

SONO TEK CORP

FORM 10-Q (Quarterly Report)

Filed 07/15/20 for the Period Ending 05/31/20

Address	2012 RT 9W BLDG 3 MILTON, NY, 12547
Telephone	8457952020
CIK	0000806172
Symbol	SOTK
SIC Code	3690 - Miscellaneous Electrical Machinery, Equipment and Supplies
Industry	Industrial Machinery & Equipment
Sector	Industrials
Fiscal Year	02/28

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

FORM 10-Q

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

For the quarterly period ended: May 31, 2020

OR

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

Commission File No.: 0-16035

SONO•TEK Corporation

(Exact name of registrant as specified in its charter)

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

14-1568099
(IRS Employer
Identification No.)

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

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

Securities Registered Pursuant to Section 12(b) of the Act: None

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
None	N/A	N/A

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 checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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
Non-Accelerated Filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

<u>Class</u>	<u>Outstanding as of July 13, 2020</u>
Common Stock, par value \$.01 per share	15,422,985

SONO-TEK CORPORATION
INDEX

	Page
Part I - Financial Information	
<u>Item 1 – Condensed Consolidated Financial Statements:</u>	1 - 3
<u>Condensed Consolidated Balance Sheets – May 31, 2020 (Unaudited) and February 29, 2020</u>	1
<u>Condensed Consolidated Statements of Operations – Three Months Ended May 31, 2020 and 2019 (Unaudited)</u>	2
<u>Condensed Consolidated Statements of Stockholders' Equity - Three Months Ended May 31, 2020 and 2019 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Cash Flows – Three Months Ended May 31, 2020 and 2019 (Unaudited)</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5 - 10
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11 –16
<u>Item 3 – Quantitative and Qualitative Disclosures about Market Risk</u>	17
<u>Item 4 – Controls and Procedures</u>	18
<u>Part II - Other Information</u>	18
<u>Signatures and Certifications</u>	19

SONO-TEK CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	May 31, 2020 (Unaudited)	February 29, 2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,381,947	\$ 3,659,551
Marketable securities	3,908,454	4,219,240
Accounts receivable (less allowance of \$71,000)	1,341,617	929,701
Inventories, net	2,512,222	2,381,891
Prepaid expenses and other current assets	146,588	153,698
Total current assets	<u>12,290,828</u>	<u>11,344,081</u>
Land	250,000	250,000
Buildings, net	1,634,226	1,654,061
Equipment, furnishings and building improvements, net	1,279,083	1,212,578
Intangible assets, net	102,145	106,291
Deferred tax asset	176,314	176,314
TOTAL ASSETS	<u>\$ 15,732,596</u>	<u>\$ 14,743,325</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,007,517	\$ 668,721
Accrued expenses	1,409,167	1,613,409
Customer deposits	1,325,694	1,648,690
Current portion of long term debt	556,212	169,716
Income taxes payable	112,548	70,621
Total current liabilities	<u>4,411,138</u>	<u>4,171,157</u>
Deferred tax liability	251,761	251,761
Long term debt, less current maturities	1,111,265	538,000
Total liabilities	<u>5,774,164</u>	<u>4,960,918</u>
Stockholders' Equity		
Common stock, \$.01 par value; 25,000,000 shares authorized, 15,422,985 and 15,348,180 shares issued and outstanding, respectively	154,230	153,482
Additional paid-in capital	9,025,755	9,018,406
Accumulated earnings	778,447	610,519
Total stockholders' equity	<u>9,958,432</u>	<u>9,782,407</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 15,732,596</u>	<u>\$ 14,743,325</u>

See notes to unaudited condensed consolidated financial statements.

SONO-TEK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended May 31,	
	2020	2019
Net Sales	\$ 3,428,544	\$ 2,822,428
Cost of Goods Sold	1,867,811	1,517,493
Gross Profit	<u>1,560,733</u>	<u>1,304,935</u>
Operating Expenses		
Research and product development costs	411,424	354,173
Marketing and selling expenses	706,717	677,412
General and administrative costs	258,402	268,813
Total Operating Expenses	<u>1,376,543</u>	<u>1,300,398</u>
Operating Income	184,190	4,537
Interest Expense	(8,417)	(8,947)
Interest and Dividend Income	22,646	31,171
Other income	<u>11,435</u>	<u>4,755</u>
Income Before Income Taxes	209,854	31,516
Income Tax Expense	<u>41,926</u>	<u>6,303</u>
Net Income	<u>\$ 167,928</u>	<u>\$ 25,213</u>
Basic Earnings Per Share	<u>\$ 0.01</u>	<u>\$ 0.00</u>
Diluted Earnings Per Share	<u>\$ 0.01</u>	<u>\$ 0.00</u>
Weighted Average Shares - Basic	<u>15,397,779</u>	<u>15,268,071</u>
Weighted Average Shares - Diluted	<u>15,436,758</u>	<u>15,357,295</u>

See notes to unaudited condensed consolidated financial statements.

