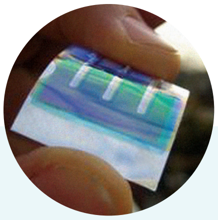
2010
Annual Report



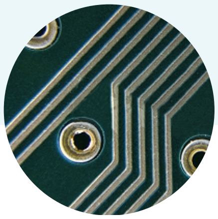
. . . Energy

. . . Food

Advanced ultrasonic coating technology for industries worldwide.

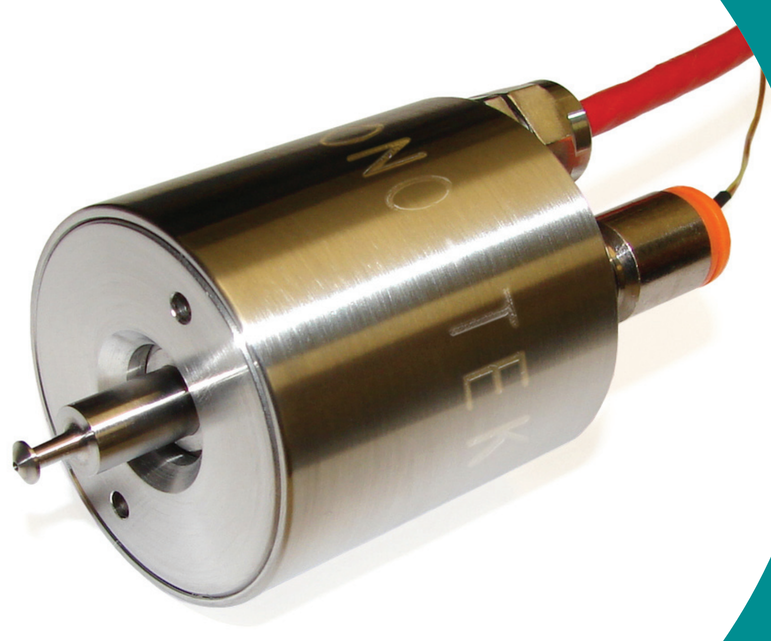
. . . Glass

. . . Medical



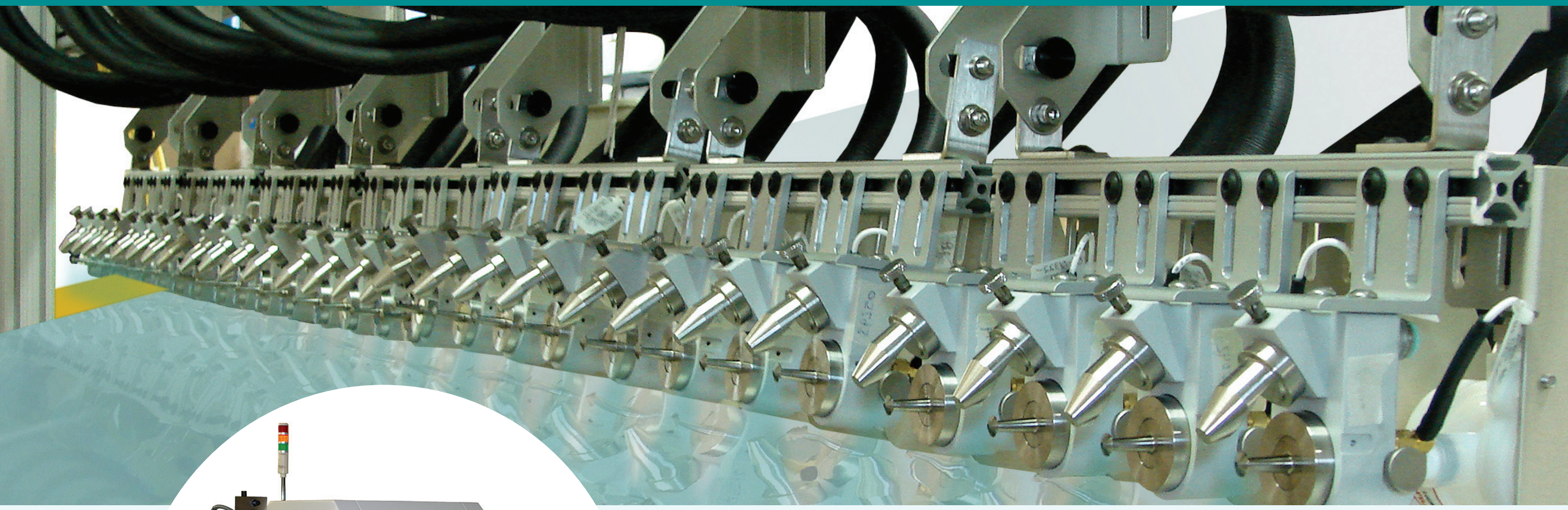
. . . Electronics

SONO·TEK Corporation



180 kHz Ultrasonic Nozzle
This new nozzle technology is not available anywhere else in the world, providing uniform atomized droplets of 13 microns and less.

