SONO TEK CORP
Form 10-K
May 25, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended: **February 29, 2016**

Commission File Number: **0-16035**

(Name of registrant as specified in its charter)

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

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

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

Securities Registered Pursuant to Section 12(g) of the Act: **Common Stock, $.01 par value**
(Title of Class)

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

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

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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-K or any amendment to this Form 10-K.

Indicate by checkmark 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. (Check One):

Large Accelerated Filer | | Accelerated Filer | | Non-accelerated Filer | | 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

As of August 31, 2015, the last business day of the Registrant’s most recently completed second fiscal quarter, the aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $10,786,111 computed by reference to the average of the bid and asked prices of the Common Stock on said date, which average was $1.16.

The Registrant had 14,955,400 shares of Common Stock outstanding as of May 19, 2016.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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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 and systems. 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 principal advantage of these nozzle systems is that they use much less liquid than competitive nozzle systems to attain the required coatings on solar cells, fuel cells, glass, advanced textiles, food and food packaging, circuit boards, medical devices and many other coating applications. This advantage translates into precise thin films and lower costs for materials, less costly liquid consumption, less energy required for subsequent drying operations and less release into the environment of spray that would typically bounce back and scatter while using competitive nozzle systems. These factors are increasingly important to customers at a time of rising commodity and energy costs and supply limitations.

We use our core technology – ultrasonic spray coating – to provide both standard and customized coating solutions to a wide range of manufacturing companies, enabling them to reduce their product costs and to develop new products with superior features and quality. Presently, our customers are in six major industries: electronics, advanced energy (solar and fuel cells), medical device, glass, textiles and foods. Our systems are widely used by leading high tech companies and research institutions, as well as by governmental, defense, energy and health agencies around the world.

Our diversified group of customers provides the base for both financial stability and business growth opportunities.

Markets

Our diverse offerings have positioned us to provide a unique and superior family of customized products to the six major industries that we serve. All of these systems are based on our core technology of ultrasonic spray coating. Many of these systems have been commercially proven in 24/7 working schedules, under harsh and challenging manufacturing environments, where they provide value in a continuous and reliable fashion.

1. Electronics Industry.

We serve this industry primarily in two sectors; Printed Circuit Board (PCB) manufacturing and Semiconductor manufacturing.

We provide manufacturers of PCBs with state-of-the-art solder fluxers. Spray fluxers are used in the manufacturing process of PCBs to apply flux, which removes oxidation and prepares the PCB for the process of soldering components onto it.

Our ultrasonic spray fluxers reduce the amount of fluxing chemical needed, enhance the quality of the boards, and provide our customers with a better product at reduced costs of operations, when compared with conventional foam fluxers and pressure assisted fluxers.

We are recognized as a standard setter in the industry and our systems are incorporated by various original equipment manufacturers (OEM) in their manufacturing lines for the production of electronic printed circuit boards. Some examples of products that we market to the electronics industry include: SonoFlux 2000F, SelectaFlux, SonoFlux EZ and SonoFlux Servo.

Pursuant to an exclusive distribution agreement with EVS International Ltd (“EVS”) for the territories of the United States and Canada, we offer the EVS solder recovery system to our PCB customer base.

We also have a significant established customer base in the semiconductor industry. The semi-conductor industry utilizes our ultrasonic atomizing nozzles and robotic XYZ coating platforms for the application and deposition of photo-resist onto semiconductor wafers. Certain of our semi-conductor manufacturing industry customers engaged in the production of micro-electro-mechanical systems, “MEMS”, have proven the ability of our technology to apply micron thick coatings to these complex wafers.

2. Advanced Energy Industry.

Manufacturers of solar cells and fuel cells share two major technical and business challenges: enhancing the energy efficiency of their products and manufacturing their products in a cost effective way. Extremely uniform, thin layer coatings are at the heart of the solution for these advanced energy systems’ challenges.

Our precision coating systems provide superior surface uniformity and density, which are directly related to enhanced energy efficiency, compared to conventional systems. Our systems also afford our energy industry clients with the capabilities of saving up to 80% of the expensive catalysts and nano-materials used in these manufacturing processes. Some examples of our products marketed to the advanced energy industry include: ExactaCoat FC & SC, Sonic Syringe, VersiCoat, and FlexiCoat FC & SC, and SonoFlow Fusion.

3. Medical Device Industry.

Our ultrasonic coating technology is used by medical device manufacturers worldwide. The leading applications for this industry are coating of arterial stents and balloon catheters with precise and uniform micron layers of polymers and drugs; coating of various implantable devices with biomedical materials and coating of blood collection tubes with anti-coagulants. These applications are typically performed under strict regulatory supervision of governmental agencies in different countries, and the continuing demand for our systems from these customers is indicative of the high quality performance that our systems provide these customers. Some examples of our products marketed to the medical device industry include: MediCoat I; Medicoat II; Medicoat PSI; MedXT; MediCoat BCC and ExactaCoat MD.

4. Glass Industry.

The manufacture of float glass occurs under extremely harsh conditions of elevated temperatures. Our ultrasonic coating technology provides this manufacturing process with the means to precisely and uniformly apply anti-stain, and other specialty chemical agents, on the hot glass. Our customers benefit from an improved quality product, enhanced productivity and significantly reduced expenditures on annual maintenance, often resulting in a return on investment of less than one year. Based on this equipment's recent successful performance, our systems are now specified by many global glass manufacturers as their equipment of choice.

The equipment we offer to the glass industry is the WideTrack – wide area modular coating system.

5. Advanced Textiles Industry.

The textiles industry is expanding the introduction of high performance value adding coatings onto fabrics, such as anti-microbial, anti-stain, flame retardant and moisture barriers. The current manufacturing process for applying these expensive coatings creates significant waste of material, energy and water. We are working with this industry to incorporate our ultrasonic technology, often in combination with unique pre and post treatments of the coating materials, to reduce the effective material and energy usage by as much as 90%.

6. Food Safety and Food Coatings Industry.

The food industry is evolving in response to greater demands for reduction of food borne illnesses. We have successfully introduced an anti-microbial coating system for sliced packaged meats, and we are focusing efforts on those global food companies that will need this technology to meet the new demands. We have also introduced our systems to other segments of the food industry for the coating of flavors, ingredients and other additives of interest. Most of our food industry equipment is designed on the WideTrack platform.

Products

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 primary customers for the SonoFlux 2000F are original equipment manufacturers that produce their own electronic circuit boards.

2. SonoFlux EZ- spray fluxer product - applies solder flux to electronic printed circuit boards that vary from two inches to up to 18 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. This is an economically priced system which sells effectively to smaller manufacturers.

3. SonoFlux Servo – a higher end spray fluxer capable of providing flux to both wide areas of a circuit board as well as selective fluxing. We also sell a selective fluxing apparatus known as Selectaflux.

4. MediCoat and MediCoat II for stent coating – table-top and stand alone, 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 and coatings are required. These products minimize waste of expensive drug polymer coatings and provide high uniformity of drug addition from stent to stent. MediCoat II is similar to the MediCoat, but it has higher throughput capabilities more suited for a production environment. We also have additional medical coating platforms to address developing market segments for drug coated balloons, catheters and other implantable devices.

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5. WideTrack – Wide area modular coating system – designed to be used in applications that require efficient web-coating or wide area spraying capability. One module can cover substrates from six 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 13 feet wide. A large number of systems have been sold over the past six 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. 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 fewer chemicals and less 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.

6. Exactacoat/Flexicoat – We offer a line of robotic XYZ coating equipment for applications involving coatings for fuel cell membranes, solar energy panels and specialty lens products. This equipment is offered in bench-top configurations as our ExactaCoat product and standalone as our FlexiCoat product. These platforms position and move our nozzle systems in a precise three dimensional application pattern. These coaters are extremely efficient especially when combined with our patented ultrasonic syringe pump, and patented sonic syringe to agitate and suspend nano-particles, which are often used in many of our applications.