SONO-TEK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MAY 31, 2020 AND 2019
(Unaudited)

	Common Stock Par Value \$.01		Additional Paid – In Capital	Accumulated Earnings (Deficit)	Total Stockholders' Equity
	Shares	Amount			
Balance – February 29, 2020	15,348,180	\$ 153,482	\$ 9,018,406	\$ 610,519	\$ 9,782,407
Stock based compensation expense			8,097		8,097
Exercise of stock options	74,805	748	(748)		—
Net Income				167,928	167,928
Balance – May 31, 2020	<u>15,422,985</u>	<u>\$ 154,230</u>	<u>\$ 9,025,755</u>	<u>\$ 778,447</u>	<u>\$ 9,958,432</u>
Balance – February 28, 2019	15,197,563	\$ 151,976	\$ 8,929,607	\$ (496,923)	\$ 8,584,660
Stock based compensation expense			11,310		11,310
Exercise of stock options	104,050	1,040	(1,040)		—
Net Income				25,213	25,213
Balance – May 31, 2019	<u>15,301,613</u>	<u>\$ 153,016</u>	<u>\$ 8,939,877</u>	<u>\$ (471,710)</u>	<u>\$ 8,621,183</u>

See notes to unaudited condensed consolidated financial statements.

SONO-TEK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended May 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 167,928	\$ 25,213
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	109,878	89,207
Stock based compensation expense	8,097	11,310
Inventory reserve	18,000	14,000
Decrease (Increase) in:		
Accounts receivable	(411,916)	65,538
Inventories	(148,331)	(734,704)
Prepaid expenses and other current assets	7,110	289,992
(Decrease) Increase in:		
Accounts payable and accrued expenses	134,554	410,079
Customer Deposits	(322,996)	184,748
Income taxes payable	41,927	6,303
Net Cash (Used In) Provided By Operating Activities	(395,749)	361,686
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furnishings and leasehold improvements	(152,402)	(129,159)
Sale (Purchase) of marketable securities	310,786	(1,413,481)
Net Cash Provided By (Used In) Investing Activities	158,384	(1,542,640)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable - bank	1,001,640	—
Repayment of long-term debt	(41,879)	(40,283)
Net Cash Provided By (Used In) Financing Activities	959,761	(40,283)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	722,396	(1,221,237)
CASH AND CASH EQUIVALENTS		
Beginning of period	3,659,551	3,144,123
End of period	\$ 4,381,947	\$ 1,922,886
SUPPLEMENTAL CASH FLOW DISCLOSURE:		
Interest paid	\$ 7,210	\$ 8,947
Taxes Paid	\$ —	\$ —

See notes to unaudited condensed consolidated financial statements.

SONO-TEK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MAY 31, 2020 and 2019
(Unaudited)

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.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Accordingly, the Condensed Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company’s management, all adjustments considered necessary for a fair presentation (consisting of normal recurring adjustments) have been included. The results for the interim periods are not necessarily indicative of what the results will be for the fiscal year. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements as of and for the fiscal year ended February 29, 2020 (“fiscal year 2020”) contained in the Company’s 2020 Annual Report on Form 10-K filed with the SEC. The Company’s current fiscal year ends on February 28, 2021 (“fiscal 2021”).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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 three customers, which accounted for 46% of sales during the quarter ended May 31, 2020. Three customers accounted for 45% of the outstanding accounts receivables at May 31, 2020.

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company places its cash and temporary cash investments with credit quality institutions. At times, such amounts may be in excess of the FDIC insurance limit. At May 31, 2020, deposits in excess of the FDIC limits were \$7,096,000.

