SONO TEK CORP
Form 10KSB
May 29, 2008

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

FORM 10-KSB

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

For the Fiscal Year ended: February 29, 2008

Commission File Number: 0-16035

SONO-TEK CORPORATION
(Name of Small Business Issuer in its Charter)

NEW YORK	14-1568099
(State or other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)
2012 Route 9W, Milton, New York	12547
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. |_|

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

The Issuer had revenues of $5,698,602 for the Fiscal Year ended February 29, 2008.

As of May 19, 2008, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $13,361,709 computed by reference to the average of the bid and asked prices of the Common Stock on said date, which average was $1.10.

The Registrant had 14,361,091 shares of Common Stock outstanding as of May 19, 2008.

PART I

ITEM 1 DESCRIPTION OF BUSINESS

Organization and Business

Sono-Tek Corporation (the "Company", "Sono-Tek", "We" or "Our") was incorporated in New York on March 21, 1975 for the purpose of engaging in the development, manufacture and sale of ultrasonic liquid atomizing nozzles. Ultrasonic nozzle systems atomize low to medium viscosity liquids by converting electrical energy into mechanical motion in the form of high frequency ultrasonic vibrations that break liquids into minute drops that can be applied to surfaces at low velocity. The key advantage of these nozzle systems is that they use much less liquid to attain the required coatings on glass, textiles, food and food packaging, circuit boards, medical devices and many other coating applications. This advantage translates into lower costs for materials, less water consumption, less energy required for subsequent drying operations and less release into the environment of spray that would normally bounce back with competitive nozzle systems. These factors are increasingly important at a time of rising commodity and energy costs and supply limitations.

We operate in one business segment, spraying and coating systems. The spraying systems business has had periods of sales growth and financial stability, but has had sales declines when the electronics industry, a principal market for our products, has had downturns due to lower levels of printed circuit boards being made. To offset this, we have diversified our product offerings to provide coating systems to medical device manufacturers, to provide spray drying systems for nanotechnology applications, and to provide wide area industrial precision coating equipment, including the manufacture of float glass, textiles and food products and packaging.

Product Development

We have core technology and have developed and market the following products:

1. SonoFlux 2000F - spray fluxer product - designed for high volume operations with standard width lines requiring low maintenance using a variety of solder fluxes, including rosin flux. It is designed to be used by electronic circuit board manufacturers to apply solder flux to fixed width circuit boards. The major customers for the SonoFlux 2000F are original equipment manufacturers (OEMs) that produce their own electronic circuit boards.

2. SonoFlux 2000FP, SonoFlux XL and SonoFlux EZ- spray fluxer product - applies solder flux to electronic printed circuit boards that vary from two inches to up to 24 inches in width in a cost-effective and uniform manner. They are designed to be used by either OEMs or contract manufacturers of electronic circuit assemblies. All SonoFlux products provide substantial benefits in terms of reduced use of fluxing agents, reduced need for maintenance and reduced cost of operations versus foam fluxers and competitive pressure nozzle fluxing products.

3. MediCoat and Medicoat II for stent coating - table-top, fully-contained systems designed to apply thin layers of polymer and drug coatings to arterial stents with high precision. The system

incorporates motion control of the stent during the coating process and produces coatings having excellent uniformity. The MediCoat systems use either the Accumist or MicroMist nozzle systems, which are precision nozzle configurations used in applications where precise patterns of lines and dots are required. These products provide customers the ability to achieve a minimal amount waste of expensive drug polymer coatings and high uniformity of drug addition from stent to stent.

4. WideTrack - Wide area modular coating system - One module can cover substrates from 6 inches to 24 inches wide, depending on the application. Much greater widths can be achieved by linking modules together, and these systems have been applied in glass lines of up to four meters wide. A number of systems have been sold over the past four years, and this application holds promise for the future due to cost and environmental savings demonstrated at customer sites. It uses non-clogging ultrasonic atomizing nozzles to produce a low velocity, highly controllable spray. It is designed to be used in applications that require efficient web-coating or wide area spraying capability. The WideTrack System offers significant advantages over conventional pressure-spray methods in a broad range of applications such as non-woven fabrics, float glass, or odd-shaped industrial or consumer products. Since the ultrasonic spray can be easily controlled, it is possible to use less chemicals, water and energy in applying coatings to glass, textiles, food products and packaging materials than with traditional nozzles. This also results in reduced environmental impact due to less overspray. We recently sold our first WideTrack coater for application in a major textile finishing plant. The sale was based on the projected savings of chemicals, water and energy, which could provide a payback in less than a year for the capital equipment.

5. Advanced Energy Applications - We now offer a line of equipment for applications involving coatings for fuel cell membranes and solar energy panels. This equipment is offered in bench-top configurations as our Exactacoat product and standalone as our Flexicoat product. Both have seen increasing sales in these growing industries, especially when combined with a novel ultrasonic syringe pump to agitate and suspend the carbon based suspensions needed in fuel cell applications (patent pending).

3

Other Product Offerings

We have an exclusive distribution relationship with EVS International. Ltd. ("EVS"), a U.K. Company, to distribute EVS's line of solder recovery systems and spares parts. The territory for this distribution relationship is the United States and Canada. EVS manufactures the EVS6000, EVS3000 and the EVS1000 solder recovery systems which are used to reclaim solder from the dross which accumulates in the wave-solder equipment of circuit board manufacturers. The customer base for distribution of these systems is synergistic with Sono-Tek's existing customer base for spray fluxer sales. Sales of EVS products were approximately 7% of our total revenues for the current fiscal year ended February 29, 2008. We plan to continue the distribution of EVS's products.

We have recently released a new line of Laboratory Ultrasonic Spray Drying Systems - The SonoDry Ultrasonic Spray Dryer. This new spray dryer is available in three sizes, providing the ability to choose the proper size machine for differing requirements. All SonoDry Spray Dryers are supplied with Sono-Tek's unique non-clogging ultrasonic atomizing nozzle incorporated into them. SonoDry systems also have the ability to use a traditional twin fluid air atomizing nozzle system as well. Nozzle requirements can be specified by the customer depending on application needs. The machines can handle both aqueous and solvent based liquids. All systems include software that allows for recipe storage and complete data logging of all system functions. The SonoDry series of spray dryers is of particular importance to product and process developers in the following industries: pharmaceuticals (e.g. for drug actives and intermediates, enzymes and low molecular weight proteins), foods (e.g. for nutriceuticals, herbal extracts and flavors) and specialty chemicals (e.g. for fragrances, cosmetics ingredients and nano-scale particles).