Other Product Offerings – EVS Solder Recovery System

We have an exclusive distribution relationship with EVS to distribute EVS's line of solder recovery systems and spare parts in the United States and Canada. EVS manufactures the EVS 10K and EVS 8K 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 our existing customer base for spray fluxer sales in the printed circuit board industry.

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 also purchase certain systems and subsystems to supplement our in-house manufacturing. These items are integrated with our ultrasonic system technology to meet specific applications.

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 own an industrial park in Milton, New York. The park has 50,000 square feet of leasable area and we use more than half the space for manufacturing.

We have a business and quality control system that meets the qualifications of ISO 9001. We were ISO registered in September 1998 and we have been recertified annually since then.

Research and Development

We believe that our long-term growth and stability are 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 $1,268,000 and $1,016,000 for Fiscal Years 2016 and 2015**,** respectively, on new engineering and product development.

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.

In recent years we have made significant progress on building our intellectual property portfolio. We have a patent covering a new design for our entire line of nozzle systems. During the fiscal year ended February 29, 2016, we were granted three new patents relating to:

- Sono-Tek's flagship ECHO Multiband Ultrasonic Generator.
- A continuation in part for the unique Sonic Syringe.
- An ultrasonic spray process for applying coatings directly onto food products.

Marketing and Distribution

Our products are marketed and distributed through independent distributors, 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, we have retained an external marketing firm to expand awareness of our products in our targeted industries, and to make use of the Internet with our web page and other techniques.

Competition

We operate in competitive markets in many of our industry segments. We compete against global and regional manufacturers of nozzles and other products 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 several emerging markets, we encounter less competition based on the uniqueness of our ultrasonic technology in these applications.

Significant Customers

We have significant geographic and market diversification. Our largest customer accounted for approximately 7% of our sales for the Fiscal Year ended February 29, 2016.

Foreign and Export Sales

During Fiscal Years 2016 and 2015, sales to foreign customers accounted for approximately $6,577,000 and $5,018,000, or 56% and 47% respectively, of total revenues.

Employees

As of February 29, 2016, we employed 58 full-time employees and one part-time employee. We believe that relations with our employees are generally good.

Available Information

We have filed reports, proxy statements and other information with the Securities and Exchange Commission. Copies of our reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the SEC, at SEC, Public Reference Section, 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the SEC's public reference facilities by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding us. The address of the SEC website is http://www.sec.gov. We will also provide copies of our Forms 8-K, 10-K, 10-Q, Proxy and Annual Report at no charge available through our website at http://www.sono-tek.com as soon as reasonably practicable after filing electronically such material with the SEC. Copies are also available, without charge, from Sono-Tek Corporation, 2012 Route 9W, Milton, NY 12547.

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

ITEM 1B UNRESOLVED STAFF COMMENTS - None.

ITEM 2 DESCRIPTION OF PROPERTIES

We own an industrial park located in Milton, New York. The industrial park consists of approximately 50,000 square feet of office and warehouse space. Approximately 21,000 square feet of the park is leased or available for lease at any given time. The property is subject to a ten year mortgage, of which eight years remain.

Our offices, product development, manufacturing and assembly facilities are located in the industrial park. We presently utilize a 13,000 square foot building and 16,000 square feet of additional office and storage 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, (iv) an area for assembling and testing final products and systems and (v) a receiving and shipping area. We believe our facilities will be adequate for the foreseeable future.

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 MINE SAFETY DISCLOSURES – Not Applicable

PART II

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

Our common stock currently trades on the OTCQX U.S. Premier tier of the OTC Markets under the ticker symbol "SOTK". The following table sets forth the range of high and low closing bid quotations for our Common Stock for the periods indicated.

	Years Ended February 29, 2016		February 28, 2015	
	HIGH	LOW	HIGH	LOW
First Quarter	$1.16	$1.01	$1.20	$1.04
Second Quarter	1.25	1.03	1.29	1.06
Third Quarter	1.19	1.08	1.30	1.05
Fourth Quarter	1.15	1.02	1.24	1.05

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

As of February 29, 2016, there were 165 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.

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

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

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

Forward-Looking Statements

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

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

Overview

We have developed a unique and proprietary series of ultrasonic atomizing nozzles and systems, which are being used in an increasing variety of electronics, advanced energy (solar and fuel cells), medical device, glass, textiles and food 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.

Market Diversity

During the past five years we have invested significant time, monies and efforts to enhance our market diversity. Based on our core ultrasonic coating technology, we increased our portfolio of products, the industries we serve and the countries in which we sell our products.

Today we serve six major industries: electronics, advanced energy (solar and fuel cells), medical device, glass, textiles and food.

In recent years, a substantial portion of our sales originated outside the United States, and we are geographically present directly and through distributors and trade representatives in North and Latin America, Europe and Asia. The infrastructure upon which this diversified market approach is based, includes a newly equipped process development laboratory, a strengthened sales organization with application engineers, an engineering team with additional talent and the latest, most sophisticated design software tools, as well as an expanded, highly trained installation and service organization.

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

Liquidity and Capital Resources

Working Capital - Our working capital increased $343,000 from a working capital of $5,512,000 at February 28, 2015 to $5,855,000 at February 29, 2016. The increase in working capital is due to: net income of $548,000, offset by cash expenditures of $17,000 for patent and other asset costs, $465,000 for the purchase of equipment and furnishings and $158,000 for the repayment of notes payable. In addition, we incurred non-cash expenses for depreciation and amortization expense of $477,000, stock based compensation expense of $43,000 and a decrease in our current deferred tax asset of $86,000. The Company’s current ratio was 4.5 to 1 at February 29, 2016 as compared to 3.6 to 1 at February 28, 2015.

At February 29, 2016, our working capital includes $2,388,000 of cash and $1,696,000 of marketable securities as compared to $2,563,000 of cash and $1,652,000 of marketable securities at February 28, 2015.

Stockholders’ Equity - Stockholders' equity increased $524,000 from $7,144,000 at February 28, 2015 to $7,668,000 at February 29, 2016. The increase in stockholders’ equity is the result of the current year’s net income of $548,000, stock based compensation of $43,000 and stock option proceeds of $3,000 offset by the current year’s comprehensive loss valuation of $70,000.

Operating Activities – Our operating activities provided $629,000 of cash for the year ended February 29, 2016 as compared to providing $924,000 for the year ended February 28, 2015. For the year ended February 29, 2016, we had net income of $548,000, accounts receivable increased $188,000, inventories decreased $234,000, prepaid expenses and other assets increased $15,000, accounts payable and accrued expenses decreased $56,000, customer deposits decreased $261,000 and income taxes payable decreased $142,000. In addition, we incurred non-cash expenses of $477,000 for depreciation and amortization, $43,000 for stock based compensation expense, $3,000 for our accounts receivable reserve, an increase of $107,000 in our deferred tax expense and a decrease in our inventory reserve of $120,000.

Investing Activities - For the year ended February 29, 2016, we used $648,000 of cash in our investing activities as compared to using $1,401,000 for the year ended February 28, 2015. In 2016 and 2015, we used $465,000 and $357,000, respectively, for the purchase or manufacture of equipment, furnishings and leasehold improvements. In 2016 and 2015, we used $17,000 and $22,000, respectively, for patent application and other asset costs. In 2016 and 2015, we used $165,000 and $1,022,000, respectively, for the purchase of marketable securities .

Financing Activities – For the year ended February 29, 2016, we used $155,000 of cash in our financing activities as compared to using $193,000 for the year ended February 28, 2015. In 2016 and 2015, we used $158,000 and $193,000, respectively, for the repayments of notes payable. In 2016 we received $3,000 for the exercise of stock options.