Consolidation - The accompanying condensed 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 May 31, 2020 and February 29, 2020, respectively:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable Securities – May 31, 2020	\$ 3,154,680	\$ 753,774	\$ —	\$ 3,908,454
Marketable Securities – February 29, 2020	\$ 3,565,629	653,611	\$ —	\$ 4,219,240

Marketable Securities include mutual funds, certificates of deposit and US Treasury securities, totaling \$3,908,454 and \$4,219,240 that are considered to be highly liquid and easily tradeable as of May 31, 2020 and February 29, 2020, respectively. Mutual funds & US Treasury securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 and certificates of deposit are classified as Level 2 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."

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 \$173,888 and \$171,210 at May 31, 2020 and February 29, 2020, respectively. Annual amortization expense of such intangible assets is expected to be approximately \$11,000 per year for the next five years.

Interim Reporting - The attached summary condensed consolidated financial information does not include all disclosures required to be included in a complete set of financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Such disclosures were included with the financial statements of the Company at February 29, 2020, and included in its report on Form 10-K. Such statements should be read in conjunction with the data herein.

The financial information reflects all adjustments, normal and recurring, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results for such interim periods are not necessarily indicative of the results to be expected for the year.

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.

New Accounting Pronouncements -

In December 2019, the FASB issued ASU 2019-12, “*Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes.*” The guidance issued in this update simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. ASU 2019-12 also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The ASU will be effective for the Company on March 1, 2021, with early adoption permitted, and is not expected to have a significant impact on the Company’s financial statements.

Other than ASU 2019-12 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.

Reclassifications – Where appropriate, certain reclassifications have been made to the prior period to conform to the presentations of the current period.

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

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.

The Company receives cash deposits for customer orders based upon contract terms. Customer deposits are recognized as revenue when the Company’s performance obligations have been met. At February 29, 2020, the Company had received \$1,649,000 in cash deposits from customers. For the three months ended May 31, 2020, the Company recognized \$1,154,000 in revenue from the cash deposits received at February 29, 2020.

At May 31, 2020, the Company had received \$1,326,000 in cash deposits for customer orders and had issued Letters of Credit in the amount of \$372,000 to secure some of these cash deposits.

NOTE 4: INVENTORIES

Inventories consist of the following:

	May 31, 2020	February 29, 2020
Raw materials and subassemblies	\$ 994,096	\$ 967,089
Finished goods	929,111	752,999
Work in process	800,295	855,083
Total	<u>2,723,502</u>	<u>2,575,171</u>
Less: Allowance	(211,280)	(193,280)
Net inventories	<u>\$ 2,512,222</u>	<u>\$ 2,381,891</u>

NOTE 5: STOCK OPTIONS AND WARRANTS

Stock Options – Under the 2013 Stock Incentive Plan ("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 May 31, 2020, there were 421,834 options outstanding under the 2013 Plan, of which 288,125 are vested.

Under the 2003 Stock Incentive Plan, as amended ("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 shares of the Company's common stock. As of May 31, 2020, there were 50,000 options outstanding and vested under the 2003 Plan, under which no additional options may be granted.

During the three months ended May 31, 2020, 117,333 options were exercised on a cashless basis into 74,805 shares of common stock.

NOTE 6: 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.

The weighted-average fair value of options are estimated on the date of grant using the Black-Scholes options-pricing model. For the three months ended May 31, 2020 no options were issued.

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 three months ended May 31, 2020 and 2019, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated \$8,000 and \$11,000 in additional compensation expense during the three months ended May 31, 2020 and 2019, respectively. Such amounts are included in general and administrative expenses on the statement of operations. The expense for stock-based compensation is a non-cash expense item.

NOTE 7: EARNINGS PER SHARE

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

	Three Months Ended May 31,	
	2020	2019
Numerator for basic and diluted earnings per share	\$ 167,928	\$ 25,213
Denominator for basic earnings per share - weighted average	15,397,779	15,268,071
Effects of dilutive securities:		
Stock options for employees, directors and outside consultants	38,979	89,224
Denominator for diluted earnings per share	15,436,758	15,357,295
Basic Earnings Per Share	\$ 0.01	\$ 0.00
Diluted Earnings Per Share	\$ 0.01	\$ 0.00

NOTE 8: LONG TERM DEBT

Long-term debt consists of the following:

	May 31, 2020	February 29, 2020
Note payable, bank, collateralized by land and buildings, payable in monthly installments of principal and interest of \$16,358 through January 2024. Interest rate 4.15%. 10-year term.	\$ 665,837	\$ 707,716
Note Payable, bank, unsecured, Paycheck Protection Program funding, payable in monthly installments of principal and interest of \$56,370 through April 2022. Interest rate 1%. 2-year term, no repayments required for the first six months. Under the terms of the CARE Act, forgiveness for all or a portion of the loan may be granted based upon use of the loan proceeds for eligible payroll and related payroll costs and other qualified expenses.	1,001,640	—
Total long-term debt	1,667,477	707,716
Due within one year	556,212	169,716
Due after one year	\$ 1,111,265	\$ 538,000