On The Cover: We achieved growth in an adverse economic environment through diversification of products and markets served. This growth resulted from our investment in the preceding year, during the onset of the "Great Recession", and the capital resources used then are paying off today. We've established our ultrasonic spraying technology in several niches within the electronics, medical, glass, energy and food industries with expertise gained in coating processes for each of these distinct markets.



WideTrack Coating System for Float Glass Line
Sono-Tek is providing many of these large advanced systems to global glass manufacturers.

FlexiCoat Programmable Coating System
These robust state of the art coating systems can be customized for a variety of atmospheric and production requirements.

ExactaCoat Tabletop Coating System
A versatile R&D machine that has proven to be a valuable tool for universities and companies engaged in cutting edge research in energy, medical and industrial applications.

Corporate Highlights for Fiscal Year 2010

- Continued double digit sales increase for a second year, in spite of the economy
- Completed our diversification investments and turned the business from a loss last year to a profit mode again
- Maintained minimal debt levels and grew our cash balance
- Significant growth in advanced clean energy coating applications, both fuel cells and solar energy
- Continued success and growth in medical device implant coating sales
- Expansion of glass line coating applications into new markets and customers
- Established a joint development program with a major global baking company
- Implemented several food coating demonstration programs with customers
- Saw the beginning of recovery for electronics fluxing applications

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Recent Press Releases and Announcements

March 2010 — Sono-Tek announces a new record sales level for the 4th quarter, and also our highest annual sales level for a fiscal year. The Company grew at 13% over the previous year, which in turn was 12% above its preceding year. We believe these results were due to the diversification program we completed last year, where we broadened our application technology and served markets, which offset the very poor domestic economy. Key growth areas were in advanced clean energy such as fuel cells and solar energy, "green" glass coating lines that reduce waste and environmental impacts, and medical device implant coating equipment.

December 2009 — Record quarterly sales level announced for the third quarter of the fiscal year. The third quarter showed an 18% increase over the second quarter, which in turn was 37% above the first quarter, and it achieved the goal of returning the Company to profitable operations.

November 2009 — Inroads announced with major advanced clean energy customers: We embarked on a strategic growth program last year with the goal of becoming the world leader of ultrasonic coating systems for energy applications, such as fuel cells and solar cells. Eighteen months into the program, we are pleased to announce that we have met and/or exceeded all the major targets set in the program—sales goals, new product creation, and acceptance of Sono-Tek products for use in high volume production with major advanced energy system suppliers.

September 2009 — We achieved our largest single order of Medicoat stent coating systems to a leading global medical device manufacturer: The Company announced the sale of a series of its Medicoat DES stent coating systems at a value of over $400,000. The client has already owned some of our systems for a number of years, and had success in the initial manufacture of high quality cardiac coated stents in a validated process. This order will allow the client to rapidly increase production.

July 2009 — First Industrial Food Coater Sale: Sono-Tek announces the sale of a new industrial depanning oil coating system, the SonoCoat PAN. The equipment was designed for a global baked goods conglomerate which owns and operates numerous baking plants and lines. The system has the potential to become the standard operational unit at baking lines worldwide, replacing current wasteful conventional spraying system technology.

Chairman's Message

Sono-Tek's sales continued our growth trend this past fiscal year ending February 2010, in opposition to the continuing poor performance by both the US and many international economies. We attribute this success to the diversification program we started just prior to the downturn in 2008, and which we continued throughout 2009. The year was not without its challenges, since it started on a low sales note, forcing us to take cost reduction actions, while maintaining the essential aspects of the diversification program. Our goal was to return the business to profitability and positive cash generation, since it was difficult to predict if, when, and how much the economy would improve. By the second quarter we were able to show both significant sales growth versus the first quarter and previous year, and we showed a profit as well. The business continued to progress in both sales levels and profitability for the balance of the year, including record quarterly sales and backlogs. We finished the year with our highest annual sales revenues since the founding of the Company.

