FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-01-11** | Period of Report: **1995-11-30**
SEC Accession No. 0000806172-96-000001

FILER

SONO TEK CORP

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SIC: **3559** Special industry machinery, nec

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended: November 30, 1995

OR

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

Commission File No.: 0-16035

SONO-TEK CORPORATION
(Exact name of registrant as specified in its charter)

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

2012 Rt. 9W, Bldg. 3, Milton, NY	12547
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone no., including area code: (914) 795-2020

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding as of January 11, 1996
Common Stock, par value $.01 per share	4,204,913

SONO-TEK CORPORATION

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SONO-TEK CORPORATION

BALANCE SHEETS

<TABLE>
<CAPTION>

ASSETS	November 30 1995 Unaudited	February 28 1995
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents	$ 106,920	$ 67,804
Accounts receivable (net of allowance for doubtful accounts of $42,250 at November 30 and $63,000 at February 28)	403,762	350,185
Receivable for common stock issued	0	25,000
Inventories (Note C)	492,876	490,571
Prepaid expenses and other current assets	16,528	44,819
Total Current Assets	1,020,086	978,379
Equipment, furnishings and leasehold improvements (less accumulated depreciation and amortization of $341,073 at November 30 and $301,113 at February 28)	116,961	151,873
Patents, patents pending and copyrights (less amortization of $127,745 at November 30 and $120,951 at February 28)	73,802	74,992
Other assets	6,317	5,917
T O T A L	$ 1,217,166	$ 1,211,161
LIABILITIES		
Current liabilities:		
Current maturities of long term debt	$ 72,919	$ 127,145
Accounts payable	227,350	335,242
Accrued expenses	395,026	321,953
Total Current Liabilities	695,295	784,340
Long term debt, less current maturities	738,261	754,449
Non-current rent payable	13,005	21,367
Total Liabilities	1,446,561	1,560,156
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Common stock - $.01 par value:		
Authorized - 12,000,000 shares		
Issued - 4,204,913 shares	42,049	42,049
Additional paid-in capital	3,758,128	3,758,128
Deficit	(4,029,572)	(4,149,172)
Total Shareholders' Deficiency	(229,395)	(348,995)
T O T A L	$ 1,217,166	$ 1,211,161

</TABLE>

SONO-TEK CORPORATION

STATEMENTS OF OPERATIONS

<TABLE>
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	Nine Months Ended November 30 Unaudited 1995	1994	Three Months Ended November 30 Unaudited 1995	1994
<S>	<C>	<C>	<C>	<C>
NET SALES	$ 2,086,235	$ 1,991,699	$ 736,727	$ 593,018
COST OF GOODS SOLD	890,991	1,077,100	322,973	322,702
Gross Profit	1,195,244	914,600	413,754	270,316
OPERATING EXPENSES				
Research and product development costs	294,951	221,639	98,154	76,568
Marketing and selling expenses	476,256	561,261	149,689	190,866
General and administrative costs	286,800	386,700	94,155	128,530
Total Operating Expenses	1,058,007	1,169,600	341,998	395,964
OPERATING INCOME (LOSS)	137,237	(255,001)	71,756	(125,648)
INTEREST EXPENSE	50,670	47,040	17,650	16,905
INTEREST AND OTHER INCOME	33,032	221	99	114
NET INCOME (LOSS) (NOTE D)	$ 119,599	$ (301,821)	$ 54,205	$ (142,439)
INCOME (LOSS) PER COMMON SHARE (NOTE E)	$ 0.03	$ (0.08)	$ 0.01	$ (0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OF COMMON STOCK USED TO COMPUTE EARNINGS (LOSS) PER SHARE	4,205,000	3,872,000	4,205,000	3,872,000

</TABLE>

SONO-TEK CORPORATION
Statements of Cash Flows
For Nine Months Ended November 30

<TABLE>
<CAPTION>

	1995 Unaudited	1994
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	$ 119,599	$ (301,821)
Adjustments to reconcile the results of operations to the net cash provided by operating activities:		
Loss on abandonment of foreign patents		23,000
Depreciation and amortization	46,755	69,478
Accounts receivable	(53,577)	284,382
Inventories	(2,305)	(92,309)
Prepaid expenses	28,291	33,794
Other assets	(400)	(2,000)
Accounts payable & accrued expenses	(34,820)	76,284
Noncurrent rent payable	(8,362)	(2,679)
Total adjustments	(24,418)	389,950
Net cash provided by operating activities	95,181	88,129
Cash flows from investing activities:		
Fixed asset, patent and copyright acquisition costs	(10,653)	(24,767)
Cash flows from financing activities:		
Payments of capitalized leases	(5,429)	(3,156)
Proceeds from sale of common stock	25,000	0
Repayments of notes payable	(64,983)	(110,888)