NOTE 9: REVOLVING LINE OF CREDIT

The Company has a \$1,500,000 revolving line of credit at prime which was 3.25% at May 31, 2020. 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 May 31, 2020, \$372,000 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 May 31, 2020, there were no outstanding borrowings under the line of credit and the unused portion of the credit line was \$1,128,000 as of May 31, 2020.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Other than the letters of credit disclosed in Note 8, the Company did not have any material commitments or contingencies as of May 31, 2020.

NOTE 11: SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the filing of this Quarterly Report on Form 10-Q, and determined that there have been no events that have occurred that would require adjustments to its disclosures in the condensed consolidated financial statements except for the following items:

Issuance of Standby letters of Credit

On June 4, 2020, the Company issued additional letters of credit in the amount of \$323,000 to customers that remitted cash deposits to the Company on existing orders.

Impact of Covid 19

In December 2019, the novel coronavirus ("COVID-19") outbreak occurred in China and has since spread to other parts of the world. On March 11, 2020, the World Health Organization declared COVID-19 to be a global pandemic and recommended containment and mitigation measures. On March 13, 2020, the United States declared a national emergency concerning the outbreak. Along with these declarations, extraordinary and wide-ranging actions have been taken by international, federal, state, and local public health and governmental authorities to contain and combat the outbreak and spread of COVID-19 in regions across the United States and the world. These actions include quarantines, social distancing and "stay-at-home" orders, travel restrictions, mandatory business closures and other mandates that have substantially restricted individuals' daily activities and curtailed or ceased many businesses' normal operations.

The impact of COVID-19 on the Company's results and operations is further discussed in the accompanying Management's Discussion and Analysis section in this Report.

ITEM 2 – 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, tax, competitive and technological developments affecting our operations or the demand for our products; the duration and scope of the COVID-19 pandemic; the extent and duration of the pandemic’s adverse effect on economic and social activity, consumer confidence, discretionary spending and preferences, labor and healthcare costs, and unemployment rates, any of which may reduce demand for some of our products and impair the ability of those with whom we do business to satisfy their obligations to us; our ability to sell and provide our services and products, including as a result of continued pandemic related travel restrictions, mandatory business closures, and stay-at home or similar orders; any temporary reduction in our workforce, closures of our offices and facilities and our ability to adequately staff and maintain our operations resulting from the pandemic; the ability of our customers and suppliers to continue their operations as result of the pandemic, which could result in terminations of contracts, losses of revenue, and further adverse effects to our supply chain; maintenance of increased order backlog, including effects of any COVID-19 related cancellations; the imposition of tariffs; timely development and market acceptance of new products and continued customer validation of our coating technologies; adequacy of financing; capacity additions, the ability to enforce patents; maintenance of operating leverage; consummation of order proposals; completion of large orders on schedule and on budget; successful transition from primarily selling ultrasonic nozzles and components to a more complex business providing complete machine solutions and higher value subsystems; and realization of quarterly and annual revenues within the forecasted.

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 78% of our sales generated from outside the United States and Canada in the first three months of fiscal 2021. Our direct sales team and our distributor and sales representative network are 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 and 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”). This strategy has resulted in significant growth of our average unit selling price; with our larger machines often selling for over \$300,000 and system prices sometimes reaching over \$1,000,000. As a result of this transition, we have broadened our addressable market and we believe that we can grow sales on a larger scale. We expect that we will experience wide variations in both order flow and shipments from quarter to quarter.

First Quarter Fiscal 2021 Highlights (compared with the first quarter of fiscal 2020 unless otherwise noted) We refer to the three-month periods ended May 31, 2020 and 2019 as the first quarter of fiscal 2021 and fiscal 2020, respectively.

- Net sales were \$3,429,000, up 22% or \$607,000, driven primarily by demand from the Electronics/Microelectronics and Medical markets.
- Gross profit increased \$256,000 to \$1,561,000 or 20% in the first quarter.
- Operating income increased \$179,000 to \$184,000 or 3580%.
- Net income increased \$143,000 to \$168,000 or 572%.
- Backlog at May 31, 2020 continued to be strong at \$3,202,000.
- Continued to operate profitably during the COVID-19 pandemic.

