SONO TEK CORP
Form 10-Q
January 14, 2009

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

FORM 10-Q

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

For the quarterly period ended: November 30, 2008

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	14-1568099
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

Indicate by check mark whether the 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 |X| NO |_|

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

Large Accelerated Filer |_| Accelerated Filer |_| Smaller reporting company |X|
Non Accelerated Filer |_| (Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding as of January 6, 2009
Common Stock, par value $.01 per share	14,392,901

SONO-TEK CORPORATION

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SONO-TEK CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS

	November 30, 2008 Unaudited	February 29, 2008
Current Assets:		
Cash and cash equivalents	$ 1,256,999	$ 2,339,550
Accounts receivable (less allowance of $18,500 at November 30 and February 29, respectively)	938,296	614,378
Inventories	1,724,880	1,602,511
Prepaid expenses and other current assets	48,886	69,032
Deferred tax asset	--	70,000
Total current assets	3,969,061	4,965,471
Equipment, furnishings and leasehold improvements (less accumulated depreciation of $1,183,537 and $1,046,195 at November 30 and February 29, respectively)	676,075	536,892
Intangible assets, net	57,096	34,011
Other assets	7,171	7,171

Deferred tax asset	--	615,803
TOTAL ASSETS	$ 4,709,403	$ 5,889,348

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable	$ 294,217	$ 412,692
Accrued expenses	383,496	452,911
Line of Credit - Bank	250,000	--
Current maturities of long term debt	23,268	23,909
Deferred tax liability	--	16,239
Total current liabilities	950,981	905,751
Long term debt, less current maturities	25,373	27,628
Deferred tax liability	--	57,978
Total liabilities	976,354	991,357
Commitments and Contingencies	--	--
Stockholders' Equity		
Common stock, $.01 par value; 25,000,000 shares authorized, 14,392,901 and 14,361,091 shares issued and outstanding, respectively at November 30 and February 29	144,430	143,612
Additional paid-in capital	8,462,158	8,343,880
Accumulated deficit	(4,873,539)	(3,589,501)
Total stockholders' equity	3,733,049	4,897,991
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,709,403	$ 5,889,348

See notes to consolidated financial statements.

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SONO-TEK CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Nine Months Ended November 30,		Three Months
	Unaudited		U
	2008	2007	2008
Net Sales	$ 4,808,012	$ 4,207,724	$ 1,582,01
Cost of Goods Sold	2,639,190	2,256,956	960,26
Gross Profit	2,168,822	1,950,768	621,74

Operating Expenses			
Research and product development costs	625,906	555,081	206,44
Marketing and selling expenses	1,371,575	755,662	527,82
General and administrative costs	860,277	689,451	253,97
Total Operating Expenses	2,857,759	2,000,194	988,24
Operating (Loss) Income	(688,937)	(49,426)	(366,49
Interest Expense	(3,085)	(3,394)	(1,60
Interest Income	12,021	66,030	1,51
Other Income	7,549	8,609	1,88
(Loss) Income from Operations Before Income Taxes	(672,452)	21,819	(364,69
Income Tax Expense (Benefit)	611,586	(33,813)	611,58
Net (Loss) Income	$ (1,284,038)	$ 55,632	$ (976,28
Basic (Loss) Earnings Per Share	$ (0.09)	$ 0.00	$ (0.0
Diluted (Loss) Earnings Per Share	$ (0.09)	$ 0.00	$ (0.0
Weighted Average Shares - Basic	14,372,056	14,360,541	14,386,86
Weighted Average Shares - Diluted	14,372,056	14,412,523	14,386,86

See notes to consolidated financial statements.