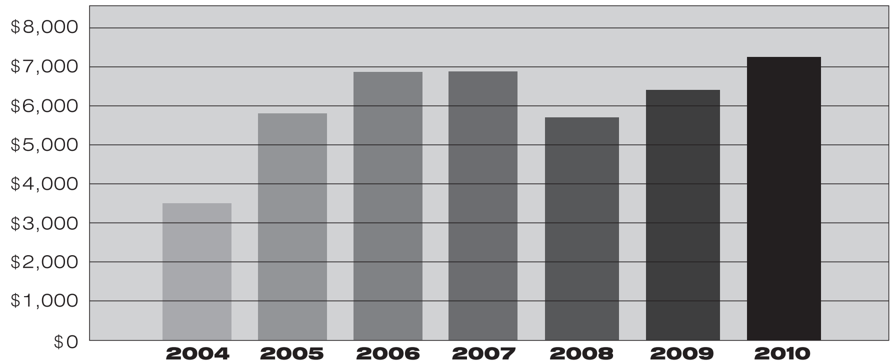
Now, looking forward, we see that we have firmly established Sono-Tek in a number of new market segments that are delivering increasing sales. We have also noted that our electronics fluxing segment, one that suffered most in the downturn, is showing signs of life as consumers and businesses gain some level of confidence and address the need to upgrade or modernize equipment. The year ahead is still uncertain, and economists debate over whether the Great Recession is really over, or ready for another dip. Offsetting this uncertainty is that we are entering this new fiscal year with our highest levels of backlog ever. We believe the best way to deal with economic uncertainty is to develop and sell products to a variety of application markets and geographical locations. We now have half a dozen proven applications for our technology, such as fluxing products for electronics producers, coating machines for advanced clean energy systems involving fuel cells and solar cells, coaters for medical device implants, glass line finishing coating systems, and a growing capability in food processing applications. This range of applications allows us to adjust to changes in the economy, since some markets are less affected in downturns --medical and food, while others are actually in a growth mode due to stimulus spending to address the security of energy supplies and cost plus global warming—fuel cells and solar energy applications.

We also have gone a long way from selling mostly to our home market, and now the majority of our business comes from Europe, Asia, and Latin America. This again gives us stability and growth, since other countries are facing needs for infrastructure growth and consumer product demand, by virtue of their younger and growing populations, in contrast to the US where the aging baby boom cohort is no longer driving demand as before. We are very familiar with and comfortable working and selling in China, India, Southeast Asia, and European markets, and we are developing increasing business relationships in Latin America, a place of great opportunity for our food coating equipment.

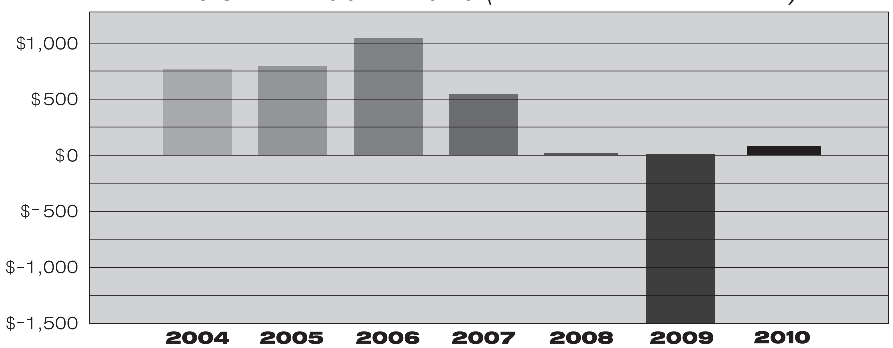
The next section will provide more details on our performance this past year, a performance we are very pleased with considering the challenges that were present and the problems that our customers and competitors in the electronics industry experienced.

Financial Results

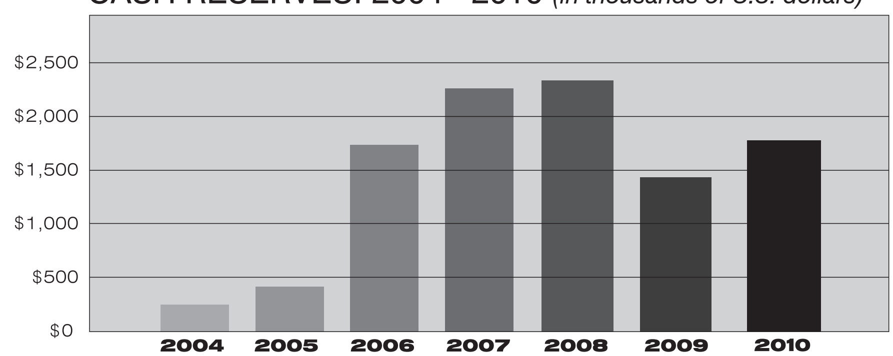
SALES: 2004 - 2010 *(in thousands of U.S. dollars)*