Net Decrease in Cash – For the year ended February 29, 2016, our cash balance decreased by $174,000 as compared to a decrease of $669,000 for the year ended February 28, 2015. During the year ended February 29, 2016, our operations provided $629,000 of cash, we used $648,000 in our investing activities and used $155,000 in our financing activities.

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Bank Credit Facilities:

We currently have a revolving credit line of $750,000 and a $250,000 equipment purchase facility, both of which are with a bank. The revolving credit line is collateralized by all of the assets of the Company, except for the land and buildings. The line of credit is payable on demand and must be retired for a 30 day period once annually. As of February 29, 2016, there were no outstanding borrowings under the line of credit.

We had outstanding borrowings under a note payable of $1,320,000 at February 29, 2016. The note is payable over eight years and accrues interest at 4.15%. The note payable is secured by a mortgage on our land and buildings.

Results of Operations

Ultrasonic Spraying – Sales and Gross Profit:

Sales:

	Twelve Months Ended			
	February 29, 2016	**February 28, 2015**	**Increase (Decrease) $**	**%**
Net Sales	$11,739,000	$10,758,000	$981,000	9%
Cost of Goods Sold	6,196,000	5,634,000	562,000	10%
Gross Profit	$5,543,000	$5,124,000	$419,000	8%
Gross Profit %	47%	48%		

For the year ended February 29, 2016, our sales increased by $981,000 to $11,739,000 as compared to $10,758,000 for the year ended February 28, 2015, an increase of 9%. During the year ended February 29, 2016, we experienced an increase in sales of our widetrack units, fluxers and related spares, servo units and spray dryer units. We did, however, see a decrease in sales of our stent coating units, XYZ units and nozzles and generators.

Gross Profit:

Our gross profit increased $419,000, to $5,543,000 for the year ended February 29, 2016 from $5,124,000 for the year ended February 28, 2015. Our gross profit margin percentage was 47% for the year ended February 29, 2016 compared to 48% for the year ended February 28, 2015. The decrease in the current year's gross profit margin is due to decreases in sales of our higher gross margin stent coaters, XYZ units and nozzles and generators.

Export Sales:

	Twelve Months Ended			
	February 29, 2016	**February 28, 2015**	**Change $**	**%**
Western Europe	$2,789,000	$2,069,000	$720,000	35%
Far East	2,981,000	2,147,000	834,000	39%
Other	807,000	802,000	5,000	—
Total Export Sales	$6,577,000	$5,018,000	$1,559,000	31%
Percentage of Total Sales	56%	47%		

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For the year ended February 29, 2016, sales to customers located in European countries increased by $720,000 or 35%, sales to customers located in Asian countries increased by $834,000 or 39% and sales to other non-based US customers were steady.

Operating Expenses:

	Twelve Months Ended			
	February 29,	February 28,	Change	
	2016	2015	$	%
Research and product development	$1,268,000	$1,016,000	$252,000	25%
Marketing and selling	$2,371,000	$2,153,000	$218,000	10%
General and administrative	$1,100,000	$1,033,000	$67,000	6%

Research and Product Development:

Research and product development costs increased $252,000 to $1,268,000 for the year ended February 29, 2016 as compared to $1,016,000 for the year ended February 28, 2015. For the year ended February 29, 2016 we experienced increases in engineering salaries, engineering materials and depreciation.

During the year ended February 29, 2016, we expended approximately $787,000 for engineering personnel as compared to $589,000 for the year ended February 28, 2015. The increase in salaries is a result of the start of our New Product Development team, which has recently completed two new products; the VersiCoat and SonoBraze. During the year ended February 29, 2016, we expended approximately $187,000 for additional research, materials and product development as compared to $172,000 for the year ended February 28, 2015. During the year ended February 29, 2016 we incurred approximately $133,000 for depreciation expense as compared to $120,000 for the year ended February 28, 2015.

Marketing and Selling:

Marketing and selling costs increased $218,000 to $2,371,000 for the year ended February 29, 2016 as compared to $2,153,000 for the year ended February 28, 2015. For the year ended February 29, 2016, we experienced increases in commission expense, advertising and trade show expenses and sales salaries. In addition we experienced a decrease in travel and entertainment expense.

During the year ended February 29, 2016, we expended approximately $590,000 for commissions as compared to $502,000 for the year ended February 28, 2015, an increase of $88,000.

During the year ended February 29, 2016, we expended approximately $228,000 for advertising and trade show expense compared to $169,000 for the year ended February 28, 2015, an increase of $59,000.

During the year ended February 29, 2016, salary expense was $1,119,000 as compared to $1,061,000 for the year ended February 28, 2015, an increase of $58,000.

During the year ended February 29, 2016, we expended approximately $113,000 for travel and entertainment as compared to $157,000 for the year ended February 28, 2015, a decrease of $44,000.

General and Administrative:

General and administrative costs increased $67,000 to $1,100,000 for the year ended February 29, 2016 as compared to $1,033,000, for the year ended February 28, 2015. For the year ended February 28, 2016, we experienced increases in insurance expense, depreciation expense, and corporate and other miscellaneous expenses. These increases were offset by a decrease in bad debt expense.

Operating Income – Ultrasonic Spraying:

Our operating income for the year ended February 29, 2016 was $804,000 as compared to $922,000 for the year ended February 28, 2015, a decrease of $118,000 or 13%. During the current year, our gross profit increased by $419,000 when compared to the prior year. The increase in gross profit was offset by an increase in Research and Development costs, Marketing and Selling expenses and General and Administrative expenses, which collectively increased by $537,000 when compared to the prior year.

Rental Real Estate Operations:

For the year ended February 29, 2016, our real estate operations generated $95,000 in rental income from unrelated third parties as compared to $92,000 for the year ended February 28, 2015. Our real estate operations incurred $108,000 in operating expenses compared to $114,000 for the prior year period, real estate taxes of $51,000 compared to $49,000 for the prior year period and $58,000 in interest expense compared to $63,000 for the prior year period. For the year ended February 29, 2016, our real estate operations reported a net loss of $122,000 compared to a net loss of $134,000 for the prior year period. The reported losses exclude any inter-company rent.

A summary of our real estate operations is as follows:

	Twelve Months Ended			
	February 29, 2016	**February 28, 2015**	**Change $**	**%**
Statements of Operations				
Rental Income	$95,000	$ 92,000	$ 3,000	3%
Real Estate Taxes	51,000	49,000	2,000	4%
Interest Expense	58,000	63,000	(5,000)	(8)%
Operating Expenses	108,000	114,000	(6,000)	(5)%
Net Loss From Real Estate Operations	$(122,000)	$ (134,000)	$ (12,000)	(9)%
Per Square Foot Cost Based on 50,000 sq. feet	$2.44	$ 2.68	($0.24)	(9)%

February 29, February 28,

	2016	2015
Statements of Cash Flows		
Net Loss	$ (122,000)	$ (134,000)
Adjustment to reconcile net loss		
to net cash used in real estate operations:		
Depreciation	73,000	69,000
Capital Improvements	—	(72,000)
Repayment of long term debt	(138,000)	(132,000)
Net Cash (Used) in Real Estate Operations	$ (187,000)	$ (269,000)
Cash Used Per Square Foot Based on 50,000 sq. feet	$ 3.74	$ 5.38

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For the years ended February 29, 2016 and February 28, 2015, net cash outflows related to the industrial park were $187,000 and $269,000, respectively. These cash outflows are net of rental income and depreciation expense and include the principal payments on the industrial park's mortgage and the costs of capital improvements. Prior to purchasing the industrial park in December 2010, our annual rental expense was approximately $136,000 or $7.14 per square foot. If we are able to lease additional vacant space, it will provide positive cash flow for the industrial park when compared to our prior rental payments of $136,000.