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SONO-TEK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended November 30, Unaudited	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss) Income	$ (1,284,038)	$ 55,632
Adjustments to reconcile net (loss) income to net cash (used in) operating activities:		

Depreciation and amortization	170,995	106,580
Stock based compensation expense	96,956	28,067
Gain on sale of equipment	57,643	--
Decrease (Increase) in:		
Accounts receivable	(323,918)	1,027
Inventories	(122,369)	(175,523)
Prepaid expenses and other current assets	20,146	13,993
Deferred tax asset	611,586	(35,000)
(Decrease) Increase in:		
Accounts payable and accrued expenses	(187,890)	(149,694)
Net Cash (Used In) Operating Activities	(960,889)	(154,918)
CASH FLOW FROM INVESTING ACTIVITIES:		
Patent Application Costs	(26,917)	--
Purchase of equipment and furnishings	(363,988)	(140,989)
Net Cash (Used In) Investing Activities	(390,905)	(140,989)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options and warrants	22,140	--
Proceeds from note payable - Bank	17,590	--
Proceeds from Line of Credit - Bank	250,000	--
Repayments of notes payable and loans	(20,487)	(20,442)
Net Cash Provided by (Used In) Financing Activities	269,243	(20,442)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,082,551)	(316,349)
CASH AND CASH EQUIVALENTS		
Beginning of period	2,339,550	2,268,976
End of period	$ 1,256,999	$ 1,952,627
SUPPLEMENTAL DISCLOSURE:		
Interest paid	$ 3,086	$ 3,394
Taxes Paid	$ 0	$ 0

See notes to consolidated financial statements.

SONO-TEK CORPORATION
Notes to Consolidated Financial Statements
Nine Months Ended November 30, 2008 and 2007

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The accompanying consolidated financial statements of Sono-Tek Corporation, a New York Corporation (the "Company"), include the accounts of the Company and its wholly owned subsidiary, Sono-Tek Cleaning Systems, Inc., a New

Jersey Corporation ("SCS") which the Company acquired on August 3, 1999, 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 $250,000 insurable limits at a given bank.

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.

Interim Reporting - The attached summary consolidated financial information does not include all disclosures required to be included in a complete set of financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Such disclosures were included with the financial statements of the Company at February 29, 2008, and included in its report on Form 10-KSB. Such statements should be read in conjunction with the data herein.

The financial information reflects all adjustments, 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.

Intangible Assets - Include cost of patent applications that are deferred and charged to operations over seventeen years for domestic patents and twelve years for foreign patents. The accumulated amortization is $62,781 and $58,949 at November 30, 2008 and February 29, 2008, respectively. Annual amortization expense of such intangible assets is expected to be $4,600 per year for the next five years.

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

NOTE 2: INVENTORIES

Inventories at November 30, 2008 are comprised of:

Finished goods	$ 789,990
Work in process	651,692
Consignment	9,770
Raw materials and subassemblies	579,626
Total	2,031,078
Less: Allowance	(306,198)
Net inventories	$ 1,724,880

NOTE 3: STOCK OPTIONS AND WARRANTS

Stock Options - Under the 2003 Stock Incentive Plan, as amended ("2003 Plan"), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. The 2003 Plan supplemented and replaced the 1993 Stock Incentive Plan (the "1993 Plan"), under which no further options may be granted. Options granted under the 1993 Plan expire on various dates through 2013. As of November 30, 2008, there were 62,500 options outstanding under the 1993 Plan and 1,105,565 options outstanding under the 2003 plan.

Under both the 1993 and 2003 Stock Incentive Plans, option prices must be at least 100% of the fair market value of the common stock at time of grant. For qualified employees, except under certain circumstances specified in the plans or unless otherwise specified at the discretion of the Board of Directors, no option may be exercised prior to one year after date of grant, with the balance becoming exercisable in cumulative installments over a three year period during the term of the option, and terminating at a stipulated period of time after an employee's termination of employment.

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	1.8% - 3.13%	4.35% - 5.07%
Expected volatility	55% - 70%	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 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 nine months ended November 30, 2008 and 2007, net income (loss) and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying SFAS 123R approximated $96,956 and $28,067 in additional compensation expense during the nine months ended November 30, 2008 and 2007, 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: EARNINGS PER SHARE

The denominator for the calculation of diluted earnings per share at November 30, 2008 and 2007 are calculated as follows:

	November 30, 2008	November 30, 2007
Denominator for basic earnings per share	14,372,056	14,360,541
Dilutive effect of stock options	--	51,982
Denominator for diluted earnings per share	14,372,056	14,412,523

The effect of stock options for the nine months ended November 30, 2008 is not used in the calculation of diluted earnings per share. Due to the net loss for the nine months ended November 30, 2008, the inclusion of stock options in the calculation would have an anti-dilutive effect.

