexibility to pursue our business strategy for growth.

Market and Geographic Diversity

We have invested significant resources to enhance our market diversity. Leveraging our core ultrasonic coating technology, we expanded our portfolio of products, the industries we serve, and the countries in which we sell our products.

Today, we serve five industries: microelectronics/electronics, medical, alternative energy, emerging research and development and other, as well as the industrial markets.

We are a geographically diverse company with a presence directly and through distributors and trade representatives, in the United States and Canada, EMEA (Europe, Middle East and Africa), APAC (Asia Pacific) and Latin America (including Mexico). In fiscal 2019, approximately 65% of sales originated outside of the United States and Canada. We established an infrastructure to drive our geographic diversity including a newly equipped, application process development laboratory in APAC, a strengthened sales organization of application engineers, expanded talent on our engineering team, the latest, most sophisticated design software tools, as well as an expanded, highly trained installation and service organization.

We believe that the new products we have introduced, the new markets we have penetrated, and the regions in which we now sell our products, are a strong foundation for our future sales growth and enhanced profitability.

Results of Operations

Sales:

	Fiscal Year Ended		Change	
	2019	2018	\$	%
Net Sales	\$ 11,610,000	\$ 11,008,000	\$ 602,000	5%
Cost of Goods Sold	6,361,000	5,712,000	649,000	11%
Gross Profit	\$ 5,249,000	\$ 5,296,000	\$ (47,000)	(1%)
Gross Profit %	45.2%	48.1%		

The combination of strong market conditions in alternative energy and medical markets, the introduction of our new ultrasonic coating solutions for the electronics/microelectronics industry and the continued expansion of our global sales effort, drove sales up 5% to \$11,610,000 in fiscal 2019 compared with the prior fiscal year. Increased sales from the Asian Pacific region, primarily driven by shipments to China for the fuel cell and medical markets, partially offset somewhat softer sales to the U.S. medical market. The softness in the U.S. medical market was primarily due to timing of orders from a stent manufacturer that purchased a large number of systems in fiscal 2018.

Product Sales:

	Twelve Months Ended February 28,				Change	
	2019	% of total	2018	% of total	\$	%
Fluxing Systems	\$ 1,176,000	10%	\$ 1,196,000	11%	\$ (20,000)	(2%)
Integrated Coating Systems	1,449,000	13%	2,398,000	22%	(949,000)	(40%)
Multi-Axis Coating Systems	4,906,000	42%	4,175,000	38%	731,000	18%
OEM Systems	1,891,000	16%	1,034,000	9%	857,000	83%
Other	2,188,000	19%	2,205,000	20%	(17,000)	(1%)
TOTAL	\$ 11,610,000		\$ 11,008,000		\$ 602,000	5%

Sales growth was driven by demand for more complex, highly-engineered and higher value multi-axis coating machines primarily for the Alternative Energy and Medical markets in fiscal 2019. This equipment's average selling price can range from \$100 thousand to over \$240 thousand per unit and is typically ordered in one-or two-unit volumes. Our ability to provide subsystems and components including our custom designed Align system, which OEMs integrate into their equipment, drove the increase in sales for the OEM systems product category. Growth in these product categories more than offset the decline in integrated coating systems, which primarily are for more mature applications in the Medical market and can be highly variable in order volume.

Market Sales:

	Twelve Months Ended February 28,				Change	
	2019	% of total	2018	% of total	\$	%
Electronics/Microelectronics	\$ 4,328,000	37%	\$ 4,088,000	37%	\$ 240,000	6%
Medical	3,173,000	28%	3,073,000	28%	100,000	3%
Alternative Energy	2,111,000	18%	1,808,000	17%	303,000	17%
Emerging R&D and Other	1,295,000	11%	1,149,000	10%	146,000	13%
Industrial	703,000	6%	890,000	8%	(187,000)	(21%)
TOTAL	\$ 11,610,000		\$ 11,008,000		\$ 602,000	5%

Use of our application process development laboratory by customers reached record levels in FY2019, which we believe demonstrates the success of our strategy to provide excellent application engineering expertise as well as paid coating services to prospects and customers to validate the capabilities of our coating technologies for their uses. These service-based customers are guided by our applications engineering team, to develop successful coating processes for their unique needs. Upon achieving coating results that meet the application requirements, the customer's next step is typically to purchase the newly defined coating solution. We believe a high percentage of prospects and customers that use our lab services to develop their products results in sales of our ultrasonic coating solutions.

As expected, the Alternative Energy market continued to grow as applications and new requirements for fuel cell manufacturing equipment increased. Asia, specifically China, has been driving demand for fuel cells because of the investments being made by the Chinese government. Our equipment is used to produce highly durable, uniform, pinhole-free coatings of carbon-based catalyst inks onto fuel cell proton exchange membranes, reducing waste and improving functionality. Over the long term, demand from this market is poised for substantial growth as the industry continues to scale up from R&D prototype production to low rate production.

The industrial market showed a small decline in sales due to reduced orders in the float glass industry, which is typical due to variations in demand and applications from period to period.

Geographic Sales:

	Twelve Months Ended February 28,		Change	
	2019	2018	\$	%
U.S. & Canada	\$ 4,050,000	\$ 4,815,000	\$ (765,000)	(16%)
Asia Pacific (APAC)	3,659,000	2,464,000	1,195,000	48%
Europe, Middle East, Asia (EMEA)	2,729,000	2,617,000	112,000	4%
Latin America	1,172,000	1,112,000	60,000	5%
TOTAL	\$ 11,610,000	\$ 11,008,000	\$ 602,000	5%

In fiscal 2019, approximately 65% of sales originated outside of the United States and Canada. This compares with 56% in fiscal 2018. Sales to APAC grew substantially, primarily from China in the Alternative Energy and Medical markets, which offset slower U.S. sales due to the timing of demand in the Medical market from a stent manufacturer for ultrasonic coating equipment.

Gross Profit:

Gross profit decreased \$47,000, or 1%, to \$5,249,000 for fiscal 2019 from \$5,296,000 in the prior fiscal year. Gross profit margin decreased by 290 basis points to 45.2% for fiscal 2019. The decrease reflects the Company's strategy for establishing a leading market position in the fuel cell market in China, which is expected to be a large addressable market. The Company believes that as the market more fully develops, that costs associated with the manufacturing of our equipment at production-level scale will be reduced, enabling margins to expand. Margin compression also reflects the change in product mix to more complex ultrasonic coating solutions that require more outsourced content.

Operating Expenses:

	Twelve Months Ended February 28,		Change	
	2019	2018	\$	%
Research and product development	\$ 1,325,000	\$ 1,280,000	\$ 45,000	4%
Marketing and selling	\$ 2,686,000	\$ 2,516,000	\$ 170,000	7%
General and administrative	\$ 1,155,000	\$ 1,118,000	\$ 37,000	3%
Total Operating Expenses	\$ 5,166,000	\$ 4,914,000	\$ 252,000	5%

Research and Product Development:

Research and product development costs increased \$45,000 to \$1,325,000 for fiscal 2019 as compared with \$1,280,000 for the prior fiscal year. Higher research and product development costs for fiscal 2019 were due to increased engineering salaries and health insurance premiums. These increases were partially offset by decreased depreciation expense.

Marketing and Selling:

Marketing and selling costs increased \$170,000 to \$2,686,000 for fiscal 2019 as compared with \$2,516,000 for the prior fiscal year. Higher marketing and selling costs for fiscal 2019 were due to increased health insurance premiums, salaries related to the addition of new technical sales personnel, travel expenses related to train the new personnel and international distributor training. These increases were partially offset by decreases in international commission expense and trade show expense.

During fiscal 2019, we expended approximately \$457,000 for commissions as compared with \$530,000 for the prior fiscal year, a decrease of \$73,000. The decrease in commissions is due to an increase of equipment sales that did not have external distributor involvement and the associated commission expense.

During fiscal 2019, we expended approximately \$247,000 for advertising and trade show expense compared with \$280,000 for the prior fiscal year, a decrease of \$33,000.

General and Administrative:

General and administrative costs increased \$37,000 to \$1,155,000 for fiscal 2019 as compared with \$1,118,000, for the prior fiscal year. Higher general and administrative costs for fiscal 2019 were due to increased health insurance premiums, legal and professional fees, bank fees and fees related to an investor relations firm. Fees related to the investor relations firm began in the second quarter of fiscal 2019. These increases were partially offset by decreases in salary expense and stock based compensation expense.

Operating Income:

Operating income decreased to \$82,000 in fiscal 2019 compared with \$382,000 for the prior fiscal year. We continued to invest in new product development and increased our sales and marketing efforts in fiscal 2019 as we address market expansion opportunities. The decrease in operating income is a result of our gross profit decreasing by \$48,000 combined with an increase in operating expenses of \$252,000, resulting in a net decrease of \$300,000 in operating income. However, as a percentage of net sales, operating expenses were down 20 basis points to 44.5% in fiscal 2019 compared with 44.7% in fiscal 2018.

Interest Expense:

Interest expense decreased to \$40,000 for fiscal 2019 as compared with \$46,000 for the prior fiscal year.

Interest and Dividend Income:

Interest and dividend income increased to \$137,000 for fiscal 2019 as compared with \$91,000 for the prior fiscal year. Our present investment policy is to invest excess cash in highly liquid, lower risk US Treasury securities. At February 28, 2019, the majority of our holdings are rated at or above investment grade.

Other Income:

Included in other income is the net revenue related to the rental of the Company's real estate. For fiscal 2019, the Company's rental revenue was \$84,000, expenses were \$61,000 and the net profit was \$23,000.

For fiscal 2018, the Company's rental revenue was \$78,000, expenses were \$59,000 and the net profit was \$19,000.

Income Tax Expense:

We recorded income tax expense of \$20,000 for fiscal 2019 compared with \$92,000 for the prior fiscal year. The details of the current year's tax expense are explained in Note 11 in our financial statements.

Net Income:

Net income decreased to \$162,000 in fiscal 2019 compared with \$368,000 for the prior fiscal year. The decrease reflects \$300,000 in lower operating profit and a \$37,000 net loss on marketable securities (\$63,000 increase in realized gain offset by \$100,000 unrealized loss), partially offset by \$52,000 net increase in interest and dividend income and interest expense, \$7,000 increase in other income and lower income tax expense of \$72,000.

For fiscal 2019 and 2018, we do not believe that our sales revenue or net income has been adversely affected by the impact of inflation or changing prices.

Fiscal Year 2020 Outlook

We expect that all of our record backlog of \$3,038,000 as of February 28, 2019 to ship during the fiscal year ending February 29, 2020, supporting our expectation that current fiscal year sales will grow in the range of 15% to 20%. Furthermore, we expect that this increased sales volume will expand margins and drive stronger earnings. Part of our anticipated growth is due to a \$1,650,000 order for a newly introduced Robotic Coating Platform. This new platform will allow us to pursue additional prospects for six axis robotic coating which is an opportunity for ongoing growth.

Liquidity and Capital Resources

Working Capital – Our working capital decreased \$136,000 to \$6,424,000 at February 28, 2019 from \$6,560,000 at February 28, 2018. The decrease in working capital was mostly the result of purchases of equipment and repayment of long-term debt partially offset by the current period's net income and noncash charges.

The Company aggregates cash and cash equivalents and marketable securities in managing its balance sheet and liquidity. For purposes of the following analysis, the total is referred to as "Cash." At February 28, 2019 and 2018, our working capital included:

	February 28, 2019	February 28, 2018	Cash Decrease
Cash and cash equivalents	\$ 3,144,000	\$ 2,016,000	\$ 1,128,000
Marketable securities	2,366,000	4,406,000	(2,040,000)
Total	<u>\$ 5,510,000</u>	<u>\$ 6,422,000</u>	<u>(\$ 912,000)</u>

The following table summarizes the accounts and the major reasons for the \$912,000 decrease in “Cash”:

	<u>Impact on Cash</u>	<u>Reason</u>
Accounts receivable increase	\$ (623,000)	58% of current quarters shipments occurred in February 2019.
Inventories increase	(370,000)	Required to support backlog.
Prepaid expenses	(256,000)	Deposits on purchases
Equipment purchases	(547,000)	Equipment upgrade for productivity.
Customer deposits increase	805,000	Received for new orders.
Other - net	79,000	Timing of disbursements.
Net decrease in cash	<u>\$ (912,000)</u>	

Stockholders' Equity - Stockholders' equity increased \$192,000 from \$8,392,000 at February 28, 2018 to \$8,584,000 at February 28, 2019. The increase was a result of the current year's net income of \$162,000 and stock-based compensation expense of \$30,000.

Operating Activities - We used \$109,000 of cash in our operating activities in fiscal 2019 compared with generating \$1,802,000 in fiscal 2018. The reduction in cash generated by operating activities was mostly the result of lower net income and increased inventories, prepaid expenses and accounts receivable as well as a reduction in accounts payable and accrued expenses. These uses of cash were partially offset by an increase in customer deposits.

Investing Activities - In fiscal 2019, cash generated by investing activities was \$1,393,000 compared with using \$2,194,000 of cash in fiscal 2018. Capital spending in fiscal 2019 was \$547,000 for the purchase or manufacture of equipment, furnishings and leasehold improvements, which included \$337,000 of cash to upgrade our CNC machinery. This compares with \$189,000 for the purchase of equipment and furnishings in fiscal 2018.

In fiscal 2019 sales of our marketable securities provided \$1,940,000 of cash compared with using \$2,004,000 for purchases in fiscal 2018.

Financing Activities - In fiscal years 2019 and 2018, we used \$156,000 and \$150,000 in cash, respectively, for the principal payments on our mortgage.

Net Increase (Decrease) in Cash and Cash Equivalents - In fiscal 2019 our cash balance increased by \$1,128,000 as compared with a decrease of \$541,000 in fiscal 2018. During fiscal 2019, we used \$109,000 of cash in our operating activities. In addition, we received \$1,940,000 from the sale of marketable securities, we used \$548,000 for the purchase or manufacture of equipment, furnishings and leasehold improvements and used \$156,000 for the repayment of our note payable.

Bank Credit Facilities:

We currently have a revolving credit line of \$1,500,000 and a \$750,000 equipment purchase facility, both of which are with a bank. The revolving credit line is collateralized by the Company's accounts receivable and inventory. The revolving line of credit is payable on demand and must be retired for a 30-day period, once annually. As of February 28, 2019, there were no outstanding borrowings under the line of credit.

As of February 28, 2019, \$808,000 of the Company's credit line was being utilized to collateralize letters of credit issued to customers that have remitted cash deposits to the Company on existing orders. The unused portion of the credit line was \$692,000 as of February 28, 2019. The letters of credit expire in 2020.

We had outstanding borrowings under a note payable of \$871,000 at February 28, 2019. The note is payable over five years and accrues interest at 4.15% per year. The note payable is secured by a mortgage on our land and buildings.

Off - Balance Sheet Arrangements

We do not have any Off - Balance Sheet Arrangements as of February 28, 2019.

Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's 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. As of February 28, 2019, management believes there are no critical accounting policies applicable to the Company that are reflective of significant judgments and or uncertainties.

Stock-Based Compensation

The computation of the expense associated with stock-based compensation requires the use of a valuation model. ASC 718 is a complex accounting standard, the application of which requires significant judgment and the use of estimates, particularly surrounding Black-Scholes assumptions such as stock price volatility, expected option lives, and expected option forfeiture rates, to value equity-based compensation. 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. ASC 718 requires the recognition of the fair value of stock compensation in net income. Although every effort is made to ensure the accuracy of our estimates and assumptions, significant unanticipated changes in those estimates, interpretations and assumptions may result in recording stock option expense that may materially impact our financial statements for each respective reporting period.

Impact of New Accounting Pronouncements

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either operating or financing, with such classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, and early adoption is permitted. The adoption of ASU 2016-02 will have no material impact on the Company’s financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”. ASU 2018-02 was issued to allow the reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effect resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017. The Tax Cuts and Jobs Act, among other things, reduced the corporate tax rate from 35% to 21%, which required the re-evaluation of any deferred tax assets and liabilities at the lowered tax rate which potentially could leave a disproportionate tax effect in accumulated other comprehensive income. ASU 2018-02 allows for the election to reclassify these stranded tax effects to retained earnings. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period for public business entities for reporting periods for which financials statements have not yet been issued. The adoption of ASU 2018-02 will have no material impact on the Company’s financial statements.

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

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK – Not Required for Smaller Reporting Companies.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements are presented on pages 32 to 49 of this Report.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE – None.

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Act”)) as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of such date, at a reasonable level of assurance, in ensuring that the information required to be disclosed by us in the reports we file or submit under the Act is (i) accumulated and communicated to our management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chairman & CEO (principal executive officer) and Chief Financial Officer (principal accounting officer), we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management has concluded that our internal control over financial reporting was effective as of February 28, 2019. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B OTHER INFORMATION - None.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

(a) Identification of Directors

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Christopher L. Coccio	78	Chief Executive Officer, Chairman and Director
R. Stephen Harshbarger	51	President and Director
Eric Haskell, CPA	72	Director*
Donald F. Mowbray	81	Director
Carol O'Donnell	62	Director*
Joseph Riemer	70	Director
Samuel Schwartz	99	Chairman Emeritus and Director
Philip A. Strasburg, CPA	80	Director*

* Member of the Audit Committee.

The Board of Directors is divided into two classes. The directors in each class serve for a term of two years. The terms of the classes are staggered so that only one class of directors is elected at each annual meeting of the Company. The terms of Drs. Coccio and Riemer and Messrs. Strasburg and Harshbarger and Ms. O'Donnell run until the annual meeting to be held in 2019, and in each case until their respective successors are duly elected and qualified. The terms of Dr. Mowbray and Messrs. Haskell and Schwartz run until the annual meeting to be held in 2020.

Audit Committee

The Company's Board of Directors has an Audit Committee composed of "independent directors", Carol O'Donnell, Eric Haskell, CPA and Philip A. Strasburg, CPA, as Chairman. The "audit committee financial expert" designated by the Board is Philip A. Strasburg.

The Audit Committee is responsible for (i) selecting an independent public accountant for ratification by the stockholders, (ii) reviewing material accounting items affecting the consolidated financial statements of the Company, and (iii) reporting its findings to the Board of Directors.

Nominating Committee

There have been no changes to the procedures by which shareholders may recommend nominees to the Board of Directors.

(b) Identification of Executive Officers

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>
Stephen J. Bagley, CPA	56	Chief Financial Officer
Bennett D. Brunttil	38	Vice President
Christopher L. Coccio	78	Chief Executive Officer, Chairman and a Director
Robb W. Engle	48	Vice President
R. Stephen Harshbarger	51	President and Director

The foregoing officers are appointed for terms of one year or until their successors are duly elected and qualified or until terminated by the action of the Board of Directors. There are no arrangements or understandings between any executive officer and any other persons(s) pursuant to which he was or is to be selected as an officer.

Business Experience

STEPHEN J. BAGLEY, CPA was appointed Chief Financial Officer in June 2005. From 1987 to 1991 he worked in public accounting in various capacities. From 1992 to 2005, he held various leadership positions as Controller, Chief Financial Officer and Vice President of Finance for companies with up to \$45,000,000 in revenues. Mr. Bagley earned a Bachelor of Science degree from The State University of NY – College at Oneonta and an MBA from Marist College. He was licensed as a CPA in 1990. Mr. Bagley is a member of the 2019 OTCQX Issuer Advisory Council. Mr. Bagley is a past President of the Board of Education for the New Paltz Central School District and a past Chairman of the Audit and Finance Committee for the District.

BENNET D. BRUNTIL was appointed Vice President in March 2018. Mr. Brunttil joined Sono-Tek in 2007 as a Regional Sales Manager and has served as Marketing Brand Manager and Director of the Electronics and Advanced Energy Division. Mr. Brunttil has experience in branding and product development and has successfully implemented sales strategies, launched new products and management of a diverse product line. Prior to joining Sono-Tek, Mr. Brunttil was a branch manager in the retail banking industry. He is a graduate of Central Connecticut State University with a major in psychology and a concentration in sociology.

DR. CHRISTOPHER L. COCCIO was appointed President and Chief Executive Officer of Sono-Tek on April 30, 2001, has been a Director of the Company since June 1998, and was appointed Chairman in August 2007. From 1964 to 1996, he held various engineering, sales, marketing and management positions at General Electric Company, with P&L responsibilities for up to \$100 million in sales and 500 people throughout the United States. He also won an ASME Congressional Fellowship and served with the Senate Energy Committee in 1976. His business experience includes both domestic and international markets and customers. He founded a management consulting business in 1996, and was appointed a legislative Fellow on the New York State Assembly's Legislative Commission on Science and Technology from 1996 to 1998. From 1998 to 2001, he worked with Accumetrics Associates, Inc., a manufacturer of digital wireless telemetry systems, as Vice President of Business Development and member of the Board of Advisors. Dr. Coccio received a B.S.M.E. from Stevens Institute of Technology, an M.S.M.E. from the University of Colorado, and a Ph.D. from Rensselaer Polytechnic Institute in Chemical Engineering.

Key attributes, Experience and Skills: Dr. Coccio brings his strategic vision for our Company to the Board together with his leadership, business experience and investor relations skills. Dr. Coccio has an immense knowledge of our Company and its related applications which is beneficial to the Board. Dr. Coccio's service as Chairman and CEO bridges a critical gap between the Company's management and the Board, enabling the Board to benefit from management's perspective on the Company's business while the Board performs its oversight function.

ROBB W. ENGLE joined Sono-Tek in 2000 as a Field Service Technician and became Vice President of Engineering in January 2013. Mr. Engle created the Sono-Tek Service Department and led the development of key products in his leadership role of our engineering resources. As Vice President of Engineering, he directs the engineering department, service department, IT and Sono-Tek laboratory services. Mr. Engle was formally trained and certified by the U.S. Navy as a Nuclear Operator where he was recognized with an induction into the Navy League Memorial for meritorious service and the advancement of training techniques. He also served with honors on board a submarine and earned the prestigious Sub-Surface Warfare (E) Insignia.

R. STEPHEN HARSHBARGER joined Sono-Tek in 1993. He was appointed President of the Company in 2012 and became a Director in August 2013. As President, he directs the Company's Sales, Marketing, Engineering, Service, and Manufacturing Operations. Prior to assuming his present position, Mr. Harshbarger served as Sales Engineer, World Wide Sales and Marketing Manager, Vice President & Director of Electronics and Advanced Energy (E&AE) and Executive Vice President. In his years managing the sales organization, he established a worldwide distribution and representative network in more than 40 countries consisting of more than 300 persons, with revenue growth of greater than 300%. He has over 20 years of experience in ultrasonic coating equipment for the electronics, medical device and advanced energy industries. Prior to joining Sono-Tek, Mr. Harshbarger was the Sales and Marketing Manager for Plasmaco Inc., a world leader in the development of flat panel displays. In that position, he established their distribution network, participated in venture capital funding, and introduced the first flat panel technology to Wall Street trading floors. He is a graduate of Bentley University, with a major in Finance and a minor in Marketing.

Key attributes, Experience and Skills: Mr. Harshbarger is among a small handful of ultrasonic coating experts in the world. He has a proven track record of identifying, developing and implementing the technology for new markets and applications. His expertise in ultrasonic coating brings specific product application insights to the Board. Mr. Harshbarger also brings leadership and oversight experience to the Board.

ERIC HASKELL, CPA has been a Director since August 2009. He has over 40 years of experience in senior financial positions at several public and private companies. He has significant expertise in the areas of acquisitions and divestitures, strategic planning and investor relations. From December 2005 through March 2008, Mr. Haskell served as the Executive Vice President and Chief Financial Officer of SunCom Wireless Holdings, Inc., a company providing digital wireless communications services which was publicly traded until its merger with a wholly-owned subsidiary of T-Mobile USA, Inc. in February 2008. He also served as a member of SunCom's Board of Directors from November 2003 through May 2007. From 1989 until April 2004, Mr. Haskell served as the Chief Financial Officer of Systems & Computer Technology Corp., a NASDAQ listed software and services corporation. Mr. Haskell received his Bachelors Degree in Business Administration from Adelphi University in 1969.