Our rental income was approximately $6.00 per square foot, based on 15,600 square feet leased to third parties for the years ended February 29, 2016 and February 28, 2015.

Interest Income, Interest Expense and Income Taxes:

Interest income increased to $55,000 for the year ended February 29, 2016 as compared to $33,000 for the year ended February 28, 2015. Our present investment policy is to invest excess cash in highly liquid mutual funds. Our holdings are rated at or above investment grade.

Interest expense decreased to $58,000 for the year ended February 29, 2016 as compared to $65,000 for the year ended February 28, 2015.

We recorded income tax expense of $195,000 for the year ended February 29, 2016 as compared to $219,000 for the year ended February 28, 2015. The details of the current year's tax expense is explained in Note 12 in our financial statements.

Net Income:

For the year ended February 29, 2016, we had net income of $548,000 as compared to $606,000 for the year ended February 28, 2015. The decrease in our net income is due to an increase in operating expenses which was offset by an increase in gross profit.

For the years ended February 29, 2016 and February 28, 2015, we do not believe that our sales revenue or net income has been adversely affected by the impact of inflation or changing prices.

Other Comprehensive Loss

Net unrealized loss on marketable securities:

As of February 29, 2016, certain of our marketable securities were in an unrealized loss position. Unrealized losses are principally due to changes in fair value of the investments held as available-for-sale. Because we have the ability and intent to hold the securities until maturity, or for the foreseeable future as classified as available-for-sale, we do not deem the decline to be other-than-temporary.

As of February 29, 2016, our unrealized loss on available-for-sale securities was $70,140.

Off - Balance Sheet Arrangements

We do not have any Off - Balance Sheet Arrangements as of February 29, 2016.

Critical Accounting Policies

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

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and may potentially result in materially different results under different assumptions and conditions. As of February 29, 2016, management believes there are no critical accounting policies applicable to the Company that are reflective of significant judgments and or uncertainties.

Stock-Based Compensation

The computation of the expense associated with stock-based compensation requires the use of a valuation model. ASC 718 is a complex accounting standard, the application of which requires significant judgment and the use of estimates, particularly surrounding Black-Scholes assumptions such as stock price volatility, expected option lives, and expected option forfeiture rates, to value equity-based compensation. We currently use a Black-Scholes option pricing model to calculate the fair value of stock options. We primarily use historical data to determine the assumptions to be used in the Black-Scholes model and have no reason to believe that future data is likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility and future stock award exercise experience could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards. ASC 718 requires the recognition of the fair value of stock compensation in net income. Although every effort is made to ensure the accuracy of our estimates and assumptions, significant unanticipated changes in those estimates, interpretations and assumptions may result in recording stock option expense that may materially impact our financial statements for each respective reporting period.

Impact of New Accounting Pronouncements

All accounting pronouncements issued but not yet effective have been deemed to be not applicable or the adoption of such accounting pronouncement is not expected to have a material impact on the financials.

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

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements are presented on pages 32 to 48 of this Report.

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

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chairman & CEO (principal executive officer) and Chief Financial Officer (principal accounting officer), we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, management has concluded that our internal control over financial reporting was effective as of February 29, 2016. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B OTHER INFORMATION - None.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

(a) Identification of Directors

Name	**Age**	**Position with the Company**
Christopher L. Coccio	75	Chief Executive Officer, Chairman and a Director
Edward J. Handler, Esq.	79	Director*
R. Stephen Harshbarger	48	President and Director
Eric Haskell, CPA	69	Director*
Donald F. Mowbray	78	Director
Joseph Riemer	67	Vice President and Director
Samuel Schwartz	96	Chairman Emeritus and Director
Philip A. Strasburg, CPA	77	Director*

* Member of the Audit Committee.

The Board of Directors is divided into two classes. The directors in each class serve for a term of two years. The terms of the classes are staggered so that only one class of directors is elected at each annual meeting of the Company. The terms of Dr. Mowbray and Messrs. Handler, Haskell and Schwartz run until the annual meeting to be held in 2016. The terms of Drs. Coccio and Riemer and Messrs. Strasburg and Harshbarger run until the annual meeting to be held in 2017, 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, Eric Haskell, CPA and Philip A. Strasburg, CPA, as Chairman. The "audit committee financial expert" designated by the Board is Philip A. Strasburg. The Company considers Mr. Strasburg to be an "independent director".

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

Nominating Committee

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

(b) Identification of Executive Officers

Name	Age	Position with the Company
Stephen J. Bagley, CPA	53	Chief Financial Officer
Christopher L. Coccio	75	Chief Executive Officer, Chairman and a Director
Robb W. Engle	45	Vice President
R. Stephen Harshbarger	48	President and Director
Joseph Riemer	67	Vice President and Director

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

Business Experience

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

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

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

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

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 of experience in all aspects of intellectual property, including patents, trade secrets, trademarks and copyrights, including litigation and other adversarial proceedings. Mr. Handler is Chairman and CEO of The Bronx Project, Inc., a private Delaware corporation active in the area of therapeutics for acute (CNS) 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.

Key attributes, Experience and Skills: Mr. Handler’s extensive experience as an attorney enables him to bring valuable strategic insights to the Board. Mr. Handler’s past experience as the Company’s intellectual property attorney provides him with an in depth knowledge of the Company and its related market applications. Mr. Handler also brings leadership and oversight experience to the Board.

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

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

ERIC HASKELL, CPA has been a Director since August 2009. He has over 30 years of experience in senior financial positions at several public and private companies. He has significant expertise in the areas of acquisitions and divestitures, strategic planning and investor relations. From December 2005 through March 2008, Mr. Haskell served as the Executive Vice President and Chief Financial Officer of SunCom Wireless Holdings, Inc., a company providing digital wireless communications services which was publicly traded until its merger with a wholly-owned subsidiary of T-Mobile USA, Inc. in February 2008. He also served as a member of SunCom's Board of Directors from November 2003 through May 2007. From 1989 until April 2004, Mr. Haskell served as the Chief Financial Officer of Systems & Computer Technology Corp., a NASDAQ listed software and services corporation. Mr. Haskell received his Bachelors Degree in Business Administration from Adelphi University in 1969.

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

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

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

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

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

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

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

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

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

(c) Identification of Certain Significant Employees

Not applicable.

(d) Family Relationships

None.

(e) Involvement in certain legal proceedings

None.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors, executive officers and persons who own more than ten percent of the Company's common stock to file with the Securities and Exchange Commission initial reports of beneficial ownership and reports of changes of beneficial ownership of common stock. Such persons are also required by Securities and Exchange Commission regulations to furnish the Company with copies of all such reports. Based solely on a review of such filings, during the year ended February 29, 2016, all of the Company's Directors and executive officers and holders of more than ten percent of the Company's stock have made timely filings of such reports.

Code of Ethics

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

ITEM 11 EXECUTIVE COMPENSATION

The following table sets forth the aggregate remuneration paid or accrued by the Company for the Fiscal Years ended February 29, 2016 and February 28, 2015 for each named officer of the Company.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards	Option Awards ($)	All Other Compensation ($)	Total ($)
Christopher L. Coccio	2016	150,000	30,000	0	—	3,576	183,576
CEO, Chairman and Director	2015	150,000	28,800	0	42,213	4,141	225,154
R. Stephen Harshbarger	2016	206,000	25,000	0	17,203	4,111	252,314
President and Director	2015	205,000	0	0	19,248	4,181	228,429
Stephen J. Bagley	2016	140,000	20,000	0	1,025	3,088	164,113
Chief Financial Officer	2015	140,000	14,400	0	8,217	2,918	165,535

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

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

Officer Compensation Arrangements

During the year ended February 29, 2016, Dr. Coccio was compensated at a rate of $150,000 per annum.