Manufacturing

We purchase circuit board assemblies and sheet metal components from outside suppliers. These materials are available from a wide range of suppliers throughout the world. All raw materials used in our products are readily available from many different domestic suppliers. We provide a limited warranty on all of our products covering parts and labor for a period of one year from the date of sale. We have a business and quality control system that meets the qualifications of ISO 9001/2000. We were ISO 9001 registered in September 1998 and we have been recertified annually since then.

Research and Development

We believe that our long-term growth and stability is linked to the development and release of products that provide solutions to customer needs across a wide spectrum of industries, while advancing the utility of our core technology. We expended approximately $796,000 and $858,000 for Fiscal Years 2008 and 2007, respectively, on new engineering and product development. We recently were awarded a cost sharing contract from New York State Energy Research and Development Authority to develop ultrasonic spray coating systems for biodegradable films used in the food industry. The intention is to develop equipment that can apply nanotechnology based coatings to limit the permeation of oxygen and moisture, but which will decompose quickly in a landfill.

Patents and Licenses

Our business is based in part on the technology covered by our United States patents. We also rely on unpatented know-how in the design and production of our nozzle systems. 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. We also have an exclusive license from Cornell University for a patented vacuum deposition system using our ultrasonic nozzles.

During the fiscal year ended February 29, 2008, we have made significant progress on building our intellectual property portfolio. We have a patent pending covering a new design for our entire line of nozzle systems. We have also applied for patents on the following projects:

- New air shaping technology (Chinese patent).

- New ultrasonic food processing design and process.

- New type of ultrasonic syringe pump for fuel cell liquids and other nano particle suspensions.

In addition, the United States Patent and Trademark Office recently assigned us a patent for a process for coating three dimensional substrates with thin organic films and products. This process uses our ultrasonic nozzles to produce micro-droplets in a vacuum chamber, which then produce a smooth, continuous, uniform conformal coating on various surfaces such as cardiovascular stents, diabetes monitors and other implantable medical devices.

Marketing and Distribution

Our products are marketed and distributed through independent sales representatives or sales representative companies, OEMs and through an in-house direct sales force. Many of our sales leads are generated from our Internet web site and from attendance at major industry trade shows.

In addition to the above, we have engaged an external marketing firm to expand awareness of our products in our targeted industries.

Competition

We operate in competitive markets in the electronics industry. We compete against global and regional electronics manufacturers based on price, quality, product features and follow up service. We maintain our competitive position by providing highly effective solutions that meet our customers' requirements and needs. In other markets, there is limited competition based on the uniqueness of the ultrasonic technology in these applications.

5

Significant Customers

Two customers accounted for 3.3% and 3.2%, of our sales for Fiscal Year ended February 29, 2008.

Foreign and Export Sales

During Fiscal Years 2008 and 2007, sales to foreign customers accounted for approximately $2,783,000 and $3,509,000, or 49% and 51% respectively, of total revenues.

Employees

As of February 29, 2008, we employed forty-seven full-time employees and five part-time employees. We believe that relations with our employees are generally good.

Available Information

Our Annual Reports on Form 10-KSB, Quarterly Reports on Form 10-QSB, Current Reports on Form 8-K, proxy statements and amendments to those reports, are also available free of charge on our internet website at http://www.sono-tek.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission.

ITEM 2 DESCRIPTION OF PROPERTIES

Our offices, product development, manufacturing and assembly facilities are located in an industrial park in Milton, New York. We presently lease a 13,000 square foot building and a 2,400 square foot storage building on a month to month basis. In addition, we have recently added 2,000 square feet of additional office space in an adjacent building. Our current manufacturing areas consist of (i) a machine shop, (ii) a nozzle assembly/test area, (iii) an electronics assembly area, and (iv) a receiving and shipping area.

We presently maintain a sales and service office in Hong Kong and an equipment demonstration room in Shenzhen, China. The office and demonstration room are located on the premises of one of our product distributors.

ITEM 3 LEGAL PROCEEDINGS - None.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

6

PART II

ITEM 5 MARKET FOR COMMON EQUITY, RELATED STOCKHOLDERS MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

(a) Our Common Stock trades in the over-the-counter market on the OTC Bulletin Board. The following table sets forth the range of high and low closing bid quotations for our Common Stock for the periods indicated.

	YEAR ENDED FEBRUARY 29, 2008		YEAR ENDED FEBRUARY 28, 2007	
	HIGH	LOW	HIGH	LOW
First Quarter	$1.30	$1.08	$1.85	$1.40
Second Quarter	1.15	0.90	1.68	1.35
Third Quarter	1.09	0.79	1.60	1.25
Fourth Quarter	0.97	0.66	1.30	0.96

The above quotations are believed to represent inter-dealer quotations without retail markups, markdowns or commissions and may not represent actual transactions.

(b) As of May 19, 2008, there were 273 shareholders of record of our Common Stock, according to our stock transfer agent. We estimate that we have between 1,000 and 1,400 beneficial shareholders of our common stock. The difference between the shareholders of record and the total shareholders is due to stock being held in street names at our transfer agent.

(c) 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.

(d) Recent Sales of Unregistered Securities - None

ITEM 6 MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements

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

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

Overview

Sono-Tek has developed a unique and proprietary series of ultrasonic atomizing nozzles, which are being used in an increasing variety of electronic, medical, industrial, and nanotechnology applications. These nozzles are electrically driven and create a fine, uniform, low velocity spray of atomized liquid particles, in contrast to common pressure nozzles. These characteristics create a series of commercial applications that benefit from the precise, uniform, thin coatings that can be achieved. When combined with significant reductions in liquid waste and less overspray than can be achieved with ordinary pressure nozzle systems, there is lower environmental impact and lower energy use.

We have a well established position in the electronics industry with our SonoFlux spray fluxing equipment. It saves customers from 40% to 80% of the liquid flux required to solder printed circuit boards over more labor intensive methods, such as foam fluxing. Less flux equates to less material cost, fewer chemicals in the workplace, and less clean-up. Also, the SonoFlux equipment reduces the number of soldering defects, which reduces the amount of rework.

One change that has proven successful is our diversification into the medical device market. In the past several years, we have focused engineering resources on the medical device market, with emphasis on providing coating solutions for the new generation of drug coated stents. We have sold a significant number of specialized ultrasonic nozzles and MediCoat stent coating systems to large medical device customers. Sono-Tek's stent coating systems are superior compared to pressure nozzles in their ability to uniformly coat the very small arterial stents without creating webs or gaps in the coatings. We sell a bench-top, fully outfitted stent coating system to a wide range of customers that are manufacturing stents and/or applying coatings to be used in developmental trials. We have also introduced and sold several multiple stent coaters known as Medicoat II.