Key attributes, Experience and Skills: Mr. Haskell's training and extensive experience in financial management at both public and private companies provide the Board with valuable insights. Mr. Haskell's significant experience in acquisitions and divestitures and investor relations bring strategic judgment and experience to the Board. Mr. Haskell's strong operational and business background complement his accounting and finance experience and are valuable resources to the Board as it exercises its oversight duties and support of the Company's growth strategies.

DR. DONALD F. MOWBRAY has been a Director since August 2003. He has been an independent consultant since August 1997. From September 1992 to August 1997, he was the Manager of the General Electric Company's Corporate Research and Development Mechanical Engineering Laboratory. From 1962 to 1992 he worked for the General Electric Company in a variety of engineering and managerial positions. Dr. Mowbray received a B.S. in Aeronautical Engineering from the University of Minnesota in 1960, a Master of Science in Engineering Mechanics from the University of Minnesota in 1962 and a Ph.D. from Rensselaer Polytechnic Institute in Engineering Mechanics in 1968.

Key attributes, Experience and Skills: Dr. Mowbray's extensive research and managerial experience enables him to bring valuable insights to the Board. His knowledge of the Company's products and the materials sciences technology underlying them has enabled him to contribute to the Company's advanced products development and designs. Dr. Mowbray also brings leadership and oversight experience to the Board from his GE management background.

CAROL O'DONNELL has been a Director since November 2018. Ms. O'Donnell joined Protégé Partners, an industry leading firm investing in and seeding smaller and emerging hedge fund managers in 2016 and has served as Chief Executive Officer since 2018. She was a key member of the Protégé executive team that launched an affiliate business, MOV37, for which she also serves as Chief Executive Officer. Prior to joining Protégé Partners, Ms. O'Donnell was the Director of Legal and Compliance with DARA Capital US, Inc., a Swiss-owned boutique registered investment advisory and wealth management firm from 2013 to 2016. She also worked at Permal Group as General Counsel and Chief Compliance Officer and was COO and General Counsel of Framework Investment Group. Ms. O'Donnell is qualified to practice law in the States of New York and Connecticut.

Key attributes, Experience and Skills: Ms. O'Donnell's extensive experience as an attorney enables her to bring valuable strategic insights to the Board. Ms. O'Donnell also brings leadership and oversight experience to the Board.

DR. JOSEPH RIEMER joined the Company in January 2007 as Vice President of Engineering and has been a Director since August 2007. Dr. Riemer served as President from September 2007 until August 2012 when he became Vice President of Food Business Development, which position he held until June 2016. Dr. Riemer holds a Ph.D. in Food Science and Technology from the Massachusetts Institute of Technology (MIT), focusing on food technology, food chemistry, biochemical analysis, and food microbiology. His experience includes seven years with Pfizer in its Adams Confectionary Division, where he was Director, Global Operations Development. Dr. Riemer has also held leading positions with several food, food ingredients, and personal care products companies. He has served in the capacities of research and development, operations, and general management. Prior to joining the Company, he was a management consultant serving clients in the food, biotech and pharmaceutical industries.

Key attributes, Experience and Skills: Dr. Riemer's extensive research and management experience enables him to bring valuable insights to the Board. His considerable experience in the biotech, food and pharmaceutical industries bring specific product application insights to the Board. Dr. Riemer's previous service as Vice President of Food Business Development helps to provide focus to the Board on this important marketing area. Dr. Riemer also brings leadership and oversight experience to the Board.

SAMUEL SCHWARTZ has been a Director of the Company since August 1987, and was Chairman of the Board from February 1993 to May 1999 and August 2001 to August 2007. From 1959 to 1992, he was the Chairman and Chief Executive Officer of Krystinel Corporation, a manufacturer of ceramic magnetic components used in electronic circuitry. He received a B.Ch.E. from Rensselaer Polytechnic Institute in 1941 and an M.Ch.E. from New York University in 1948.

Key attributes, Experience and Skills: Mr. Schwartz's long-time experience as a businessman and manufacturer enables him to bring valuable operational insights to the Board. Mr. Schwartz's experience as former Chairman of the Board enable him to bring operational insights to the Board. Mr. Schwartz also brings leadership and oversight experience to the Board.

PHILIP STRASBURG, CPA, has been a Director since August 2004. He is a retired partner from the firm of Anchin Block and Anchin, LLP and has 40 years of experience in auditing. He has served as Audit Committee Chairman since 2005. He was the lead partner on the Sono-Tek account from fiscal 1994 to fiscal 1996. Mr. Strasburg is a certified public accountant in New York State. He has a Master of Science in economics from The London School of Economics and Political Science and a Bachelors of Science degree from Lehigh University, where he majored in business administration.

Key attributes, Experience and Skills: Mr. Strasburg's training and extensive experience in auditing provide the Board with valuable insights and skills necessary to lead the Audit Committee. Mr. Strasburg's strong operational and business background complement his accounting and finance experience, and are valuable resources to the Board as it exercises its oversight duties and support of the Company's growth strategies.

(c) Identification of Certain Significant Employees

Not applicable.

(d) Family Relationships

None.

(e) Involvement in certain legal proceedings

None.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors, executive officers and persons who own more than ten percent of the Company's common stock to file with the Securities and Exchange Commission initial reports of beneficial ownership and reports of changes of beneficial ownership of common stock. Such persons are also required by Securities and Exchange Commission regulations to furnish the Company with copies of all such reports. Based solely on a review of such filings, during the year ended February 28, 2019, all of the Company's Directors and executive officers and holders of more than ten percent of the Company's stock have made timely filings of such reports.

Code of Ethics

The Company has adopted a Code of Ethics for senior executives and financial officers. The Board intends that this Code satisfy the requirements of the Securities and Exchange Commission rules for a Code of Ethics that applies to senior management. A copy of the Company's Code of Ethics is posted on the "information for investors" web page located at <http://www.sono-tek.com/code-of-ethics/> and is available in print to any shareholder who requests a copy.

ITEM 11 EXECUTIVE COMPENSATION

The following table sets forth the aggregate remuneration paid or accrued by the Company for fiscal 2019 and fiscal 2018 for each named officer of the Company.

Summary Compensation Table

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Stock Awards</u>	<u>Option Awards (\$)</u>	<u>All Other Compensation (\$)</u>	<u>Total (\$)</u>
Christopher L. Coccio	2019	150,000	18,000	0	—	3,960	171,960
CEO, Chairman and Director	2018	150,000	36,000	0	—	3,485	189,485
R. Stephen Harshbarger	2019	220,000	15,000	0	12,593	5,300	252,893
President and Director	2018	223,692	30,000	0	20,873	4,989	279,554
Stephen J. Bagley	2019	155,000	12,000	0	4,198	3,820	175,018
Chief Financial Officer	2018	154,596	24,000	0	5,429	3,446	187,471

All Other Compensation represents Company contributions to the Company's 401K plan.

Option awards in the above table are calculated using the Black-Scholes options pricing model which is further discussed in Note 4 – Stock Based Compensation, in the Company's financial statements.

Officer Compensation Arrangements

During fiscal 2019, Dr. Coccio was compensated at a rate of \$150,000 per annum.

During fiscal 2019, Mr. Harshbarger was compensated at a rate of \$220,000 per annum.

During fiscal 2019, Mr. Bagley was compensated at a rate of \$155,000 per annum.

In addition, each named officer earned bonus compensation based on the achievement of certain operating objectives.

Outstanding Equity Awards at Fiscal Year End

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Christopher L. Coccio CEO, Chairman and Director	—	—	—	—
R. Stephen Harshbarger President		101,000 ¹	0.91	07/20/2026
		110,000 ²	1.06	05/18/2027
Stephen J. Bagley Chief Financial Officer	—	70,000 ³	0.91	07/20/2026

¹ 67,000 of these options vested on March 15, 2019 and have been exercised and 34,000 of these options will vest on March 15, 2020.

² 36,667 of these options vested on March 15, 2019, 36,667 of these options will vest on March 15, 2020 and 36,666 of these options will vest on March 15, 2021.

³ 33,333 of these options vested on March 15, 2019 and have been exercised, 23,333 of these options will vest on March 15, 2020 and 13,334 of these options will vest on March 15, 2021.

Estimated Payments and Benefits Upon Termination or Change in Control

On September 1, 2007, the Company entered into identical Executive Agreements with Stephen J. Bagley, Chief Financial Officer and Christopher L. Coccio, Chief Executive Officer. The Company also entered into an Executive Agreement with R. Stephen Harshbarger, President, on March 5, 2008. The agreements, as subsequently amended, provide that in the event of a change of control of the Company followed by a termination of the executives' employment under certain circumstances, the officers shall receive severance payments equal to two years of the executive's annual base, commissions and bonus compensation paid by the Company for the previous calendar year.

Based on last year's salary arrangements, if the rights of the foregoing officers were to be triggered following a change of control, they would be entitled to the following payments from the Company: Stephen J. Bagley \$358,000, Christopher L. Coccio \$372,000 and R. Stephen Harshbarger \$508,000.

Severance Agreements

On October 20, 2017, the Company entered into identical Executive Agreements with Stephen J. Bagley, Chief Financial Officer, Christopher L. Coccio, Chief Executive Officer and R. Stephen Harshbarger, President. The agreements provide that in the event of termination of the executive's employment, other than for the cause, the officers shall receive severance payments equal to two weeks of compensation for each full year employed by the Company.

Compensation of Directors

Each non-employee director receives \$1,000 for each meeting attended. Directors who are employees of the Company receive no additional compensation for serving as directors. For the year ended February 28, 2019, director compensation was as follows:

2019 Director Compensation

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Stock Awards (\$)</u>	<u>Option Awards (\$)</u>	<u>Non-Equity Incentive Plan Compensation (\$)</u>	<u>Nonqualified Deferred Compensation Earnings (\$)</u>	<u>All Other Compensation (\$)</u>	<u>Total (\$)</u>
Edward J. Handler ¹	2,000	—	—	—	—	—	2,000
Eric Haskell	5,000	—	—	—	—	—	5,000
Donald F. Mowbray	5,000	—	—	—	—	—	5,000
Carol O'Donnell	2,000	—	2,052	—	—	—	4,052
Samuel Schwartz	5,000	—	—	—	—	—	5,000
Philip Strasburg	5,000	—	—	—	—	—	5,000
Joseph Riemer	5,000	—	—	—	—	—	5,000

¹ Deceased July 2018.

Option awards in the above table are calculated using the Black-Scholes options pricing model which is further discussed in Note 4 – Stock Based Compensation, in the Company's financial statements.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following information is furnished as of May 24, 2019 to indicate beneficial ownership of the Company's Common Stock by each Director, by each named executive officer, by all Directors and executive officers as a group, and by each person known to the Company to be the beneficial owner of more than 5% of the Company's outstanding Common Stock. Such information has been furnished to the Company by the indicated owners. Unless otherwise indicated, the named person has sole voting and investment power.

<u>Name (and address if more than 5%) of Beneficial owner</u>	<u>Amount Beneficially Owned</u>	<u>Percent</u>
<u>Directors and Officers</u>		
*Stephen J. Bagley	41,281 ¹	**
*Christopher L. Coccio	390,241	2.57%
*R. Stephen Harshbarger	251,805 ²	1.65%
*Eric Haskell	15,000 ³	**
*Donald F. Mowbray	59,190	**
*Carol O'Donnell	0 ⁴	**
*Joseph Riemer	120,045	**
*Samuel Schwartz	1,352,547 ⁵	8.9%
*Philip A. Strasburg	70,012 ⁶	**
All Executive Officers and Directors as a Group	2,367,101 ⁷	15.56%
<u>Additional 5% owner</u>		
Emancipation Management LLC ⁹	7,674,216 ⁸	50.50%
Charles Frumberg ⁹		
Circle N Advisors, LLC ¹⁰		

The above ownership percentages are based on 15,197,563 shares outstanding as of May 24, 2019.

*c/o Sono-Tek Corporation, 2012 Route 9W, Milton, NY 12547.

** Less than 1%

¹ Includes 2,000 shares held in the name of Dr. Coccio's wife.

² Includes 36,667 options currently exercisable issued under the Company's Stock Incentive Plans.

³ Represents 15,000 options currently exercisable issued under the Company's Stock Incentive Plans.

⁴ Does not reflect 20,000 options which first become exercisable in November 2019.

⁵ Includes 30,000 options currently exercisable issued under the Company's Stock Incentive Plans

⁶ Includes 10,000 shares in the name of Mr. Strasburg's wife.

⁷ The group total includes 81,667 options currently exercisable issued under the Company's Stock Incentive Plans. The group total does not include 180,667 options that are currently unexercisable. The group total includes 59,487 shares held by Robb Engle, a Vice President of Engineering and 7,493 shares held by Bennett Bruntel, a Vice President.

⁸ Emancipation Management LLC, Charles Frumberg and Circle N Advisors share the power to dispose or to direct the disposition of these shares. The Company does not consider these holders to be "affiliates" of the Company.

⁹ The address of this person is 825 Third Avenue, New York, NY 10022.

¹⁰ The address of this person is 200 Westage Business Center Dr., Fishkill, NY 12524.

Securities Authorized for Issuance Under Equity Compensation Plans:

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
2013 Stock Incentive Plan	488,000	\$ 1.19	1,688,400
2003 Stock Incentive Plan	100,000	\$ 0.67	—
Total	<u>588,000</u>		<u>1,688,400</u>

Description of Equity Compensation Plans:

2013 Stock Incentive Plan

Under the 2013 Stock Incentive Plan, as amended (the "2013 Plan"), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 2,500,000 shares of the Company's common stock. Under the 2013 Plan options expire ten years after the date of grant. As of February 28, 2019, there were 488,000 options outstanding under the 2013 plan.

Under the 2013 Stock Incentive Plan, 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 plan 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.

2003 Stock Incentive Plan

Under the 2003 Stock Incentive Plan, as amended (the "2003 Plan"), until May 2013, options were available to be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. As of February 28, 2019, there were 100,000 options outstanding under the 2003 Plan, under which no additional options may be granted.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Transactions with Related Persons – None

Independence of Directors

The Company's Board of Directors is comprised of five "independent directors", as that term is defined under NASDAQ rules, and three directors who are not "independent directors". The Company's "independent directors" are Samuel Schwartz, Donald Mowbray, Eric Haskell, Carol O'Donnell and Philip Strasburg. Christopher L. Coccio and R. Stephen Harshbarger are current employees of the Company and Joseph Riemer was an employee of the Company during the past three years, and therefore each are not considered independent.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Fees

For each of fiscal 2019 and fiscal 2018, the Company paid or accrued fees of approximately \$46,500 for services rendered by Liggett & Webb, P.A., its independent auditors. These fees included audit and review services.

Audit Related Fees - None

Tax Fees

For each of fiscal 2019 and fiscal 2018, the Company paid or accrued tax preparation fees of approximately \$5,500 for services rendered by Liggett & Webb, P.A., its independent auditors.

All Other Fees – None

Pre-Approval Policies and Procedures

The Audit Committee's current policy is to pre-approve all audit and non-audit services that are to be performed and fees to be charged by the Company's independent auditor to assure that the provision of these services does not impair the independence of the auditor. The Audit Committee pre-approved all audit and non-audit services rendered by the Company's principal accountants in fiscal 2019 and fiscal 2018.

PART IV

ITEM 15 **EXHIBITS**

<u>Ex. No.</u>	<u>Description</u>
3(a) ¹	<u>Certificate of Incorporation of the Company and all amendments thereto.</u>
3(b) ²	<u>By-laws of the Company as amended.</u>
10(a) ¹	<u>Sono-Tek Corporation 2003 Stock Incentive Plan.</u>
10(b) ³	<u>Equipment Line Credit Agreement between Sono-Tek Corporation and M&T Bank, dated March 24, 2005.</u>
10(c) ³	<u>General Security Agreement between Sono-Tek Corporation and M&T Bank, dated December 21, 2004.</u>
10(d) ⁴	<u>Executive Agreement between Sono-Tek Corporation and Stephen J. Bagley dated September 1, 2007.</u>
10(e) ⁴	<u>Executive Agreement between Sono-Tek Corporation and Christopher L. Coccio dated September 1, 2007.</u>
10(f) ⁴	<u>Executive Agreement between Sono-Tek Corporation and Joseph Riemer dated September 1, 2007.</u>
10(g) ⁵	<u>Executive Agreement between Sono-Tek Corporation and R. Stephen Harshbarger dated March 5, 2008.</u>
10(h) ⁶	<u>Amended Executive Agreement between Sono-Tek Corporation and R. Stephen Harshbarger dated March 8, 2012.</u>
10(i) ⁶	<u>Equipment Term Note between Sono-Tek Corporation and M&T Bank dated June 17, 2011.</u>
10(j) ⁷	<u>Sono-Tek Corporation 2013 Stock Incentive Plan.</u>
10(k) ⁷	<u>Form of Amended and Restated Mortgage dated December 16, 2013, between Sono-Tek Industrial Park LLC and M&T Bank.</u>
10(l) ⁸	<u>Form of Amended and Restated Term Note dated December 16, 2013, between Sono-Tek Industrial Park LLC and M&T Bank.</u>
10(m) ⁸	<u>Form of Assignment of Rents dated December 16, 2013, between Sono-Tek Industrial Park LLC and M&T Bank.</u>
10(n) ⁸	<u>Form of Environmental Compliance and Indemnification Agreement dated December 16, 2013, between Sono-Tek Industrial Park LLC and M&T Bank.</u>
10(o) ⁸	<u>Form of Modification and Extension Agreement dated December 16, 2013, between Sono-Tek Industrial Park LLC and M&T Bank.</u>
10(p) ⁹	<u>Amended Executive Agreement between Sono-Tek Corporation and Christopher L. Coccio dated August 24, 2014.</u>
10(q) ⁹	<u>Amended Executive Agreement between Sono-Tek Corporation and R. Stephen Harshbarger dated August 24, 2014.</u>
10(r) ¹⁰	<u>Amended Executive Agreement between Sono-Tek Corporation and Stephen J. Bagley dated May 21, 2015.</u>
10(s) ¹¹	<u>Amended Executive Agreement between Sono-Tek Corporation and Christopher L. Coccio dated November 17, 2016.</u>
10(t) ¹¹	<u>Amended Executive Agreement between Sono-Tek Corporation and R. Stephen Harshbarger dated November 17, 2016.</u>
10(u) ¹¹	<u>Amended Executive Agreement between Sono-Tek Corporation and Stephen J. Bagley dated November 17, 2016.</u>
10(v) ¹²	<u>Letter Agreement between Sono-Tek Corporation and Christopher L. Coccio dated October 20, 2017.</u>
10(w) ¹²	<u>Letter Agreement between Sono-Tek Corporation and R. Stephen Harshbarger dated October 20, 2017.</u>
10(x) ¹²	<u>Letter Agreement between Sono-Tek Corporation and Stephen J. Bagley dated October 20, 2017.</u>
10(y) ¹³	<u>Amended and Restated Loan Agreement between Sono-Tek Corporation and M&T Bank dated January 17, 2019.</u>

10(z) ¹³	Addendum to Loan Agreement (Flexline) between Sono-Tek Corporation and M&T Bank dated January 17, 2019.
10(aa) ¹³	Addendum to Loan Agreement (Loan Limit) between Sono-Tek Corporation and M&T Bank dated January 17, 2019.
10(bb) ¹³	Loan Agreement between Sono-Tek Corporation and M&T Bank dated January 17, 2019.
10(cc) ¹³	Amended and Restated Revolving Demand Note between Sono-Tek Corporation and M&T Bank dated January 17, 2019.
10(dd) ¹³	Security Agreement between Sono-Tek Corporation and M&T Bank dated January 17, 2019.
14 ¹⁴	Code of Ethics.
21 ¹³	Subsidiaries of Issuer.
23.1 ¹³	Consent of Liggett & Webb, P.A.
31.1 ¹³	Rule 13a-14/15d - 14(a) Certification.
31.2 ¹³	Rule 13a-14/15d - 14(a) Certification.
32.1 ¹³	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 ¹³	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS ¹³	XBRL Instance Document.
101.SCH ¹³	XBRL Taxonomy Extension Schema Document.
101.CAL ¹³	XBRL Taxonomy Calculation Linkbase Document.
101.DEF ¹³	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB ¹³	XBRL Extension Label Linkbase Document.
101.PRE ¹³	XBRL Taxonomy Extension Presentation Linkbase Document.

- 1 Incorporated herein by reference to the Company's Registration Statement No. 333-11913 on Form S-8 filed on February 18, 2004.
- 2 Incorporated herein by reference to the Company's Current Report on Form 8-K dated March 7, 2019 and filed with the Securities and Exchange Commission on March 13, 2019.
- 3 Incorporated herein by reference to the Company's Form 10-KSB for the year ended February 28, 2005.
- 4 Incorporated herein by reference to the Company's Form 10-QSB for the quarter ended August 31, 2007
- 5 Incorporated herein by reference to the Company's Form 10-Q for the quarter ended May 31, 2008.
- 6 Incorporated herein by reference to the Company's Form 10-K for the year ended February 29, 2012.
- 7 Incorporated herein by reference to Exhibit A to the Company's definitive proxy statement filed with the Securities and Exchange Commission on July 25, 2013.
- 8 Incorporated herein by reference to the Company's Form 10-K for the year ended February 29, 2014.
- 9 Incorporated herein by reference to the Company's Form 10-K for the year ended February 29, 2015.
- 10 Incorporated herein by reference to the Company's Form 10-K for the year ended February 29, 2016.
- 11 Incorporated herein by reference to the Company's Form 10-K for the year ended February 28, 2017.
- 12 Incorporated herein by reference to the Company's Form 10-K for the year ended February 28, 2018.
- 13 Filed herewith.
- 14 Incorporated herein by reference to the Company's Form 10-KSB for the year ended February 29, 2004.

SONO-TEK CORPORATION

FORM 10-K

ITEM 7

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

FOR THE YEARS ENDED FEBRUARY 28, 2019 and 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

CONSOLIDATED FINANCIAL STATEMENTS:

Consolidated Balance Sheets at February 28, 2019 and 2018

Consolidated Statements of Operations and Comprehensive Income
For the Years Ended February 28, 2019 and 2018

Consolidated Statements of Stockholders' Equity
For the Years Ended February 28, 2019 and 2018

Consolidated Statements of Cash Flows
For the Years Ended February 28, 2019 and 2018

Notes to the Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Sono-Tek Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Sono-Tek Corporation (the "Company") as of February 28, 2019 and 2018, the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 28, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Liggett & Webb P.A.
LIGGETT & WEBB, P.A.
Certified Public Accountants

We have served as the Company's auditor since 2012.