NOTE 6: REVOLVING LINE OF CREDIT

The Company has a $500,000 revolving line of credit at prime which was 4% at November 30, 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. 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 November 30, 2008, the Company's outstanding balance was $250,000, and the unused credit line was $250,000.

NOTE 7: OTHER INCOME

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

The Company has recovered approximately 75% of these funds to date. The Company has a note that is being paid down 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 attempts to collect the balance of the remaining restitution.

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, 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 other 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, designed for production use.

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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, food and solar and fuel cell industries. In particular, during the last two quarters we installed numerous systems in the fuel cell, solar energy and baked goods industries. We plan to increase our marketing and sales efforts into these industries, providing our clients with superior technical solutions and cost savings unmatched by any other existing technology. 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 materials and biodegradable materials. This places us in an advantageous and preferable position among clients whose businesses are focused on providing superior environmental "green" products. We believe there is an excellent fit between the thin, precise films required in nano-technology coating applications and our ultrasonic nozzle systems.

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.

The Company has pursued a business development program for the past four quarters, designed to take it further into new markets as described above. The result has been an increase in sales during the past year that has run counter to the economy and general business trends, caused by the current recession. We have spent from our cash reserves to finance this program, and have incurred expected losses, since development expenditures must precede new business. Our ongoing goal is to improve our sales levels in combination with a decline in the costs associated with the program.

Liquidity and Capital Resources

Working Capital - Our working capital decreased $1,042,000 from a working capital of $4,060,000 at February 29, 2008 to $3,018,000 at November 30, 2008. The Company's current ratio is 4.2 to 1 at November 30, 2008 as compared to 5.5 to 1 at February 29, 2008.

Stockholders' Equity - Stockholder's Equity decreased $1,165,000 from $4,898,000 at February 29, 2008 to $3,733,000 at November 30, 2008. The decrease is a result of the net loss of $1,284,000, an adjustment for stock based compensation expense of $97,000 and the exercise of stock options of $22,000.

Operating Activities - We used $961,000 of cash in our operating activities for the nine months ended November 30, 2008. The use of cash resulted from the current period net loss of $1,284,000, an increase in accounts receivable of $324,000, an increase in inventories of $122,000 and a decrease of $20,000 in prepaid assets. In addition to the above, our accounts payable and accrued expenses decreased $188,000 and we wrote down our deferred tax asset by $612,000 during the current period

Investing Activities - We used $364,000 for the purchase of capital equipment and $27,000 for patent application costs during the nine months ended November 30, 2008. For the nine months ended November 30, 2007, we used $141,000 for the purchase of capital equipment.

Financing Activities - For the nine months ended November 30, 2008, the net cash provided by financing activities was $269,000. We drew down $250,000 of our line of credit and a note payable for $18,000 for the purchase of equipment. In addition, we made payments of $20,000 on our notes payable and received $22,000 from the proceeds of stock option exercises.

Results of Operations

During the nine month period ended November 30, 2008, our sales increased $600,000 or 14% to $4,808,000 as compared to $4,208,000 for the nine months ended November 30, 2007. For the three months ended November 30, 2008, our sales increased $21,000 to $1,582,000 as compared to $1,561,000 for the three months ended November 30, 2007. Our sales for the nine month period ended November 30, 2008 were improved over the same period last year due to additional sales of fluxer units, stentcoaters, and our programmable XYZ precision coating units.