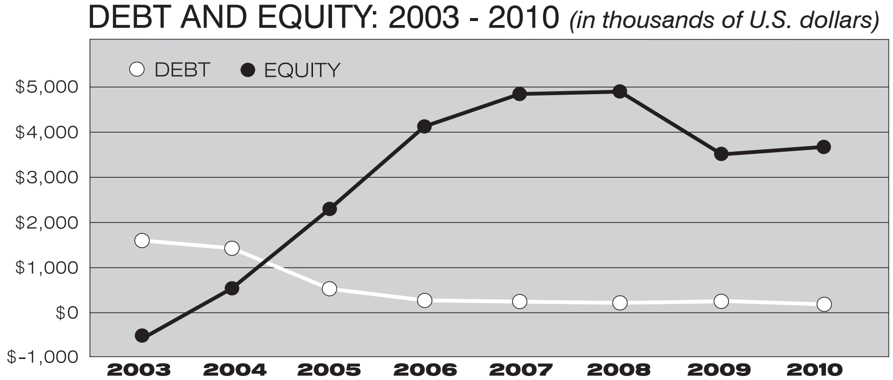
NET INCOME: 2004 - 2010 *(in thousands of U.S. dollars)*



CASH RESERVES: 2004 - 2010 *(in thousands of U.S. dollars)*



DEBT AND EQUITY: 2003 - 2010 *(in thousands of U.S. dollars)*



SALES - Our sales this year were up by $833K or 13%, to $7.2M, following a similar level of growth (up 12%) in our prior Fiscal Year. As previously stated, this result was largely due to the success of our diversification program which allowed us to sell new products into new market segments and niches. It allowed us to achieve a record level of sales, as can be seen in the chart. Over a quarter of our sales were attributable to the new areas that we developed in the past two years.

INCOME - We reported net income of $82K this year, in contrast to the loss of $1.5M for the previous fiscal year. This dramatic turnaround was due to a combination of increased sales from the diversification program, and an improved profit margin combined with cost reductions. Last year's losses were anticipated in part due to the decision to invest in the Company's growth potential, but approximately half of last years losses were non-cash losses, such as the write down of tax assets, depreciation, and stock option award expenses. We are now in a position to continue on our goal of both sales growth and profitable operations.

CASH - After spending a portion of our cash reserves on the diversification program in the fiscal year ended February 28, 2009, we have now begun rebuilding our cash this year as a result of improving sales and profitability.

DEBT AND EQUITY - A company's ratio of debt to equity is considered to be more important than either debt or equity alone. Typically, companies strive to have a debt to equity ratio of less than 50%. Sono-Tek's ratio is much better than this benchmark at less than 10%, as seen in the debt to equity chart.

Our ultrasonic nozzle technology produces a spray output that provides key conservation and cost reduction benefits to various product applications. Most of these applications involve incorporating one or more of our ultrasonic nozzles in a complete engineered spraying system that provides our customers in these industries with the precision and performance they want from a hi-tech coating.

We compete with the old fashioned spraying systems prevalent in glass lines, textile mills, electronic applications, food applications and elsewhere. These older spraying systems are based on using pressure to create a spray and the resulting coatings can be uneven and difficult to control. This lack of control, as well as the well known clogging phenomena of pressure nozzles, leads to wasted materials, increased scrap, and greater downtime—and that creates the opportunity for our ultrasonic atomization nozzles and spraying technology. Our mission is to convert as many customers in as many industries as quickly as possible to our advanced spraying and coating systems for their applications.

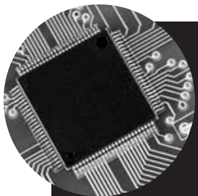
Customer Survey Comments: **"The precise control of process variables that ultrasonic spraying technology provides enabled us to fine tune our process development, increase yields from 30% to 95%, and ultimately bring an intravenous Class II medical device from product to market in under two years. We could not have done this with any other technology."**

"We were developing a blood contacting device for use in the operating room. Our previous coating technologies included dip coating, thin film draw-down, knife coating techniques, and pressure nozzle spraying, none of which had the efficiency or yields we are currently experiencing with a fine tuned ultrasonic sprayer."

The brief summary on the following pages will provide shareholders with some additional information regarding current market applications of our technology and products.

Printed Circuit Boards... **SonoFlux and EVS Solder Recovery Systems**

This market has suffered the most in the recession due to consumer spending reductions, but it has shown increasing signs of life as consumers began buying electronics products again. Our manufacturing customers found it necessary to begin rebuilding inventory and upgrading and replacing older equipment, and so we are seeing increasing sales in this segment now. In addition, our newer fluxing products that came out of our diversification program have widened our market opportunities: the simpler SonoFlux EZ enhances our ability to compete in lower price segments of the market, while the SonoFlux Servo, which combines features of both wide area and selective fluxing in one programmable device, opens up new higher end customers who require this feature. Now, with our flagship 2000F spray fluxer, we serve lower, middle, and upper segments of the electronics market with our ultrasonic spray fluxing equipment. We also sell a companion product that offers our US and Canadian customers a way to recover much of their spent solder-the EVS Solder Recovery System. This product segment is also showing signs of recovery as our customers become more willing to invest for the future again.