New York, NY
May 28, 2019

SONO-TEK CORPORATION
CONSOLIDATED BALANCE SHEETS

	February 28,	
	2019	2018
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,144,123	\$ 2,016,464
Marketable securities	2,365,706	4,405,900
Accounts receivable (less allowance of \$46,000)	1,397,891	774,778
Inventories, net	1,658,016	1,354,083
Prepaid expenses and other current assets	395,005	139,406
Total current assets	8,960,741	8,690,631
Land	250,000	250,000
Buildings, net	1,731,547	1,807,339
Equipment, furnishings and leasehold improvements, net	802,932	498,401
Intangible assets, net	122,941	136,576
Deferred tax asset	332,017	396,387
TOTAL ASSETS	\$ 12,200,178	\$ 11,779,334
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 585,694	\$ 652,863
Accrued expenses	632,706	893,192
Customer deposits	1,149,558	344,098
Current maturities of long term debt	162,816	156,119
Income taxes payable	6,272	84,621
Total current liabilities	2,537,046	2,130,893
Deferred tax liability	370,757	385,384
Long term debt, less current maturities	707,715	870,532
Total Liabilities	3,615,518	3,386,809
Commitments and Contingencies	—	—
Stockholders' Equity		
Common stock, \$.01 par value; 25,000,000 shares authorized, 15,197,563 and 14,986,367 issued and outstanding, respectively	151,976	149,864
Additional paid-in capital	8,929,607	8,901,171
Accumulated deficit	(496,923)	(760,115)
Accumulated other comprehensive income	—	101,605
Total stockholders' equity	8,584,660	8,392,525
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 12,200,178	\$ 11,779,334

See notes to consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Fiscal Year Ended	
	February 28,	
	2019	2018
Net Sales	\$ 11,609,599	\$ 11,008,444
Cost of Goods Sold	6,361,353	5,711,951
Gross Profit	<u>5,248,246</u>	<u>5,296,493</u>
Operating Expenses		
Research and product development	1,324,766	1,280,308
Marketing and selling	2,686,382	2,516,461
General and administrative	1,154,611	1,118,107
Total Operating Expenses	<u>5,165,759</u>	<u>4,914,876</u>
Operating Income	82,487	381,617
Other Income (Expense):		
Interest Expense	(39,977)	(46,117)
Interest and Dividend Income	136,677	91,459
Realized gain on sale of marketable securities	73,699	11,208
Net unrealized loss on marketable securities	(100,184)	—
Other Income	28,732	21,896
Income before Income Taxes	<u>181,434</u>	<u>460,063</u>
Income Tax Expense	<u>19,847</u>	<u>91,856</u>
Net Income	<u>\$ 161,587</u>	<u>\$ 368,207</u>
Other Comprehensive Income		
Net unrealized gain on marketable securities	<u>—</u>	<u>59,355</u>
Comprehensive Income	<u>\$ 161,587</u>	<u>\$ 427,562</u>
Basic Earnings Per Share	<u>\$.01</u>	<u>\$.02</u>
Diluted Earnings Per Share	<u>\$.01</u>	<u>\$.02</u>
Weighted Average Shares – Basic	<u>15,107,778</u>	<u>14,968,450</u>
Weighted Average Shares – Diluted	<u>15,218,913</u>	<u>15,095,123</u>

See notes to consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED FEBRUARY 28, 2019 AND 2018

	Common Stock Par Value \$.01		Additional Paid - In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance - February 29, 2017	14,961,076	\$ 149,611	\$ 8,859,486	\$ 42,250	\$ (1,128,322)	\$ 7,923,025
Exercise of stock options	25,291	253	(43)			210
Stock based compensation expense			41,728			41,728
Unrealized gain on marketable securities				59,355		59,355
Net Income					368,207	368,207
Balance - February 28, 2018	14,986,367	\$ 149,864	\$ 8,901,171	\$ 101,605	\$ (760,115)	\$ 8,392,525
Reclassification of unrealized gain on marketable securities upon adoption of ASU 2016-01				(101,605)	101,605	—
Stock based compensation expense			30,548			30,548
Exercise of stock options	211,196	2,112	(2,112)			—
Net Income					161,587	161,587
Balance - February 28, 2019	15,197,563	\$ 151,976	\$ 8,929,607	\$ —	\$ (496,923)	\$ 8,584,660

See notes to consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended	
	February 28,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 161,587	\$ 368,207
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	332,147	399,526
Stock based compensation expense	30,548	41,728
Inventory reserve	66,000	104,601
Unrealized loss on marketable securities	100,184	—
Deferred tax expense	49,743	(33,558)
(Increase) Decrease in:		
Accounts receivable	(623,113)	376,023
Inventories	(369,933)	(118,000)
Prepaid expenses and other assets	(255,599)	(12,130)
(Decrease) Increase in:		
Accounts payable and accrued expenses	(327,655)	340,739
Customer deposits	805,460	265,196
Income taxes payable	(78,349)	70,002
Net Cash (Used In) Provided by Operating Activities	<u>(108,980)</u>	<u>1,802,334</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furnishings and leasehold improvements	(547,251)	(189,245)
Sale (purchase) of marketable securities	1,940,010	(2,004,360)
Net Cash Provided By (Used In) Investing Activities	<u>1,392,759</u>	<u>(2,193,605)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of options	—	210
Repayment of long-term debt	(156,120)	(149,698)
Net Cash (Used In) Financing Activities	<u>(156,120)</u>	<u>(149,488)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,127,659	(540,759)
CASH AND CASH EQUIVALENTS:		
Beginning of year	2,016,464	2,557,223
End of year	<u>\$ 3,144,123</u>	<u>\$ 2,016,464</u>
Supplemental Cash Flow Disclosure:		
Interest Paid	<u>\$ 39,977</u>	<u>\$ 46,117</u>
Income Taxes Paid	<u>\$ 28,178</u>	<u>\$ 59,494</u>

See notes to consolidated financial statements.

SONO-TEK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2019 AND 2018

NOTE 1: BUSINESS DESCRIPTION

Sono-Tek Corporation (the "Company", "Sono-Tek", "We" or "Our") was incorporated in New York on March 21, 1975. We are the world leader in the design and manufacture of ultrasonic coating systems for applying precise, thin film coatings to protect, strengthen or smooth surfaces on parts and components for the microelectronics/electronics, alternative energy, medical, industrial and emerging research & development/other markets. We design and manufacture custom-engineered ultrasonic coating systems and also provide patented nozzles and generators for manufacturers' equipment.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Advertising Expenses - The Company expenses the cost of advertising in the period in which the advertising takes place. Advertising expense for fiscal 2019 and fiscal 2018 was \$246,681 and \$280,348, respectively.

Allowance for doubtful accounts - The Company records a bad debt expense/allowance based on management's estimate of uncollectible accounts. All outstanding accounts receivable accounts are reviewed for collectability on an individual basis. The bad debt expense recorded for fiscal 2019 and fiscal 2018 was approximately \$0.

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.

Concentration of Credit Risk - The Company does not believe that it is subject to any unusual or significant risks, in the normal course of business. The Company had one customer, which accounted for 14% of sales during fiscal 2019. Two customers accounted for 41% of the outstanding accounts receivables at February 28, 2019.

The Company had one customer, which accounted for 8% of sales during fiscal 2018. Two customers accounted for 22% of the outstanding accounts receivables at February 28, 2018.

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

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

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

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

Level 1: Quoted prices in active markets.

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

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

The fair values of financial assets of the Company were determined using the following categories at February 28, 2019 and 2018, respectively:

	Quoted Prices in Active Markets (Level 1)	
	February 28,	
	2019	2018
Marketable Securities	<u>\$ 2,365,706</u>	<u>\$ 4,405,900</u>

Marketable Securities include mutual funds, certificates of deposit and US Treasury securities, totaling \$2,365,706 and \$4,405,900 that are considered to be highly liquid and easily tradeable as of February 28, 2019 and 2018, respectively. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within the Company’s fair value hierarchy. The Company’s marketable securities are considered to be available-for-sale investments as defined under ASC 320 “Investments – Debt and Equity Securities.”

As of February 28, 2019, certain of the Company’s marketable securities were in an unrealized gain position. Unrealized gains and losses are principally due to changes in the fair value of the Company’s investments held as available-for-sale. Because the Company has the ability and intent to hold the securities for the foreseeable future as classified as available-for-sale, the Company does not deem these unrealized gains or losses to be other than temporary. Net unrealized gains at February 28, 2019 are \$1,422.

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

Intangible Assets - Include costs of patent applications which are deferred and charged to operations over seventeen years for domestic patents and twelve years for foreign patents. The accumulated amortization of patents is \$160,433 and \$149,654 at February 28, 2019 and 2018, respectively. Annual amortization expense of such intangible assets is expected to be approximately \$11,000 per year for the next five years.

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

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

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

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

Marketable Securities - The Company adopted ASU 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The Company has evaluated the potential impact this standard may have on the consolidated financial statements and the fair value allowance of the securities from the prior year has been reclassified to Retained Earnings from Other Accumulated Comprehensive Income. The unrealized loss on the marketable securities during the year ended February 28, 2019 has been disclosed as a separate line item on the Income Statement.

New Accounting Pronouncements -

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either operating or financing, with such classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018, and early adoption is permitted. The adoption of ASU 2016-02 will have no material impact on the Company’s financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”. ASU 2018-02 was issued to allow the reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effect resulting from the Tax Cuts and Jobs Act enacted on December 22, 2017. The Tax Cuts and Jobs Act, among other things, reduced the corporate tax rate from 35% to 21%, which required the re-evaluation of any deferred tax assets and liabilities at the lowered tax rate which potentially could leave a disproportionate tax effect in accumulated other comprehensive income. ASU 2018-02 allows for the election to reclassify these stranded tax effects to retained earnings. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period for public business entities for reporting periods for which financials statements have not yet been issued. The adoption of ASU 2018-02 will have no material impact on the Company’s financial statements.

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

Product Warranty - Expected future product warranty expense is recorded when the product is sold.

Reclassifications – Where appropriate, prior year’s financial statements reflect reclassifications to conform to the current year’s presentation.

Research and Product Development Expenses - Research and product development expenses represent engineering and other expenditures incurred for developing new products, for refining the Company's existing products and for developing systems to meet unique customer specifications for potential orders or for new industry applications and are expensed as incurred.

Shipping and Handling Costs - Shipping and handling costs are included in cost of sales in the accompanying consolidated statements of operations.

NOTE 3: REVENUE RECOGNITION

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

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

A majority of the Company's sales revenue is derived primarily from short term contracts with customers, which, on average, are in effect for less than twelve months. Sales revenue from manufactured equipment transferred at a single point in time accounts for a majority of the Company's revenue.

Sales revenue is recognized when control of the Company's manufactured equipment is transferred to its customers, in an amount that reflects the consideration the Company expects to receive based upon the agreed transaction price. The Company's performance obligations are satisfied when its customers take control of the purchased equipment, which is based on the contract terms. Based on prior experience, the Company reasonably estimates its sales returns and warranty reserves. Sales are presented net of discounts and allowances. Discounts and allowances are determined when a sale is negotiated. The Company does not grant its customers or independent representatives the ability to return equipment nor does it grant price adjustments after a sale is complete.

The Company does not capitalize any sales commission costs related to the acquisition of a contract. All commissions related to a performance obligation that are satisfied at a point in time are expensed when the customer takes control of the purchased equipment.

At February 28, 2019, the Company had received \$1,150,000 in cash deposits, and had issued Letters of Credit in the amount of \$808,000 to secure these cash deposits. The Company was utilizing \$808,000 of its available credit line to collateralize these letters of credit.

NOTE 4: STOCK-BASED COMPENSATION

The Company adopted ASC 718, "Share Based Payments," which requires companies to expense the value of employee stock options and similar awards.

During fiscal 2019, the Company granted options to acquire 35,000 shares to employees exercisable at prices from \$2.47 to \$2.55 and options for 20,000 shares to a member of the board of directors with an exercise price of \$3.00. The options vest annually over three years and expire in ten years. The fiscal 2019 options had a weighted average grant date fair value of \$0.90 per share.

During fiscal 2018, the Company granted options to acquire 110,000 shares to an officer, at an exercise price of \$1.06 and options for 20,000 shares exercisable at prices from \$1.15 to \$1.67 to employees of the Company. The fiscal 2018 options had a weighted average grant date fair value of \$0.18 per share.

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:

	Fiscal Year Ended February 28,	
	2019	2018
Expected life	8 years	2-8 years
Risk free interest rate	2.47% - 2.98%	1.79% - 2.32%
Expected volatility	24.82% - 28.24%	12.65% - 22.24%
Expected dividend yield	0%	0%

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

For the years ended February 28, 2019 and 2018, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated \$30,548 and \$41,728 in additional compensation expense for the years then ended, 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.

NOTE 5: INVENTORIES

Inventories consist of the following:

	February 28,	
	2019	2018
Raw materials and subassemblies	\$ 873,483	\$ 673,969
Finished goods	571,640	395,410
Work in process	483,271	489,082
Total	1,928,394	1,558,461
Less: Allowance	(270,378)	(204,378)
Net inventories	<u>\$ 1,658,016</u>	<u>\$ 1,354,083</u>

NOTE 6: BUILDINGS, EQUIPMENT, FURNISHINGS AND LEASEHOLD IMPROVEMENTS

Equipment, furnishings and leasehold improvements consist of the following:

	February 28,	February 28,
	2019	2018
Buildings	\$ 2,250,000	\$ 2,250,000
Laboratory equipment	1,140,821	1,082,051
Machinery and equipment	1,211,778	872,598
Leasehold improvements	473,560	413,529
Tradeshow and demonstration equipment	1,086,916	1,070,860
Furniture and fixtures	1,044,222	971,011
Totals	7,207,297	6,660,049
Less: Accumulated depreciation	(4,672,818)	(4,354,309)
	<u>\$ 2,534,479</u>	<u>\$ 2,305,740</u>

Depreciation expense for the years ended February 28, 2019 and 2018 was \$324,381 and \$382,777, respectively.

NOTE 7: ACCRUED EXPENSES

Accrued expenses consist of the following:

	February 28,	
	2019	2018
Accrued compensation	\$ 284,587	\$ 362,405
Estimated warranty costs	62,500	64,050
Accrued commissions	100,114	194,934
Professional fees	65,049	64,928
Other accrued expenses	120,456	206,875
	<u>\$ 632,706</u>	<u>\$ 893,192</u>

NOTE 8: REVOLVING LINE OF CREDIT

The Company has a \$1,500,000 revolving line of credit at prime which was 5.50% at February 28, 2019 and 4.50% at February 28, 2018. The revolving credit line is collateralized by the Company's accounts receivable and inventory. The revolving credit line is payable on demand and must be retired for a 30-day period, once annually. If the Company fails to perform the 30-day annual pay down or if the bank elects to terminate the credit line, the bank may, at its option, convert the outstanding balance to a 36-month term note with payments including interest in 36 equal installments.

As of February 28, 2019, \$808,000 of the Company's credit line was being utilized to collateralize letters of credit issued to customers that have remitted cash deposits to the Company on existing orders. The letters of credit expire in 2020. As of February 28, 2019, there were no outstanding borrowings under the line of credit and the unused portion of the credit line was \$692,000 as of February 28, 2019.

NOTE 9: LONG-TERM DEBT

Long-term debt consists of the following:

	February 28,	
	2019	2018
Note payable, bank, collateralized by land and buildings, payable in monthly installments of principal and interest of \$16,358 through January 2024 with an interest rate of 4.15% and a 10-year term.	870,531	1,026,651
Total long-term debt	870,531	1,026,651
Due within one year	162,816	156,119
Due after one year	<u>\$ 707,715</u>	<u>\$ 870,532</u>

Long-term debt is payable as follows:

Fiscal Year ending February 28,	
2020	162,816
2021	169,716
2022	177,081
2023	184,677
2024	176,241
	<u>\$ 870,531</u>

NOTE 10: COMMITMENTS AND CONTINGENCIES

The Company did not have any material commitments or contingencies as of February 28, 2019.

NOTE 11: INCOME TAXES

The annual provision (benefit) for income taxes differs from amounts computed by applying the maximum U.S. Federal income tax rate of 21% to pre-tax income as follows:

	February 28,	
	2019	2018
Expected federal income tax	\$ 38,101	\$ 156,421
State tax, net of federal	11,430	24,383
Research and development tax credits	(19,588)	(57,994)
Under accrual of prior year state taxes	—	40,793
Change in recapture tax rate from 39.3% to 27.3%	—	15,343
Permanent timing difference	2,272	33,107
Change in valuation allowances	(36,425)	(159,300)
Other adjustments	24,057	39,103
Income tax expense	<u>\$ 19,847</u>	<u>\$ 91,856</u>

The deferred tax asset and liability are comprised of the following:

	February 28,	
	2019	2018
<u>Deferred tax asset</u>		
Inventory	\$ 74,000	\$ 104,800
Allowance for accounts receivable	13,000	18,100
Accrued expenses and other	37,000	111,200
Research tax credits	208,000	208,300
Valuation allowance	—	(46,000)
Deferred tax asset – Long Term	<u>332,000</u>	<u>396,400</u>
<u>Deferred tax liability</u>		
Intangible asset amortization	(25,000)	(25,000)
Building and leasehold depreciation	(346,000)	(360,400)
Deferred tax liability – Long Term	<u>\$ (371,000)</u>	<u>\$ (385,400)</u>

At February 28, 2019 and 2018, the Company had \$208,000 of research and development tax credits being carried forward.

Deferred income taxes have been provided by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. To the extent allowed by GAAP, the Company provides a valuation allowance against the deferred tax assets for amounts when the realization is uncertain.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cut and Jobs Act (the "Tax Act"). The Tax Act establishes new tax laws that affects 2018 and future years, including a reduction in the U.S. federal corporate tax rate to 21%, effective March 1, 2018. Tax returns for the prior three years are subject to examination by the IRS.

NOTE 12: STOCKHOLDERS' EQUITY

Stock Options – Under the 2013 Stock Incentive Plan, as amended (the "2013 Plan"), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 2,500,000 shares of the Company's common stock. Under the 2013 Plan options expire ten years after the date of grant. As of February 28, 2019, there were 488,000 options outstanding under the 2013 plan.

Under the 2003 Stock Incentive Plan, as amended (the "2003 Plan"), until May 2013, options were available to be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. As of February 28, 2019, there were 100,000 options outstanding under the 2003 Plan, under which no additional options may be granted.

Under the 2013 Stock Incentive Plan, 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 plan 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.

During fiscal 2019, the Company granted options to acquire 35,000 shares to employees exercisable at prices from \$2.47 to \$2.55 and options for 20,000 shares to a member of the board of directors with an exercise price of \$3.00. The options vest annually over three years and expire in ten years.

During fiscal 2018, the Company granted options to acquire 110,000 shares to an officer, at an exercise price of \$1.06 and options for 20,000 shares exercisable at prices from \$1.15 to \$1.67 to employees of the Company.

A summary of the activity of both plans for fiscal 2019 and fiscal 2018 is as follows:

	Stock Options		Weighted Average		Fair Value Vested
	Outstanding	Exercisable	Exercise Price \$ Outstanding	Exercisable	
Balance - February 29, 2017	839,600	395,405	\$ 0.91	\$ 0.89	\$ 0.32
Granted	130,000		1.12		
Exercised	(57,500)		(0.84)		
Cancelled	—		—		
Balance - February 28, 2018	<u>912,100</u>	<u>425,400</u>	<u>\$ 0.96</u>	<u>\$ 0.92</u>	<u>\$ 0.35</u>
Granted	55,000		\$ 2.66		
Exercised	(371,100)		(0.96)		
Cancelled	(8,000)		(1.12)		
Balance - February 28, 2019	<u>588,000</u>	<u>171,000</u>	<u>\$ 1.10</u>	<u>\$ 0.85</u>	<u>\$ 0.34</u>

The intrinsic value of the Company's options exercised during fiscal 2019 and fiscal 2018 was \$111,218 and \$19,250, respectively.

Information, at date of issuance, regarding stock option grants for fiscal 2019:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Year ended February 28, 2019:			
Exercise price exceeds market price	—	—	—
Exercise price equals market price	55,000	\$ 2.66	\$.90
Exercise price is less than market price	—	—	—

The aggregate intrinsic value of the Company's outstanding options at February 28, 2019 and 2018 was \$169,608 and \$233,776, respectively.

The following table summarizes information about stock options outstanding and exercisable at February 28, 2019:

	Number Outstanding	Weighted Average Remaining Life in Years	Exercise Price	Number Exercisable
Range of exercise prices:				
\$0.61	95,000	3.69	\$ 0.61	95,000
\$0.91 to \$0.97	243,500	7.34	\$ 0.91	2,500
\$1.05	26,000	4.98	\$ 1.05	26,000
\$1.06	110,000	8.22	\$ 1.06	—
\$1.07 to \$1.67	58,500	7.08	\$ 1.27	47,500
\$2.47 to \$2.55	35,000	9.80	\$ 2.50	—
\$3.00	20,000	9.71	\$ 3.00	—
Total Options:	<u>588,000</u>			<u>171,000</u>

NOTE 13: EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	February 28,	
	2019	2018
Numerator for basic and diluted earnings per share	<u>\$ 161,587</u>	<u>\$ 368,207</u>
Denominator for basic earnings per share - weighted average	15,107,778	14,968,450
Effects of dilutive securities:		
Stock options for employees, directors and outside consultants	111,135	126,673
Denominator for diluted earnings per share	<u>15,218,913</u>	<u>15,095,123</u>
Basic Earnings Per Share - Weighted Average	<u>\$ 0.01</u>	<u>\$ 0.02</u>
Diluted Earnings Per Share - Weighted Average	<u>\$ 0.01</u>	<u>\$ 0.02</u>

NOTE 14: OTHER COMPREHENSIVE INCOME (LOSS)

The Company adopted ASU 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" as of March 1, 2018. Among other requirements, ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. As a result of the adoption of ASU 2016-01, the Company has reclassified the accumulated unrealized gains from Other Accumulated Comprehensive Income to Retained Earnings at March 1, 2018. For fiscal 2019, the unrealized loss on the marketable securities during the year has been disclosed as a separate line item on the Income Statement.

For fiscal 2019, the net unrealized loss on the Company's available-for-sale marketable securities was approximately \$100,000.

As of February 28, 2019, the unrealized gain on the Company's available-for-sale marketable securities was approximately \$1,000.

NOTE 15: OTHER INCOME

Included in other income is the net revenue related to the rental of the Company's real estate. For fiscal 2019, the Company's rental revenue was \$84,000, expenses were \$61,000 and the net profit was \$23,000.

For fiscal 2018, the Company's rental revenue was \$78,000, expenses were \$59,000 and the net profit was \$19,000.

NOTE 16: SIGNIFICANT CUSTOMERS AND FOREIGN SALES

Export sales to customers located outside the United States were approximately as follows:

	February 28,	
	2019	2018
Asia Pacific (APAC)	3,659,000	2,464,000
Europe, Middle East, Asia (EMEA)	2,729,000	2,617,000
Latin America	1,172,000	1,112,000
	<u>\$ 7,560,000</u>	<u>\$ 6,193,000</u>

During fiscal 2019 and fiscal 2018, sales to foreign customers accounted for approximately \$7,560,000 and \$6,193,000, or 65% and 56% respectively, of total revenues.

One customer accounted for 14% of the Company's sales for fiscal 2019.

NOTE 17: SUBSEQUENT EVENTS

The Company has evaluated subsequent events for disclosure purposes.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 28, 2019
Sono-Tek Corporation
(Registrant)

By: /s/ Dr. Christopher L. Coccio
Dr. Christopher L. Coccio,
Chief Executive Officer and Chairman

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>/s/ Dr. Christopher L. Coccio</u> Christopher L. Coccio Chief Executive Officer, Chairman and Director	May 28, 2019	<u>/s/ Samuel Schwartz</u> Samuel Schwartz Director	May 28, 2019
<u>/s/ Stephen J. Bagley</u> Stephen J. Bagley Chief Financial Officer	May 28, 2019	<u>/s/ Dr. Joseph Riemer</u> Dr. Joseph Riemer Director	May 28, 2019
<u>/s/ Carol O'Donnell</u> Carol O'Donnell Director	May 28, 2019	<u>/s/ Philip A. Strasburg</u> Philip A. Strasburg Director	May 28, 2019
<u>/s/ R. Stephen Harshbarger</u> R. Stephen Harshbarger President and Director	May 28, 2019	<u>/s/ Dr. Donald F. Mowbray</u> Donald F. Mowbray Director	May 28, 2019
<u>/s/ Eric Haskell</u> Eric Haskell Director	May 28, 2019		



**AMENDED AND RESTATED
LOAN AGREEMENT**

This AMENDED AND RESTATED LOAN AGREEMENT (this "Agreement") is entered into as of **January 17, 2019**, between **Sono-Tek Corporation, a New York corporation**, with its chief executive office located at **2012 Route 9 West, Milton, New York 12547** (the "Borrower") and M&T Bank, a New York banking corporation, with an address of One M&T Plaza (Attn: Office of General Counsel), Buffalo, New York 14203 (the "Bank"), and amends and restates a certain Loan Agreement dated March 29, 2005 (as amended, supplemented or otherwise modified from time to time prior to the date hereof, the "Existing Loan Agreement") between Borrower and the Bank.