Another change that has stimulated an increase in business has been the development of the WideTrack coating system, a broad based platform for applying a variety of coatings to moving webs of glass, textiles, plastic, metal, food products and packaging materials. The WideTrack is a long-term product and market development effort. Thus far, we have made successful inroads with WideTrack systems into the glass, medical textile (bandages), textiles and solar and fuel cell industries. We plan to increase our marketing efforts into the broader textile and food industry markets. This will require a continuation of market and technology development in these areas in the years ahead. Some of these WideTrack applications involve nano-technology based liquids. We believe there is an excellent fit between the thin, precise films required in nano-technology coating applications and our ultrasonic nozzle systems.

In the electronics, medical device and WideTrack coating markets, it has been incumbent upon us to focus our attention and resources on the development of a much greater international presence. We believe we have accomplished this and plan to continue our marketing efforts. Our international sales have risen from approximately 20% of total revenues in Fiscal Year 2003 to approximately 50% today, and we expect to increase that percentage in the years ahead.

Past history shows the cyclical nature of the electronics business. This cycle, coupled with the increasing trend toward moving electronics production offshore, created a need to diversify. As expected, our US based electronics business has declined this year and is approximately 33% below previous levels, as a result of the trend toward production moving offshore, coupled with a slower economy and the reduced competitiveness of our US based automotive customers. We have been able to offset this reduction in US electronics sales with an increase in our international electronics and medical device sales.

The creation of technological innovations and the expansion into new geographical markets requires the investment of both time and capital. Although there is no guarantee of success, we expect that over time, these newer markets will be the basis for Sono-Tek's continued growth and will contribute to future profitability. It is management's opinion that this strategy will be a better one than being bound to a shrinking domestic market.

Liquidity and Capital Resources

Working Capital - Our working capital decreased $442,000 from a working capital of $4,232,000 at February 28, 2007 to $3,790,000 at February 29, 2008. The decrease in working capital is primarily due to the purchase of equipment and leasehold improvements and the reclassification of $200,000 of our current deferred tax asset to long term. Our current ratio is 4.2 to 1 at February 29, 2008, as compared to 6.8 to 1 at February 28, 2007.

Stockholders' Equity - Stockholders' equity increased $47,000 from $4,851,000 at February 28, 2007 to $4,898,000 at February 29, 2008. The increase in stockholders' equity is the result of net income of $11,000, and stock based compensation of $36,000.

Operating Activities - In 2008, our operations provided $491,000 of cash compared to $731,000 in the prior year, a decrease of $240,000 or 33%. The current year's decrease in cash provided from operations is due to a decrease in net income, a decrease in accounts receivable and an increase in inventories and accounts payable and accrued expenses and the purchase of equipment and leasehold improvements.

Investing Activities - In 2008, we used $385,000 for the purchase of capital equipment and $8,000 for patent application costs.

Financing Activities - In 2008, our net cash used in financing activities was $27,000, resulting from the repayments of notes payable.

We currently have a revolving credit line of $500,000 and a $150,000 equipment purchase facility, both of these are with a bank. At February 29, 2008, there were no outstanding borrowings under the line of credit. The revolving credit line is collateralized by all of the assets of the Company and requires a 30 day annual payoff, which took place between April 12, 2005 and May 12, 2005. There have been no borrowing's under the revolving credit line after it was paid off in May 2005.

We had outstanding borrowings of $52,000 under the equipment facility at February 29, 2008. The borrowings have repayment terms which vary from 36 - 60 months and bear interest at rates from 6.2% to 6.6%.

Results of Operations

For the year ended February 29, 2008, our sales decreased by $1,187,000 to $5,699,000 as compared to $6,886,000 for the year ended February 28, 2007. For the year ended February 29, 2008, we experienced a decrease in sales of both fluxer units and nozzles when compared to the prior year. The decrease in sales of these units was partially offset by sales of our Spray Dryer units, EVS Systems used for solder recovery and our programmable XYZ precision coating units. Sales of our medical device products were flat year over year. Our sales to customers located in Asian countries decreased by $534,000 or 32% for the year ended February 29, 2008. Our sales to US based customers decreased by $686,000 or 17% for the year ended February 29, 2008.

Our gross profit decreased $798,000, to $2,664,000 for the year ended February 29, 2008 from $3,462,000 for the year ended February 28, 2007. Our gross margin percentage was 47% for the year ended February 29, 2008 compared to 50% for the year ended February 28, 2007.

Marketing and selling costs decreased $185,000 to $1,096,000 for the year ended February 29, 2008 from $1,281,000, for the year ended February 28, 2007. The decrease is due to decreased sales commissions and travel expenses.

General and Administrative expense increased $25,000 to $875,000 for the year ended February 29, 2008 from $850,000, for the year ended February 28, 2007. The increase is primarily due to an increase in salaries resulting from an increase in personnel.

Research and product development costs decreased $62,000 to $796,000 for the year ended February 29, 2008 as compared to $858,000 for the year ended February 28, 2007. The decrease is due to decreased engineering materials, depreciation expense and salaries.

Interest income increased $8,000 to $80,000 for the year ended February 29, 2008 as compared to $72,000 for the year ended February 28, 2007. Our present investment policy is to invest excess cash in short term commercial paper with an S & P rating of at least A1+.

For the year ended February 29, 2008, we reported an operating loss of ($102,000) compared to operating income of $474,000 for the year ended February 28, 2007, a decrease of $576,000. Net income decreased $533,000 to $11,000 or $.00 per share on a diluted basis for the year ended February 29, 2008 from $544,000 or $0.04 per share for the year ended February 28, 2007. The decrease in operating income is a result of the current year's decrease in sales and the effects of our business development plan. Our business development plan was introduced in the third quarter and its focus is on areas where we have demonstrated new capabilities and on areas where there appears to be more opportunity that we could serve with additional technical and sales personnel. The programs goal is to grow both sales and net income.

Other Income

As previously reported on Form 8-K, filed on July 5, 2005, the Company determined that a former employee had misappropriated approximately $250,000 of the Company's monies, primarily through unauthorized check writing from the Company's accounts over a period of three calendar years. The Company had previously expensed substantially all of the misappropriated funds over the years.