SonoFlux EZ
SonoFlux Servo

Customer Survey comment: **"The cleanliness of the fluxing process with the SonoFlux Servo was excellent."**

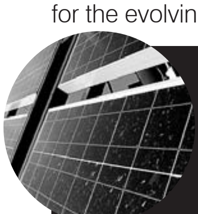
Fuel Cells... **ExactaCoat FC and FlexiCoat FC**

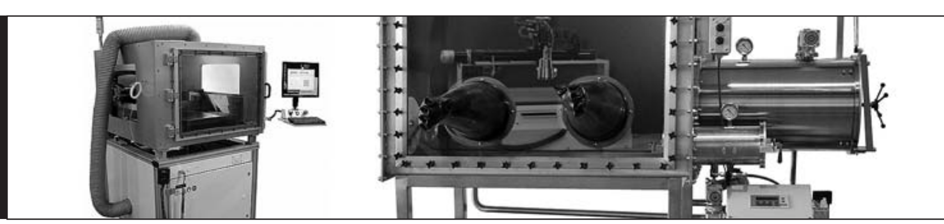
Due to uncertainty regarding long term oil supplies and cost, coupled with concerns regarding man made global warming, many governments are sponsoring programs to develop advanced energy systems that are more environmentally benign. Fuel cell development work continues to provide a strong presence in our sales, as customers seek to develop more efficient and less costly systems using our ultrasonic fuel cell membrane coating machines. Our advantage over other technologies and methods is the ability of our equipment to very uniformly and precisely spray carbon-based nanomaterials and precious metals in a liquid suspension onto these surfaces with minimal waste while achieving desired coating topography. Our equipment for this market consists of the ultrasonic syringe pump (patent pending) and the ExactaCoat and FlexiCoat systems, a few examples of which are shown here.

ExactaCoat FC
FlexiCoat FC

Solar Energy... **HyperSonic, FlexiCoat SC, and FlexiCoat Inert**

Solar energy development is also being driven by oil prices and global warming concerns, and we are working with a number of manufacturing and development companies to provide both fluxing and functional coatings to solar panels and substrates. Our HyperSonic high speed reciprocating coater is being used to coat solar panels on high speed conveyor lines, while the FlexiCoat SC is being used in solar spray pyrolysis applications requiring a low oxygen environment and high temperatures. The ExactaCoat Inert is a newer product targeted for the evolving thin film organic solar energy market, which many believe will be the cost winning energy technology of the future.



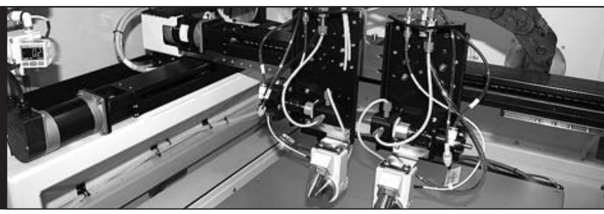


FlexiCoat SC
FlexiCoat Inert

Our Market Applications and Related Products continued

Medical Devices... **MediCoat I and II, and FlexiCoat for Medical Applications**

We have continuing strong sales to manufacturers of implanted medical devices such as drug eluting stents for cardiac applications, peripheral vascular applications, sinus applications, and more recently catheter and balloon coating applications. We are also seeing customer development projects in our laboratory focused on coatings for orthopedic implants. These implants can make a dramatic difference in a patient's mobility and quality of life, but a certain percentage of patients experience infections or failures of the implants that can have serious consequences. A variety of lubricious, antimicrobial, biocompatible, and drug eluting coatings are being explored to improve the success of these orthopedic implants, and it is a growing market as our population ages. We have also designed and introduced a new high frequency nozzle that creates droplets at 180 KHz, and this is proving to be of special interest for medical applications, where the greatest precision is required.



Flexicoat
180 Khz Nozzle

Customer Survey comment: **"...better control and more reproducible [than the previous] low pressure low volume spray coating method."**

Glass Manufacturing... **WideTrack**

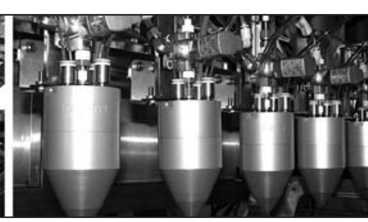
Several years ago, we introduced our WideTrack Glass coating systems to help customers reduce the use of chemicals, water, and cost and environmental impact in applying anti-stain coatings as the final step in glass manufacture. We have seen a significant increase in demand for these coaters as the benefits become more broadly known by the major global companies in glass manufacturing. An example of these large, complex systems can be seen inside the front cover of this report.