Results of Operations

Sales:

Product Sales:

	Three Months Ended May 31,				Change	
	2020	% of total	2019	% of total	\$	%
Fluxing Systems	\$ 344,000	10%	\$ 391,000	14%	(47,000)	(12%)
Integrated Coating Systems	1,176,000	34%	396,000	14%	780,000	197%
Multi-Axis Coating Systems	913,000	27%	1,073,000	38%	(160,000)	(15%)
OEM Systems	422,000	12%	319,000	11%	103,000	32%
Other	574,000	17%	643,000	23%	(69,000)	(11%)
TOTAL	\$ 3,429,000		\$ 2,822,000		\$ 607,000	22%

Sales growth was driven by demand for our customized, highly engineered and high value integrated coating systems for the Electronics / Microelectronics and Medical device coating systems markets in in the first quarter of fiscal 2021. A significant customer took delivery of a system valued at over \$700,000 in the Electronics market, and we hope to capture further orders from this customer in the future.

Market Sales:

	Three Months Ended May 31,				Change	
	2020	% of total	2019	% of total	\$	%
Electronics/Microelectronics	\$ 2,240,000	65%	\$ 1,538,000	55%	702,000	46%
Medical	692,000	20%	543,000	19%	149,000	27%
Alternative Energy	395,000	12%	386,000	14%	9,000	2%
Emerging R&D and Other	37,000	1%	285,000	10%	(248,000)	(87%)
Industrial	65,000	2%	70,000	2%	(5,000)	(7%)
TOTAL	\$ 3,429,000		\$ 2,822,000		\$ 607,000	22%

Following record breaking FY2020 activity for use of our application process development laboratory, we had to quickly adapt to the rapidly changing circumstances brought upon us with COVID-19 safety restrictions. Use of our application process development laboratory by potential customers is critical for our successful strategy to provide vital application engineering expertise as well as paid coating services to prospects and customers to validate the capabilities of our coating technologies for their needs. These laboratory services have historically been done in person, but due to COVID-19 safety restrictions we successfully implemented virtual customer lab visits during Q1 FY2021. We believe our virtual lab visit approach will allow us to continue demonstrating for customers our strategy to achieve coating results that meet the application requirements, followed by the customer's typical next step to purchase the newly defined coating solution.

The Electronics/Microelectronics and Medical markets both showed growth, primarily from orders that were captured prior to COVID-19 reaching the Americas, which more than offset the slight decrease in the Emerging R&D and other markets.

Geographic Sales:

	Three Months Ended May 31,		Change	
	2020	2019	\$	%
U.S. & Canada	\$ 756,000	\$ 1,229,000	\$ (473,000)	(38%)
Asia Pacific (APAC)	1,923,000	484,000	1,439,000	297%
Europe, Middle East, Asia (EMEA)	430,000	628,000	(198,000)	(32%)
Latin America	320,000	481,000	(161,000)	(33%)
TOTAL	\$ 3,429,000	\$ 2,822,000	\$ 607,000	22%

In the first quarter of fiscal 2020, approximately 78% of sales originated outside of the United States and Canada compared with 56% in the prior year period. Significantly APAC increased 297%, primarily lead by several shipments to China, as manufacturing operations came back online following temporary COVID-19 shutdowns.

Gross Profit:

	Three Months Ended May 31,		Change	
	2020	2019	\$	%
Net Sales	\$ 3,429,000	\$ 2,822,000	\$ 607,000	22%
Cost of Goods Sold	1,868,000	1,517,000	351,000	23%
Gross Profit	\$ 1,561,000	\$ 1,305,000	\$ 256,000	20%
Gross Profit %	45.5%	46.2%		

Our gross profit increased \$256,000, or 20%, to \$1,561,000 for the first quarter of fiscal 2021 compared with \$1,305,000 in the prior year period. Our gross profit margin decreased 0.7% to 45.5% in the first quarter of fiscal 2021 compared to 46.2% in the prior year period. The decrease in gross profit margin during the quarter is primarily due to product mix.