FOR VALUE RECEIVED, and in consideration of the granting by the Bank of financial accommodations to or for the benefit of the Borrower, including without limitation respecting the Obligations (as hereinafter defined), the Borrower represents to and agrees with the Bank, as of the date hereof and as of the date of each loan, credit and/or other financial accommodation, as follows:

1. THE LOAN

1.1 Loan(s). Bank agrees, from time to time, in its sole discretion, to make loans (collectively, the "Loans") to or for the account of Borrower, upon Borrower's request therefor, in such amounts as shall be mutually agreed upon, subject to the terms and conditions set forth herein. Loan advances are unconditionally cancellable at any time at the Bank's discretion. Loans shall be evidenced by one or more notes issued by the Borrower in favor of the Bank (collectively, and each a "Note"). This Agreement, each Note and any and all other documents, amendments or renewals executed and delivered in connection with any of the foregoing are collectively hereinafter referred to as the "Loan Documents".

1.2 Definitions. The following definitions shall apply:

- (a) "Bank Affiliate" shall mean any banking or lending affiliates of the Bank, any party acting as a participant lender in the credit arrangements contemplated herein, or any third party acting on the Bank's behalf.
 - (b) "Code" shall mean the New York Uniform Commercial Code as amended from time to time.
 - (c) "Obligation(s)" shall mean, without limitation, all loans, advances, indebtedness, notes, liabilities and amounts, liquidated or unliquidated, owing by the Borrower to the Bank at any time, of each and every kind, nature and description, whether arising under this Agreement or otherwise, and whether secured or unsecured, direct or indirect (that is, whether the same are due directly by the Borrower to the Bank; or are due indirectly by the Borrower to the Bank as endorser, guarantor or other surety, or as borrower of obligations due third persons which have been endorsed or assigned to the Bank, or otherwise), absolute or contingent, due or to become due, now existing or hereafter arising or contracted, including, without limitation, payment when due of all amounts outstanding respecting any of the Loan Documents. Said term shall also include all interest and other charges chargeable to the Borrower or due from the Borrower to the Bank from time to time and all costs and expenses referred to in this Agreement.
 - (d) "Person" or "party" shall mean individuals, partnerships, corporations, limited liability companies and all other entities.
-

All words and terms used in this Agreement other than those specifically defined herein shall have the meanings accorded to them in the Code.

2. REPRESENTATIONS AND WARRANTIES

2.1 Organization and Qualification. Borrower is a duly organized and validly existing corporation under the laws of the State of its incorporation with the exact legal name set forth in the first paragraph of this Agreement. Borrower is in good standing under the laws of said State, has the power to own its property and conduct its business as now conducted and as currently proposed to be conducted, and is duly qualified to do business under the laws of each state where the nature of the business done or property owned requires such qualification.

2.2 Subsidiaries. Borrower has no subsidiaries other than as previously specifically consented to in writing by the Bank, if any, and the Borrower has never consolidated, merged or acquired substantially all of the assets of any other entity or person other than as previously specifically consented to in writing by the Bank, if any.

2.3 Corporate Records. Borrower's corporate charter, articles or certificate of organization or incorporation and all amendments thereto have been duly filed and are in proper order. All outstanding capital stock issued by the Borrower was and is properly issued and all books and records of the Borrower, including but not limited to its minute books, bylaws and books of account, are accurate and up to date and will be so maintained.

2.4 Title to Properties; Absence of Liens. Borrower has good and clear record and marketable title to all of its properties and assets, and all of its properties and assets are free and clear of all mortgages, liens, pledges, charges, encumbrances and setoffs, except those mortgages, deeds of trust, leases of personal property and security interests previously specifically consented to in writing by the Bank.

2.5 Places of Business. Borrower's chief executive office is correctly stated in the preamble to this Agreement, and Borrower shall, during the term of this Agreement, keep the Bank currently and accurately informed in writing of each of its other places of business, and shall not change the location of such chief executive office or open or close, move or change any existing or new place of business without giving the Bank at least thirty (30) days prior written notice thereof.

2.6 Valid Obligations. The execution, delivery and performance of the Loan Documents have been duly authorized by all necessary corporate action and each represents a legal, valid and binding obligation of Borrower and is fully enforceable according to its terms, except as limited by laws relating to the enforcement of creditors' rights.

2.7 Conflicts. There is no provision in Borrower's organizational or charter documents, if any, or in any indenture, contract or agreement to which Borrower is a party which prohibits, limits or restricts the execution, delivery or performance of the Loan Documents.

2.8 Governmental Approvals. The execution, delivery and performance of the Loan Documents does not require any approval of or filing with any governmental agency or authority.

2.9 Litigation, etc. There are no actions, claims or proceedings pending or to the knowledge of Borrower threatened against Borrower which might materially adversely affect the ability of Borrower to conduct its business or to pay or perform the Obligations.

2.10 Taxes. The Borrower has filed all Federal, state and other tax returns required to be filed (except for such returns for which current and valid extensions have been filed), and all taxes, assessments and other governmental charges due from the Borrower have been fully paid. The Borrower has established on its books reserves adequate for the payment of all Federal, state and other tax liabilities (if any).

2.11 Use of Proceeds. No portion of any loan is to be used for (i) the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. 221 and 224 or (ii) primarily personal, family or household purposes.

2.12 Environmental. As of the date hereof neither the Borrower nor any of Borrower's agents, employees or independent contractors (1) have caused or are aware of a release or threat of release of Hazardous Materials (as defined herein) on any of the premises or personal property owned or controlled by Borrower ("Controlled Property") or any property abutting Controlled Property ("Abutting Property"), which could give rise to liability under any Environmental Law (as defined herein) or any other Federal, state or local law, rule or regulation; (2) have arranged for the transport of or transported any Hazardous Materials in a manner as to violate, or result in potential liabilities under, any Environmental Law; (3) have received any notice, order or demand from the Environmental Protection Agency or any other Federal, state or local agency under any Environmental Law; (4) have incurred any liability under any Environmental Law in connection with the mismanagement, improper disposal or release of Hazardous Materials; or (5) are aware of any inspection or investigation of any Controlled Property or Abutting Property by any Federal, state or local agency for possible violations of any Environmental Law.

To the best of Borrower's knowledge, neither Borrower, nor any prior owner or tenant of any Controlled Property, committed or omitted any act which caused the release of Hazardous Materials on such Controlled Property which could give rise to a lien thereon by any Federal, state or local government. No notice or statement of claim or lien affecting any Controlled Property has been recorded or filed in any public records by any Federal, state or local government for costs, penalties, fines or other charges as to such property. All notices, permits, licenses or similar authorizations, if any, required to be obtained or filed in connection with the ownership, operation, or use of the Controlled Property, including without limitation, the past or present generation, treatment, storage, disposal or release of any Hazardous Materials into the environment, have been duly obtained or filed.

Borrower agrees to indemnify and hold the Bank and any Bank Affiliate harmless from all liability, loss, cost, damage and expense, including attorney fees and costs of litigation, arising from any and all of its violations of any Environmental Law (including those arising from any lien by any Federal, state or local government arising from the presence of Hazardous Materials) or from the presence of Hazardous Materials located on or emanating from any Controlled Property or Abutting Property whether existing or not existing and whether known or unknown at the time of the execution hereof and regardless of whether or not caused by, or within the control of Borrower. Borrower further agrees to reimburse Bank upon demand for any costs incurred by Bank in connection with the foregoing. Borrower agrees that its obligations hereunder shall be continuous and shall survive the repayment of all debts to Bank and shall continue so long as a valid claim may be lawfully asserted against the Bank.

The term "Hazardous Materials" includes but is not limited to any and all substances (whether solid, liquid or gas) defined, listed, or otherwise classified as pollutants, hazardous wastes, hazardous substances, hazardous materials, extremely hazardous wastes, or words of similar meaning or regulatory effect under any present or future Environmental Law or that may have a negative impact on human health or the environment, including but not limited to petroleum and petroleum products, asbestos and asbestos-containing materials, polychlorinated biphenyls, lead, radon, radioactive materials, flammables and explosives.

The term "Environmental Law" means any present and future Federal, state and local laws, statutes, ordinances, rules, regulations and the like, as well as common law, relating to protection of human health or the environment, relating to Hazardous Materials, relating to liability for or costs of remediation or prevention of releases of Hazardous Materials or relating to liability for or costs of other actual or threatened danger to human health or the environment. The term "Environmental Law" includes, but is not limited to, the following statutes, as amended, any successor thereto, and any regulations promulgated pursuant thereto, and any state or local statutes, ordinances, rules, regulations and the like addressing similar issues: the Comprehensive Environmental Response, Compensation and Liability Act; the Emergency Planning and Community Right-to-Know Act; the Hazardous Materials Transportation Act; the Resource Conservation and Recovery Act (including but not limited to Subtitle I relating to underground storage tanks); the Solid Waste Disposal Act; the Clean Water Act; the Clean Air Act; the Toxic Substances Control Act; the Safe Drinking Water Act; the Occupational Safety and Health Act; the Federal Water Pollution Control Act; the Federal Insecticide, Fungicide and Rodenticide Act; the Endangered Species Act; the National Environmental Policy Act; the River and Harbors Appropriation Act; and the New York Environmental Conservation Law, Chapter 43-B of the New York Consolidated Laws.

3. AFFIRMATIVE COVENANTS

3.1 Payments and Performance. Borrower will duly and punctually pay all Obligations becoming due to the Bank and will duly and punctually perform all Obligations on its part to be done or performed under this Agreement.

3.2 Books and Records; Inspection. Borrower will at all times keep proper books of account in which full, true and correct entries will be made of its transactions in accordance with generally accepted accounting principles, consistently applied and which are, in the opinion of a Certified Public Accountant acceptable to Bank, adequate to determine fairly the financial condition and the results of operations of Borrower. Borrower will at all reasonable times make its books and records available in its offices for inspection, examination and duplication by the Bank and the Bank's representatives and will permit inspection of the Collateral and all of its properties by the Bank and the Bank's representatives. Borrower will from time to time furnish the Bank with such information and statements as the Bank may request in its sole discretion with respect to the Obligations or the Bank's security interest in the Collateral.

3.3 Financial Statements. Borrower will furnish to Bank:

- (a) as soon as available to Borrower, but in any event within 120 days after the close of each fiscal year, a full and complete signed copy of financial statements, prepared by certified public accountants acceptable to Bank, which shall include a balance sheet of the Borrower, as at the end of such year, statement of cash flows and statement of profit and loss of the Borrower reflecting the results of its operations during such year, bearing the opinion of such certified public accountants and prepared on an audited basis in accordance with generally accepted accounting principles, consistently applied together with any so-called management letter;
- (b) from time to time, such financial data and information about Borrower as Bank may reasonably request; and
- (c) any financial data and information about any guarantors of the Obligations as Bank may reasonably request.

3.4 Conduct of Business. The Borrower will maintain its existence in good standing and comply with all laws and regulations of the United States and of any state or states thereof and of any political subdivision thereof, and of any governmental authority which may be applicable to it or to its business; provided that this covenant shall not apply to any tax, assessment or charge which is being contested in good faith and with respect to which reserves have been established and are being maintained.

3.5 Contact with Accountant. The Borrower hereby authorizes the Bank to directly contact and communicate with any accountant employed by Borrower in connection with the review and/or maintenance of Borrower's books and records or preparation of any financial reports delivered by or at the request of Borrower to Bank.

3.6 Operating and Deposit Accounts. The Borrower shall maintain with the Bank its primary operating and deposit accounts. At the option of the Bank, all loan payments and fees will automatically be debited from the Borrower's primary operating account and all advances will automatically be credited to the Borrower's primary operating account.

3.7 Taxes. Borrower will promptly pay all real and personal property taxes, assessments and charges and all franchise, income, unemployment, retirement benefits, withholding, sales and other taxes assessed against it or payable by it before delinquent; provided that this covenant shall not apply to any tax assessment or charge which is being contested in good faith and with respect to which reserves have been established and are being maintained.

3.8 Maintenance. Borrower will keep and maintain its properties, if any, in good repair, working order and condition. Borrower will immediately notify the Bank of any loss or damage to or any occurrence which would adversely affect the value of any such property.

3.9 Insurance. Borrower will maintain in force property and casualty insurance on any property of the Borrower, if any, against risks customarily insured against by companies engaged in businesses similar to that of the Borrower containing such terms and written by such companies as may be satisfactory to the Bank, such insurance to be payable to the Bank as its interest may appear in the event of loss and to name the Bank as insured pursuant to a standard loss payee clause; no loss shall be adjusted thereunder without the Bank's approval; and all such policies shall provide that they may not be canceled without first giving at least Thirty (30) days written notice of cancellation to the Bank. Borrower will also maintain liability insurance containing such terms and written by such companies as may be satisfactory to the Bank, with the Bank to be named as an additional insured under such policies. In the event that the Borrower fails to provide evidence of such insurance, the Bank may, at its option, secure such insurance and charge the cost thereof to the Borrower. At the option of the Bank, all insurance proceeds received from any loss or damage to any property shall be applied either to the replacement or repair thereof or as a payment on account of the Obligations. From and after the occurrence of an Event of Default, the Bank is authorized to cancel any insurance maintained hereunder and apply any returned or unearned premiums, all of which are hereby assigned to the Bank, as a payment on account of the Obligations.

3.10 Notification of Default. Immediately upon becoming aware of the existence of any condition or event which constitutes an Event of Default, or any condition or event which would upon notice or lapse of time, or both, constitute an Event of Default, Borrower shall give Bank written notice thereof specifying the nature and duration thereof and the action being or proposed to be taken with respect thereto.

3.11 Notification of Material Litigation. Borrower will immediately notify the Bank in writing of any litigation or of any investigative proceedings of a governmental agency or authority commenced or threatened against it which would or might be materially adverse to the financial condition of Borrower or any guarantor of the Obligations.

3.12 Pension Plans. With respect to any pension or benefit plan maintained by Borrower, or to which Borrower contributes ("Plan"), the benefits under which are guaranteed, in whole or in part, by the Pension Benefit Guaranty Corporation created by the Employee Retirement Income Security Act of 1974, P.L. 93-406, as amended ("ERISA") or any governmental authority succeeding to any or all of the functions of the Pension Benefit Guaranty Corporation ("Pension Benefit Guaranty Corporation"), Borrower will (a) fund each Plan as required by the provisions of Section 412 of the Internal Revenue Code of 1986, as amended; (b) cause each Plan to pay all benefits when due; (c) furnish Bank (i) promptly with a copy of any notice of each Plan's termination sent to the Pension Benefit Guaranty Corporation (ii) no later than the date of submission to the Department of Labor or to the Internal Revenue Service, as the case may be, a copy of any request for waiver from the funding standards or extension of the amortization periods required by Section 412 of the Internal Revenue Code of 1986, as amended and (iii) notice of any Reportable Event as such term is defined in ERISA; and (d) subscribe to any contingent liability insurance provided by the Pension Benefit Guaranty Corporation to protect against employer liability upon termination of a guaranteed pension plan, if available to Borrower.

4. NEGATIVE COVENANTS

4.1 Limitations on Indebtedness. Borrower shall not issue any evidence of indebtedness or create, assume, guarantee, become contingently liable for, or suffer to exist indebtedness in addition to indebtedness to the Bank, except indebtedness or liabilities of Borrower, other than for money borrowed, incurred or arising in the ordinary course of business.

4.2 Sale of Interest. There shall not be any sale or transfer of ownership of any interest in the Borrower without the Bank's prior written consent.

4.3 Loans or Advances. Borrower shall not make any loans or advances to any individual, partnership, corporation, limited liability company, trust, or other organization or person, including without limitation its officers and employees; provided, however, that Borrower may make advances to its employees, including its officers, with respect to expenses incurred or to be incurred by such employees in the ordinary course of business which expenses are reimbursable by Borrower; and provided further, however, that Borrower may extend credit in the ordinary course of business in accordance with customary trade practices.

4.4 Dividends and Distributions. Borrower shall not, without prior written consent of the Bank, pay any dividends on or make any distribution on account of any class of Borrower's capital stock in cash or in property (other than additional shares of such stock), or redeem, purchase or otherwise acquire, directly or indirectly, any of such stock, except, so long as Borrower is not in default hereunder, if Borrower is a Subchapter S corporation, under the regulations of the Internal Revenue Service of the United States, distributions to the Shareholders of Borrower in such amounts as are necessary to pay the tax liability of such Shareholders due as a result of such Shareholders' interest in the Borrower.

4.5 Investments. The Borrower shall not make investments in, or advances to, any individual, partnership, corporation, limited liability company, trust or other organization or person other than as previously specifically consented to in writing by the Bank. The Borrower will not purchase or otherwise invest in or hold securities, nonoperating real estate or other nonoperating assets or purchase all or substantially all the assets of any entity other than as previously specifically consented to in writing by the Bank.

4.6 Merger. Borrower shall not merge or consolidate or be merged or consolidated with or into any other entity.

4.7 Capital Expenditures. The Borrower shall not, directly or indirectly, make or commit to make capital expenditures by lease, purchase, or otherwise, except in the ordinary and usual course of business for the purpose of replacing machinery, equipment or other personal property which, as a consequence of wear, duplication or obsolescence, is no longer used or necessary in the Borrower's business.

4.8 Sale of Assets. Borrower shall not sell, lease or otherwise dispose of any of its assets, except in the ordinary and usual course of business and except for the purpose of replacing machinery, equipment or other personal property which, as a consequence of wear, duplication or obsolescence, is no longer used or necessary in the Borrower's business, provided that fair consideration is received therefor; provided, however, in no event shall the Borrower sell, lease or otherwise dispose of any equipment purchased with the proceeds of any loans made by the Bank.

4.9 Restriction on Liens. Borrower shall not grant any security interest in, or mortgage of, any of its properties or assets. Borrower shall not enter into any agreement with any person other than the Bank that prohibits the Borrower from granting any security interest in, or mortgage of, any of its properties or assets.

4.10 Other Business. Borrower shall not engage in any business other than the business in which it is currently engaged or a business reasonably allied thereto.

4.11 Change of Name, etc. Borrower shall not change its legal name or the State or the type of its organization, without giving the Bank at least 30 days prior written notice thereof.

5. MISCELLANEOUS

5.1 Waivers. The Borrower waives notice of intent to accelerate, notice of acceleration, notice of nonpayment, demand, presentment, protest or notice of protest of the Obligations, and all other notices, consents to any renewals or extensions of time of payment thereof, and generally waives any and all suretyship defenses and defenses in the nature thereof.

5.2 Deposit Collateral. The Borrower hereby grants to the Bank a continuing lien and security interest in any and all deposits or other sums at any time credited by or due from the Bank or any Bank Affiliate to the Borrower and any cash, securities, instruments or other property of the Borrower in the possession of the Bank or any Bank Affiliate, whether for safekeeping or otherwise, or in transit to or from the Bank or any Bank Affiliate (regardless of the reason the Bank or Bank Affiliate had received the same or whether the Bank or Bank Affiliate has conditionally released the same) as security for the full and punctual payment and performance of all of the liabilities and obligations of the Borrower to the Bank or any Bank Affiliate and such deposits and other sums may be applied or set off against such liabilities and obligations of the Borrower to the Bank or any Bank Affiliate at any time, whether or not such are then due, whether or not demand has been made and whether or not other collateral is then available to the Bank or any Bank Affiliate.

5.3 Indemnification. The Borrower shall indemnify, defend and hold the Bank and any Bank Affiliate and their directors, officers, employees, agents and attorneys (each an "Indemnitee") harmless of and from any claim brought or threatened against any Indemnitee by the Borrower, any guarantor or endorser of the Obligations, or any other person (as well as from reasonable attorneys' fees and expenses in connection therewith) on account of the Bank's relationship with the Borrower, or any guarantor or endorser of the Obligations (each of which may be defended, compromised, settled or pursued by the Bank with counsel of the Bank's election, but at the expense of the Borrower), except for any claim arising out of the gross negligence or willful misconduct of the Bank. The within indemnification shall survive payment of the Obligations, and/or any termination, release or discharge executed by the Bank in favor of the Borrower.

5.4 Costs and Expenses. The Borrower shall pay to the Bank on demand any and all costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements, court costs, litigation and other expenses) incurred or paid by the Bank in establishing, maintaining, protecting or enforcing any of the Bank's rights or the Obligations, including, without limitation, any and all such costs and expenses incurred or paid by the Bank in defending the Bank's security interest in, title or right to any collateral or in collecting or attempting to collect or enforcing or attempting to enforce payment of any Obligation.

5.5 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which shall constitute but one agreement.

5.6 Severability. If any provision of this Agreement or portion of such provision or the application thereof to any person or circumstance shall to any extent be held invalid or unenforceable, the remainder of this Agreement (or the remainder of such provision) and the application thereof to other persons or circumstances shall not be affected thereby.

5.7 Complete Agreement. This Agreement and the other Loan Documents constitute the entire agreement and understanding between and among the parties hereto relating to the subject matter hereof, and supersedes all prior proposals, negotiations, agreements and understandings among the parties hereto with respect to such subject matter.

5.8 Binding Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, and shall remain in full force and effect (and the Bank shall be entitled to rely thereon) until released in writing by the Bank. The Bank may transfer and assign this Agreement and deliver it to the assignee, who shall thereupon have all of the rights of the Bank; and the Bank shall then be relieved and discharged of any responsibility or liability with respect to this Agreement. The Borrower may not assign or transfer any of its rights or obligations under this Agreement. Except as expressly provided herein or in the other Loan Documents, nothing, expressed or implied, is intended to confer upon any party, other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

5.9 Further Assurances. Borrower will from time to time execute and deliver to Bank such documents, and take or cause to be taken, all such other or further action, as Bank may request in order to effect and confirm or vest more securely in Bank all rights contemplated by this Agreement and the other Loan Documents (including, without limitation, to correct clerical errors) or to comply with applicable statute or law.

5.10 Amendments and Waivers. This Agreement may be amended and Borrower may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if Borrower shall obtain the Bank's prior written consent to each such amendment, action or omission to act. No course of dealing and no delay or omission on the part of Bank in exercising any right hereunder shall operate as a waiver of such right or any other right and waiver on any one or more occasions shall not be construed as a bar to or waiver of any right or remedy of Bank on any future occasion.

5.11 Terms of Agreement. This Agreement shall continue in full force and effect so long as any Obligations or obligation of Borrower to Bank shall be outstanding, or the Bank shall have any obligation to extend any financial accommodation hereunder, and is supplementary to each and every other agreement between Borrower and Bank and shall not be so construed as to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of Borrower under any such agreement, nor shall any contemporaneous or subsequent agreement between Borrower and the Bank be construed to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of Borrower hereunder, unless such other agreement specifically refers to this Agreement and expressly so provides.

5.12 Notices. Any demand or notice hereunder or under any applicable law pertaining hereto shall be in writing and duly given if delivered to any party hereto at the address for such party as set forth herein, or at such other address as any party may from time to time designate in written notice received by the other parties hereto; provided, however, that in order for any notice to the Bank to be deemed effective, a duplicate notice shall be separately delivered to the Bank at the current office address of the Bank officer primarily responsible for the customer account to which this document relates. Any such demand or notice shall be deemed sufficiently given for all purposes when delivered (i) by personal delivery and shall be deemed effective when delivered, or (ii) by mail or courier and shall be deemed effective three (3) business days after deposit in an official depository maintained by the United States Post Office for the collection of mail or one (1) business day after delivery to a nationally recognized overnight courier service. Notice by e-mail is not valid notice under this or any other agreement between the undersigned parties.

5.13 Governing Law. This Agreement shall be governed by the laws of the State of New York without giving effect to the conflicts of laws principles thereof.

5.14 Reproductions. This Agreement and all documents which have been or may be hereinafter furnished by Borrower to the Bank may be reproduced by the Bank by any photographic, photostatic, microfilm, xerographic or similar process, and any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made in the regular course of business).

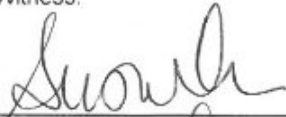

5.15 Jurisdiction and Venue. Borrower irrevocably submits to the nonexclusive jurisdiction of any Federal or state court sitting in New York, over any suit, action or proceeding arising out of or relating to this Agreement. Borrower irrevocably waives, to the fullest extent it may effectively do so under applicable law, any objection it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that the same has been brought in an inconvenient forum. Borrower hereby consents to any and all process which may be served in any such suit, action or proceeding, (i) by mailing a copy thereof by registered and certified mail, postage prepaid, return receipt requested, to the Borrower's address shown in this Agreement or as notified to the Bank and (ii) by serving the same upon the Borrower in any other manner otherwise permitted by law, and agrees that such service shall in every respect be deemed effective service upon Borrower.