The Company has recovered approximately 72% of these funds to date. The Company has a promissory note that is being repaid by the former employee. The note has been fully reserved for as the collectibility is questionable. As previously discussed, the Company can offer no assurances that it will be successful in its attempt to collect the balance of the remaining restitution.

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. The Company believes that its critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, please see the notes to the Company's consolidated financial statements.

Accounting for Income Taxes

As part of the process of preparing the consolidated financial statements, the Company is required to estimate income taxes. Management judgment is required in determining the provision for the deferred tax asset. During the fourth quarter of the year ended February 29, 2004, the Company reduced the valuation reserve for the deferred tax asset resulting from the net operating losses carried forward due to the Company having demonstrated consistent profitable operations. In the event that actual results differ from these estimates, the Company may need to again adjust such valuation reserve.

Stock-Based Compensation

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

Impact of New Accounting Pronouncements

FASB 161 - Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued FASB Statement No. 161, which amends and expands the disclosure requirements of FASB Statement No. 133 with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how the derivative instruments and the related hedged items are accounted for and how the related hedged items affect an entity's financial position, performance and cash flows. This Statement is effective for financial statements for fiscal years and interim periods beginning after November 15, 2008. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

ITEM 7 FINANCIAL STATEMENTS

Our financial statements are presented on pages 24 to 40 of this Report.

ITEM 8 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE - None.

ITEM 8A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chairman & CEO (principal executive officer) and Chief Financial Officer (principal accounting officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective as of the period covered by this report. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by SEC 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 29, 2008. 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. This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting pursuant to temporary rules of the Securities and Exchange Commission.

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 8B OTHER INFORMATION - None.

13

PART III

ITEM 9 DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPIANCE WITH 16(a) OF THE EXCHANGE ACT

(a) Identification of Directors

Name	Age	Position with the Company
Christopher L. Coccio	67	Chief Executive Officer, Chairman and a Director
Edward J. Handler, Esq.	71	Director*
Donald F. Mowbray	70	Director*
Joseph Riemer	59	President and Director
Samuel Schwartz	88	Chairman Emeritus and Director
Philip A. Strasburg, CPA	69	Director*

* Member of the Audit Committee and Compensation 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 Dr.'s Mowbray and Riemer and Messrs. Handler and Schwartz run until the annual meeting to be held in 2008. The terms of Dr. Coccio and Mr. Strasburg run until the annual meeting to be held in 2009, and in each case until their respective successors are duly elected and qualified.

Audit Committee

The Company's Board of Directors has an Audit Committee composed of Edward J. Handler, Donald F. Mowbray and Philip A. Strasburg, CPA, as Chairman of the Audit Committee. The "audit committee financial expert" designated by the Board is Philip A. Strasburg. Mr. Strasburg is not presently considered an independent Director under the NASDAQ rules because he is a former employee. However, as of July 1, 2008, Mr. Strasburg will be deemed independent for this purpose. Mr.

Strasburg was a part-time employee from February 23, 2005 to July 1, 2005, working a total of five days.

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.

14

Identification of Executive Officers

Name	Age	Position with the Company
Stephen J. Bagley, CPA	45	Chief Financial Officer
Christopher L. Coccio	67	Chief Executive Officer, Chairman and a Director
Vincent F. DeMaio	70	Vice President
R. Stephen Harshbarger	40	Vice President
Joseph Riemer	59	President and Director

The foregoing officers are elected 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.

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. His business experience includes both domestic and international markets and customers. He founded a management consulting business in 1996, and worked with 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.

VINCENT F. DEMAIO has been a Vice President of the Company since March 2003. He joined the Company in August 1991 as Production Manager and has served as Field

Service Manager and Director of Operations. Prior to joining the Company, Mr. DeMaio was an independent real estate developer from 1987 to 1991. From 1956 to 1987, Mr. DeMaio was employed by IBM Corporation in various manufacturing positions, the last being Manufacturing Supervisor over 600 employees.

EDWARD J. HANDLER, III, Esq., is a retired partner from Kenyon & Kenyon, a law firm that provided intellectual property advice to the Company. Mr. Handler became a Director of the Company on October 1, 2004, coincident with his retirement from his law firm. Mr. Handler has 40 years experience in all aspects of intellectual property, including patents, trade secrets, trademarks and copyrights, including litigation and other adversarial proceedings. Mr. Handler is President and COO of Storm Bio, Inc., a private Delaware corporation active in the area of therapeutics for acute inflammatory conditions. Mr. Handler is past President of the West Point Society of New York and a past Trustee of the Association of Graduates, U.S. Military Academy. He holds a J.D. degree from the University of Virginia Law School and a B.S. in Engineering Science from the United States Military Academy.

R. STEPHEN HARSHBARGER has been Vice President of the Company since June 2000. He joined the Company in October 1993 as a Sales Engineer and served in various sales management capacities from 1997 to 2000. Prior to joining the Company, Mr. Harshbarger was the Sales and Marketing Coordinator at Plasmaco, Inc., a developer and manufacturer of state-of-the-art flat panel displays. He is a graduate of Bentley College, with a major in Finance and a minor in Marketing.

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.

DR. JOSEPH RIEMER joined the Company in January 2007 as Vice President of Engineering, became a Director in August 2007 and was appointed President in September 2007. 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

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.

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 served as Audit Committee Chairman from August 2004 until February 2005, when he was elected Treasurer. Mr. Strasburg was reappointed Audit Committee chairman in May 2005 concurrent with his resignation as Treasurer. 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. He is a member of the Board of Directors of the Westchester Public/Private Partnership for Aging Services.

(b) Identification of Certain Significant Employees

Not applicable.

(c) Family Relationships

None.

(d) 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 29, 2008, 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 except as follows: two reports by Stephen Bagley relating to two transactions and two reports by Joseph Riemer relating to two transactions.

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/corporate/page/91/88 and is available in print to any shareholder who requests a copy.

ITEM 10 EXECUTIVE COMPENSATION

The following table sets forth the aggregate remuneration paid or accrued by the Company for the Fiscal Years ended February 29, 2008 and February 28, 2007 for each named officer of the Company.