Operating Expenses:

	Three Months Ended May 31,		Change	
	2020	2019	\$	%
Research and product development	\$ 412,000	\$ 354,000	\$ 58,000	16%
Marketing and selling	\$ 707,000	\$ 677,000	\$ 30,000	4%
General and administrative	\$ 258,000	\$ 269,000	\$ (11,000)	(4%)
Total Operating Expenses	\$ 1,377,000	\$ 1,300,000	\$ 77,000	6%

Research and Product Development:

Research and product development costs increased in the first quarter of fiscal 2021 due to increased salaries and related costs. In the prior year period, some of our personnel were assigned to specific customer sales orders and the associated research and development costs were recorded in inventory, as incurred.

Marketing and Selling:

Marketing and selling expenses increased in the first quarter of fiscal 2021 due to increases in sales salaries and commission expense. These increases were partially offset by decreased travel and trade show expense.

General and Administrative:

In the first quarter of fiscal 2021, we experienced decreases in professional fees, travel and stock-based compensation expense.

Operating Income:

Operating income increased to \$184,000 in the first quarter of fiscal 2021 compared with \$5,000 for the prior year period, an increase of \$179,000. The increase in operating income is a result of our gross margin increasing by \$256,000, offset by an increase in our operating expenses of \$77,000.

Interest Expense:

Interest expense was \$8,000 in the first fiscal quarter of 2021 compared with \$9,000 for the prior year period.

Interest and Dividend Income:

Interest and dividend income decreased \$8,000 to \$23,000 in the first quarter of fiscal 2020 as compared with \$31,000 for the first quarter of fiscal 2020. Our present investment policy is to invest excess cash in highly liquid, lower risk US Treasury securities. At May 31, 2020, 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 the first quarter of fiscal 2021, the Company's rental revenue was \$18,000, expenses were \$7,000 and the net profit was \$11,000.

In the first quarter of fiscal 2020, the Company's rental revenue was \$20,000, expenses were \$15,000 and the net profit was \$5,000.

Income Tax Expense:

We recorded income tax expense of \$42,000 for the first quarter of fiscal 2021 compared with \$6,000 for the first quarter of fiscal 2020.

Net Income:

We had net income of \$168,000 for the first quarter of fiscal 2021 compared with \$25,000 for the prior year period for the reasons previously noted.

Impact of Covid 19

In December 2019, the novel coronavirus ("COVID-19") outbreak occurred in China and has since spread to other parts of the world. On March 11, 2020, the World Health Organization declared COVID-19 to be a global pandemic and recommended containment and mitigation measures. On March 13, 2020, the United States declared a national emergency concerning the outbreak. Along with these declarations, extraordinary and wide-ranging actions have been taken by international, federal, state, and local public health and governmental authorities to contain and combat the outbreak and spread of COVID-19 in regions across the United States and the world. These actions include quarantines, social distancing and "stay-at-home" orders, travel restrictions, mandatory business closures and other mandates that have substantially restricted individuals' daily activities and curtailed or ceased many businesses' normal operations.

In response to the pandemic and these actions, we began implementing changes in our business in March 2020 to protect our employees and customers:

- We implemented social distancing and other health and safety protocols.
- We have flexed the workforce in our manufacturing operations based on business needs, including the addition of a second shift and the implementation of remote, alternative and flexible work arrangements.
- We have enhanced cleaning and sanitary procedures.
- We temporarily eliminated domestic and international travel.
- We restricted access to our facilities to only employees and essential non-employees with strict protocols.

While all of these measures have been necessary and appropriate, they may result in additional costs and may adversely impact our business and financial performance. As our response to the pandemic evolves, we may incur additional costs and will potentially experience adverse impacts to our business, each of which may be significant. In addition, an extended period of remote work arrangements could impair our ability to effectively manage our business, and introduce additional operational risks, including, but not limited to, cybersecurity risks and increased vulnerability to security breaches, cyber-attacks, computer viruses, ransomware, or other similar events and intrusions. We may experience, decreases in demand and customer orders for our products in all sales channels, as well as temporary disruptions and closures of our facilities due to decreased demand and government mandates.

COVID-19 has also impacted various aspects of the supply chain as our suppliers experience similar business disruptions due to operating restrictions from government mandates. We continue to monitor procurement of raw materials and components used in the manufacturing, distribution and sale of our products, but continued disruptions in the supply chain due to COVID-19 may cause difficulty in sourcing materials or unexpected shortages or delays in delivery of raw materials and components, and may result in increased costs in our supply chain.

We have implemented plans to reduce spending in certain areas of our business, including reductions or delays in capital expenditures, reduced trade show participation costs, reduced travel expenditures and may need to take additional actions to reduce spending in the future.