5.16 **JURY WAIVER**. **THE BORROWER AND BANK EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, AND AFTER AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, (A) WAIVE ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING IN CONNECTION WITH THIS AGREEMENT, THE OBLIGATIONS, ALL MATTERS CONTEMPLATED HEREBY AND DOCUMENTS EXECUTED IN CONNECTION HERewith AND (B) AGREE NOT TO SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE, OR HAS NOT BEEN, WAIVED. THE BORROWER CERTIFIES THAT NEITHER THE BANK NOR ANY OF ITS REPRESENTATIVES, AGENTS OR COUNSEL HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT IN THE EVENT OF ANY SUCH PROCEEDING SEEK TO ENFORCE THIS WAIVER OF RIGHT TO TRIAL BY JURY.**


5.17 Amendment and Restatement. This Agreement shall amend and restate the Existing Loan Agreement in its entirety and nothing herein shall constitute, or be deemed to constitute, a substitution or novation of the parties' rights, liabilities and obligations thereunder or an accord and satisfaction thereof. All of the terms, covenants, provisions, representations, warranties, and conditions of the Loan Documents, as amended or modified hereby, are ratified and reaffirmed, and continue in full force and effect as if fully stated herein. All references in any other Loan Documents to the Existing Loan Agreement shall, on or after the date hereof, be deemed to references to this Agreement.

Executed as of January 17, 2019.

Witness:

Borrower:
Sono-Tek Corporation

By: 
Stephen J. Bagley, Chief Financial Officer

By: 
Christopher Coccio, Chief Executive Officer

Accepted: M&T Bank

By: 
Name: Susan Keith Cardinale
Title: Vice President

**ADDENDUM TO LOAN AGREEMENT
(Flexline)**

Date: January 17, 2019

Borrower: Sono-Tek Corporation , a New York corporation with offices located at 2012 Route 9 West, Milton, New York 12547.

Bank: M&T Bank, a New York banking corporation, with offices located at One Fountain Plaza, Buffalo, New York 14203.

WHEREAS , the Borrower and Bank have, as of this date, entered into that certain Loan Agreement (the “ Loan Agreement ”) in connection with a certain Amended and Restated Revolving Demand Note, dated the date hereof, and in the maximum principal amount of \$1,500,000.00;

WHEREAS , the parties wish to amend certain of the provisions contained in the Loan Agreement.

NOW, THEREFORE , for good and valuable consideration, the receipt of which is acknowledged, the Borrower and the Bank agree as follows:

1. **REFERENCE TO DEFINITIONS.** For purposes of this Addendum to Loan Agreement, any capitalized term not defined herein shall have the definition ascribed to such term in the Loan Agreement.

2. **AMENDMENT OF LOAN AGREEMENT.**

2.1 **Negative Covenants** . The following sections in the Loan Agreement shall be amended as follows:

2.1.1 Section 4.2 shall be deleted in its entirety and replaced with the following:

“Borrower shall not issue and sell any other equity interests if a Change of Control (as hereinafter defined) or other Event of Default under this Agreement would result therefrom. As used herein the term “Change of Control” shall mean the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group, of equity interests representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding equity interests of the Borrower as of the date of such acquisition.”

2.1.2 Section 4.4 shall be deleted in its entirety.

2.1.3 The following shall be added to the end of Section 4.5:

“Notwithstanding anything contained herein to the contrary, and for so long as no Event of Default hereunder has occurred and is continuing, the Borrower may invest in Permitted Investments (as defined below) without Bank consent. As used herein, the term “Permitted Investments” shall mean: (a) securities issued or directly and fully and unconditionally guaranteed or insured by the United States government or any agency or instrumentality thereof the securities of which are unconditionally guaranteed as a full faith and credit obligation of such government, (b) certificates of deposit, time deposits and eurodollar time deposits, bankers’ acceptances and overnight bank deposits, in each case, with any domestic commercial bank having capital and surplus in excess of \$250,000,000, (c) repurchase obligations for underlying securities of the types described in clauses (a) and (b) above entered into with any financial institution meeting the qualifications specified in clause (b) above, (d) commercial paper having a rating of at least A 1 from S&P or P 1 from Moody’s (or, if at any time neither Moody’s nor S&P shall be rating such obligations, an equivalent rating from another rating agency) and preferred stock issued by Person with a rating of “A” or higher from S&P or “A2” or higher from Moody’s, (e) readily marketable direct obligations issued by any state of the

United States or any political subdivision thereof having one of the two highest rating categories obtainable from either Moody's or S&P, (f) marketable short-term money market and similar securities having a rating of at least P-1 or A-1 from Moody's or S&P, respectively (or, if at any time neither Moody's nor S&P shall be rating such obligations, an equivalent rating from another rating agency), (g) investments in money market funds rated AA- (or the equivalent thereof) or better by S&P or Aa3 (or the equivalent thereof) or better by Moody's, (h) [intentionally omitted] and (i) investments in funds which invest substantially all of their assets in Cash Equivalents (as define below) of the kinds described in clauses (a) through (h) of this definition.

As used herein, the term "Cash Equivalents" shall mean: (a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within eighteen months from the date of acquisition thereof; (b) investments in commercial paper maturing within 270 days from the date of issuance thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody's; (c) investments in certificates of deposit, banker's acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, the Administrative Agent or any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than \$500,000,000 and that issues (or the parent of which issues) commercial paper rated at least "Prime-1" (or the then equivalent grade) by Moody's or "A-1" (or the then equivalent grade) by S&P; (d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria of clause (c) above; and (e) investments in "money market funds" within the meaning of Rule 2a-7 of the Investment Company Act of 1940, as amended, substantially all of whose assets are invested in investments of the type described in clauses (a) through (d) above."

2.1.4 The following shall be added to the end of Section 4.6: "without the prior written consent of the Bank, not to be unreasonably withheld, conditioned or delayed."

3. **OTHER TERMS** . All other terms of the Loan Agreement shall remain in full force and effect.

[Signature Page Follows]

IN WITNESS WHEREOF, the Bank and the Borrower have caused this Addendum to Agreement to be duly executed the day and year first above written.

BORROWER:

SONO-TEK CORPORATION

By: Stephen J. Bagley, CFO
Name: Stephen J. Bagley
Title: Chief Financial Officer

By: Christopher L. Coccio
Name: Christopher L. Coccio
Title: ~~President~~ CEO

BANK:

M&T BANK

By: Susan Keith Cardinale
Name: Susan Keith Cardinale
Title: Vice President

**ADDENDUM TO LOAN AGREEMENT
(Loan Limit)**

Date: January 17, 2019

Borrower: Sono-Tek Corporation , a New York corporation with offices located at 2012 Route 9 West, Milton, New York 12547.

Bank: M&T Bank, a New York banking corporation, with offices located at One Fountain Plaza, Buffalo, New York 14203.

WHEREAS , the Borrower and Bank have, as of this date, entered into that certain Amended and Restated Loan Agreement (the “ Loan Agreement ”), pursuant to which the Bank agrees to make certain loans to or for the account of Borrower;

WHEREAS , the parties wish to amend certain of the provisions contained in the Loan Agreement.

NOW, THEREFORE , for good and valuable consideration, the receipt of which is acknowledged, the Borrower and the Bank agree as follows:

1. **REFERENCE TO DEFINITIONS.** For purposes of this Addendum to Loan Agreement, any capitalized term not defined herein shall have the definition ascribed to such term in the Loan Agreement.

2. **AMENDMENT OF LOAN AGREEMENT.**

2.1 **Negative Covenants** . The following sections in the Loan Agreement shall be amended as follows:

2.1.1 Section 4.2 shall be deleted in its entirety and replaced with the following:

“Borrower shall not issue and sell any other equity interests if a Change of Control (as hereinafter defined) or other Event of Default under this Agreement would result therefrom. As used herein the term “Change of Control” shall mean the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group, of equity interests representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding equity interests of the Borrower as of the date of such acquisition.”

2.1.2 Section 4.4 shall be deleted in its entirety.

2.1.3 The following shall be added to the end of Section 4.5:

“Notwithstanding anything contained herein to the contrary, and for so long as no Event of Default hereunder has occurred and is continuing, the Borrower may invest in Permitted Investments (as defined below) without Bank consent. As used herein, the term “Permitted Investments” shall mean: (a) securities issued or directly and fully and unconditionally guaranteed or insured by the United States government or any agency or instrumentality thereof the securities of which are unconditionally guaranteed as a full faith and credit obligation of such government, (b) certificates of deposit, time deposits and eurodollar time deposits, bankers’ acceptances and overnight bank deposits, in each case, with any domestic commercial bank having capital and surplus in excess of \$250,000,000, (c) repurchase obligations for underlying securities of the types described in clauses (a) and (b) above entered into with any financial institution meeting the qualifications specified in clause (b) above, (d) commercial paper having a rating of at least A 1 from S&P or P 1 from Moody’s (or, if at any time neither Moody’s nor S&P shall be rating such obligations, an equivalent rating from another rating agency) and preferred stock issued by Person with a rating of “A” or higher from S&P or “A2” or higher from Moody’s, (e) readily marketable direct obligations issued by any state of the

United States or any political subdivision thereof having one of the two highest rating categories obtainable from either Moody's or S&P, (f) marketable short-term money market and similar securities having a rating of at least P-1 or A-1 from Moody's or S&P, respectively (or, if at any time neither Moody's nor S&P shall be rating such obligations, an equivalent rating from another rating agency), (g) investments in money market funds rated AA- (or the equivalent thereof) or better by S&P or Aa3 (or the equivalent thereof) or better by Moody's, (h) [intentionally omitted] and (i) investments in funds which invest substantially all of their assets in Cash Equivalents (as define below) of the kinds described in clauses (a) through (h) of this definition.

As used herein, the term "Cash Equivalents" shall mean: (a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within eighteen months from the date of acquisition thereof; (b) investments in commercial paper maturing within 270 days from the date of issuance thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody's; (c) investments in certificates of deposit, banker's acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, the Administrative Agent or any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than \$500,000,000 and that issues (or the parent of which issues) commercial paper rated at least "Prime-1" (or the then equivalent grade) by Moody's or "A-1" (or the then equivalent grade) by S&P; (d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria of clause (c) above; and (e) investments in "money market funds" within the meaning of Rule 2a-7 of the Investment Company Act of 1940, as amended, substantially all of whose assets are invested in investments of the type described in clauses (a) through (d) above."

2.1.4 The following shall be added to the end of Section 4.6: "without the prior written consent of the Bank, not to be unreasonably withheld, conditioned or delayed."

3. **OTHER TERMS** . All other terms of the Loan Agreement shall remain in full force and effect.

[Signature Page Follows]

IN WITNESS WHEREOF, the Bank and the Borrower have caused this Addendum to Agreement to be duly executed the day and year first above written.

BORROWER:

SONO-TEK CORPORATION

By: Stephen J. Bagley, CFO
Name: Stephen J. Bagley
Title: Chief Financial Officer

By: Christopher L. Coccio
Name: Christopher L. Coccio
Title: ~~President~~ CEO

BANK:

M&T BANK

By: Susan Keith Cardinale
Name: Susan Keith Cardinale
Title: Vice President



LOAN AGREEMENT

This LOAN AGREEMENT (this "Agreement") is entered into as of **January 17, 2019**, between **Sono-Tek Corporation, a New York corporation**, with its chief executive office located at **2012 Route 9 West, Milton, New York 12547** (the "Borrower") and M&T Bank, a New York banking corporation, with an address of One M&T Plaza (Attn: Office of General Counsel), Buffalo, New York 14203 (the "Bank").

FOR VALUE RECEIVED, and in consideration of the granting by the Bank of financial accommodations to or for the benefit of the Borrower, including without limitation respecting the Obligations (as hereinafter defined), the Borrower represents to and agrees with the Bank, as of the date hereof and as of the date of each loan, credit and/or other financial accommodation, as follows:

1. THE LOAN

1.1 Loan(s). Bank agrees, from time to time, in its sole discretion, to make loans (collectively, the "Loans") to or for the account of Borrower, upon Borrower's request therefor, in such amounts as shall be mutually agreed upon, subject to the terms and conditions set forth herein. Loan advances are unconditionally cancellable at any time at the Bank's discretion. Loans shall be evidenced by one or more notes issued by the Borrower in favor of the Bank (collectively, and each a "Note"). This Agreement, each Note and any and all other documents, amendments or renewals executed and delivered in connection with any of the foregoing are collectively hereinafter referred to as the "Loan Documents".

1.2 Revolving Credits. Bank agrees, in its sole discretion, to make or issue, as applicable, Revolving Credits (as hereinafter defined) to or for the account of Borrower, upon Borrower's request therefor, in such amounts as may from time to time be established by Bank, provided there is no continuing uncured Event of Default (as hereinafter defined) and subject to the terms and conditions set forth herein. Loan advances respecting Revolving Credits are unconditionally cancellable at any time at the Bank's discretion. Revolving Credits shall include loans for the purpose of financing the Borrower's working capital ("Working Capital Loans").

1.3 Letters of Credit. Revolving Credits shall include Letters of Credit (as hereinafter defined). Upon the request of Borrower, and subject to such conditions to the issuing of Letters of Credit as Bank requires of its customers generally, Bank may, subject to the terms of this Agreement, from time to time issue Letters of Credit for the account of Borrower, the aggregate undrawn amount of all outstanding Letters of Credit not at any time to exceed **\$1,500,000.00**; provided, however, that Bank shall not be obligated to issue a Letter of Credit if after giving effect thereto (measured by the face amount of such Letter of Credit) the amount of Revolving Credits including the face amount of all outstanding Letters of Credit would exceed the total funds available under the Revolving Credits.

1.4 Revolving Credit Account. An account shall be opened on the books of Bank in which account a record will be kept of all Revolving Credits, and all payments thereon and other appropriate debits and credits as provided by this Agreement.

1.5 Interest. Interest respecting the Revolving Credits will be charged to Borrower on the principal amount from time to time outstanding at the interest rate specified in the Revolving Note in accordance with the terms of the Revolving Note or as otherwise set forth in this Agreement with respect to any particular type of Revolving Credit.

1.6 Demand. All loans and advances made respecting the Working Capital Loans shall be payable to Bank on DEMAND, notwithstanding the inclusion of events of default in this Agreement or in any other Loan Document and whether or not any event of default has occurred under this Agreement or any of the Loan Documents.

1.7 Clean-Up. The Borrower shall fully repay to the Bank all amounts outstanding respecting the Working Capital Loans for a period of 30 consecutive days in each year.

1.8 Overadvances. Any Revolving Credits that may be made, at the Bank's sole discretion, in excess of the total funds available under the Revolving Credits shall not limit the obligations of Borrower or any of the Bank's rights or remedies hereunder or under the Loan Documents or otherwise; all such Revolving Credits shall be due and payable to the Bank in accordance with the terms of the Revolving Note, and shall bear interest at the rate set forth in the Revolving Note. All checks or other items paid by Bank which cause an overdraft in any deposit account maintained by Borrower with Bank shall, at the option of the Bank, constitute an advance to Borrower pursuant to this Agreement respecting the Revolving Credits, repayable on demand.

1.9 Authorized Persons; Advances. Any person duly authorized by a general borrowing resolution of the Borrower, or in the absence of such a resolution, the President, Treasurer or any Vice President of the Borrower, or any person otherwise authorized in this paragraph, may request discretionary loans hereunder, either orally or otherwise, but the Bank at its option may require that all requests for loans hereunder shall be in writing. The Bank shall incur no liability to Borrower in acting upon any request referred to herein which the Bank believes in good faith to have been made by an authorized person or persons. Each loan hereunder may be credited by Bank to any deposit account of Borrower with Bank or with any other Bank with which Borrower maintains a deposit account, or may be paid to Borrower (or as Borrower instructs) or may be applied to any Obligations, as Bank may in each instance elect. The following persons currently are authorized to request advances and authorize payments respecting Revolving Credits until the Bank receives from Borrower, at the Bank's address, written notice of revocation of their authority: Christopher Coccio, Chief Executive officer, Richard Stephen Harshbarger, President, Stephen J. Bagley, Chief Financial Officer and Christopher Coccio, Chief Executive Officer.

1.10 Definitions. The following definitions shall apply:

- (a) "Bank Affiliate" shall mean any banking or lending affiliates of the Bank, any party acting as a participant lender in the credit arrangements contemplated herein, or any third party acting on the Bank's behalf.
- (b) "Code" shall mean the New York Uniform Commercial Code as amended from time to time.
- (c) "Letter of Credit" shall mean commercial letters of credit issued by the Bank for the account of Borrower.
- (d) "Obligation(s)" shall mean, without limitation, all loans, advances, indebtedness, notes, liabilities and amounts (including under Letters of Credit), liquidated or unliquidated, owing by the Borrower to the Bank at any time, of each and every kind, nature and description, whether arising under this Agreement or otherwise, and whether secured or unsecured, direct or indirect (that is, whether the same are due directly by the Borrower to the Bank; or are due indirectly by the Borrower to the Bank as endorser, guarantor or other surety, or as borrower of obligations due third persons which have been endorsed or assigned to the Bank, or otherwise), absolute or contingent, due or to become due, now existing or hereafter arising or contracted, including, without limitation, payment when due of all amounts outstanding respecting any of the Loan Documents. Said term shall also include all interest and other charges chargeable to the Borrower or due from the Borrower to the Bank from time to time and all costs and expenses referred to in this Agreement.

- (e) "Person" or "party" shall mean individuals, partnerships, corporations, limited liability companies and all other entities.
- (f) "Revolving Credits" shall mean any Working Capital Loans or Letters of Credit made or issued hereunder.

All words and terms used in this Agreement other than those specifically defined herein shall have the meanings accorded to them in the Code.

2. REPRESENTATIONS AND WARRANTIES

2.1 Organization and Qualification. Borrower is a duly organized and validly existing corporation under the laws of the State of its incorporation with the exact legal name set forth in the first paragraph of this Agreement. Borrower is in good standing under the laws of said State, has the power to own its property and conduct its business as now conducted and as currently proposed to be conducted, and is duly qualified to do business under the laws of each state where the nature of the business done or property owned requires such qualification.

2.2 Subsidiaries. Borrower has no subsidiaries other than as previously specifically consented to in writing by the Bank, if any, and the Borrower has never consolidated, merged or acquired substantially all of the assets of any other entity or person other than as previously specifically consented to in writing by the Bank, if any.

2.3 Corporate Records. Borrower's corporate charter, articles or certificate of organization or incorporation and all amendments thereto have been duly filed and are in proper order. All outstanding capital stock issued by the Borrower was and is properly issued and all books and records of the Borrower, including but not limited to its minute books, bylaws and books of account, are accurate and up to date and will be so maintained.

2.4 Title to Properties; Absence of Liens. Borrower has good and clear record and marketable title to all of its properties and assets, and all of its properties and assets are free and clear of all mortgages, liens, pledges, charges, encumbrances and setoffs, except those mortgages, deeds of trust, leases of personal property and security interests previously specifically consented to in writing by the Bank.

2.5 Places of Business. Borrower's chief executive office is correctly stated in the preamble to this Agreement, and Borrower shall, during the term of this Agreement, keep the Bank currently and accurately informed in writing of each of its other places of business, and shall not change the location of such chief executive office or open or close, move or change any existing or new place of business without giving the Bank at least thirty (30) days prior written notice thereof.

2.6 Valid Obligations. The execution, delivery and performance of the Loan Documents have been duly authorized by all necessary corporate action and each represents a legal, valid and binding obligation of Borrower and is fully enforceable according to its terms, except as limited by laws relating to the enforcement of creditors' rights.

2.7 Conflicts. There is no provision in Borrower's organizational or charter documents, if any, or in any indenture, contract or agreement to which Borrower is a party which prohibits, limits or restricts the execution, delivery or performance of the Loan Documents.

2.8 Governmental Approvals. The execution, delivery and performance of the Loan Documents does not require any approval of or filing with any governmental agency or authority.

2.9 Litigation, etc. There are no actions, claims or proceedings pending or to the knowledge of Borrower threatened against Borrower which might materially adversely affect the ability of Borrower to conduct its business or to pay or perform the Obligations.

2.10 Taxes. The Borrower has filed all Federal, state and other tax returns required to be filed (except for such returns for which current and valid extensions have been filed), and all taxes, assessments and other governmental charges due from the Borrower have been fully paid. The Borrower has established on its books reserves adequate for the payment of all Federal, state and other tax liabilities (if any).

2.11 Use of Proceeds. No portion of any loan is to be used for (i) the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. 221 and 224 or (ii) primarily personal, family or household purposes.

2.12 Environmental. As of the date hereof neither the Borrower nor any of Borrower's agents, employees or independent contractors (1) have caused or are aware of a release or threat of release of Hazardous Materials (as defined herein) on any of the premises or personal property owned or controlled by Borrower ("Controlled Property") or any property abutting Controlled Property ("Abutting Property"), which could give rise to liability under any Environmental Law (as defined herein) or any other Federal, state or local law, rule or regulation; (2) have arranged for the transport of or transported any Hazardous Materials in a manner as to violate, or result in potential liabilities under, any Environmental Law; (3) have received any notice, order or demand from the Environmental Protection Agency or any other Federal, state or local agency under any Environmental Law; (4) have incurred any liability under any Environmental Law in connection with the mismanagement, improper disposal or release of Hazardous Materials; or (5) are aware of any inspection or investigation of any Controlled Property or Abutting Property by any Federal, state or local agency for possible violations of any Environmental Law.

To the best of Borrower's knowledge, neither Borrower, nor any prior owner or tenant of any Controlled Property, committed or omitted any act which caused the release of Hazardous Materials on such Controlled Property which could give rise to a lien thereon by any Federal, state or local government. No notice or statement of claim or lien affecting any Controlled Property has been recorded or filed in any public records by any Federal, state or local government for costs, penalties, fines or other charges as to such property. All notices, permits, licenses or similar authorizations, if any, required to be obtained or filed in connection with the ownership, operation, or use of the Controlled Property, including without limitation, the past or present generation, treatment, storage, disposal or release of any Hazardous Materials into the environment, have been duly obtained or filed.

Borrower agrees to indemnify and hold the Bank and any Bank Affiliate harmless from all liability, loss, cost, damage and expense, including attorney fees and costs of litigation, arising from any and all of its violations of any Environmental Law (including those arising from any lien by any Federal, state or local government arising from the presence of Hazardous Materials) or from the presence of Hazardous Materials located on or emanating from any Controlled Property or Abutting Property whether existing or not existing and whether known or unknown at the time of the execution hereof and regardless of whether or not caused by, or within the control of Borrower. Borrower further agrees to reimburse Bank upon demand for any costs incurred by Bank in connection with the foregoing. Borrower agrees that its obligations hereunder shall be continuous and shall survive the repayment of all debts to Bank and shall continue so long as a valid claim may be lawfully asserted against the Bank.

The term "Hazardous Materials" includes but is not limited to any and all substances (whether solid, liquid or gas) defined, listed, or otherwise classified as pollutants, hazardous wastes, hazardous substances, hazardous materials, extremely hazardous wastes, or words of similar meaning or regulatory effect under any present or future Environmental Law or that may have a negative impact on human health or the environment, including but not limited to petroleum and petroleum products, asbestos and asbestos-containing materials, polychlorinated biphenyls, lead, radon, radioactive materials, flammables and explosives.