Textile Finishing... **WideTrack**

The basic textile industry involving white goods and carpeting has been adversely affected by the economic slowdown, as well as a continuing migration of production to lower cost offshore locations. However, we have seen that our equipment is finding a niche in the production of non-woven materials used in home laundry dryers, thin film plastics, and medical textile applications. We expect this niche to grow in the future.

Food Coating Applications... **SonoCoat Pan and WideTrack**

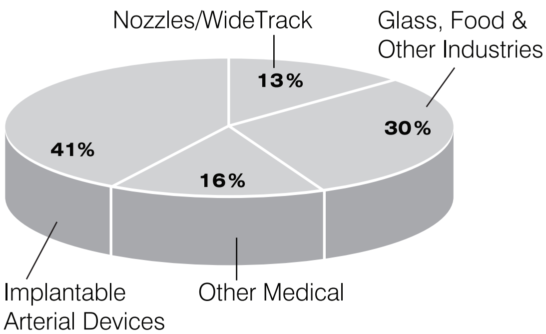
This past year we achieved several important milestones in our food industry initiative. We sold our first SonoCoat Pan depanning oil system designed to replace the current methods of applying oil to baking pans in commercial bakeries with a much more cost effective ultrasonic method. We also have proven process for three additional applications after months of testing. One was for the application of anti-microbials to retard spoilage onto moisture rich products such as muffins. Another involved the application of a an anti-enzymatic browning agent onto sliced fresh fruits to protect product quality and extend shelf life, and a third involved the application of an egg wash glaze to baked goods prior to baking.



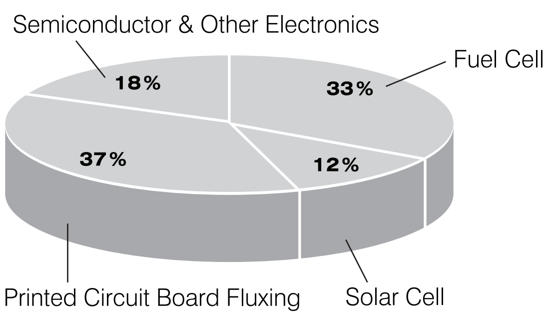
SonoCoat Pan

The Results

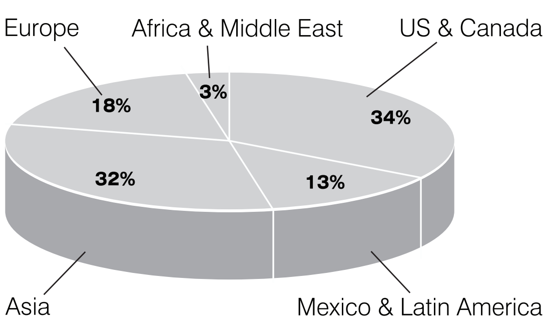
Sales by Product Line
Ultrasonic Coating Solutions



Sales by Product Line
Electronics & Advanced Energy



Sales by Geographic Region



We said in last year's report that "time will tell if we have invested and spent wisely over the past year and through the current fiscal year. The proof will be in the pudding as they say, and in this case the "pudding" must be an increase in sales volume". Well we have now seen a very nice growth in our sales volume for two years in a row, during a time of the worst business climate since the Great Depression. This growth has come from continued geographic and market diversification of ultrasonic spraying and coating applications as we had hoped, and the charts to the left show this in a very graphic manner. We were very encouraged by the increasing demand for our products quarter by quarter in the fiscal year, and we see a continuation of this trend in the first half of the current fiscal year.

In closing this years report, we remain passionately dedicated to our mission of expanding the use of ultrasonic atomization spraying and coating systems to every application that can benefit by replacing wasteful conventional spraying systems and other older coating technology. We believe we have the means to help our customers dramatically reduce the consumption of commodities such as liquids, water, and energy, and saving them money while giving them much greater coating precision and quality.

Sincerely,

Christopher L. Coccio, PhD
Chairman and CEO
July 9, 2010

***Officers and Management Team (left to right):** Ed Bozydaj, Robb Engle, Luis Abarca, Christopher Coccio, Joseph Riemer, Steve Harshbarger, Stephen Bagley*

Forward-Looking Statements

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

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

Overview

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

Market Diversity

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

In recent years we have diversified our product lines. For example, we have successfully entered into the medical device market. To accomplish this goal, we have focused engineering resources on the medical device market, with an emphasis on providing coating solutions for the newest generations of drug coated stents and other implantable devices. We have sold a significant number of specialized ultrasonic nozzles and MediCoat stent coating systems to large medical device customers. Sono-Tek's stent coating systems are superior compared to pressure nozzles in their ability to uniformly coat the very small arterial stents without creating webs or gaps in the coatings. We sell a bench-top, fully outfitted stent coating system to a wide range of customers that are manufacturing stents and/or applying coatings to be used in developmental trials. We have also introduced and sold a production oriented stent coater known as Medicoat II. We are also selling an increasing number of specialized medical implant coating devices now.