During the year ended February 29, 2016, Mr. Harshbarger was compensated at a rate of $200,000 per annum.

During the year ended February 29, 2016, Mr. Bagley was compensated at a rate of $140,000 per annum.

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
R. Stephen Harshbarger	28,800	7,200[1]	1.05	02/20/2024
	19,440	23,760[2]	1.19	02/19/2025

[1] 7,200 options will vest on 02/20/2017.

[2] 15,120 options will vest on February 20, 2017 and 8,640 options will vest on February 20, 2018.

Estimated Payments and Benefits Upon Termination or Change in Control

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

Based on last year's salary arrangements, if the rights of the foregoing officers were to be triggered following a change of control, they would be entitled to the following payments from the Company: Stephen J. Bagley $309,000, Christopher L. Coccio $358,000 and R. Stephen Harshbarger $410,000.

Compensation of Directors

Each non-employee director receives $1,000 for each meeting attended. Directors who are employees of the Company receive no additional compensation for serving as directors. For the year ended February 29, 2016, director compensation was as follows:

2016 Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Edward J. Handler	4,000	—	—	—	—	—	4,000
Eric Haskell	3,000	—	—	—	—	—	3,000
Donald F. Mowbray	4,000	—	—	—	—	—	4,000
Samuel Schwartz	4,000	—	—	—	—	—	4,000
Philip Strasburg	4,000	—	—	—	—	—	4,000

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

The following information is furnished as of May 19, 2016 to indicate beneficial ownership of the Company's Common Stock by each Director, by each named executive officer, by all Directors and executive officers as a group, and by each person known to the Company to be the beneficial owner of more than 5% of the Company's outstanding Common Stock. Such information has been furnished to the Company by the indicated owners. Unless otherwise indicated, the named person has sole voting and investment power.

Name (and address if more than 5%) of Beneficial owner	**Amount Beneficially Owned**	**Percent**
Directors and Officers		
*Stephen J. Bagley	18,181	**
*Christopher L. Coccio	645,338[1]	4.32%
*Edward J. Handler	127,508[2]	**
*R. Stephen Harshbarger	116,796[3]	**
*Eric Haskell	20,000[4]	**
*Donald F. Mowbray	65,000[5]	**
*Joseph Riemer	287,889	1.92%
*Samuel Schwartz	1,545,147[6]	10.31%
*Philip A. Strasburg	85,000[7]	**
All Executive Officers and Directors as a Group	2,957,835[8]	19.48%
Additional 5% owners		
Herbert Spiegel 425 East 58th Street New York, NY 10022	756,931	5.06%
Emancipation Management LLC 825 Third Avenue New York, NY 10022	2,227,324	14.89%

The above ownership percentages are based on 14,955,400 shares outstanding as of April 29, 2016.

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

*** Less than 1%*

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

[2] *Includes 61,579 shares owned jointly with Mr. Handler's wife, 35,929 shares in the name of Mr. Handler's wife and 30,000 options currently exercisable issued under the Company's Stock Incentive Plans.*

[3] *Includes 48,240 options currently exercisable issued under the Company's Stock Incentive Plans.*

[4] *Represents 20,000 options currently exercisable issued under the Company's Stock Incentive Plans.*

[5] *Includes 20,000 options currently exercisable issued under the Company's Stock Incentive Plans.*

[6] *Includes 30,000 options currently exercisable issued under the Company's Stock Incentive Plans*

[7]*Includes 10,000 shares in the name of Mr. Strasburg's wife and 40,000 options currently exercisable issued under the Company's Stock Incentive Plans.*

[8] *The group total includes 225,320 options currently exercisable issued under the Company's Stock Incentive Plans. The group total includes 9,896 shares and 37,080 exercisable options held by Robb Engle .*

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Securities Authorized for Issuance Under Equity Compensation Plans:

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
2013 Stock Incentive Plan	246,600	$ 1.13	2,253,400
2003 Stock Incentive Plan	217,500	$ 0.67	—
Total	464,100		2,253,400

Description of Equity Compensation Plans:

2013 Stock Incentive Plan

Under the 2013 Stock Incentive Plan, as amended ("2013 Plan"), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 2,500,000 shares of the Company's common stock. Under the 2013 Plan options expire ten years after the date of grant. As of February 29, 2016, there were 246,600 options outstanding under the 2013 plan.

Under the 2013 Stock Incentive Plan, option prices must be at least 100% of the fair market value of the common stock at time of grant. For qualified employees, except under certain circumstances specified in the plan or unless otherwise specified at the discretion of the Board of Directors, no option may be exercised prior to one year after date of grant, with the balance becoming exercisable in cumulative installments over a three year period during the term of the option, and terminating at a stipulated period of time after an employee's termination of employment.

2003 Stock Incentive Plan

Under the 2003 Stock Incentive Plan, as amended ("2003 Plan"), until May 2013, options were available to be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. As of February 29, 2016, there were 217,500 options outstanding under the 2003 Plan, under which no additional options may be granted.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Transactions With Related Persons – None

Independence of Directors

The Company's Board of Directors is comprised of five "independent directors", as that term is defined under NASDAQ rules, and three directors who are not "independent directors". The Company's "independent directors" are Samuel Schwartz, Donald Mowbray, Edward Handler, Eric Haskell and Philip Strasburg. Christopher Coccio, Joseph Riemer and R. Stephen Harshbarger are employees of the Company and are therefore not independent.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

Audit Fees

For the fiscal years ended February 29, 2016 and February 28, 2015, the Company paid or accrued fees of approximately $46,500 for services rendered by Liggett & Webb, P.A., its independent auditors. These fees included audit and review services.

Audit Related Fees - None

Tax Fees

For the fiscal years ended February 29, 2016 and February 28, 2015, the Company paid or accrued tax preparation fees of approximately $5,500 and $6,700, respectively, for services rendered by Liggett & Webb, P.A., its independent auditors.

All Other Fees – None

Pre-Approval Policies and Procedures

The Audit Committee's current policy is to pre-approve all audit and non-audit services that are to be performed and fees to be charged by the Company's independent auditor to assure that the provision of these services does not impair the independence of the auditor. The Audit Committee pre-approved all audit and non-audit services rendered by the Company's principal accountants in 2016 and 2015.