The term "Environmental Law" means any present and future Federal, state and local laws, statutes, ordinances, rules, regulations and the like, as well as common law, relating to protection of human health or the environment, relating to Hazardous Materials, relating to liability for or costs of remediation or prevention of releases of Hazardous Materials or relating to liability for or costs of other actual or threatened danger to human health or the environment. The term "Environmental Law" includes, but is not limited to, the following statutes, as amended, any successor thereto, and any regulations promulgated pursuant thereto, and any state or local statutes, ordinances, rules, regulations and the like addressing similar issues: the Comprehensive Environmental Response, Compensation and Liability Act; the Emergency Planning and Community Right-to-Know Act; the Hazardous Materials Transportation Act; the Resource Conservation and Recovery Act (including but not limited to Subtitle I relating to underground storage tanks); the Solid Waste Disposal Act; the Clean Water Act; the Clean Air Act; the Toxic Substances Control Act; the Safe Drinking Water Act; the Occupational Safety and Health Act; the Federal Water Pollution Control Act; the Federal Insecticide, Fungicide and Rodenticide Act; the Endangered Species Act; the National Environmental Policy Act; the River and Harbors Appropriation Act; and the New York Environmental Conservation Law, Chapter 43-B of the New York Consolidated Laws.

3. AFFIRMATIVE COVENANTS

3.1 Payments and Performance. Borrower will duly and punctually pay all Obligations becoming due to the Bank and will duly and punctually perform all Obligations on its part to be done or performed under this Agreement.

3.2 Books and Records; Inspection. Borrower will at all times keep proper books of account in which full, true and correct entries will be made of its transactions in accordance with generally accepted accounting principles, consistently applied and which are, in the opinion of a Certified Public Accountant acceptable to Bank, adequate to determine fairly the financial condition and the results of operations of Borrower. Borrower will at all reasonable times make its books and records available in its offices for inspection, examination and duplication by the Bank and the Bank's representatives and will permit inspection of the Collateral and all of its properties by the Bank and the Bank's representatives. Borrower will from time to time furnish the Bank with such information and statements as the Bank may request in its sole discretion with respect to the Obligations or the Bank's security interest in the Collateral.

3.3 Financial Statements. Borrower will furnish to Bank:

- (a) as soon as available to Borrower, but in any event within 120 days after the close of each fiscal year, a full and complete signed copy of financial statements, prepared by certified public accountants acceptable to Bank, which shall include a balance sheet of the Borrower, as at the end of such year, statement of cash flows and statement of profit and loss of the Borrower reflecting the results of its operations during such year, bearing the opinion of such certified public accountants and prepared on an audited basis in accordance with generally accepted accounting principles, consistently applied together with any so-called management letter;
- (b) from time to time, such financial data and information about Borrower as Bank may reasonably request; and
- (c) any financial data and information about any guarantors of the Obligations as Bank may reasonably request.

3.4 Conduct of Business. The Borrower will maintain its existence in good standing and comply with all laws and regulations of the United States and of any state or states thereof and of any political subdivision thereof, and of any governmental authority which may be applicable to it or to its business; provided that this covenant shall not apply to any tax, assessment or charge which is being contested in good faith and with respect to which reserves have been established and are being maintained.

3.5 Contact with Accountant. The Borrower hereby authorizes the Bank to directly contact and communicate with any accountant employed by Borrower in connection with the review and/or maintenance of Borrower's books and records or preparation of any financial reports delivered by or at the request of Borrower to Bank.

3.6 Operating and Deposit Accounts. The Borrower shall maintain with the Bank its primary operating and deposit accounts. At the option of the Bank, all loan payments and fees will automatically be debited from the Borrower's primary operating account and all advances will automatically be credited to the Borrower's primary operating account.

3.7 Taxes. Borrower will promptly pay all real and personal property taxes, assessments and charges and all franchise, income, unemployment, retirement benefits, withholding, sales and other taxes assessed against it or payable by it before delinquent; provided that this covenant shall not apply to any tax assessment or charge which is being contested in good faith and with respect to which reserves have been established and are being maintained.

3.8 Maintenance. Borrower will keep and maintain its properties, if any, in good repair, working order and condition. Borrower will immediately notify the Bank of any loss or damage to or any occurrence which would adversely affect the value of any such property.

3.9 Insurance. Borrower will maintain in force property and casualty insurance on any property of the Borrower, if any, against risks customarily insured against by companies engaged in businesses similar to that of the Borrower containing such terms and written by such companies as may be satisfactory to the Bank, such insurance to be payable to the Bank as its interest may appear in the event of loss and to name the Bank as insured pursuant to a standard loss payee clause; no loss shall be adjusted thereunder without the Bank's approval; and all such policies shall provide that they may not be canceled without first giving at least Thirty (30) days written notice of cancellation to the Bank. Borrower will also maintain liability insurance containing such terms and written by such companies as may be satisfactory to the Bank, with the Bank to be named as an additional insured under such policies. In the event that the Borrower fails to provide evidence of such insurance, the Bank may, at its option, secure such insurance and charge the cost thereof to the Borrower. At the option of the Bank, all insurance proceeds received from any loss or damage to any property shall be applied either to the replacement or repair thereof or as a payment on account of the Obligations. From and after the occurrence of an Event of Default, the Bank is authorized to cancel any insurance maintained hereunder and apply any returned or unearned premiums, all of which are hereby assigned to the Bank, as a payment on account of the Obligations.

3.10 Notification of Default. Immediately upon becoming aware of the existence of any condition or event which constitutes an Event of Default, or any condition or event which would upon notice or lapse of time, or both, constitute an Event of Default, Borrower shall give Bank written notice thereof specifying the nature and duration thereof and the action being or proposed to be taken with respect thereto.

3.11 Notification of Material Litigation. Borrower will immediately notify the Bank in writing of any litigation or of any investigative proceedings of a governmental agency or authority commenced or threatened against it which would or might be materially adverse to the financial condition of Borrower or any guarantor of the Obligations.

3.12 Pension Plans. With respect to any pension or benefit plan maintained by Borrower, or to which Borrower contributes ("Plan"), the benefits under which are guaranteed, in whole or in part, by the Pension Benefit Guaranty Corporation created by the Employee Retirement Income Security Act of 1974, P.L. 93-406, as amended ("ERISA") or any governmental authority succeeding to any or all of the functions of the Pension Benefit Guaranty Corporation ("Pension Benefit Guaranty Corporation"), Borrower will (a) fund each Plan as required by the provisions of Section 412 of the Internal Revenue Code of 1986, as amended; (b) cause each Plan to pay all benefits when due; (c) furnish Bank (i) promptly with a copy of any notice of each Plan's termination sent to the Pension Benefit Guaranty Corporation (ii) no later than the date of submission to the Department of Labor or to the Internal Revenue Service, as the case may be, a copy of any request for waiver from the funding standards or extension of the amortization periods required by Section 412 of the Internal Revenue Code of 1986, as amended and (iii) notice of any Reportable Event as such term is defined in ERISA; and (d) subscribe to any contingent liability insurance provided by the Pension Benefit Guaranty Corporation to protect against employer liability upon termination of a guaranteed pension plan, if available to Borrower.

4. NEGATIVE COVENANTS

4.1 Limitations on Indebtedness. Borrower shall not issue any evidence of indebtedness or create, assume, guarantee, become contingently liable for, or suffer to exist indebtedness in addition to indebtedness to the Bank, except indebtedness or liabilities of Borrower, other than for money borrowed, incurred or arising in the ordinary course of business.

4.2 Sale of Interest. There shall not be any sale or transfer of ownership of any interest in the Borrower without the Bank's prior written consent.

4.3 Loans or Advances. Borrower shall not make any loans or advances to any individual, partnership, corporation, limited liability company, trust, or other organization or person, including without limitation its officers and employees; provided, however, that Borrower may make advances to its employees, including its officers, with respect to expenses incurred or to be incurred by such employees in the ordinary course of business which expenses are reimbursable by Borrower; and provided further, however, that Borrower may extend credit in the ordinary course of business in accordance with customary trade practices.

4.4 Dividends and Distributions. Borrower shall not, without prior written consent of the Bank, pay any dividends on or make any distribution on account of any class of Borrower's capital stock in cash or in property (other than additional shares of such stock), or redeem, purchase or otherwise acquire, directly or indirectly, any of such stock, except, so long as Borrower is not in default hereunder, if Borrower is a Subchapter S corporation, under the regulations of the Internal Revenue Service of the United States, distributions to the Shareholders of Borrower in such amounts as are necessary to pay the tax liability of such Shareholders due as a result of such Shareholders' interest in the Borrower.

4.5 Investments. The Borrower shall not make investments in, or advances to, any individual, partnership, corporation, limited liability company, trust or other organization or person other than as previously specifically consented to in writing by the Bank. The Borrower will not purchase or otherwise invest in or hold securities, nonoperating real estate or other nonoperating assets or purchase all or substantially all the assets of any entity other than as previously specifically consented to in writing by the Bank.

4.6 Merger. Borrower shall not merge or consolidate or be merged or consolidated with or into any other entity.

4.7 Capital Expenditures. The Borrower shall not, directly or indirectly, make or commit to make capital expenditures by lease, purchase, or otherwise, except in the ordinary and usual course of business for the purpose of replacing machinery, equipment or other personal property which, as a consequence of wear, duplication or obsolescence, is no longer used or necessary in the Borrower's business.

4.8 Sale of Assets. Borrower shall not sell, lease or otherwise dispose of any of its assets, except in the ordinary and usual course of business and except for the purpose of replacing machinery, equipment or other personal property which, as a consequence of wear, duplication or obsolescence, is no longer used or necessary in the Borrower's business, provided that fair consideration is received therefor; provided, however, in no event shall the Borrower sell, lease or otherwise dispose of any equipment purchased with the proceeds of any loans made by the Bank.

4.9 Restriction on Liens. Borrower shall not grant any security interest in, or mortgage of, any of its properties or assets. Borrower shall not enter into any agreement with any person other than the Bank that prohibits the Borrower from granting any security interest in, or mortgage of, any of its properties or assets.

4.10 Other Business. Borrower shall not engage in any business other than the business in which it is currently engaged or a business reasonably allied thereto.

4.11 Change of Name, etc. Borrower shall not change its legal name or the State or the type of its organization, without giving the Bank at least 30 days prior written notice thereof.

5. DEFAULT

5.1 Default. "Event of Default" shall mean the occurrence of one or more of any of the following events:

- (a) default of any liability, obligation, covenant or undertaking of the Borrower or any guarantor of the Obligations to the Bank, hereunder or otherwise, including, without limitation, failure to pay in full and when due any installment of principal or interest or default of the Borrower or any guarantor of the Obligations under any other Loan Document or any other agreement with the Bank;
- (b) failure of the Borrower or any guarantor of the Obligations to maintain aggregate collateral security value satisfactory to the Bank;
- (c) default of any material liability, obligation or undertaking of the Borrower or any guarantor of the Obligations to any other party;
- (d) if any statement, representation or warranty heretofore, now or hereafter made by the Borrower or any guarantor of the Obligations in connection with this Agreement or in any supporting financial statement of the Borrower or any guarantor of the Obligations shall be determined by the Bank to have been false or misleading in any material respect when made;
- (e) if the Borrower or any guarantor of the Obligations is a corporation, trust, partnership or limited liability company, the liquidation, termination or dissolution of any such organization, or the merger or consolidation of such organization into another entity, or its ceasing to carry on actively its present business or the appointment of a receiver for its property;
- (f) the death of the Borrower or any guarantor of the Obligations and, if the Borrower or any guarantor of the Obligations is a partnership or limited liability company, the death of any partner or member;
- (g) the institution by or against the Borrower or any guarantor of the Obligations of any proceedings under the Bankruptcy Code 11 USC §101 *et seq.* or any other law in which the Borrower or any guarantor of the Obligations is alleged to be insolvent or unable to pay its debts as they mature, or the making by the Borrower or any guarantor of the Obligations of an assignment for the benefit of creditors or the granting by the Borrower or any guarantor of the Obligations of a trust mortgage for the benefit of creditors;

- (h) the service upon the Bank of a writ in which the Bank is named as trustee of the Borrower or any guarantor of the Obligations;
- (i) a judgment or judgments for the payment of money shall be rendered against the Borrower or any guarantor of the Obligations, and any such judgment shall remain unsatisfied and in effect for any period of thirty (30) consecutive days without a stay of execution;
- (j) any levy, lien (including mechanics lien), seizure, attachment, execution or similar process shall be issued or levied on any of the property of the Borrower or any guarantor of the Obligations;
- (k) the termination or revocation of any guaranty of the Obligations; or
- (l) the occurrence of such a change in the condition or affairs (financial or otherwise) of the Borrower or any guarantor of the Obligations, or the occurrence of any other event or circumstance, such that the Bank, in its sole discretion, deems that it is insecure or that the prospects for timely or full payment or performance of any obligation of the Borrower or any guarantor of the Obligations to the Bank has been or may be impaired.

5.2 Acceleration. If an Event of Default shall occur, at the election of the Bank, all Obligations shall become immediately due and payable without notice or demand, except with respect to Obligations payable on DEMAND, which shall be due and payable on DEMAND, whether or not an Event of Default has occurred. In addition, the Bank may require that the Borrower remit to the Bank cash collateral in an amount equal to 110% of the aggregate undrawn amount of all outstanding Letters of Credit at such time, such cash collateral to be held by the Bank in a cash collateral account on terms and conditions satisfactory to the Bank.

5.3 Nonexclusive Remedies. All of the Bank's rights and remedies not only under the provisions of this Agreement but also under any other agreement or transaction shall be cumulative and not alternative or exclusive, and may be exercised by the Bank at such time or times and in such order of preference as the Bank in its sole discretion may determine.

6. MISCELLANEOUS

6.1 Waivers. The Borrower waives notice of intent to accelerate, notice of acceleration, notice of nonpayment, demand, presentment, protest or notice of protest of the Obligations, and all other notices, consents to any renewals or extensions of time of payment thereof, and generally waives any and all suretyship defenses and defenses in the nature thereof.

6.2 Deposit Collateral. The Borrower hereby grants to the Bank a continuing lien and security interest in any and all deposits or other sums at any time credited by or due from the Bank or any Bank Affiliate to the Borrower and any cash, securities, instruments or other property of the Borrower in the possession of the Bank or any Bank Affiliate, whether for safekeeping or otherwise, or in transit to or from the Bank or any Bank Affiliate (regardless of the reason the Bank or Bank Affiliate had received the same or whether the Bank or Bank Affiliate has conditionally released the same) as security for the full and punctual payment and performance of all of the liabilities and obligations of the Borrower to the Bank or any Bank Affiliate and such deposits and other sums may be applied or set off against such liabilities and obligations of the Borrower to the Bank or any Bank Affiliate at any time, whether or not such are then due, whether or not demand has been made and whether or not other collateral is then available to the Bank or any Bank Affiliate.

6.3 Indemnification . The Borrower shall indemnify, defend and hold the Bank and any Bank Affiliate and their directors, officers, employees, agents and attorneys (each an "Indemnitee") harmless of and from any claim brought or threatened against any Indemnitee by the Borrower, any guarantor or endorser of the Obligations, or any other person (as well as from reasonable attorneys' fees and expenses in connection therewith) on account of the Bank's relationship with the Borrower, or any guarantor or endorser of the Obligations (each of which may be defended, compromised, settled or pursued by the Bank with counsel of the Bank's election, but at the expense of the Borrower), except for any claim arising out of the gross negligence or willful misconduct of the Bank. The within indemnification shall survive payment of the Obligations, and/or any termination, release or discharge executed by the Bank in favor of the Borrower.

6.4 Costs and Expenses . The Borrower shall pay to the Bank on demand any and all costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements, court costs, litigation and other expenses) incurred or paid by the Bank in establishing, maintaining, protecting or enforcing any of the Bank's rights or the Obligations, including, without limitation, any and all such costs and expenses incurred or paid by the Bank in defending the Bank's security interest in, title or right to any collateral or in collecting or attempting to collect or enforcing or attempting to enforce payment of any Obligation.

6.5 Counterparts . This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which shall constitute but one agreement.

6.6 Severability . If any provision of this Agreement or portion of such provision or the application thereof to any person or circumstance shall to any extent be held invalid or unenforceable, the remainder of this Agreement (or the remainder of such provision) and the application thereof to other persons or circumstances shall not be affected thereby.

6.7 Complete Agreement . This Agreement and the other Loan Documents constitute the entire agreement and understanding between and among the parties hereto relating to the subject matter hereof, and supersedes all prior proposals, negotiations, agreements and understandings among the parties hereto with respect to such subject matter.

6.8 Binding Effect of Agreement . This Agreement shall be binding upon and inure to the benefit of the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, and shall remain in full force and effect (and the Bank shall be entitled to rely thereon) until released in writing by the Bank. The Bank may transfer and assign this Agreement and any Revolving Credit and deliver it to the assignee, who shall thereupon have all of the rights of the Bank; and the Bank shall then be relieved and discharged of any responsibility or liability with respect to this Agreement, and any such Revolving Credit. The Borrower may not assign or transfer any of its rights or obligations under this Agreement. Except as expressly provided herein or in the other Loan Documents, nothing, expressed or implied, is intended to confer upon any party, other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

6.9 Further Assurances . Borrower will from time to time execute and deliver to Bank such documents, and take or cause to be taken, all such other or further action, as Bank may request in order to effect and confirm or vest more securely in Bank all rights contemplated by this Agreement and the other Loan Documents (including, without limitation, to correct clerical errors) or to comply with applicable statute or law.

6.10 Amendments and Waivers . This Agreement may be amended and Borrower may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if Borrower shall obtain the Bank's prior written consent to each such amendment, action or omission to act. No course of dealing and no delay or omission on the part of Bank in exercising any right hereunder shall operate as a waiver of such right or any other right and waiver on any one or more occasions shall not be construed as a bar to or waiver of any right or remedy of Bank on any future occasion.

6.11 Terms of Agreement. This Agreement shall continue in full force and effect so long as any Obligations or obligation of Borrower to Bank shall be outstanding, or the Bank shall have any obligation to extend any financial accommodation hereunder, and is supplementary to each and every other agreement between Borrower and Bank and shall not be so construed as to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of Borrower under any such agreement, nor shall any contemporaneous or subsequent agreement between Borrower and the Bank be construed to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of Borrower hereunder, unless such other agreement specifically refers to this Agreement and expressly so provides.

6.12 Notices. Any demand or notice hereunder or under any applicable law pertaining hereto shall be in writing and duly given if delivered to any party hereto at the address for such party as set forth herein, or at such other address as any party may from time to time designate in written notice received by the other parties hereto; provided, however, that in order for any notice to the Bank to be deemed effective, a duplicate notice shall be separately delivered to the Bank at the current office address of the Bank officer primarily responsible for the customer account to which this document relates. Any such demand or notice shall be deemed sufficiently given for all purposes when delivered (i) by personal delivery and shall be deemed effective when delivered, or (ii) by mail or courier and shall be deemed effective three (3) business days after deposit in an official depository maintained by the United States Post Office for the collection of mail or one (1) business day after delivery to a nationally recognized overnight courier service. Notice by e-mail is not valid notice under this or any other agreement between the undersigned parties.

6.13 Governing Law. This Agreement shall be governed by the laws of the State of New York without giving effect to the conflicts of laws principles thereof.

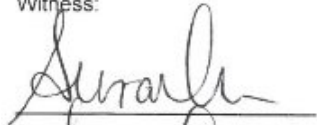
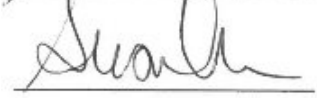
6.14 Reproductions. This Agreement and all documents which have been or may be hereinafter furnished by Borrower to the Bank may be reproduced by the Bank by any photographic, photostatic, microfilm, xerographic or similar process, and any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made in the regular course of business).

6.15 Jurisdiction and Venue. Borrower irrevocably submits to the nonexclusive jurisdiction of any Federal or state court sitting in New York, over any suit, action or proceeding arising out of or relating to this Agreement. Borrower irrevocably waives, to the fullest extent it may effectively do so under applicable law, any objection it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that the same has been brought in an inconvenient forum. Borrower hereby consents to any and all process which may be served in any such suit, action or proceeding, (i) by mailing a copy thereof by registered and certified mail, postage prepaid, return receipt requested, to the Borrower's address shown in this Agreement or as notified to the Bank and (ii) by serving the same upon the Borrower in any other manner otherwise permitted by law, and agrees that such service shall in every respect be deemed effective service upon Borrower.

6.16 **JURY WAIVER**. **THE BORROWER AND BANK EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, AND AFTER AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, (A) WAIVE ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING IN CONNECTION WITH THIS AGREEMENT, THE OBLIGATIONS, ALL MATTERS CONTEMPLATED HEREBY AND DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND (B) AGREE NOT TO SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE, OR HAS NOT BEEN, WAIVED. THE BORROWER CERTIFIES THAT NEITHER THE BANK NOR ANY OF ITS REPRESENTATIVES, AGENTS OR COUNSEL HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT IN THE EVENT OF ANY SUCH PROCEEDING SEEK TO ENFORCE THIS WAIVER OF RIGHT TO TRIAL BY JURY.**

Executed as of January 17, 2019.

Witness:

Borrower:
Sono-Tek Corporation

By: 
Stephen J. Bagley, Chief Financial Officer

By: 
Christopher Coccio, Chief Executive Officer

Accepted: M&T Bank

By: 
Name: Susan Keith Cardinale
Title: Vice President



**AMENDED AND RESTATED
REVOLVING DEMAND NOTE**

January 17, 2019

\$1,500,000.00

For value received, the undersigned **Sono-Tek Corporation, a New York corporation**, with an address of **2012 Route 9 West, Milton, New York 12547** (the "Borrower"), promises to pay to the order of M&T Bank, a New York banking corporation with an address of One M&T Plaza (Attn: Office of General Counsel), Buffalo, New York 14203 (together with its successors and assigns, the "Bank"), **ON DEMAND**, the principal amount of **One Million, Five Hundred Thousand Dollars and Zero Cents (\$1,500,000.00)** or, if less, such amount as may be the aggregate unpaid principal amount of all loans or advances made by the Bank to the Borrower pursuant hereto, together with interest from the date hereof on the unpaid principal balance from time to time outstanding until paid in full. The aggregate principal balance outstanding shall bear interest thereon at a per annum rate equal to the Prime Rate (as hereinafter defined). All accrued and unpaid interest shall be payable monthly in arrears on the ____ of each month, commencing on **February __, 2019**.

Reference is hereby made to a certain loan agreement dated on or about the date hereof, as amended, between the Borrower and the Bank for additional terms and conditions applicable to this Note.

Notwithstanding anything to the contrary in this Note, the interest rate on this Note is limited by a floor as follows: the minimum interest rate (i.e. floor) is 4.00% per annum.

Prime Rate means the rate per annum from time to time established by the Bank as the Prime Rate and made available by the Bank at its main office or, in the discretion of the Bank, the base, reference or other rate then designated by the Bank for general commercial loan reference purposes, it being understood that such rate is a reference rate, not necessarily the lowest, established from time to time, which serves as the basis upon which effective interest rates are calculated for loans making reference thereto.

The effective interest rate applicable to the Borrower's loans evidenced hereby shall change on the date of each change in the Prime Rate.

This Note is an amendment and restatement of that certain **\$750,000.00** Amended and Restated Revolving Demand Note, dated **August 6, 2010** (the "Original Note"), by the Borrower in favor of the Bank and shall be secured to the same extent and with the same priority as the Original Note. All references to the Original Note shall include any amendments or modifications thereof. The Borrower agrees and understands that this Note is given in replacement of and in substitution for, but not in payment of, the Original Note, and further, that (a) the obligations of the Borrower as evidenced by the Original Note shall continue in full force and effect, as amended and restated by this Note, all of such obligations being hereby ratified and confirmed by the Borrower; (b) any and all liens, pledges, assignments and security interests securing the Borrower's obligations under the Original Note shall continue in full force and effect, are hereby ratified and confirmed by the Borrower, and are hereby acknowledged by the Borrower to secure, among other things, all of the Borrower's obligations to the Bank under this Note, with the same priority, operation and effect as that relating to the obligations under the Original Note; and (c) nothing herein contained shall be construed to extinguish, release, or discharge, or constitute, create, or effect a novation of, or an agreement to extinguish, the obligations of the Borrower with respect to the indebtedness originally described in the Original Note or any of the liens, pledges, assignments and security interests securing such obligations.