Our gross profit increased $218,000 to $2,169,000 for the nine months ended November 30, 2008 from $1,951,000 for the nine months ended November 30, 2007. The gross profit margin was 45% of sales for the nine months ended November 30, 2008 and 46% for the nine months ended November 30, 2007. Our gross profit decreased $69,000 to $622,000 for the three months ended November 30, 2008 as compared to $691,000 for the three months ended November 30, 2007. During the current quarter, we increased our inventory reserve on our electronics product lines by $75,000 due to the slowdown in this market. The increase in this reserve had a negative impact on our gross profit margin and reduced it to 39% of sales for the three months ended November 30, 2008 as compared to 44% for the three months ended November 30, 2007.

Research and product development costs increased $71,000 to $626,000 for the nine months ended November 30, 2008 from $555,000 for the nine months ended November 30, 2007 and $21,000 to $206,000 for the three months ended November 30, 2008 from $185,000 for the three months ended November 30, 2007. The increases were principally due to an increase in engineering personnel in the current periods. The increases are aimed at the development of new products which are expected to benefit future periods.

Marketing and selling costs increased $616,000 to $1,372,000 for the nine months ended November 30, 2008 from $756,000 for the nine months ended November 30, 2007 and $266,000 to $528,000 for the three months ended November 30, 2008 from $262,000 for the three months ended November 30, 2007. During the current quarter, our international commission expense increased due to an increase in our international sales. In addition, our trade show expense increased due to our increased trade show presence.

The increase in these expenditures is due to the reorganization of our sales force into two separate Strategic Business Units. We have added additional sales personnel, increased the number of trade shows we participate in and have engaged an outside marketing firm to help increase the awareness of our products. These increases are part of the business development program which was initiated last year.

General and administrative costs increased $171,000 to $860,000 for the nine months ended November 30, 2008 from $689,000 for the nine months ended November 30, 2007 and $12,000 to $254,000 for the three months ended November 30, 2008 from $242,000 for the three months ended November 30, 2007. The increases were principally due to an increase in salary expense and an increase in stock based compensation expense.

Income tax expense increased $645,000 to $612,000 for the nine months ended November 30, 2008 as compared to a tax benefit of $34,000 for the nine months ended November 30, 2007. During the quarter ended November 30, 2008, we increased the valuation reserve of our deferred tax asset resulting in the recognition of current period tax expense of $612,000. The increase in the valuation reserve is a non cash expense item. The increase in the valuation reserve is based on our estimate of our ability to utilize the current net operating loss carryforwards. In the future, we may adjust the valuation reserve based upon our return to profitable operations.

We incurred a net loss of $1,284,000 for the nine months ended November 30, 2008 as compared to net income of $56,000 for the nine months ended November 30, 2007. During the three months ended November 30, 2008, we incurred a net loss of $976,000 as compared to net income of $24,000 for the three months ended November 30, 2007. For the three months ended November 30, 2008 we incurred an operating loss of $366,000 as compared to operating income of $4,000 for the three months ended November 30, 2007. Our operating income during the current quarter was negatively impacted by our decision to increase the inventory reserve for slow moving electronics parts, an increase in international commission expense and an increase in trade show expense. In addition to these operating expenses, we increased the valuation reserve of our deferred tax asset which resulted in the recognition of a current period tax expense of $612,000.

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-KSB for the year ended February 29, 2008.

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Accounting for Income Taxes

As part of the process of preparing the Company's consolidated financial statements, the Company is required to estimate its income taxes. Management judgment is required in determining the provision for the deferred tax asset. The Company increased the valuation reserve for the deferred tax asset due to the operating loss for the current period which reduces the possibility for the utilization of the net operating loss carryforwards. 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 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. 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

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 any impact on 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. Although the Company's assets included $1,257,000 in cash, the market rate risk associated with changing interest rates in the United States is not material

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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 officer) and Stephen J. Bagley, Chief Financial Officer (principal accounting officer) of the Company, have evaluated the Company's disclosure controls and procedures as of November 30, 2008. 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 third fiscal quarter of 2009 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

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

Item 3. Defaults Upon Senior Securities
None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports

(a) Exhibits

31.1 - 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.

SIGNATURES

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

Dated: January 14, 2009

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