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

More recently, we have also invested time and money in developing equipment solutions for applications in the solar cell and fuel cell clean energy markets. We have seen significant growth in these markets and are serving them with our Exactacoat, Flexicoat and Hypersonic products. We now have four diversified market/application areas, which creates a stable base for all of our business.

In our four core areas: the electronics, medical device, advanced energy and WideTrack coating markets, it has been incumbent upon us to focus our attention and resources on the development of a much greater international presence. We believe we have accomplished this and plan to continue our marketing efforts. Our international sales have risen from approximately 20% of total revenues in Fiscal Year 2003 to approximately 65% today. This geographic market diversity in North America, Europe, Latin America and Asia is expected to provide us with additional business stability going forward.

The creation of technological innovations and markets and the expansion into new geographical markets requires the investment of both time and capital. Although there is no guarantee of success, we expect that over time, these newer markets will be the basis for Sono-Tek's continued growth and will contribute to future profitability.

Liquidity and Capital Resources

Working Capital - Our working capital increased $177,000 from a working capital of $2,898,000 at February 28, 2009 to $3,075,000 at February 28, 2010. The increase in working capital is primarily a result of the current year's net income. Our current ratio is 3 to 1 at February 28, 2010, as compared to 3.5 to 1 at February 28, 2009.

Stockholders' Equity - Stockholders' equity increased $138,000 from $3,532,000 at February 28, 2009 to $3,670,000 at February 28, 2010. The increase in stockholders' equity is the result of the current year's net income of $82,000 and stock based compensation of $57,000.

Operating Activities – Our operating activities provided $494,000 of cash for the year ended February 28, 2010 as compared to using $792,000 for the year ended February 28, 2009. During the year ended February 28, 2010, we had net income of $82,000, accounts receivable increased $171,000, inventories increased $94,000, prepaid expenses decreased $41,000 and accounts payable and accrued expenses increased $272,000. In addition, we incurred non-cash expenses of $310,000 for depreciation and amortization and $57,000 for stock based compensation expense.

Investing Activities - For the year ended February 28, 2010, we used $255,000 in our investing activities as compared to using $339,000 for the year ended February 28, 2009. In 2010 and 2009, we used $290,000 and $367,000, respectively, for the purchase or manufacture of equipment, furnishings and leasehold improvements. In addition, in 2010 and 2009 we used $26,000 and $29,000, respectively, for patent application costs. The purchases of equipment and patent costs were offset by the sale of depreciable equipment of $61,000 and $58,000 during the years ended February 28, 2010 and 2009, respectively.

Financing Activities – Our financing activities provided $76,000 of cash for the year ended February 28, 2010 as compared to providing $264,000 for the year ended February 28, 2009. During the year ended February 28, 2010, proceeds of $350,000 from our line of credit was offset by the repayment of our line of credit of $250,000 and the repayments of notes payable of $24,000.

We currently have a revolving credit line of $500,000 and a $150,000 equipment purchase facility, both of these are with a bank. At February 28, 2010, we had $350,000 outstanding borrowings under the line of credit. The revolving credit line is collateralized by all of the assets of the Company and requires a 30 day annual payoff.

We had outstanding borrowings of $19,000 under the equipment facility at February 28, 2010. The borrowings have repayment terms which vary from 36 – 60 months and bear interest at rates from 5.2% to 6.6%.

Results of Operations

For the year ended February 28, 2010, our sales increased by $833,000 to $7,242,000 as compared to $6,409,000 for the year ended February 28, 2009. For the year ended February 28, 2010, we experienced an increase in sales of our programmable XYZ precision coating units, stent coater units, SonoFlux EZ units and Hypersonic units. For the year ended February 28, 2010, we experienced a decrease in sales of fluxer units, WideTrack units and spray dryer systems when compared to the prior year. Our sales to customers located in Asian countries increased by $436,000 or 23% for the year ended February 28, 2010. Our sales to US based customers were flat for the year ended February 28, 2010.

Our gross profit increased $824,000, to $3,674,000 for the year ended February 28, 2010 from $2,850,000 for the year ended February 28, 2009. Our gross margin percentage was 51% for the year ended February 28, 2010 compared to 44% for the year ended February 28, 2009. For the year ended February 28, 2010, our gross profit margin was positively impacted by the increase in sales of both stent coater units and XYZ precision coating units.

Research and product development costs decreased $86,000 to $718,000 for the year ended February 28, 2010 as compared to $804,000 for the year ended February 28, 2009. The decrease is due to decreased engineering personnel, engineering materials and insurance expense.