PART IV

ITEM 15 EXHIBITS

Ex. No.	Description
3(a)[1]	Certificate of Incorporation of the Company and all amendments thereto.
3(b)[2]	By-laws of the Company as amended.
10(a)[1]	Sono-Tek Corporation 2003 Stock Incentive Plan.
10(b)[3]	Equipment Line Credit Agreement between Sono-Tek Corporation and M&T Bank, dated March 24, 2005.
10(c)[3]	General Security Agreement between Sono-Tek Corporation and M&T Bank, dated December 21, 2004.
10(d)[4]	Executive Agreement between Sono-Tek Corporation and Stephen J. Bagley dated September 1, 2007.
10(e)[4]	Executive Agreement between Sono-Tek Corporation and Christopher L. Coccio dated September 1, 2007.
10(f)[4]	Executive Agreement between Sono-Tek Corporation and Joseph Riemer dated September 1, 2007.
10(g)[5]	Executive Agreement between Sono-Tek Corporation and R. Stephen Harshbarger dated March 5, 2008.
10(k)[6]	Amended Executive Agreement between Sono-Tek Corporation and R. Stephen Harshbarger dated March 8, 2012.
10(l)[6]	Equipment Term Note between Sono-Tek Corporation and M&T Bank dated June 17, 2011.
10(m)[7]	Sono-Tek Corporation 2013 Stock Incentive Plan.
10(n)[7]	Form of Amended and Restated Mortgage dated December 16, 2013, between Sono-Tek Industrial Park LLC and M&T Bank.
10 (o)[8]	Form of Amended and Restated Term Note dated December 16, 2013, between Sono-Tek Industrial Park LLC and M&T Bank.
10(p)[8]	Form of Assignment of Rents dated December 16, 2013, between Sono-Tek Industrial Park LLC and M&T Bank.
10(q)[8]	Form of Environmental Compliance and Indemnification Agreement dated December 16, 2013, between Sono-Tek Industrial Park LLC and M&T Bank.
10(r)[8]	Form of Modification and Extension Agreement dated December 16, 2013, between Sono-Tek Industrial Park LLC and M&T Bank.
10(s)[9]	Amended Executive Agreement between Sono-Tek Corporation and Christopher L. Coccio dated August 24, 2014.
10(t)[9]	Amended Executive Agreement between Sono-Tek Corporation and R. Stephen Harshbarger dated August 24, 2014.
10(u)[10]	Amended Executive Agreement between Sono-Tek Corporation and Stephen J. Bagley dated May 21, 2015.
14[11]	Code of Ethics.
21[10]	Subsidiaries of Issuer.
23.1[10]	Consent of Liggett & Webb, P.A.
31.1[10]	Rule 13a-14/15d – 14(a) Certification.
31.2[10]	Rule 13a-14/15d – 14(a) Certification.
32.1[10]	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2[10]	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS[9] XBRL Instance Document.
101.SCH[9] XBRL Taxonomy Extension Schema Document.
101.CAL[9] XBRL Taxonomy Calculation Linkbase Document.
101.DEF[9] XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB[9] XBRL Extension Label Linkbase Document.
101.PRE[9] XBRL Taxonomy Extension Presentation Linkbase Document.

1 Incorporated herein by reference to the Company’s Registration Statement No. 333-11913 on Form S-8 filed on February 18, 2004.

2 Incorporated herein by reference to the Company's Current Report on Form 8-K dated May 19, 2016 and filed with the Securities and Exchange Commission on May 24, 2016.

3 Incorporated herein by reference to the Company’s Form 10-KSB for the year ended February 28, 2005.

4 Incorporated herein by reference to the Company’s Form 10-QSB for the quarter ended August 31, 2007

5 Incorporated herein by reference to the Company’s Form 10-Q for the quarter ended May 31, 2008.

6 Incorporated herein by reference to the Company’s Form 10-K for the year ended February 29, 2012.

7 Incorporated herein by reference to Exhibit A to the Company’s definitive proxy statement filed with the Securities and Exchange Commission on July 25, 2013.

8 Incorporated herein by reference to the Company’s Form 10-K for the year ended February 29, 2014.

9 Incorporated herein by reference to the Company’s Form 10-K for the year ended February 29, 2015.

10 Filed herewith.

11 Incorporated herein by reference to the Company’s Form 10-KSB for the year ended February 29, 2004.

SONO-TEK CORPORATION

FORM 10-K

ITEM 7

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

FOR THE YEARS ENDED FEBRUARY 29, 2016 and FEBRUARY 28, 2015

CONSOLIDATED FINANCIAL STATEMENTS:

Consolidated Statements of Cash Flows

For the Years Ended February 29, 2016 and February 28, 2015

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Sono-Tek Corporation

We have audited the accompanying consolidated balance sheets of Sono-Tek Corporation as of February 29, 2016 and February 28, 2015 and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the years then ended. 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 the 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 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 the Company as of February 29, 2016 and February 28, 2015, and the results of its operations and cash flows for each of the years then ended, in conformity with generally accepted accounting principles in the United States.

/s/ Liggett & Webb, P.A.

LIGGETT & WEBB, P.A.

Certified Public Accountants

New York, New York

May 25, 2016

SONO-TEK CORPORATION

CONSOLIDATED BALANCE SHEETS

	February 29, 2016	February 28, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$2,388,355	$2,562,782
Marketable securities	1,695,689	1,652,485
Accounts receivable (less allowance of $46,000 and $43,047, respectively)	1,214,713	1,029,250
Inventories, net	1,945,383	2,059,177
Prepaid expenses and other current assets	109,954	94,487
Deferred tax asset	154,914	241,000
Total current assets	7,509,008	7,639,181
Land	250,000	250,000
Buildings, net	1,939,714	2,015,625
Equipment, furnishings and leasehold improvements, net	796,788	661,411
Intangible assets, net	174,027	175,412
TOTAL ASSETS	$10,669,537	$10,741,629
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$475,297	$584,963
Accrued expenses	746,036	691,937
Customer deposits	201,478	462,168
Current maturities of long term debt	143,388	158,184
Income taxes payable	87,660	229,927
Total current liabilities	1,653,859	2,127,179
Deferred tax liability	171,719	150,979
Long term debt, less current maturities	1,176,349	1,319,737
Total Liabilities	3,001,927	3,597,895
Commitments and Contingencies	—	—
Stockholders' Equity		
Common stock, $.01 par value; 25,000,000 shares authorized, 14,955,400 and 14,933,107 issued and outstanding, respectively	149,554	149,331
Additional paid-in capital	8,812,224	8,766,160
Accumulated deficit	(1,224,028)	(1,771,757)
Accumulated other comprehensive loss	(70,140)	—

Total stockholders’ equity	7,667,610	7,143,734
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$10,669,537	$10,741,629

See notes to consolidated financial statements.

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SONO-TEK CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Fiscal Year Ended February 29, 2016	February 28, 2015
Net Sales	$11,833,730	$10,849,475
Cost of Goods Sold	6,195,953	5,634,365
Gross Profit	5,637,777	5,215,110
Operating Expenses		
Research and product development	1,268,010	1,015,614
Marketing and selling	2,371,064	2,153,407
General and administrative	1,099,783	1,033,373
Real estate operations expense	158,629	162,522
Total Operating Expenses	4,897,486	4,364,916
Operating Income	740,291	850,194
Other Income (Expense):		
Interest Expense	(58,447)	(64,527)
Interest Income	54,757	32,641
Other Income	5,851	7,249
Income before Income Taxes	742,452	825,557
Income Tax Expense	194,723	219,424
Net Income	$547,729	$606,133
Other Comprehensive Loss		
Net unrealized loss on marketable securities	(70,140)	—
Comprehensive Income	$477,589	$606,133
Basic Earnings Per Share	$.04	$.04
Diluted Earnings Per Share	$.04	$.04
Weighted Average Shares – Basic	14,943,018	14,737,204
Weighted Average Shares – Diluted	15,029,601	14,846,808

See notes to consolidated financial statements.

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SONO-TEK CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

	Common Stock Par Value $.01		Additional Paid – In	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Loss	Deficit	Equity
Balance – February 28, 2014	14,708,518	$147,085	$8,725,883	—	$(2,377,890)	$6,495,078
Exercise of stock options	224,589	2,246	(2,246)			—
Stock based compensation expense			42,523			42,523
Net Income					606,133	606,133
Balance – February 28, 2015	14,933,107	$149,331	$8,766,160	—	$(1,771,757)	$7,143,734
Exercise of stock options	22,293	223	2,662			2,885
Stock based compensation expense			43,402			43,402
Unrealized loss on marketable securities				(70,140)		(70,140)
Net Income					547,729	547,729
Balance – February 29, 2016	14,955,400	$149,554	$8,812,224	$(70,140)	$(1,224,028)	$7,667,610

See notes to consolidated financial statements.