Principal and interest shall be payable at the Bank's main office or at such other place as the Bank may designate in writing in immediately available funds in lawful money of the United States of America without set-off, deduction or counterclaim. Interest shall be calculated on the basis of actual number of days elapsed and a 360-day year.

This Note is a revolving note and, subject to the foregoing and in accordance with the provisions hereof and of any and all other agreements between the Borrower and the Bank related hereto, the Borrower may, at its option, borrow, pay, prepay and reborrow hereunder at any time prior to demand for payment hereunder or such earlier date as the obligations of the Borrower to the Bank under this Note, and any other agreements between the Bank and the Borrower related hereto, shall become due and payable, or the obligation of the Bank to extend financial accommodations to the Borrower shall terminate; provided, however, that in any event the principal balance outstanding hereunder shall at no time exceed the face amount of this Note. This Note shall continue in full force and effect until all obligations and liabilities evidenced by this Note are paid in full and the Bank is no longer obligated to extend financial accommodations to the Borrower, even if, from time to time, there are no amounts outstanding respecting this Note.

The Borrower shall pay to the Bank, on or before each anniversary date of this Note, a non-refundable credit review fee in an amount of \$250.00. The Borrower acknowledges and understands that (a) this Annual Credit Review Fee will be assessed each year, for as long as the credit facility evidenced by this Note remains open, regardless of whether any advances have been made hereunder or any principal balance is then outstanding, and (b) payment of the Annual Credit Review Fee does not entitle the Borrower to any assurances that such credit facility will remain open, nor does it alter or compromise the discretionary and "on demand" nature of this credit facility.

Payments may be applied in any order in the sole discretion of the Bank but, prior to default, shall be applied first to past due interest, expenses (which shall include all fees and costs, as well as all disbursements incurred by the Bank to preserve or enforce its rights under this Note or any other document executed in connection herewith), late charges and principal; then to current interest, expenses, late charges and principal, and last to remaining principal. Notwithstanding the foregoing, any payments received after demand for payment shall be applied in such manner as the Bank may determine. The Borrower hereby authorizes the Bank to charge any deposit account which the Borrower may maintain with the Bank for any payment required hereunder without prior notice to the Borrower.

If pursuant to the terms of this Note, the Borrower is at any time obligated to pay interest on the principal balance at a rate in excess of the maximum interest rate permitted by applicable law for the loan evidenced by this Note, the applicable interest rate shall be immediately reduced to such maximum rate and all previous payments in excess of the maximum rate shall be deemed to have been payments in reduction of principal and not on account of the interest due hereunder.

The Borrower represents to the Bank that the proceeds of this Note will not be used for personal, family or household purposes or for the purpose of purchasing or carrying margin stock or margin securities within the meaning of Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224.

The Borrower grants to the Bank a continuing lien on and security interest in any and all deposits or other sums at any time credited by or due from the Bank or any Bank Affiliate (as hereinafter defined) to the Borrower and any cash, securities, instruments or other property of the Borrower in the possession of the Bank or any Bank Affiliate, whether for safekeeping or otherwise, or in transit to or from the Bank or any Bank Affiliate (regardless of the reason the Bank or Bank Affiliate had received the same or whether the Bank or Bank Affiliate has conditionally released the same) as security for the full and punctual payment and performance of all of the liabilities and obligations of the Borrower to the Bank or any Bank Affiliate and such deposits and other sums may be applied or set off against such liabilities and obligations of the Borrower to the Bank or any Bank Affiliate at any time, whether or not such are then due, whether or not demand has been made and whether or not other collateral is then available to the Bank or any Bank Affiliate.

No delay or omission on the part of the Bank in exercising any right hereunder shall operate as a waiver of such right or of any other right of the Bank, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or waiver of the same or any other right on any future occasion. The Borrower and any other party obligated on account of this Note by contract, by operation of law or otherwise (the Borrower and each Borrower, if more than one, and each such other party, an "Obligor"), regardless of the time, order or place of signing, waive presentment, demand, protest, notice of intent to accelerate, notice of acceleration and all other notices of every kind in connection with the delivery, acceptance, performance or enforcement of this Note and assent to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral, and to the addition or release of any other party or person primarily or secondarily liable and waives all recourse to suretyship and guarantor defenses generally, including any defense based on impairment of collateral. To the maximum extent permitted by law, the Borrower waives and terminates any homestead rights and/or exemptions respecting any premises under the provisions of any applicable homestead laws, including without limitation, Section 5206 of the Civil Practice Law and Rules of New York.

The Borrower shall indemnify, defend and hold the Bank and the Bank Affiliates and their directors, officers, employees, agents and attorneys (each an "Indemnitee") harmless against any claim brought or threatened against any Indemnitee by the Borrower or by any other person (as well as from attorneys' reasonable fees and expenses in connection therewith) on account of the Bank's relationship with the Borrower (each of which may be defended, compromised, settled or pursued by the Bank with counsel of the Bank's selection, but at the expense of the Borrower), except for any claim arising out of the gross negligence or willful misconduct of the Bank.

The Borrower agrees to pay, upon demand, costs of collection of all amounts under this Note including, without limitation, principal and interest, or in connection with the enforcement of, or realization on, any security for this Note, including, without limitation, to the extent permitted by applicable law, reasonable attorneys' fees and expenses. Upon demand for payment of any amounts hereunder, interest shall accrue at a rate per annum equal to the aggregate of 5.0% plus the rate provided for herein. If any payment due under this Note is unpaid for 5 days or more, the Borrower shall pay, in addition to any other sums due under this Note (and without limiting the Bank's other remedies on account thereof), a late charge equal to the greater of \$50 or 5.0% of such unpaid amount, or the Bank's then current late charge as announced from time to time (which amount shall be subject to and limited so as to not be in violation of the provisions of Section 254-b of New York Real Property Law, if applicable).

This Note shall be binding upon the Borrower and upon its heirs, successors, assigns and legal representatives, and shall inure to the benefit of the Bank and its successors, endorsees and assigns.

The liabilities of the Borrower and each Borrower, if more than one, and any Obligor are joint and several; provided, however, the release by the Bank of the Borrower or any one or more Obligors shall not release any other person obligated on account of this Note. Any and all present and future debts of the Borrower to any Obligor are subordinated to the full payment and performance of all present and future debts and obligations of the Borrower to the Bank. Each reference in this Note to the Borrower and each Borrower, if more than one, and Obligor, is to such person individually and also to all such persons jointly. No person obligated on account of this Note may seek contribution from any other person also obligated, unless and until all liabilities, obligations and indebtedness to the Bank of the person from whom contribution is sought have been irrevocably satisfied in full. The release or compromise by the Bank of any collateral shall not release any person obligated on account of this Note.

The Borrower authorizes the Bank to complete this Note if delivered incomplete in any respect. A photographic or other reproduction of this Note may be made by the Bank, and any such reproduction shall be admissible in evidence with the same effect as the original itself in any judicial or administrative proceeding, whether or not the original is in existence.

The Borrower will from time to time execute and deliver to the Bank such documents, and take or cause to be taken, all such other further action, as the Bank may request in order to effect and confirm or vest more securely in the Bank all rights contemplated by this Note or any other loan documents related thereto (including, without limitation, to correct clerical errors) or to vest more fully in or assure to the Bank the security interest in any collateral securing this Note or to comply with applicable statute or law.

This Note shall be governed by the laws of the State of New York without giving effect to the conflicts of laws principles thereof.

Any demand or notice hereunder or under any applicable law pertaining hereto shall be in writing and duly given if delivered to any party hereto at the address for such party as set forth herein, or at such other address as any party may from time to time designate in written notice received by the other parties hereto; provided, however, that in order for any notice to the Bank to be deemed effective, a duplicate notice shall be separately delivered to the Bank at the current office address of the Bank officer primarily responsible for the customer account to which this document relates. Any such demand or notice shall be deemed sufficiently given for all purposes when delivered (i) by personal delivery and shall be deemed effective when delivered, or (ii) by mail or courier and shall be deemed effective three (3) business days after deposit in an official depository maintained by the United States Post Office for the collection of mail or one (1) business day after delivery to a nationally recognized overnight courier service. Notice by e-mail is not valid notice under this or any other agreement between the undersigned parties.

The term "Bank Affiliate" as used in this Note shall mean any banking or lending affiliates of the Bank, any party acting as a participant lender in the credit arrangements contemplated herein, or any third party acting on the Bank's behalf.

Except as set forth below, no change in this Note or waiver of any right or remedy hereunder can be made except in a writing signed by the Bank. No course of dealing or other conduct, no oral agreement or representation made by the Bank, and no usage of trade, shall operate as a waiver of any right or remedy of the Bank. No waiver of any right or remedy of the Bank shall be effective unless made specifically in writing by the Bank.

This Note, together with any related loan and security agreements and guaranties, contains the entire agreement between the Borrower and the Bank with respect to the Note, and supersedes every course of dealing, other conduct, oral agreement and representation previously made by the Bank.

If there is more than one obligor to the Bank named herein and signing below, each such obligor shall be jointly and severally liable for the payment of all amounts and performance of all obligations required hereunder.

Preauthorized Transfers from Deposit Account. If a deposit account number is provided, Borrower hereby authorizes the Bank to debit Borrower's deposit account #11000911401818 with the Bank automatically for any amount which becomes due under this Note.

The Borrower irrevocably submits to the nonexclusive jurisdiction of any Federal or state court sitting in New York, over any suit, action or proceeding arising out of or relating to this Note. The Borrower irrevocably waives, to the fullest extent it may effectively do so under applicable law, any objection it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that the same has been brought in an inconvenient forum. The Borrower hereby consents to any and all process which may be served in any such suit, action or proceeding, (i) by mailing a copy thereof by registered and certified mail, postage prepaid, return receipt requested, to the Borrower's, address shown below or as notified to the Bank and (ii) by serving the same upon the Borrower(s) in any other manner otherwise permitted by law, and agrees that such service shall in every respect be deemed effective service upon the Borrower.

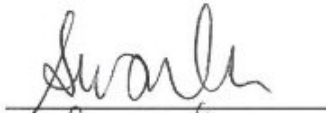
THE BORROWER ACKNOWLEDGES THAT THIS NOTE IS A DEMAND NOTE AND THE RIGHT OF THE BANK TO DEMAND PAYMENT OF THIS NOTE IN WHOLE OR IN PART AT ANY TIME SHALL BE ABSOLUTE, UNCONDITIONAL AND IN THE SOLE DISCRETION OF THE BANK. THE INCLUSION OF EVENTS OF DEFAULT AND COVENANTS IN ANY LOAN DOCUMENTS BETWEEN THE BANK AND THE BORROWER OR ANY OTHER PARTY DELIVERED IN CONNECTION WITH THIS NOTE OR OTHERWISE SHALL NOT IN ANY WAY LIMIT THE DEMAND NATURE OF THIS NOTE AND THE BANK MAY MAKE DEMAND FOR PAYMENT AT ANY TIME FOR ANY OR NO REASON, WHETHER OR NOT AN EVENT OF DEFAULT HAS OCCURRED UNDER ANY SUCH LOAN DOCUMENTS.

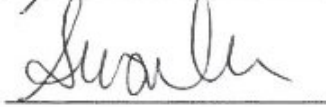
THE BORROWER AND THE BANK EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, AND AFTER AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, (A) WAIVES ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING IN CONNECTION WITH THIS NOTE, ANY OF THE OBLIGATIONS OF THE BORROWER TO THE BANK, AND ALL MATTERS CONTEMPLATED HEREBY AND DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND (B) AGREES NOT TO SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CAN NOT BE, OR HAS NOT BEEN, WAIVED. THE BORROWER AND THE BANK EACH CERTIFIES THAT NEITHER THE BANK NOR ANY OF ITS REPRESENTATIVES, AGENTS OR COUNSEL HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT IN THE EVENT OF ANY SUCH PROCEEDING SEEK TO ENFORCE THIS WAIVER OF RIGHT TO TRIAL BY JURY.

Borrower acknowledges that it has read and understands all provisions of this Note and has been advised by counsel as necessary or appropriate.

Executed as of **January 17, 2019** .

Witness:





Borrower:

Sono-Tek Corporation

By: 
Stephen J. Bagley, Chief Financial Officer

By: 
Christopher Coccio, Chief Executive Officer

2012 Route 9 West
Milton, New York
12547



SECURITY AGREEMENT

This SECURITY AGREEMENT (this "Agreement") is entered into as of **January 17, 2019**, between **Sono-Tek Corporation, a New York corporation**, with its chief executive office located at **2012 Route 9 West, Milton, New York 12547** (the "Borrower") and M&T Bank, a New York banking corporation, with an address of One M&T Plaza (Attn: Office of General Counsel), Buffalo, New York 14203 (the "Bank").

FOR VALUE RECEIVED, and in consideration of the granting by the Bank of financial accommodations to or for the benefit of the Borrower, including without limitation respecting the Obligations (as hereinafter defined), the Borrower represents to and agrees with the Bank, as of the date hereof and as of the date of each loan, credit and/or other financial accommodation, as follows:

1. GRANT OF SECURITY INTEREST

1.1 Grant of Security Interest. In consideration of the Bank's extending credit and other financial accommodations to or for the benefit of the Borrower, the Borrower hereby grants to the Bank a security interest in, a lien on and pledge and assignment of the Collateral (as hereinafter defined). The security interest granted by this Agreement is given to and shall be held by the Bank as security for the payment and performance of all Obligations (as hereinafter defined).

1.2 Definitions. The following definitions shall apply:

- (a) "Bank Affiliate" shall mean any banking or lending affiliates of the Bank, any party acting as a participant lender in the credit arrangements contemplated herein, or any third party acting on the Bank's behalf.
 - (b) "Code" shall mean the New York Uniform Commercial Code as amended from time to time.
 - (c) "Collateral" shall mean all of the Borrower's present and future right, title and interest in and to any and all of the property described in subparagraphs (i), (ii) and (iii) below, whether such property be now existing or hereafter created, arising or acquired, and wherever located from time to time:
 - (i) All inventory, accounts (including health-care-insurance receivables), chattel paper, payment intangibles and supporting obligations;
 - (ii) All proceeds of collateral of every kind and nature in whatever form, including, without limitation, both cash and noncash proceeds resulting or arising from the sale or other disposition by the Borrower of the collateral; and
 - (iii) All records and products of and accessions to any of the collateral.
 - (d) "Debtors" shall mean the Borrower's customers who are indebted to the Borrower.
-

- (e) "Loan Documents" shall mean this Agreement and all other agreements between the Bank and the Borrower.
- (f) "Obligation(s)" shall mean, without limitation, all loans, advances, indebtedness, notes, liabilities and amounts (including under Letters of Credit) , liquidated or unliquidated, owing by the Borrower to the Bank at any time, of each and every kind, nature and description, whether arising under this Agreement or otherwise, and whether secured or unsecured, direct or indirect (that is, whether the same are due directly by the Borrower to the Bank; or are due indirectly by the Borrower to the Bank as endorser, guarantor or other surety, or as borrower of obligations due third persons which have been endorsed or assigned to the Bank, or otherwise), absolute or contingent, due or to become due, now existing or hereafter arising or contracted, including, without limitation, payment when due of all amounts outstanding respecting any of the Loan Documents. Said term shall also include all interest and other charges chargeable to the Borrower or due from the Borrower to the Bank from time to time and all costs and expenses referred to in this Agreement.
- (g) "Person" or "party" shall mean individuals, partnerships, corporations, limited liability companies and all other entities.

All words and terms used in this Agreement other than those specifically defined herein shall have the meanings accorded to them in the Code.

1.3 Ordinary Course of Business . The Bank hereby authorizes and permits the Borrower to hold, process, sell, use or consume in the manufacture or processing of finished goods, or otherwise dispose of inventory for fair consideration, all in the ordinary course of the Borrower's business, excluding, without limitation, sales to creditors or in bulk or sales or other dispositions occurring under circumstances which would or could create any lien or interest adverse to the Bank's security interest or other right hereunder in the proceeds resulting therefrom. The Bank also hereby authorizes and permits the Borrower to receive from the Debtors all amounts due as proceeds of the Collateral at the Borrower's own cost and expense, and also liability, if any, subject to the direction and control of the Bank at all times; and the Bank may at any time, without cause or notice, and whether or not an Event of Default has occurred or demand has been made, terminate all or any part of the authority and permission herein or elsewhere in this Agreement granted to the Borrower with reference to the Collateral, and notify Debtors to make all payments due as proceeds of the Collateral to the Bank. Until Bank shall otherwise notify Borrower, all proceeds of and collections of Collateral shall be retained by Borrower and used solely for the ordinary and usual operation of Borrower's business. From and after notice by Bank to Borrower, all proceeds of and collections of the Collateral shall be held in trust by Borrower for Bank and shall not be commingled with Borrower's other funds or deposited in any Bank account of Borrower; and Borrower agrees to deliver to Bank on the dates of receipt thereof by Borrower, duly endorsed to Bank or to bearer, or assigned to Bank, as may be appropriate, all proceeds of the Collateral in the identical form received by Borrower.

1.4 Allowances . Absent an Event of Default the Borrower may grant such allowances or other adjustments to Debtors (exclusive of extending the time for payment of any item which shall not be done without first obtaining the Bank's written consent in each instance) as the Borrower may reasonably deem to accord with sound business practice, including, without limiting the generality of the foregoing, accepting the return of all or any part of the inventory (subject to the provisions set forth in this Agreement with reference to returned inventory).

1.5 Records . The Borrower shall hold its books and records relating to the Collateral segregated from all the Borrower's other books and records in a manner satisfactory to the Bank; and shall deliver to the Bank from time to time promptly at its request all invoices, original documents of title, contracts, chattel paper, instruments and any other writings relating thereto, and other evidence of performance of contracts, or evidence of shipment or delivery of the merchandise or of the rendering of services; and the Borrower will deliver to the Bank promptly at the Bank's request from time to time additional copies of any or all of such papers or writings, and such other information with respect to any of the Collateral and such schedules of inventory, schedules of accounts and such other writings as the Bank may in its sole discretion deem to be necessary or effectual to evidence any loan hereunder or the Bank's security interest in the Collateral.

1.6 Legends. The Borrower shall promptly make, stamp or record such entries or legends on the Borrower's books and records or on any of the Collateral (including, without limitation, chattel paper) as Bank shall request from time to time, to indicate and disclose that Bank has a security interest in such Collateral.

1.7 Inspection. The Bank, or its representatives, at any time and from time to time, shall have the right at the sole cost and expense of Borrower, and the Borrower will permit the Bank and/or its representatives: (a) to examine, check, make copies of or extracts from any of the Borrower's books, records and files (including, without limitation, orders and original correspondence); (b) to perform field exams or otherwise inspect and examine the Collateral and to check, test or appraise the same as to quality, quantity, value and condition; and (c) to verify the Collateral or any portion or portions thereof or the Borrower's compliance with the provisions of this Agreement.

1.8 Purchase Money Security Interests. To the extent the Borrower uses proceeds of any loans to purchase Collateral, the repayment of such loans shall be on a "first-in-first-out" basis so that the portion of the loan used to purchase a particular item of Collateral shall be repaid in the order in which Borrower purchased such item of Collateral.

1.9 Search Reports. At Borrower's expense, Borrower shall deliver to Bank prior to the date of this Agreement UCC search results under all names used by the Borrower during the prior five (5) years, from each jurisdiction where any Collateral is located, from the State, if any, where the Borrower is organized and registered (as such terms are used in the Code), and the State where the Borrower's chief executive office is located. The search results shall confirm that the security interest in the Collateral granted Bank hereunder is prior to all other security interests in favor of any other person.

2. REPRESENTATIONS AND WARRANTIES

2.1 Accounts and Contract Rights. All accounts arise out of legally enforceable and existing contracts, and represent unconditional and undisputed bona fide indebtedness by a Debtor, and are not and will not be subject to any discount (except such cash or trade discount as may be shown on any invoice, contract or other writing delivered to the Bank). No contract right, account, general intangible or chattel paper is or will be represented by any note or other instrument, and no contract right, account or general intangible is, or will be represented by any conditional or installment sales obligation or other chattel paper, except such instruments or chattel paper as have been or immediately upon receipt by the Borrower will be delivered to the Bank (duly endorsed or assigned), such delivery, in the case of chattel paper, to include all executed copies except those in the possession of the installment buyer and any security for or guaranty of any of the Collateral shall be delivered to the Bank immediately upon receipt thereof by the Borrower, with such assignments and endorsements thereof as the Bank may request.

2.2 Location of Collateral. Except for sale, processing, use, consumption or other disposition in the ordinary course of business, the Borrower will keep all inventory and equipment only at locations specified in this Agreement or specified to the Bank in writing. The Borrower shall, during the term of this Agreement, keep the Bank currently and accurately informed in writing of each location where the Borrower's records relating to its accounts and contract rights, respectively, are kept, and shall not remove such records or any of them to another location without giving the Bank at least thirty (30) days prior written notice thereof.

2.3 Third Parties. The Bank shall not be deemed to have assumed any liability or responsibility to the Borrower or any third person for the correctness, validity or genuineness of any instruments or documents that may be released or endorsed to the Borrower by the Bank (which shall automatically be deemed to be without recourse to the Bank in any event) or for the existence, character, quantity, quality, condition, value or delivery of any goods purporting to be represented by any such documents; and the Bank, by accepting such security interest in the Collateral, or by releasing any Collateral to the Borrower, shall not be deemed to have assumed any obligation or liability to any supplier or Debtor or to any other third party, and the Borrower agrees to indemnify and defend the Bank and hold it harmless in respect to any claim or proceeding arising out of any matter referred to in this paragraph.

2.4 Payment of Accounts. Each account or other item of Collateral, other than inventory and equipment, will be paid in full on or before the date shown as its due date in the schedule of Collateral, in the copy of the invoice(s) relating to the account or other Collateral or in contracts relating thereto. Upon any suspension of business, assignment or trust mortgage for the benefit of creditors, dissolution, petition in receivership or under any chapter of the Bankruptcy Code as amended from time to time by or against any Debtor, any Debtor becoming insolvent or unable to pay its debts as they mature or any other act of the same or different nature amounting to a business failure, the Borrower will immediately notify the Bank thereof.

2.5 Taxes. Borrower has filed all Federal, state and other tax returns required to be filed (except for such returns for which current and valid extensions have been filed), and all taxes, assessments and other governmental charges due from the Borrower have been fully paid. The Borrower has established on its books reserves adequate for the payment of all Federal, state and other tax liabilities (if any).

2.6 Use of Proceeds. No portion of any loan is to be used for (i) the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. 221 and 224 or (ii) primarily personal, family or household purposes. The Collateral is not used or acquired primarily for personal, family or household purposes.

3. AFFIRMATIVE COVENANTS

3.1 Payments and Performance. Borrower will duly and punctually pay all Obligations becoming due to the Bank and will duly and punctually perform all Obligations on its part to be done or performed under this Agreement.

3.2 Books and Records; Inspection. Borrower will at all times keep proper books of account in which full, true and correct entries will be made of its transactions in accordance with generally accepted accounting principles, consistently applied and which are, in the opinion of a Certified Public Accountant acceptable to Bank, adequate to determine fairly the financial condition and the results of operations of Borrower. Borrower will at all reasonable times make its books and records available in its offices for inspection, examination and duplication by the Bank and the Bank's representatives and will permit inspection of the Collateral and all of its properties by the Bank and the Bank's representatives. Borrower will from time to time furnish the Bank with such information and statements as the Bank may request in its sole discretion with respect to the Obligations or the Bank's security interest in the Collateral.

3.3 Inspection. Borrower will at all reasonable times make its books and records available in its offices for inspection, examination and duplication by the Bank and the Bank's representatives and will permit inspection of the Collateral and all of its properties by the Bank and the Bank's representatives. Borrower will from time to time furnish the Bank with such information and statements as the Bank may request in its sole discretion with respect to the Obligations or the Bank's security interest in the Collateral. Borrower shall, during the term of this Agreement, keep the Bank currently and accurately informed in writing of each location where Borrower's records relating to its accounts and contract rights are kept, and shall not remove such records to another location without giving the Bank at least thirty (30) days prior written notice thereof.