Summary Compensation Table

All Other

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards	Option Awards	Compensation ($)	T
Christopher L. Coccio	2008	168,845	0	0	0	4,362	
CEO, Chairman and Director	2007	159,766	47,000	0	0	3,909	
Joseph Riemer, President	2008	133,862	0	0	36,500	1,820	
R. Stephen Harshbarger	2008	140,469	0	0	0	2,917	
Vice-President	2007	135,357	9,500	0	0	2,861	

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

17

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	20,000		0.95	5/19/2014
	475,000(1)		1.75(1)	11/12/2014
Joseph Riemer	-	25,000 (2)	1.18	04/13/2017
	-	50,000 (2)	.95	09/04/2017
R. Stephen Harshbarger	7,500		0.60	6/26/2008
	10,000		0.95	5/19/2014

(1) 150,000 of these options were repriced at $.74 in March 2008.
(2) Dr. Riemer's unvested options become exercisable at various dates beginning April 13, 2008.

Compensation of Directors

Each non-employee director receives $500 for each meeting attended. Committee Chairmen and committee members receive $100 for each committee meeting attended. Directors who are employees of the Company receive no additional compensation for serving as directors. For the year ended February 29, 2008, director compensation is as follows:

2008 Director Compensation

Fees	Non-Equity Incentive	Nonqualified Deferred

Name	Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Plan Compensation ($)	Compensation Earnings ($)	All Other Compensation ($)
Edward J. Handler	3,000	-	-	-	-	-
Donald F. Mowbray	3,000	-	-	-	-	-
Samuel Schwartz	2,500	-	-	-	-	-
Philip Strasburg	3,000	-	-	-	-	-

18

The number of vested and unvested stock options held by non-employee directors as of February 29, 2008 is as follows:

	Number of Vested Options	Number of Unvested Options
Edward J. Handler	20,000	-
Donald F. Mowbray	30,000	-
Samuel Schwartz	60,000	-
Philip Strasburg	30,000	-

ITEM 11 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following information is furnished as of May 19, 2008 to indicate beneficial ownership of the Company's Common Stock by each Director, by each named executive officer who has a salary and bonus in excess of $100,000, 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.

Name (and address if more than 5%) of Beneficial owner	Amount Beneficially Owned	Percent
Directors and Officers		
*Christopher L. Coccio	971,125(1)	6.54%
*Edward J. Handler	117,508(2)	**
*R. Stephen Harshbarger	17,500(3)	**
*Donald F. Mowbray	55,000(4)	**
*Joseph Riemer	11,250(5)	**
*Samuel Schwartz	1,575,147(6)	10.92%
*Philip A. Strasburg	55,000(7)	**
All Executive Officers and Directors as a Group	2,915,333(8)	19.36%
Additional 5% owners		
Herbert Spiegel 425 East 58th Street New York, NY 10022	756,931	5.27%

Norwood Venture Corporation 65 Norwood Avenue Montclair, NJ 07043	1,084,672	7.55%

*c/o Sono-Tek Corporation, 2012 Route 9W, Milton, NY 12547.
** Less than 1%

(1) Includes 3,000 shares owned jointly with Dr. Coccio's father, 2,000 shares in the name of Dr. Coccio's wife and 495,000 options currently exercisable issued under the Company's Stock Incentive Plans.
(2) Includes 61,579 shares owned jointly with Mr. Handler's wife, 35,929 shares in the name of Mr. Handler's wife and 20,000 options currently exercisable issued under the Company's Stock Incentive Plans.
(3) Represents 17,500 options currently exercisable under the Company's Stock Incentive Plans.
(4) Includes 30,000 options currently exercisable issued under the Company's Stock Incentive Plans.
(5) Represents 11,250 options currently exercisable issued under the Company's Stock Incentive Plans.
(6) Includes 60,000 options currently exercisable issued under the Company's Stock Incentive Plans.
(7) Includes 30,000 options currently exercisable issued under the Company's Stock Incentive Plans.
(8) The group total includes 701,250 options currently exercisable issued under the Company's Stock Incentive Plans. The group total includes 75,303 shares and 12,500 exercisable options held by Mr. DeMaio and 25,000 exercisable options held by Mr. Bagley.

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)	Numb securities available issuance u compensat (excluding reflected i (
Equity compensation plans approved by security holders:			
1993 Stock Incentive Plan	80,000	$.69	
2003 Stock Incentive Plan	892,375	$1.6	589
Total	972,375		589

Description of Equity Compensation Plans:

1993 Stock Incentive Plan

Under the 1993 Stock Incentive Plan, as amended ("1993 Plan"), options have been granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase the Company's common shares. Options granted under the 1993 Plan expire on various dates through 2013. There can be no further grants under the 1993 Plan.

Under the 1993 Stock Incentive Plan, option prices were 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 1993 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.

2003 Stock Incentive Plan

Under the 2003 Stock Incentive Plan, as amended ("2003 Plan"), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares.

The 2003 Plan supplemented and replaced the 1993 Plan. Under the 2003 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 2003 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.

ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Transactions

On September 1, 2007, the Company entered into identical Executive Agreements with Stephen J. Bagley, Chief Financial Officer, Christopher L. Coccio, Chief Executive Officer and Joseph Riemer, President. In the event of a change of control of the Company followed by a termination of the executives' employment under certain circumstances, the Executive Agreements provide for severance payments to each officer equal to one year of the executive's annual base and bonus compensation paid by the Company for the previous calendar year.

Independence of Directors
The Company's Board of Directors is comprised of three "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 and Edward Handler. Christopher Coccio and Joseph Riemer are employees of the Company and are therefore not independent. Philip Strasburg is not considered an independent director under the Nasdaq rules because he is a former employee. However, as of July 1, 2008, Mr. Strasburg will be deemed independent for this purpose. Mr. Strasburg was a part-time employee from February 23, 2005 to July 1, 2005, working a total of five days.

ITEM 13 EXHIBITS

Ex. No.	Description
3(a)(1)	Certificate of Incorporation of the Company and all amendments

	thereto.
3(b)(1)	By-laws of the Company as amended.
10(a)(2)	Lease for the Company's facilities in Milton, NY dated December 1, 1999.
10(b)(1)	Sono-Tek Corporation 1993 Stock Incentive Plan as amended.
10(c)(1)	Sono-Tek Corporation 2003 Stock Incentive Plan.
10(d)(5)	Equipment Line Credit Agreement between Sono-Tek Corporation and M&T Bank, dated March 24, 2005.
10(e)(5)	General Security Agreement between Sono-Tek Corporation and M&T Bank, dated December 21, 2004.

10(f)(6)	Executive Agreement between Sono-Tek Corporation and Stephen J. Bagley dated September 1, 2007.
10(g)(6)	Executive Agreement between Sono-Tek Corporation and Christopher L. Coccio dated September 1, 2007.
10(h)(6)	Executive Agreement between Sono-Tek Corporation and Joseph Riemer dated September 1, 2007.
14(4)	Code of Ethics.
21(3)	Subsidiaries of Small Business Issuer.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Rule 13a-14/15d - 14(a) Certification.
31.2	Rule 13a-14/15d - 14(a) Certification.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(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 Form 10-K for the year ended February 29,2000.