We are closely monitoring and assessing the impact of the pandemic on our business. The extent of the impact on our results of operations, cash flow, liquidity, and financial performance, as well as our ability to execute near- and long-term business strategies and initiatives, will depend on numerous evolving factors and future developments, which are highly uncertain and cannot be reasonably predicted.

Given the inherent uncertainty surrounding COVID-19, we expect the pandemic may continue to have an adverse impact on our business in the near term. Should these conditions persist for a prolonged period, the COVID-19 pandemic, including any of the above factors and others that are currently unknown, may have a material adverse effect on our business, results of operations, cash flow, liquidity, and financial condition.

Liquidity and Capital Resources

Working Capital – Our working capital increased \$707,000 to \$7,880,000 at May 31, 2020 from \$7,173,000 at February 28, 2020. The increase in working capital was mostly the result of the current period's net income and noncash charges and the proceeds of long term note payable partially offset by purchases of equipment and the repayment of long-term debt.

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 May 31, 2020 and February 28, 2020, our working capital included:

	<u>May 31,</u> <u>2020</u>	<u>February 28,</u> <u>2020</u>	<u>Cash</u> <u>Increase</u>
Cash and cash equivalents	\$ 4,382,000	\$ 3,660,000	\$ 722,000
Marketable securities	3,908,000	4,219,000	(311,000)
Total	<u>\$ 8,290,000</u>	<u>\$ 7,879,000</u>	<u>\$ 411,000</u>

The following table summarizes the accounts and the major reasons for the \$411,000 increase in “Cash”:

	<u>Impact on Cash</u>	<u>Reason</u>
Net income, adjusted for non-cash items	\$ 304,000	
Accounts receivable increase	(412,000)	Timing of cash receipts.
Inventories increase	(148,000)	Required to support backlog.
Equipment purchases	(152,000)	Equipment and facilities upgrade.
Customer deposits decrease	(323,000)	Timing of deposits.
Note payable proceeds	1,002,000	Paycheck Protection Program loan proceeds.
Accounts payable increase	135,000	Timing of disbursements.
Other - net	5,000	
Net increase in cash	<u>\$ 411,000</u>	

Stockholders' Equity – Stockholder's Equity increased \$176,000 from \$9,782,000 at February 28, 2020 to \$9,958,000 at May 31, 2020. The increase is a result of the current period's net income of \$168,000 and \$8,000 in additional equity related to stock-based compensation awards.

Operating Activities – Our operating activities used \$396,000 of cash in the first quarter of fiscal 2021 compared with generating \$362,000 in the first quarter of fiscal 2020. The increase in cash used by operating activities was mostly the result of increases in accounts receivable and inventories and a decrease in customer deposit balances. These uses of cash were partially offset by the current period's net income and non-cash charges and increases in accounts payable, accrued expenses and income taxes payable.

Investing Activities – For the first quarter of fiscal 2021, our investing activities generated \$158,000 of cash compared with using \$1,543,000 for the first quarter of fiscal 2020. For the first quarters of fiscal years 2021 and 2020, we used \$152,000 and \$129,000, respectively, for the purchase or manufacture of equipment, furnishings and leasehold improvements. For the first quarter of fiscal 2021, our marketable securities provided \$311,000 compared with the use of \$1,413,000 for the purchase of marketable securities for the first quarter of 2020.

Financing Activities –

In the first quarter of fiscal years 2021 and 2020, we used \$42,000 and \$40,000, respectively, for the repayment of our notes payable.

Paycheck Protection Program Loan

During the first quarter of fiscal 2021, we borrowed \$1,001,640 (the “PPP Loan”) from a bank under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying companies and is administered by the U.S. Small Business Administration (the “SBA”). The PPP Loan has a two-year term, bears interest at the rate of 1.0% per annum, and may be prepaid at any time without payment of any premium. No payments of principal or interest are due until November 2020, at which time we are required to make 18 monthly payments of principal and interest in the amount of \$56,370.

Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under the PPP, with such forgiveness to be determined, subject to limitations, based on the use of the loan proceeds for payment of payroll costs and any payments of mortgage interest, rent, and utilities. However, at least 60 percent of the PPP Loan proceeds must be used for eligible payroll and payroll related costs. The terms of any forgiveness may also be subject to further requirements in any regulations and guidelines the SBA may adopt.