Net cash used in financing activities	(45,412)	(114,044)
Net Increase (decrease) in cash and cash equivalents	39,116	(50,680)
Cash and cash equivalents:		
Beginning of period	67,804	70,871
End of period	$ 106,920	$ 20,191
Supplemental disclosure:		
Interest paid	$ 22,525	$ 14,856
Income taxes paid	$ 0	$ 5,338

</TABLE>

SONO-TEK CORPORATION
Notes to Financial Statements
November 30, 1995

NOTE A: The attached summarized financial information does not include all disclosures required to be included in a complete set of financial statements prepared in conformity with generally accepted accounting principles. Such disclosures were included with the financial statements of the Company at February 28, 1995, included in its report on form 10-K. Such statements should be read in conjunction with the data herein.

NOTE B: The financial information reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods. The results for the interim periods are not necessarily indicative of the results to be expected for the year.

NOTE C: Inventory at November 30, 1995 is comprised of:

Finished goods	$ 98,283
Work in process	134,258
Raw materials and subassemblies	260,335
Total	$492,876

NOTE D: The Company has adopted FASB Statement no. 109 which became effective for the Fiscal Year Ended February 28, 1994. Accordingly, under the provision of Statement 109, the income tax benefit of the loss for the nine months ended November 30, 1994 was offset by an increase in the valuation allowance.

NOTE E: Income (loss) per share is based on the weighted average number of shares outstanding during each period. The computation does not include the effect of outstanding stock options or conversion of the subordinated promissory notes since their inclusion would be either not material or anti-dilutive.

NOTE F: The financial statements for fiscal 1995 have been prepared under the assumption that the Company will continue as a going concern. During the year ended February 1995 the Company incurred a significant loss from operations.

At February 28, 1995 the Company had a net capital deficiency of $348,995. The lack of sufficient working capital has hampered the Company's ability to produce and market its products efficiently and to make payments to its vendors and certain noteholders in a timely fashion. Some vendors have placed the Company's account for collection with a collection agency.

Note F: Cont'd

These factors raise substantial doubt as to the Company's ability to continue as a going concern.

The financial statements do not contain any adjustments that might be necessary if the Company is unable to continue as a going concern.

SONO-TEK CORPORATION

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

Results of Operations

Sales increased $94,536 to $2,086,235 for the nine months ended November 30, 1995 as compared to $1,991,699 for the nine months ended November 30, 1994. The increase was primarily a result of an increase of $352,000 in sales of Nozzle Systems, while sales of SonoFlux Systems decreased approximately $257,000. For the three months ended November 30, 1995 sales increased $143,709 to $736,727 as compared to sales of $593,018 for the three months ended November 30, 1994. Sales of Nozzle Systems inreased approximately $150,000 and sales of SonoFlux Systems decreased approximately $6,000 as compared to the three month period ended November 30, 1994. The decrease in sales of SonoFlux Systems is believed to be the result of a decline in export sales as well as an increase in competitive pressures. In response to the increase in competition the Company introduced its newest version of SonoFlux System, the "9500". This new model has a lower manufacturing cost, a lower selling price, and is designed to be more "user friendly" through computer controled operation. Although there can be no assurances, the Company anticipates that this new model will appeal to a broader segment of the market, and lead to increased sales of this product line.

Gross profit increased $280,644 from $914,600 for the nine month period ended November 30, 1994 to $1,195,244 for the nine month period ended November 30, 1995, and increased $143,438 from $270,316 for the three months ended November 30, 1994 to $413,754 for the three months ended November 30, 1995. As a percent of sales, gross profit increased from 46% for the nine months ended November 30, 1994 to 57% for the nine months ended November 30, 1995, and increased from 46% for the three months ended November 30, 1994 to 56% for the three months ended November 30, 1995. For both the nine and three month periods the increase in gross profit was primarily a result of a change in product mix and a reduction in production overhead costs. Sales of Nozzle Systems, which realize a higher gross margin as compared to sales of SonoFlux Systems, comprised 39% and 40% of sales for the nine and three month periods ended November 30, 1995 as compared to 24% of sales for both the nine and three month periods ended November 30, 1994. The Company's production overhead costs decreased as a result of reduced warranty and labor costs.

Research and product development costs increased $73,312 from $221,639 for the nine months ended November 30, 1994 to $294,951 for the nine months ended November 30, 1995 and increased $21,586 from $76,568 for the three months ended November 30, 1994 to $98,154 for the three months ended November 30, 1995 The increase was primarily a result of increased labor and consulting costs associated with the development of the SonoFlux 9500.