(3) Incorporated herein by reference to the Company's Form 10-KSB for the year ended February 28, 2003.

(4) Incorporated herein by reference to the Company's Form 10-KSB for the year ended February 29, 2004.

(5) Incorporated herein by reference to the Company's Form 10-KSB for the year ended February 28, 2005.

(6) Incorporated herein by reference to the Company's Form 10-QSB for the quarter ended August 31, 2007.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

For the Fiscal Years ended February 29, 2008 and February 28, 2007, the Company paid or accrued fees of approximately $40,500 and $41,000 for services rendered by Sherb & Co., LLP , its independent auditors. These fees included audit and review services.

For the Fiscal Years ended February 29, 2008 and February 28, 2007, the Company paid or accrued tax preparation fees of approximately $5,500 and $4,000 for services rendered by Sherb & Co., LLP, its independent auditors.

There were no other fees for services rendered by Sherb & Co., LLP other than for services described above.

SONO-TEK CORPORATION

FORM 10-KSB

ITEM 7

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

FOR THE YEARS ENDED FEBRUARY 29, 2008 and FEBRUARY 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Sono-Tek Corporation
Milton, New York

We have audited the accompanying consolidated balance sheet of Sono-Tek Corporation as of February 29, 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years ended February 29, 2008 and February 28, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sono-Tek Corporation, as of February 29, 2008 and the results of their operation and their cash flows for each of the years then ended February 29, 2008 and February 28, 2007 in conformity with accounting principles generally accepted in the United States.

/S/SHERB & CO., LLP

Certified Public Accountants
New York, New York
May 16, 2008

SONO-TEK CORPORATION
CONSOLIDATED BALANCE SHEET

ASSETS

	February 29, 2008
Current Assets:	
Cash and cash equivalents	$ 2,339,550
Accounts receivable (less allowance of $18,500)	614,378
Inventories, net	1,602,511
Prepaid expenses and other current assets	69,032
Deferred tax asset	70,000
Total current assets	4,695,471
Equipment, furnishings and leasehold improvements (less accumulated depreciation of $1,046,195)	536,892
Intangible assets, net	34,011
Other assets	7,171
Deferred tax asset	615,803
TOTAL ASSETS	$ 5,889,348

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Accounts payable	$ 412,692
Accrued expenses	452,911
Current maturities of long term debt	23,909
Deferred tax liability	16,239
Total current liabilities	905,751
Long term debt, less current maturities	27,628
Deferred tax liability	57,978
Total Liabilities	991,357

Commitments and Contingencies	
Stockholders' Equity	
Common stock, $.01 par value; 25,000,000 shares authorized, 14,361,091 issued and outstanding	143,612
Additional paid-in capital	8,343,880
Accumulated deficit	(3,589,501)
Total stockholders' equity	4,897,991
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 5,889,348

See notes to consolidated financial statements.

SONO-TEK CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended	
	February 29, 2008	February 28, 2007
Net Sales	$ 5,698,602	$ 6,886,453
Cost of Goods Sold	3,034,693	3,424,183
Gross Profit	2,663,909	3,462,270
Operating Expenses		
Research and product development	795,551	857,718
Marketing and selling	1,095,544	1,280,553
General and administrative	875,210	850,238
Total Operating Expenses	2,766,305	2,988,509
Operating (Loss) Income	(102,396)	473,761
Other Income (Expense):		
Interest Expense	(4,292)	(6,133)
Interest Income	80,336	72,313
Other Income	12,158	11,523
Income before Income Taxes	(14,194)	551,464
Income Tax Benefit (Expense)	25,399	(7,261)
Net Income	$ 11,205	$ 544,203
Basic Earnings Per Share	$ .00	$ .04

Diluted Earnings Per Share	$ .00	$ .04
Weighted Average Shares - Basic	14,360,618	14,359,936
Weighted Average Shares - Diluted	14,394,010	14,439,808

See notes to consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007

	Common Stock Par Value $.01		Additional Paid - In Capital	Stock Subscription Receivable	Accumulated Deficit	St
	Shares	Amount				
Balance - February 29, 2006	14,354,416	$143,545	$ 8,247,091	$(15,750)	$(4,144,909)	$
Exercise of non-employee stock options	5,000	50	900	--	--	
Stock Sold/Issued	--	--	--	15,750	--	
Exercise of stock options	1,125	11	1,587	--	--	
Stock Based Compensation Expense	--	--	58,723	--	--	
Net Income	--	--	--	--	544,203	
Balance - February 28, 2007	14,360,541	143,606	8,308,301	--	(3,600,706)	
Exercise of stock options	550	6	(6)	--	--	
Stock Based Compensation Expense	--	--	35,585	--	--	
Net Income	--	--	--	--	11,205	
Balance - February 29, 2008	14,361,091	$143,612	$ 8,343,880	--	$(3,589,501)	$

See notes to consolidated financial statements.

SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended February 29, 2008	Years Ended February 28, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 11,205	$ 544,203
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	154,020	132,401
Stock based compensation expense	35,585	58,723
Gain on sale of equipment	--	17,723
(Increase) Decrease in:		
Accounts receivable	332,455	8,261
Inventories	(196,280)	114,166
Prepaid expenses and other current assets	75	(1,083)
Deferred tax asset	(4,564)	
(Decrease) Increase in:		
Accounts payable and accrued expenses	180,261	(143,863)
Deferred tax liability	(22,022)	--
Net Cash Provided by Operating Activities	490,735	730,531
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furnishings and leasehold improvements	(384,952)	(189,615)
Patent filing costs	(7,867)	(5,392)
Net Cash Used In Investing Activities	(392,819)	(195,007)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of stock	--	15,750
Proceeds from exercise of warrants and options	--	2,548
Repayment of long term debt	(27,342)	(25,650)
Net Cash Used in Financing Activities	(27,342)	(7,352)
NET INCREASE IN CASH AND CASH EQUIVALENTS	70,574	528,172
CASH AND CASH EQUIVALENTS:		
Beginning of year	2,268,976	1,740,804
End of year	$ 2,339,550	$ 2,268,976

See notes to consolidated financial statements.