3.4 Notice to Account Debtors. The Borrower agrees, at the request of the Bank, to notify all or any of the Debtors in writing of the Bank's security interest in the Collateral in whatever manner the Bank requests and, hereby authorizes the Bank to notify all or any of the Debtors of the Bank's security interest in the Borrower's accounts at the Borrower's expense.

3.5 Contact with Accountant. The Borrower hereby authorizes the Bank to directly contact and communicate with any accountant employed by Borrower in connection with the review and/or maintenance of Borrower's books and records or preparation of any financial reports delivered by or at the request of Borrower to Bank.

3.6 Operating and Deposit Accounts. The Borrower shall maintain with the Bank its primary operating and deposit accounts. At the option of the Bank, all loan payments and fees will automatically be debited from the Borrower's primary operating account and all advances will automatically be credited to the Borrower's primary operating account.

3.7 Notification of Default. Immediately upon becoming aware of the existence of any condition or event which constitutes an Event of Default, or any condition or event which would upon notice or lapse of time, or both, constitute an Event of Default, Borrower shall give Bank written notice thereof specifying the nature and duration thereof and the action being or proposed to be taken with respect thereto.

3.8 Notification of Material Litigation. Borrower will immediately notify the Bank in writing of any litigation or of any investigative proceedings of a governmental agency or authority commenced or threatened against it which would or might be materially adverse to the financial condition of Borrower or any guarantor of the Obligations.

3.9 Pension Plans. With respect to any pension or benefit plan maintained by Borrower, or to which Borrower contributes ("Plan"), the benefits under which are guaranteed, in whole or in part, by the Pension Benefit Guaranty Corporation created by the Employee Retirement Income Security Act of 1974, P.L. 93-406, as amended ("ERISA") or any governmental authority succeeding to any or all of the functions of the Pension Benefit Guaranty Corporation ("Pension Benefit Guaranty Corporation"), Borrower will (a) fund each Plan as required by the provisions of Section 412 of the Internal Revenue Code of 1986, as amended; (b) cause each Plan to pay all benefits when due; (c) furnish Bank (i) promptly with a copy of any notice of each Plan's termination sent to the Pension Benefit Guaranty Corporation (ii) no later than the date of submission to the Department of Labor or to the Internal Revenue Service, as the case may be, a copy of any request for waiver from the funding standards or extension of the amortization periods required by Section 412 of the Internal Revenue Code of 1986, as amended and (iii) notice of any Reportable Event as such term is defined in ERISA; and (d) subscribe to any contingent liability insurance provided by the Pension Benefit Guaranty Corporation to protect against employer liability upon termination of a guaranteed pension plan, if available to Borrower.

3.10 Lien Law. If any account or general intangible included in the Collateral represents money owing pursuant to any contract for the improvement of real property or for a public improvement for purposes of the Lien Law of the State of New York (the "Lien Law"), Borrower shall (i) give Bank notice of such fact; (ii) receive and hold any money advanced by Bank with respect to such account or general intangible as a trust fund to be first applied to the payment of trust claims as such term is defined in the Lien Law (Section 71 or otherwise); and (iii) until such trust claim is paid, not use or permit the use of any such money for any purpose other than the payment of such trust claims.

4. DEFAULT

4.1 Default. "Event of Default" shall mean the occurrence of one or more of any of the following events:

- (a) default of any liability, obligation, covenant or undertaking of the Borrower or any guarantor of the Obligations to the Bank, hereunder or otherwise, including, without limitation, failure to pay in full and when due any installment of principal or interest or default of the Borrower or any guarantor of the Obligations under any other Loan Document or any other agreement with the Bank;

- (b) failure of the Borrower or any guarantor of the Obligations to maintain aggregate collateral security value satisfactory to the Bank;
- (c) default of any material liability, obligation or undertaking of the Borrower or any guarantor of the Obligations to any other party;
- (d) if any statement, representation or warranty heretofore, now or hereafter made by the Borrower or any guarantor of the Obligations in connection with this Agreement or in any supporting financial statement of the Borrower or any guarantor of the Obligations shall be determined by the Bank to have been false or misleading in any material respect when made;
- (e) if the Borrower or any guarantor of the Obligations is a corporation, trust, partnership or limited liability company, the liquidation, termination or dissolution of any such organization, or the merger or consolidation of such organization into another entity, or its ceasing to carry on actively its present business or the appointment of a receiver for its property;
- (f) the death of the Borrower or any guarantor of the Obligations and, if the Borrower or any guarantor of the Obligations is a partnership or limited liability company, the death of any partner or member;
- (g) the institution by or against the Borrower or any guarantor of the Obligations of any proceedings under the Bankruptcy Code 11 USC §101 *et seq.* or any other law in which the Borrower or any guarantor of the Obligations is alleged to be insolvent or unable to pay its debts as they mature, or the making by the Borrower or any guarantor of the Obligations of an assignment for the benefit of creditors or the granting by the Borrower or any guarantor of the Obligations of a trust mortgage for the benefit of creditors;
- (h) the service upon the Bank of a writ in which the Bank is named as trustee of the Borrower or any guarantor of the Obligations;
- (i) a judgment or judgments for the payment of money shall be rendered against the Borrower or any guarantor of the Obligations, and any such judgment shall remain unsatisfied and in effect for any period of thirty (30) consecutive days without a stay of execution;
- (j) any levy, lien (including mechanics lien), seizure, attachment, execution or similar process shall be issued or levied on any of the property of the Borrower or any guarantor of the Obligations;
- (k) the termination or revocation of any guaranty of the Obligations; or
- (l) the occurrence of such a change in the condition or affairs (financial or otherwise) of the Borrower or any guarantor of the Obligations, or the occurrence of any other event or circumstance, such that the Bank, in its sole discretion, deems that it is insecure or that the prospects for timely or full payment or performance of any obligation of the Borrower or any guarantor of the Obligations to the Bank has been or may be impaired.

4.2 Acceleration. If an Event of Default shall occur, at the election of the Bank, all Obligations shall become immediately due and payable without notice or demand, except with respect to Obligations payable on DEMAND, which shall be due and payable on DEMAND, whether or not an Event of Default has occurred. In addition, the Bank may require that the Borrower remit to the Bank cash collateral in an amount equal to 110% of the aggregate undrawn amount of all outstanding Letters of Credit at such time, such cash collateral to be held by the Bank in a cash collateral account on terms and conditions satisfactory to the Bank.

The Bank is hereby authorized, at its election, after an Event of Default or after Demand, without any further demand or notice except to such extent as notice may be required by applicable law, to take possession and/or sell or otherwise dispose of all or any of the Collateral at public or private sale; and the Bank may also exercise any and all other rights and remedies of a secured party under the Code or which are otherwise accorded to it in equity or at law, all as Bank may determine, and such exercise of rights in compliance with the requirements of law will not be considered adversely to affect the commercial reasonableness of any sale or other disposition of the Collateral. If notice of a sale or other action by the Bank is required by applicable law, unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Borrower agrees that ten (10) days written notice to the Borrower, or the shortest period of written notice permitted by such law, whichever is smaller, shall be sufficient notice; and that to the extent permitted by law, the Bank, its officers, attorneys and agents may bid and become purchasers at any such sale, if public, and may purchase at any private sale any of the Collateral that is of a type customarily sold on a recognized market or which is the subject of widely distributed standard price quotations. Any sale (public or private) shall be without warranty and free from any right of redemption, which the Borrower shall waive and release after default upon the Bank's request therefor, and may be free of any warranties as to the Collateral if Bank shall so decide. No purchaser at any sale (public or private) shall be responsible for the application of the purchase money. Any balance of the net proceeds of sale remaining after paying all Obligations of the Borrower to the Bank shall be returned to such other party as may be legally entitled thereto; and if there is a deficiency, the Borrower shall be responsible for repayment of the same, with interest. Upon demand by the Bank, the Borrower shall assemble the Collateral and make it available to the Bank at a place designated by the Bank which is reasonably convenient to the Bank and the Borrower. The Borrower hereby acknowledges that the Bank has extended credit and other financial accommodations to the Borrower upon reliance of the Borrower's granting the Bank the rights and remedies contained in this Agreement including without limitation the right to take immediate possession of the Collateral upon the occurrence of an Event of Default or after DEMAND with respect to Obligations payable on DEMAND and the Borrower hereby acknowledges that the Bank is entitled to equitable and injunctive relief to enforce any of its rights and remedies hereunder or under the Code and the Borrower hereby waives any defense to such equitable or injunctive relief based upon any allegation of the absence of irreparable harm to the Bank.

The Bank shall not be required to marshal any present or future security for (including but not limited to this Agreement and the Collateral subject to the security interest created hereby), or guarantees of, the Obligations or any of them, or to resort to such security or guarantees in any particular order; and all of its rights hereunder and in respect of such securities and guaranties shall be cumulative and in addition to all other rights, however existing or arising. To the extent that it lawfully may do so, the Borrower hereby agrees that it will not invoke and irrevocably waives the benefits of any law relating to the marshaling of collateral which might cause delay in or impede the enforcement of the Bank's rights under this Agreement or under any other instrument evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or guaranteed. Except as required by applicable law, the Bank shall have no duty as to the collection or protection of the Collateral or any income thereon, nor as to the preservation of rights against prior parties, nor as to the preservation of any rights pertaining thereto beyond the safe custody thereof.

4.3 Power of Attorney. The Borrower hereby irrevocably constitutes and appoints the Bank as the Borrower's true and lawful attorney, with full power of substitution, at the sole cost and expense of the Borrower but for the sole benefit of the Bank, upon the occurrence of an Event of Default or after DEMAND with respect to Obligations payable on DEMAND, to convert the Collateral into cash, including, without limitation, completing the manufacture or processing of work in process, and the sale (either public or private) of all or any portion or portions of the inventory and other Collateral; to enforce collection of the Collateral, either in its own name or in the name of the Borrower, including, without limitation, executing releases or waivers, compromising or settling with any Debtors and prosecuting, defending, compromising or releasing any action relating to the Collateral; to receive, open and dispose of all mail addressed to the Borrower and to take therefrom any remittances or proceeds of Collateral in which the Bank has a security interest; to notify Post Office authorities to change the address for delivery of mail addressed to the Borrower to such address as the Bank shall designate; to endorse the name of the Borrower in favor of the Bank upon any and all checks, drafts, money orders, notes, acceptances or other instruments of the same or different nature; to sign and endorse the name of the Borrower on and to receive as secured party any of the Collateral, any invoices, freight or express receipts, or bills of lading, storage receipts, warehouse receipts, or other documents of title of the same or different nature relating to the Collateral; to sign the name of the Borrower on any notice of the Debtors or on verification of the Collateral; and to sign, if necessary, and file or record on behalf of the Borrower any financing or other statement in order to perfect or protect the Bank's security interest. The Bank shall not be obliged to do any of the acts or exercise any of the powers hereinabove authorized, but if the Bank elects to do any such act or exercise any such power, it shall not be accountable for more than it actually receives as a result of such exercise of power, and it shall not be responsible to the Borrower except for its own gross negligence or willful misconduct. All powers conferred upon the Bank by this Agreement, being coupled with an interest, shall be irrevocable so long as any Obligation of the Borrower or any guarantor or surety to the Bank shall remain unpaid or the Bank is obligated under this Agreement to extend any credit to the Borrower.

4.4 Nonexclusive Remedies. All of the Bank's rights and remedies not only under the provisions of this Agreement but also under any other agreement or transaction shall be cumulative and not alternative or exclusive, and may be exercised by the Bank at such time or times and in such order of preference as the Bank in its sole discretion may determine.

4.5 Reassignment to Borrower. Whenever the Bank deems it desirable that any legal action be instituted with respect to any Collateral or that any other action be taken in any attempt to effectuate collection of any Collateral, the Bank may reassign the item in question to the Borrower (and if the Bank shall execute any such reassignment, it shall automatically be deemed to be without recourse to the Bank in any event) and require the Borrower to proceed with such legal or other action at the Borrower's sole liability, cost and expense, in which event all amounts collected by the Borrower on such item shall nevertheless be subject to the Bank's security interest.

5. MISCELLANEOUS

5.1 Waivers. The Borrower waives notice of intent to accelerate, notice of acceleration, notice of nonpayment, demand, presentment, protest or notice of protest of the Obligations, and all other notices, consents to any renewals or extensions of time of payment thereof, and generally waives any and all suretyship defenses and defenses in the nature thereof.

5.2 Deposit Collateral. The Borrower hereby grants to the Bank a continuing lien and security interest in any and all deposits or other sums at any time credited by or due from the Bank or any Bank Affiliate to the Borrower and any cash, securities, instruments or other property of the Borrower in the possession of the Bank or any Bank Affiliate, whether for safekeeping or otherwise, or in transit to or from the Bank or any Bank Affiliate (regardless of the reason the Bank or Bank Affiliate had received the same or whether the Bank or Bank Affiliate has conditionally released the same) as security for the full and punctual payment and performance of all of the liabilities and obligations of the Borrower to the Bank or any Bank Affiliate and such deposits and other sums may be applied or set off against such liabilities and obligations of the Borrower to the Bank or any Bank Affiliate at any time, whether or not such are then due, whether or not demand has been made and whether or not other collateral is then available to the Bank or any Bank Affiliate.

5.3 Indemnification . The Borrower shall indemnify, defend and hold the Bank and any Bank Affiliate and their directors, officers, employees, agents and attorneys (each an "Indemnitee") harmless of and from any claim brought or threatened against any Indemnitee by the Borrower, any guarantor or endorser of the Obligations, or any other person (as well as from reasonable attorneys' fees and expenses in connection therewith) on account of the Bank's relationship with the Borrower, or any guarantor or endorser of the Obligations (each of which may be defended, compromised, settled or pursued by the Bank with counsel of the Bank's election, but at the expense of the Borrower), except for any claim arising out of the gross negligence or willful misconduct of the Bank. The within indemnification shall survive payment of the Obligations, and/or any termination, release or discharge executed by the Bank in favor of the Borrower.

5.4 Costs and Expenses . the Borrower shall pay to the Bank on demand any and all costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements, court costs, litigation and other expenses) incurred or paid by the Bank in establishing, maintaining, protecting or enforcing any of the Bank's rights or the Obligations, including, without limitation, any and all such costs and expenses incurred or paid by the Bank in defending the Bank's security interest in, title or right to the Collateral or in collecting or attempting to collect or enforcing or attempting to enforce payment of the Obligations.

5.5 Counterparts . This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which shall constitute but one agreement.

5.6 Severability . If any provision of this Agreement or portion of such provision or the application thereof to any person or circumstance shall to any extent be held invalid or unenforceable, the remainder of this Agreement (or the remainder of such provision) and the application thereof to other persons or circumstances shall not be affected thereby.

5.7 Complete Agreement . This Agreement and the other Loan Documents constitute the entire agreement and understanding between and among the parties hereto relating to the subject matter hereof, and supersedes all prior proposals, negotiations, agreements and understandings among the parties hereto with respect to such subject matter.

5.8 Binding Effect of Agreement . This Agreement shall be binding upon and inure to the benefit of the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, and shall remain in full force and effect (and the Bank shall be entitled to rely thereon) until released in writing by the Bank. Notwithstanding any such termination, the Bank shall have a security interest in all Collateral to secure the payment and performance of Obligations arising after such termination as a result of commitments or undertakings made or entered into by the Bank prior to such termination. The Bank may transfer and assign this Agreement and deliver the Collateral to the assignee, who shall thereupon have all of the rights of the Bank; and the Bank shall then be relieved and discharged of any responsibility or liability with respect to this Agreement and the Collateral. The Borrower may not assign or transfer any of its rights or obligations under this Agreement. Except as expressly provided herein or in the other Loan Documents, nothing, expressed or implied, is intended to confer upon any party, other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

5.9 Further Assurances . Borrower will from time to time execute and deliver to Bank such documents, and take or cause to be taken, all such other or further action, as Bank may request in order to effect and confirm or vest more securely in Bank all rights contemplated by this Agreement and the other Loan Documents (including, without limitation, to correct clerical errors) or to vest more fully in or assure to the Bank the security interest in the Collateral granted to the Bank by this Agreement or to comply with applicable statute or law and to facilitate the collection of the Collateral (including, without limitation, the execution of stock transfer orders and stock powers, endorsement of promissory notes and instruments and notifications to obligors on the Collateral). To the extent permitted by applicable law, Borrower authorizes the Bank to file financing statements, continuation statements or amendments, and any such financing statements, continuation statements or amendments may be filed at any time in any jurisdiction. Bank may at any time and from time to time file financing statements, continuation statements and amendments thereto which contain any information required by the Code for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment,

including whether Borrower is an organization, the type of organization and any organization identification number issued to Borrower. Borrower agrees to furnish any such information to Bank promptly upon request. In addition, Borrower shall at any time and from time to time take such steps as Bank may reasonably request for Bank (i) to obtain an acknowledgment, in form and substance satisfactory to Bank, of any bailee having possession of any of the Collateral that the bailee holds such Collateral for Bank, (ii) to obtain "control" (as defined in the Code) of any Collateral comprised of deposit accounts, electronic chattel paper, letter of credit rights or investment property, with any agreements establishing control to be in form and substance satisfactory to Bank, and (iii) otherwise to insure the continued perfection and priority of Bank's security interest in any of the Collateral and the preservation of its rights therein. Borrower hereby constitutes Bank its attorney-in-fact to execute, if necessary, and file all filings required or so requested for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; and such power, being coupled with an interest, shall be irrevocable until this Agreement terminates in accordance with its terms, all Obligations are irrevocably paid in full and the Collateral is released.

5.10 Amendments and Waivers. This Agreement may be amended and Borrower may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if Borrower shall obtain the Bank's prior written consent to each such amendment, action or omission to act. No course of dealing and no delay or omission on the part of Bank in exercising any right hereunder shall operate as a waiver of such right or any other right and waiver on any one or more occasions shall not be construed as a bar to or waiver of any right or remedy of Bank on any future occasion.

5.11 Terms of Agreement. This Agreement shall continue in full force and effect so long as any Obligations or obligation of Borrower to Bank shall be outstanding, or the Bank shall have any obligation to extend any financial accommodation hereunder, and is supplementary to each and every other agreement between Borrower and Bank and shall not be so construed as to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of Borrower under any such agreement, nor shall any contemporaneous or subsequent agreement between Borrower and the Bank be construed to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of Borrower hereunder, unless such other agreement specifically refers to this Agreement and expressly so provides.

5.12 Notices. Any notice under or pursuant to this Agreement shall be a signed writing or other authenticated record (within the meaning of Article 9 of the Code). Any demand or notice hereunder or under any applicable law pertaining hereto shall be in writing and duly given if delivered to any party hereto at the address for such party as set forth herein, or at such other address as any party may from time to time designate in written notice received by the other parties hereto; provided, however, that in order for any notice to the Bank to be deemed effective, a duplicate notice shall be separately delivered to the Bank at the current office address of the Bank officer primarily responsible for the customer account to which this document relates. Any such demand or notice shall be deemed sufficiently given for all purposes when delivered (i) by personal delivery and shall be deemed effective when delivered, or (ii) by mail or courier and shall be deemed effective three (3) business days after deposit in an official depository maintained by the United States Post Office for the collection of mail or one (1) business day after delivery to a nationally recognized overnight courier service. Notice by e-mail is not valid notice under this or any other agreement between the undersigned parties.

5.13 Governing Law. This Agreement shall be governed by the laws of the State of New York without giving effect to the conflicts of laws principles thereof.


5.14 Reproductions. This Agreement and all documents which have been or may be hereinafter furnished by Borrower to the Bank may be reproduced by the Bank by any photographic, photostatic, microfilm, xerographic or similar process, and any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made in the regular course of business).

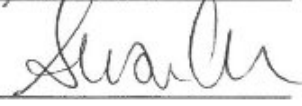
5.15 Jurisdiction and Venue. Borrower irrevocably submits to the nonexclusive jurisdiction of any Federal or state court sitting in New York, over any suit, action or proceeding arising out of or relating to this Agreement. Borrower irrevocably waives, to the fullest extent it may effectively do so under applicable law, any objection it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that the same has been brought in an inconvenient forum. Borrower hereby consents to any and all process which may be served in any such suit, action or proceeding, (i) by mailing a copy thereof by registered and certified mail, postage prepaid, return receipt requested, to the Borrower's address shown in this Agreement or as notified to the Bank and (ii) by serving the same upon the Borrower in any other manner otherwise permitted by law, and agrees that such service shall in every respect be deemed effective service upon Borrower.

5.16 **JURY WAIVER. THE BORROWER AND BANK EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, AND AFTER AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, (A) WAIVE ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING IN CONNECTION WITH THIS AGREEMENT, THE OBLIGATIONS, ALL MATTERS CONTEMPLATED HEREBY AND DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND (B) AGREE NOT TO SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE, OR HAS NOT BEEN, WAIVED. THE BORROWER CERTIFIES THAT NEITHER THE BANK NOR ANY OF ITS REPRESENTATIVES, AGENTS OR COUNSEL HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT IN THE EVENT OF ANY SUCH PROCEEDING SEEK TO ENFORCE THIS WAIVER OF RIGHT TO TRIAL BY JURY.**

Executed as of **January 17, 2019**.

Witness:





Borrower:
Sono-Tek Corporation

By: 
Stephen J. Bagley, Chief Financial Officer

By: 
Christopher Coccio, Chief Executive Officer

Accepted: M&T Bank



By: Name: Susan Keith Cardinale
Title: Vice President

Security Agreement - Obligor 1(3)

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Subsidiaries of the Registrant

<u>Name</u>	<u>State of Organization</u>
Sono-Tek Industrial Park LLC	New York

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Sono-Tek Corporation

We consent to the use in connection with the Annual Report on Form 10-K of Sono-Tek Corporation, of our report dated May 28, 2019, relating to the financial statements of Sono-Tek Corporation, as of February 28, 2019 and 2018 and for the years then ended. We hereby consent to incorporation by reference, in Registration Statements Nos. 333-11913 and 333-216504 on Form S-8.

/s/ LIGGETT & WEBB, P.A.

Certified Public Accountants

New York, New York

May 28, 2019

RULE 13a-14/15d – 14(a) CERTIFICATION

I, Christopher L. Coccio (principal executive officer), certify that:

1. I have reviewed this Annual Report on Form 10-K of Sono-Tek Corporation;
2. Based on my knowledge, this 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 circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for the periods presented in this report;
4. Sono-Tek Corporation's other certifying officer and I are 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 registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us 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 our 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 registrant's disclosure controls and procedures and presented in this report our 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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. Sono-Tek Corporation's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - 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 registrant'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 registrant's internal controls over financial reporting.

Date: May 28, 2019

/s/ Christopher L. Coccio

Christopher L. Coccio
Chief Executive Officer and Chairman
(principal executive officer)

RULE 13a-14/15d – 14(a) CERTIFICATION

I, Stephen J. Bagley (principal accounting officer), certify that:

1. I have reviewed this Annual Report on Form 10-K of Sono-Tek Corporation;
2. Based on my knowledge, this 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 circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for the periods presented in this report;
4. Sono-Tek Corporation's other certifying officer and I are 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 registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us 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 our 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 registrant's disclosure controls and procedures and presented in this report our 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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. Sono-Tek Corporation's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - 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 registrant'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 registrant's internal controls over financial reporting.

Date: May 28, 2019

/s/ Stephen J. Bagley

Stephen J. Bagley
Chief Financial Officer
(principal accounting officer)

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 Annual Report of Sono-Tek Corporation on Form 10-K for the year ended February 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Christopher L. Coccio, Chief Executive Officer and Chairman (principal executive 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: May 28, 2019

/s/ Christopher L. Coccio

Christopher L. Coccio
Chief Executive Officer and Chairman
(principal executive officer)

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 Annual Report of Sono-Tek Corporation on Form 10-K for the year ended February 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Stephen J. Bagley, Chief Financial Officer (principal 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: May 28, 2019

/s/ Stephen J. Bagley

Stephen J. Bagley
Chief Financial Officer
(principal accounting officer)