Marketing and selling costs decreased $85,005 from $561,261 for the nine months ended November 30, 1994 to $476,256 for the nine months ended November 30, 1995 and decreased

$41,177 from $190,866 for the three months ended November 30, 1994 to $149,689 for the three months ended November 30, 1995. The decrease was primarily as a result of a decrease in travel costs. During the first nine months of Fiscal 1996 the Company has concentrated its selling efforts to focus on North American markets, thereby reducing the necessity for costly Far East and European travel.

General and administrative costs decreased $99,900 from $386,700 for the nine month period ended November 30, 1994 to $286,800 for the nine months ended November 30, 1995 and decreased $34,375 from $128,530 for the three months ended November 30, 1994 to $94,155 for the three months ended November 30, 1995. For the nine months ended November 30, 1995 the decrease resulted primarily from a reduction in the Company's reserve for doubtful accounts and a decrease in professional fees. During the three months ended November 30, 1994 the Company incurred costs of $23,000 as a result of its abandonment of certain foreign patents.

Interest and other income increased $32,811 from $221 for the nine months ended November 30, 1994 to $33,032 for the nine months ended November 30, 1995. The increase is a result of funding received during the three months ended May 31, 1995 from SEMATECH for work done by the Company under the terms of a joint development agreement. SEMATECH is a consortium of U.S. semiconductor manufacturers and has provided the Company with funds for the development of a photoresist application system, or "Wafer Coating System".

For the nine months ended November 30, 1995 the Company earned $119,599 or $.03 per share as compared to a net loss of $301,821 or $.08 per share for the nine months ended November 30, 1994. For the three months ended November 30, 1995, the Company had earnings of $54,205 or $.01 per share as compared to a net loss of $142,439 or $.04 per share for the three months ended November 30, 1994. The increase in earnings for both the nine and three month periods resulted primarily from an increase in sales of the Company's Nozzle Systems, a decrease in general and administrative costs, a decrease in marketing and selling costs, and an increase in other income.

Liquidity and Capital Resources

Working capital increased $92,718 to $286,757 at November 30, 1995 as compared to working capital of $194,039 at February 28, 1995. The increase in working capital was primarily a result of profitable operations.

The Company's lack of working capital has hampered its ability to efficiently produce and market its products, and has impeded progress in the development of new products. At times, the Company has been unable to make payments to its vendors and certain note holders in a timely fashion. Some vendors have placed the Company's account for collection with a collection agency. During Fiscal 1995 the Company failed to make three of four scheduled interest payments to holders of the convertible secured subordinated promissory notes issued in November 1993. The failure to make such payments constitutes an act of default in accordance with the terms of the note. In March 1995 the Company and each noteholder agreed to an amendment whereby, among other things, the holder agreed to waive the right of default and

remedies based on the Company's failure to make interest payments due on August 15, 1994 and thereafter through and including February 15, 1996.

The Company's Chairman, who is entitled to receive consulting compensation from the Company at the rate of $26,000 per year has agreed that payments to him could be deferred commencing June 1993. The amount of such deferral at November 30, 1995 was $63,557.

These factors raise serious doubt as to the Company's ability to continue as a going concern.

During Fiscal 1995 the Company incurred a significant loss from operations. During this period of time the Company devoted significant resources, including working capital to the development of two new products. The first is a new generation of the SonoFlux System that is used in the electronics industry for the application of flux to printed circuit boards during their manufacture. The Company began shipping this new system to customers during the three months ended May 31, 1995. The second new product is a Wafer Coating System to be used in the semiconductor industry for the application of photoresist to semiconductor wafers. The Company anticipates that functional qualification of the Wafer Coating System will commence during the fourth quarter of Fiscal 1996. Management believes that these new products will lead to broader markets and increased sales and profits quickly enough to improve its working capital position in the short term and to restore its equity in the long term, although there can be no assurances that these goals will be achieved.

In order to generate additional working capital, 333,333 shares of common stock were sold to the Company's Chairman and a Noteholder for the fair market value of $100,000 in February 1995.

As the long term debt of the Company to the bank matures on November 1, 1996 and the Convertible Secured Subordinated Notes mature on August 15, 1997, the Company will experience substantial difficulties in meeting these obligations unless the level of profitability improves over the next several years or unless the bank and the Noteholders agree to extend the repayment terms of this debt. There can be no assurance that such extensions can be negotiated, or that such extensions, if negotiated, will be on terms as favorable to the Company as those presently in effect.

PART II - OTHER INFORMATIO

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

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Item 27. Financial Data Schedule - Edgar filing only

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: January 11, 1996

SONO-TEK CORPORATION

By: /s/ James L. Kehoe
____
James L. Kehoe
Chief Executive Officer

By: /s/ J.Duncan Urquhart
____
J. Duncan Urquhart
Treasurer & Chief Financial Officer

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