SONO-TEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 29, 2008 AND FEBRUARY 28, 2007

NOTE 1: BUSINESS DESCRIPTION

The Company was incorporated in New York on March 21, 1975 for the purpose of engaging in the development, manufacture, and sale of ultrasonic liquid atomizing nozzles, which are sold world-wide. Ultrasonic nozzle systems atomize low to medium viscosity liquids by converting electrical energy into mechanical motion in the form of high frequency ultrasonic vibrations that break liquids into minute drops that can be applied to surfaces at low velocity.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The accompanying consolidated financial statements of Sono-Tek Corporation, a New York corporation (the "Company"), include the accounts of the Company and its wholly owned subsidiary, Sono-Tek Cleaning Systems, Inc., a New Jersey Corporation ("SCS"), which the Company acquired on August 3, 1999, and whose operations have been discontinued. There have been no operations of this subsidiary since Fiscal Year Ended February 28, 2002. All significant intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents - Cash and cash equivalents consist of money market mutual funds, short term commercial paper and short-term certificates of deposit with original maturities of 90 days or less. The Company occasionally has cash or cash equivalents on hand in excess of the $100,000 insurable limits at a given bank. At February 29, 2008, the Company had $2,239,550 over the insurable limit.

Supplemental Cash Flow Disclosure -

	Years Ended	
	February 29, 2008	February 28, 2007
Interest paid	$4,140	$5,923
Income taxes paid	$1,827	$7,261

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.

Allowance for doubtful accounts - The Company records a bad debt expense/allowance based on managements estimate of uncollectible accounts. All outstanding accounts receivable accounts are reviewed for collectibility on an individual basis. The bad debt expense recorded for the years ended February 29, 2008 and February 28, 2007 was $0 and $3,750, respectively.

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.

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

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 and the unamortized portion of deferred financing costs. The accumulated amortization of patents is $58,949 at February 29, 2008. Annual amortization expense of such intangible assets is expected to be $4,600 per year for the next five years.

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. Engineering costs directly applicable to the manufacture of existing products are included in cost of goods sold.

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.

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. Stock options granted but not yet exercisable under the Company's stock option plans are not included for Diluted EPS calculations under the treasury stock method.

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

Advertising Expenses - The Company expenses the cost of advertising in the period in which the advertising takes place. Advertising expense for the years ended February 29, 2008 and February 28, 2007 was $130,024 and $116,274, respectively.

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.

Recognition of Revenue - Sales are recorded at the time title passes to the customer, which, based on shipping terms, generally occurs when the product is shipped to the customer. 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 after a sale is complete.

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 does have cash in excess of the federal insurable limits as noted above. The Company also has two customers, which accounted for 3.3% and 3.2% of sales, respectively, during the year ended February 29, 2008. One customer accounted for 9.1% of the outstanding accounts receivables at February 29, 2008.

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

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.

New Accounting Pronouncements-
FASB 161 - Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued FASB Statement No. 161, which amends and expands the disclosure requirements of FASB Statement No. 133 with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how the derivative instruments and the related hedged items are accounted for and how the related hedged items affect an entity's financial position, performance and cash flows. This Statement is effective for financial statements for fiscal years and interim periods beginning after November 15, 2008. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

31

NOTE 3: SEGMENT INFORMATION

The Company currently operates in one business segment, spraying systems and is primarily engaged in the business of developing, manufacturing, selling, installing and servicing ultrasonic spray equipment.

NOTE 4: STOCK-BASED COMPENSATION

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

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

	2008	2007
Expected life	4 years	4 years
Risk free interest rate	4.01% - 4.97%	4.35% - 5.07%
Expected volatility	47% - 57%	39% - 78%
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 amount of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

For the years ended February 29, 2008 and February 28, 2007, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying SFAS 123R approximated $35,585 and $58,723 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 29, 2008
Raw Materials	$ 550,624
Work-in-process	457,832
Consignment	9,770
Finished Goods	788,482
Totals	1,806,708
Less: Allowance	(204,197)
	$ 1,602,511

NOTE 6: EQUIPMENT, FURNISHINGS AND LEASEHOLD IMPROVEMENTS

Equipment, furnishings and leasehold improvements consist of the following:

	February 29, 2008
Laboratory equipment	$ 415,507
Machinery and equipment	357,702
Leasehold improvements	86,333
Furniture and fixtures	723,545
Totals	1,583,087
Less: accumulated depreciation	(1,046,195)

	$ 536,892

Depreciation expense for the years ended February 29, 2008 and February 28, 2007 was $149,421 and $127,831, respectively.

NOTE 7: ACCRUED EXPENSES

Accrued expenses consist of the following:

	February 29, 2008
Accrued compensation	$169,310
Estimated warranty costs	14,700
Accrued commissions	47,364
Professional fees	26,102
Customer deposits	180,409
Other accrued expenses	15,026
	$452,911

NOTE 8: REVOLVING LINE OF CREDIT

The Company has a $500,000 revolving line of credit at prime which was 6.00% at February 29, 2008. The loan is collateralized by all of the assets of the Company. The line of credit is payable on demand and must be retired for a 30 day period once annually. As of February 29, 2008, the Company had no outstanding borrowings under the revolving line of credit.

NOTE 9: LONG-TERM DEBT

Long-term debt consists of the following:

	February 29, 2008
Equipment loan, bank, collateralized by related production equipment, payable in monthly installments of principal and interest of $832. Interest rate 6.51%. 60 month term.	$19,385
Equipment loan, bank, collateralized by related office equipment, payable in monthly installments of principal and interest of $1,039. Interest rate 6.21%. 36 month term.	7,103
Equipment loan, bank, collateralized by related engineering equipment, payable in monthly installments of principal and interest of $770. Interest rate 6.54%. 60 month term.	25,049
Total long term debt	51,537
Due within one year	23,909
Due after one year	$27,628

Long-term debt is payable as follows:

Fiscal Year ending February 28,	
2010	17,853
2011	9,775

NOTE 10: COMMITMENTS AND CONTINGENCIES

Leases - Total rent expense was approximately $104,331 and $100,769, for the years ended February 29, 2008 and February 28, 2007, respectively.

The Company presently leases its office and production facilities on a month-to-month basis.