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SONO-TEK CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended	
	February 29, 2016	February 28, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$547,729	$606,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	476,528	407,795
Stock based compensation expense	43,402	42,523
Inventory reserve	(119,924)	99,535
Allowance for doubtful accounts	2,953	11,047
Deferred tax expense	106,826	—
(Increase) Decrease in:		
Accounts receivable	(188,416)	(180,001)
Inventories	233,718	(483,897)
Prepaid expenses and other assets	(15,467)	65,886
(Decrease) Increase in:		
Accounts payable and accrued expenses	(55,568)	155,585
Customer deposits	(260,690)	99,322
Income taxes payable	(142,267)	100,529
Net Cash Provided by Operating Activities	628,824	924,457
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furnishings and leasehold improvements	(465,427)	(357,050)
(Purchase) of marketable securities	(164,825)	(1,021,691)
Patent application and other asset costs	(17,700)	(22,352)
Net Cash (Used In) Investing Activities	(647,952)	(1,401,093)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of options	2,885	—
Repayment of long term debt	(158,184)	(192,603)
Net Cash (Used In) Financing Activities	(155,299)	(192,603)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(174,427)	(669,239)
CASH AND CASH EQUIVALENTS:		
Beginning of year	2,562,782	3,232,021
End of year	$2,388,355	$2,562,782

Supplemental Cash Flow Disclosure :

Interest Paid	$58,447	$64,527
Income Taxes Paid	$230,289	$127,046

See notes to consolidated financial statements.

SONO-TEK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

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.

Based on its core technology of ultrasonic liquid atomizing nozzles, the Company has developed intellectual property in the area of precision spray coating of liquids. The Company is presently engaged in the development, manufacture, sales, installation and servicing of diverse ultrasonic coating equipment for various manufacturing industries worldwide.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Advertising Expenses - The Company expenses the cost of advertising in the period in which the advertising takes place. Advertising expense for the years ended February 29, 2016 and February 28, 2015 was $227,825 and $168,090, respectively.

Allowance for doubtful accounts - The Company records a bad debt expense/allowance based on management's estimate of uncollectible accounts. All outstanding accounts receivable accounts are reviewed for collectability on an individual basis. The bad debt expense recorded for the years ended February 29, 2016 and February 28, 2015 was approximately $3,000 and $17,000, respectively.

Available-For-Sale Investments – The Company's available for sale investments are carried at fair value with the unrealized gains or losses, net of tax, included as a component of accumulated other comprehensive income (loss) in stockholders' equity. Realized losses and declines in value below cost judged to be other than temporary, if any, are included as a component of asset impairments expense in the consolidated statement of operations. The fair value of the available-for-sale investments are based on quoted market prices. The Company's fair value determination method is discussed below in “Fair Value of Financial Instruments.”

Cash and Cash Equivalents - Cash and cash equivalents consist of money market mutual funds, short term commercial paper and short-term certificates of deposit with original maturities of 90 days or less.

Concentration of Credit Risk - The Company does not believe that it is subject to any unusual or significant risks, in the normal course of business. The Company had one customer, which accounted for 7% of sales during the year ended February 29, 2016. Four customers accounted for 40% of the outstanding accounts receivables at February 29, 2016.

The Company had one customer, which accounted for 7% of sales during the year ended February 28, 2015. Two customers accounted for 25% of the outstanding accounts receivables at February 28, 2015.

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 subsidiaries, Sono-Tek Cleaning Systems Inc. and Sono-Tek Industrial Park, LLC. Sono-Tek Cleaning Systems, Inc., a New Jersey Corporation (“SCS”), ceased operations during the Fiscal Year Ended February 28, 2002. Sono-Tek Industrial Park, LLC (“SIP”), operates as a real estate holding company for the Company’s real estate operations.

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

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

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

Level 1: Quoted prices in active markets.

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

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

The fair values of financial assets of the Company were determined using the following categories at February 29, 2016 and February 28, 2015, respectively:

	Quoted Prices in Active Markets (Level 1)	
	February 29, 2016	February 28, 2015
Marketable Securities	$1,695,689	$1,652,485

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Marketable Securities include mutual funds of $1,695,689 and $1,652,485, that are considered to be highly liquid and easily tradeable as of February 29, 2016 and February 28, 2015, respectively. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within the Company's fair value hierarchy. The Company's marketable securities are considered to be available-for-sale investments as defined under ASC 320 "Investments – Debt and Equity Securities."

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

Intangible Assets -Include costs of patent applications which are deferred and charged to operations over seventeen years for domestic patents and twelve years for foreign patents. The accumulated amortization of patents is $127,900 and $116,804 at February 29, 2016 and February 28, 2015, respectively. Annual amortization expense of such intangible assets is expected to be approximately $11,000 per year for the next five years.

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

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

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

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

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 are not expected to have an impact on the Company.

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

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

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 nor does it grant price adjustments after a sale is complete.

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

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

NOTE 3: SEGMENT INFORMATION

The Company operates in two segments: ultrasonic spray coating systems, which is the business of developing, manufacturing, selling, installing and servicing ultrasonic spray coating equipment; and real estate operations, which is the business of owning and operating the Sono-Tek Industrial Park.

All inter-company transactions are eliminated in consolidation. Segment information is as follows:

	Fiscal Year Ended February 29, 2016				Fiscal Year Ended February 28, 2015			
	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated
Net Sales	$11,738,982	$291,046	$196,298	$11,833,730	$10,757,825	$287,948	$196,298	$10,849,475
Rental Expense	$196,298	$158,629	$(196,298)	$158,629	$196,298	$162,522	$(196,298)	$162,522
Interest Expense	$83	$58,364		$58,447	$1,223	$63,304		$64,527
Net Income (Loss)	$669,974	$(122,245)		$547,729	$740,309	$(134,176)		$606,133
Assets	$8,214,873	$2,454,664		$10,669,537	$8,227,705	$2,513,924		$10,741,969
Debt	$—	$1,319,737		$1,319,737	$20,542	$1,457,379		$1,477,921

NOTE 4: STOCK-BASED COMPENSATION

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

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

	Fiscal Year Ended	
	February 29, 2016	February 28, 2015
Expected life	8 years	8 years
Risk free interest rate	.91% -1.03%	.7% - .97%
Expected volatility	18.73% - 23.72%	23.09% - 53.92%
Expected dividend yield	0%	0%

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

For the years ended February 29, 2016 and February 28, 2015, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated $43,402 and $42,523 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, 2016	February 28, 2015
Raw materials and subassemblies	$1,452,566	$1,692,202
Finished goods	549,106	441,026
Work in process	118,415	220,577
Total	2,120,087	2,353,805
Less: Allowance	(174,704)	(294,628)
Net inventories	$1,945,383	$2,059,177

NOTE 6: BUILDINGS, EQUIPMENT, FURNISHINGS AND LEASEHOLD IMPROVEMENTS

Equipment, furnishings and leasehold improvements consist of the following:

	February 29, 2016	February 28, 2015
Buildings	$2,250,000	$2,250,000
Laboratory equipment	872,836	778,336
Machinery and equipment	857,994	753,279
Leasehold improvements	368,572	308,722
Tradeshow and demonstration equipment	1,037,830	999,758
Furniture and fixtures	891,443	754,103
Totals	6,278,675	5,844,198
Less: Accumulated depreciation	(3,542,173)	(3,167,162)
	$2,736,502	$2,677,036

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Depreciation expense for the years ended February 29, 2016 and February 28, 2015 was $465,432 and $396,576, respectively.

NOTE 7: ACCRUED EXPENSES

Accrued expenses consist of the following:

	February 29, 2016	February 28, 2015
Accrued compensation	$305,189	$214,071
Estimated warranty costs	38,250	36,000
Accrued commissions	172,461	207,236
Professional fees	51,492	51,765
Other accrued expenses	178,644	182,865
	$746,036	$691,937

NOTE 8: REVOLVING LINE OF CREDIT

The Company has a $750,000 revolving line of credit at prime which was 3.50% at February 29, 2016 and 3.25% at February 28, 2015. The line of credit is collateralized by all of the assets of the Company, except for the land and buildings. 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 February 29, 2016 and February 28, 2015, the Company’s outstanding balance was $0, and the unused credit line was $750,000.