We intend to use the entire PPP Loan proceeds for designated qualifying expenses and to apply for forgiveness of the PPP Loan in accordance with the terms of the PPP. No assurance can be given that we will obtain forgiveness of the PPP Loan in whole or in part. With respect to any portion of the PPP Loan that is not forgiven, the PPP Loan will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults, breaches of the provisions of the PPP note and cross defaults. As of the date of this Report, we have incurred approximately \$795,000 in payroll, payroll related costs and other qualifying expenses.

Net Increase in Cash – In the first quarter of fiscal 2021, our cash balance increased by \$722,000 as compared to a decrease of \$1,221,000 in the first quarter of 2020. In the first quarter of fiscal 2021, our operating activities used \$396,000 of cash and our marketable securities generated \$311,000 of cash. In addition, we used \$152,000 for the purchase or manufacture of equipment, furnishings and leasehold improvements and \$42,000 for the repayment of our notes payable. In the first quarter of fiscal 2021, we received \$1,002,000 in proceeds from a note payable.

Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations are based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure on contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and may potentially result in materially different results under different assumptions and conditions. The Company believes that critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies see Note 2 to the Company's consolidated financial statements included in Form 10-K for the year ended February 29, 2020.

Accounting for Income Taxes

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

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. The Company currently uses a Black-Scholes option pricing model to calculate the fair value of its stock options. The Company primarily uses historical data to determine the assumptions to be used in the Black-Scholes model and has 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

Accounting pronouncements issued but not yet effective have been deemed to be not applicable or the adoption of such accounting pronouncements are not expected to have a material impact on the financial statements of the Company.

ITEM 3 - Quantitative and Qualitative Disclosures about Market Risk

The Company does not issue or invest in financial instruments or derivatives for trading or speculative purposes. Substantially all of the operations of the Company are conducted in the United States, and, as such, are not subject to material foreign currency exchange rate risk. All of our sales transactions are completed in US dollars.

Although the Company's assets included \$4,382,000 in cash and \$3,908,000 in marketable securities, the market rate risk associated with changing interest rates in the United States is not material.

ITEM 4 – Controls and Procedures

The Company has established and maintains “disclosure controls and procedures” (as those terms are defined in Rules 13a–15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the “Exchange Act”). Christopher L. Coccio, Chief Executive Officer (principal executive) and Stephen J. Bagley, Chief Financial Officer (principal accounting officer) of the Company, have evaluated the Company’s disclosure controls and procedures as of May 31, 2020. Based on this evaluation, they have concluded that the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to Management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding timely disclosure.

In addition, there were no changes in the Company’s internal controls over financial reporting during the first fiscal quarter of 2021 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings
None

Item 1A. Risk Factors
Note Required for Smaller Reporting Companies

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
None

Item 3. Defaults Upon Senior Securities
None

Item 4. Mine Safety Disclosures
None

Item 5. Other Information
None

Item 6. Exhibits and Reports

[31.1](#) – [31.2](#) – Rule 13a - 14(a)/15d – 14(a) Certification

[32.1](#) – [32.2](#) – Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

101.INS – XBRL Instance Document.

101.SCH – XBRL Taxonomy Extension Schema Document

101.CAL – XBRL Taxonomy Calculation Linkbase Document

101.DEF – XBRL Taxonomy Extension Definition Linkbase Document

101.LAB – XBRL Extension Label Linkbase Document

101.PRE – XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: July 15, 2020

SONO-TEK CORPORATION
(Registrant)

By: /s/ Christopher L. Coccio
Christopher L. Coccio
Chief Executive Officer

By: /s/ Stephen J. Bagley
Stephen J. Bagley
Chief Financial Officer

RULE 13a-14/15d – 14(a) CERTIFICATION

I, Christopher L. Coccio, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 issuer 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: July 15, 2020

/s/ Christopher L. Coccio
Christopher L. Coccio
Chief Executive Officer

RULE 13a-14/15d – 14(a) CERTIFICATION

I, Stephen J. Bagley, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: July 15, 2020

/s/ Stephen J. Bagley
Stephen J. Bagley
Chief Financial 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 Quarterly Report of Sono-Tek Corporation (the "Company") on Form 10Q for the period ended May 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Christopher L. Coccio, Chief 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: July 15, 2020

/s/ Christopher L. Coccio
Christopher L. Coccio
Chief 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 Quarterly Report of Sono-Tek Corporation (the "Company") on Form 10Q for the period ended May 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Stephen J. Bagley, Chief Financial Officer, 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: July 15, 2020

/s/ Stephen J. Bagley
Stephen J. Bagley
Chief Financial Officer