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 to pre-tax income (loss) as follows:

	February 29,		February 28,	
	2008	%	2007	%
Computed tax at maximum rate	$ (4,968)	35.00	$ 193,012	(35.00)
Franchise taxes due, net of federal benefit	(596)	4.2	23,161	(4.20)
Permanent Difference- FASB 123R	14,234	(100.28)	23,489	(4.26)
Utilization or change in valuation allowance for tax effect of operating loss carryforwards	--	--	(246,923)	44.78
Recognition of remaining deferred tax net operating loss carryforwards	16,729	(117.23)	--	--
Income Tax (Benefit)	$ 25,399	(178.31)	$ (7,261)	1.32

The net deferred tax asset is comprised of the following:

	February 29, 2008
Inventory	$122,000
Accrued expenses	21,000
Net operating losses and other carryforwards	542,803
Net deferred tax asset	$685,803
Deferred tax liability - Depreciation	$ 74,217

The change in the valuation allowance was $80,000 for the year ended February 29, 2008. This represents an $80,000 decrease in the net operating loss valuation allowance offset by a $64,000 change in other timing differences and a $16,000 increase in the net deferred tax asset recorded. A $685,803 tax benefit has been reflected as a tax asset in the financial statements, of which $270,000 is a current asset.

At February 29, 2008, the Company has available net operating loss carryforwards of approximately $1,543,000 for income tax purposes, which expire between fiscal 2019 and fiscal 2028. The Company also has research and development credits of approximately $136,000, which expire between fiscal 2010 and fiscal 2021. The net operating loss and credit carryforwards generated by a subsidiary are subject to limitations under Section 382 and Section 383 of the Internal Revenue Code.

NOTE 12: STOCKHOLDERS' EQUITY

Stock Options - The Company has two stock option plans, the 1993 Stock Incentive Plan, as Amended ("1993 Plan") and the 2003 Stock Incentive Plan ("2003 Plan"). Under each Plan, options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. Options granted under the 1993 Plan expire on various dates through 2013. The 1993 Plan expired in October 2003 and no further options can be granted under the 1993 Plan. A total of 80,000 options remain outstanding under the 1993 Plan. Under the 2003 Plan options expire at various dates through 2015. A total of 892,375 options are outstanding under the 2003 Plan.

During Fiscal Year 2008, the Company granted options for 90,000 shares exercisable at prices from $.95 to $1.18 to officers of the Company and options for 20,000 shares exercisable at prices from $.95 to $1.30 to employees of the Company.

During Fiscal Year 2007, the Company granted options for 45,000 shares exercisable at prices from $1.00 to $1.99 to employees of the Company.

Under both the 1993 Plan and the 2003 Plan, options are granted at prices that are 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 both Plans or unless otherwise specified at the discretion of the Board of Directors, no option may be exercised prior to one year after date of grant, with the balance becoming exercisable in cumulative installments over a three year period during the term of the option, and terminate at a stipulated period of time after an employee's termination of employment.

36

A summary of the activity of both plans for the years ended February 29, 2008 and February 28, 2007 is as follows:

	Stock Options		Weighted Average Exercise Price	
	Outstanding	Exercisable	Outstanding	Exercisabl
Balance - February 28, 2006	935,500	762,425	1.61	1.83
Granted Fiscal Year 2007	45,000		1.41	
Exercised Fiscal Year 2007	(6,125)		(.42)	
Canceled Fiscal Year 2007	(25,000)		(1.82)	

Balance - February 28, 2007	949,375	871,500	1.58	1.63
Granted Fiscal Year 2008	110,000		1.03	
Exercised Fiscal Year 2008	(1,500)		(.50)	
Canceled Fiscal Year 2008	(85,500)		(1.36)	
Balance - February 29, 2008	972,375	840,950	1.54	1.60

Information, at date of issuance, regarding stock option grants for the years ended February 29, 2008:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Year ended February 29, 2008:			
Exercise price exceeds market price	--	--	--
Exercise price equals market price	110,000	$1.03	$ .49
Exercise price is less than market price	--	--	--

The following table summarizes information about stock options outstanding and exercisable at February 29, 2008:

	Number Outstanding	Weighted-Average Remaining Life in Years	Weighted Average Exercise Price	Number Exercisable
Range of exercise prices:				
$.25 to $.50	40,000	4.9	$ .31	40,000
$.51 to $1.00	147,500	7.3	$ .91	70,000
$1.01 to $1.75	654,875	6.8	$ 1.60	603,950
$1.76 to $2.30	90,000	7.1	$ 2.18	88,500
$2.31 to $3.00	40,000	7.4	$ 2.48	38,500

37

NOTE 13: EARNINGS PER SHARE

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

	February 29, 2008	February 28, 2007
Numerator for basic and diluted Earnings per share	$ 11,205	$ 544,203
Denominator:		
Denominator for basic earnings per share-weighted average shares	14,360,618	14,359,936
Effects of dilutive securities:		
Stock options for employees, directors and outside consultants	33,392	79,872

Denominator for diluted earnings per share	14,394,010	14,439,808
Basic Earnings Per Share	$ .00	$ .04
Diluted Earnings Per Share	$ .00	$ .04

NOTE 14: SIGNIFICANT CUSTOMERS AND FOREIGN SALES

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

	February 29, 2008	February 28, 2007
Western Europe	$ 918,000	$ 886,000
Far East	1,090,000	1,567,000
Other	775,000	1,056,000
	$2,783,000	$3,509,000

During Fiscal Years 2008 and 2007, sales to foreign customers accounted for approximately $2,783,000 and $3,509,000, or 49% and 51% respectively, of total revenues.

NOTE 15: OTHER INCOME

As previously reported on Form 8-K, filed on July 5, 2005, the Company determined that a former employee had misappropriated approximately $250,000 of the Company's monies, primarily through unauthorized check writing from the Company's accounts over a period of three calendar years. The Company has previously expensed substantially all of the misappropriated funds over the years.

The Company has recovered approximately 72% of these funds to date. The Company has a promissory note that is being repaid by the former employee. The note has been fully reserved for as the collectibility is questionable. As previously discussed, the Company can offer no assurances that it will be successful in its attempt to collect the balance of the remaining restitution.

38

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 29, 2008
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.

/s/ Dr. Christopher L Coccio Christopher L. Coccio Chief Executive Officer, Chairman and Director	May 29, 2008	/s/ Samuel Schwartz Samuel Schwartz Director	May 29, 2008
/s/ Stephen J. Bagley Stephen J. Bagley Chief Financial Officer	May 29, 2008	/s/ Dr. Joseph Riemer Dr. Joseph Riemer President and Director	May 29, 2008
/s/ Edward J. Handler, III Edward J. Handler, III Director	May 29, 2008	/s/ Philip A. Strasburg Philip A. Strasburg Director	May 29, 2008
		/s/ Dr. Donald F. Mowbray Donald F. Mowbray Director	May 29, 2008