NOTE 9: LONG-TERM DEBT

Long-term debt consists of the following:

	February 29, 2016	February 28, 2015

Equipment loan, bank, collateralized by related production equipment, payable in monthly installments of principal and interest of $5,158 through June 2015. Interest rate 2.12%. 48 month term.	—	20,542
Note payable, bank, collateralized by land and buildings, payable in monthly installments of principal and interest of $16,358 through January 2024. Interest rate 4.15%. 10 year term.	1,319,737	1,457,379
Total long term debt	1,319,737	1,477,921
Due within one year	143,388	158,184
Due after one year	$1,176,349	$1,319,737

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Long-term debt is payable as follows:

Fiscal Year ending February 28,	
2017	$143,388
2018	149,698
2019	156,119
2020	162,817
2021	169,715
Thereafter	538,000
	$1,319,737

NOTE 10: BANK GUARANTEES

As of February 29, 2016, $72,446 of the Company's cash on deposit with a foreign bank was being utilized to collateralize guarantees issued by the bank in favor of international customers of the Company to secure cash deposits on orders that have been remitted to the Company. The customers may exercise the guarantees, subject to certain performance requirements being met by the Company. The guarantees expire at various dates in 2016 and 2017.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The Company did not have any material commitments or contingencies as of February 29, 2016.

NOTE 12: INCOME TAXES

The annual provision (benefit) for income taxes differs from amounts computed by applying the maximum U.S. Federal income tax rate of 34% to pre-tax income as follows:

	February 29, 2016	February 28, 2015
Expected federal income tax	$252,321	$288,945
State tax, net of federal	39,059	31,371
Research and development tax credits	(135,904)	(155,110)
Overaccrual of prior year taxes	(67,579)	—

Deferred tax expense	106,826	—
Permanent timing difference	—	54,218
Income tax	$194,723	$219,424

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

	February 29, 2016	February 28, 2015
Inventory	$87,000	$127,000
Allowance for accounts receivable	18,000	17,000
Accrued expenses and other	50,000	97,000
Deferred tax asset - Current	155,000	241,000
Research tax credits	102,000	51,000
Accrued expenses	15,000	—
Intangible asset amortization	(39,000)	(39,000)
Building and leasehold depreciation	(250,000)	(163,000)
Deferred tax liability - Long Term	$(172,000)	$(151,000)

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At February 29, 2016 and February 28, 2015, the Company has $102,000 and $51,000 of research and development tax credits, respectively, being carried forward.

NOTE 13: STOCKHOLDERS' EQUITY

Stock Options – Under the 2013 Stock Incentive Plan, as amended ("2013 Plan"), options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 2,500,000 shares of the Company's common stock. Under the 2013 Plan options expire ten years after the date of grant. As of February 29, 2016, there were 246,600 options outstanding under the 2013 plan.

Under the 2003 Stock Incentive Plan, as amended ("2003 Plan"), until May 2013, options were available to be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. As of February 29, 2016, there were 217,500 options outstanding under the 2003 Plan, under which no additional options may be granted.

Under the 2013 Stock Incentive Plan, option prices must be at least 100% of the fair market value of the common stock at time of grant. For qualified employees, except under certain circumstances specified in the plan or unless otherwise specified at the discretion of the Board of Directors, no option may be exercised prior to one year after date of grant, with the balance becoming exercisable in cumulative installments over a three year period during the term of the option, and terminating at a stipulated period of time after an employee's termination of employment.

During Fiscal Year 2016, the Company granted options for 73,500 shares exercisable at prices from $1.07 to $1.17 to employees of the Company.

During Fiscal Year 2015, the Company granted options for 57,600 shares to officers at an exercise price of $1.19 and options for 10,000 shares exercisable at $1.26 to an employee of the Company.

A summary of the activity of both plans for the years ended February 29, 2016 and February 28, 2015 is as follows:

	Stock Options		Weighted Average Exercise Price $		Fair Value
	Outstanding	**Exercisable**	**Outstanding**	**Exercisable**	**Vested**
Balance - February 28, 2014	946,573	435,714	$0.76	$0.82	$0.41

Granted	67,600		1.20		
Exercised	(478,739)		(0.64)		
Cancelled	(46,500)		(1.04)		
Balance - February 28, 2015	489,434	353,934	$0.97	$0.86	$0.32
Granted	73,500		$1.16		
Exercised	(41,334)		(0.61)		
Cancelled	(57,500)		(1.08)		
Balance - February 29, 2016	464,100	349,820	$0.91	$0.83	$0.39

The intrinsic value of the Company's options exercised during the years ended February 29, 2016 and February 28, 2015 was $12,479 and $110,985, respectively.

Information, at date of issuance, regarding stock option grants for the years ended February 29, 2016:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Year ended February 29, 2016:			
Exercise price exceeds market price	-	-	-
Exercise price equals market price	73,500	$ 1.16	$ .26
Exercise price is less than market price	-	-	-

The aggregate intrinsic value of the Company's outstanding options at February 29, 2016 and February 28, 2015 was $176,348 and $191,542, respectively.

The following table summarizes information about stock options outstanding and exercisable at February 29, 2016:

	Number Outstanding	Weighted Average Remaining Life in Years	Exercise Price	Number Exercisable
Range of exercise prices:				
$.42 to $.50	24,000	6.38	$ 0.47	24,000
$.51 to $1.00	171,500	6.22	$ 0.63	171,500
$1.01 to $1.40	268,600	8.08	$ 1.13	154,320
Total Options:	464,100			349,820

NOTE 14: EARNINGS PER SHARE

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

	February 29,	February 28,

	2016	2015
Numerator for basic and diluted earnings per share	$547,729	$606,133
Denominator for basic earnings per share - weighted average	14,943,018	14,737,204
Effects of dilutive securities:		
Stock options for employees, directors and outside consultants	86,583	109,604
Denominator for diluted earnings per share	15,029,601	14,846,808
Basic Earnings Per Share – Weighted Average	$0.04	$0.04
Diluted Earnings Per Share – Weighted Average	$0.04	$0.04

NOTE 15: SIGNIFICANT CUSTOMERS AND FOREIGN SALES

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

	February 29, 2016	February 28, 2015
Western Europe	$2,789,000	$2,069,000
Far East	2,981,000	2,147,000
Other	807,000	802,000
	$6,577,000	$5,018,000

During Fiscal Years 2016 and 2015, sales to foreign customers accounted for approximately $6,577,000 and $5,018,000, or 56% and 47% respectively, of total revenues.

One customer accounted for 7% of the Company's sales for Fiscal Year ended February 29, 2016.

NOTE 16: SUBSEQUENT EVENTS

The Company has evaluated subsequent events for disclosure purposes.

SIGNATURES

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

Dated: May 25, 2016

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 25, 2016	/s/ Samuel Schwartz Samuel Schwartz Director	May 25, 2016
/s/ Stephen J. Bagley Stephen J. Bagley Chief Financial Officer	May 25, 2016	/s/ Dr. Joseph Riemer Dr. Joseph Riemer Vice President and Director	May 25, 2016
/s/ Edward J. Handler, III Edward J. Handler, III Director	May 25, 2016	/s/ Philip A. Strasburg Philip A. Strasburg Director	May 25, 2016
/s/ R. Stephen Harshbarger R. Stephen Harshbarger President and Director	May 25, 2016	/s/ Dr. Donald F. Mowbray Donald F. Mowbray Director	May 25, 2016
/s/ Eric Haskell Eric Haskell	May 25, 2016		

Director

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