Marketing and selling costs decreased $39,000 to $1,802,000 for the year ended February 28, 2010 from $1,841,000, for the year ended February 28, 2009. During the year ended February 28, 2010, we decreased our trade show and travel expenses by approximately $154,000 when compared to the prior year. In addition, we also saw a decrease in salaries, insurance and miscellaneous expenses. The decrease in these expenses was offset by an increase in international commission expense which is attributable to our increase in international sales.

General and administrative expense decreased $51,000 to $1,072,000 for the year ended February 28, 2010 from $1,123,000, for the year ended February 28, 2009. During the year ended February 28, 2010, we saw a decrease in salaries, insurance, stock based compensation expense and miscellaneous expenses. The decrease in these expenses was offset by an increase in bad debt expense due to the bankruptcy of one customer, increased bank fees, corporate expense and professional fees.

Interest income decreased $10,000 to $2,000 for the year ended February 28, 2010 as compared to $12,000 for the year ended February 28, 2009. The decrease in interest income is due to the drop in interest rates that continued during the year ended February 28, 2010 and our decision to not invest our cash because of the economic volatility that was taking place in the credit markets and maintaining a lower cash balance. Our present investment policy is to invest excess cash in short term commercial paper with an S & P rating of at least A1+.

Interest expense increased $4,000 to $10,000 for the year ended February 28, 2010 as compared to $6,000 for the year ended February 28, 2009. The increase in interest expense is due to the additional borrowing under our line of credit.

Income tax expense decreased $614,000 to a benefit of $2,000 for the year ended February 28, 2010 as compared to an income tax expense of $612,000 for the year ended February 28, 2009. During the year ended February 28, 2009, we increased the valuation reserve of our deferred tax asset resulting in the recognition of tax expense of $612,000. The increase in the valuation reserve was a non-cash expense item. The increase in the valuation reserve was based on our estimate of our ability to utilize the current net operating loss carry-forwards. In the future, we may adjust the valuation reserve based upon our return to consistent profitable operations.

For the year ended February 28, 2010, we had net income of $82,000 compared to a net loss of ($1,513,000) for the year ended February 28, 2009. The improvement in our net income is due to an increase in sales, an improved profit margin, a reduction in operating expenses and a decrease in tax expense.

Critical Accounting Policies

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

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and may potentially result in materially different results under different assumptions and conditions. The Company believes that its critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies, please see the notes to the Company's consolidated financial statements.

Accounting for Income Taxes

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

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

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.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Sono-Tek Corporation

Milton, New York

We have audited the accompanying consolidated balance sheets of Sono-Tek Corporation as of February 28, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years ended February 28, 2010 and 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sono-Tek Corporation, as of February 28, 2010 and 2009 and the results of their operation and their cash flows for each of the years then ended February 28, 2010 and 2009 in conformity with accounting principles generally accepted in the United States.

Sherb & Co., LLP

SHERB & CO., LLP

Certified Public Accountants

New York, New York

May 18, 2010

Consolidated Balance Sheets

	February 28, 2010	February 28, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,787,516	$ 1,472,054
Accounts receivable (less allowance of $16,000 and $18,500, respectively)	974,429	801,290
Inventories, net	1,757,153	1,663,574
Prepaid expenses and other current assets	57,775	98,805
Total current assets	4,576,873	4,035,723
Equipment, furnishings and leasehold improvements (less accumulated depreciation of $1,551,532 and $1,274,793)	514,623	588,109
Intangible assets, net	76,913	57,778
Other assets	7,171	7,171
TOTAL ASSETS	$ 5,175,580	$ 4,688,781

Liabilities and Stockholders' Equity

	February 28, 2010	February 28, 2009
Current Liabilities:		
Accounts payable	$ 595,174	$ 385,825
Accrued expenses	540,610	478,413
Line of credit – Bank	350,000	250,000
Current maturities of long term debt	15,727	23,633
Total current liabilities	1,501,511	1,137,871
Long term debt, less current maturities	3,622	19,220
Total Liabilities	1,505,133	1,157,091
Commitments and Contingencies	-	-
Stockholders' Equity		
Common stock, $.01 par value; 25,000,000 shares authorized, 14,437,511 and 14,414,714 issued and outstanding, respectively	144,376	144,148
Additional paid-in capital	8,546,924	8,490,071
Accumulated deficit	(5,020,853)	(5,102,529)
Total stockholders' equity	3,670,447	3,531,690
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 5,175,580	$ 4,688,781

See notes to consolidated financial statements.

Consolidated Statements of Operations

	Years Ended February 28, 2010	2009
Net Sales	$ 7,242,324	$ 6,408,796
Cost of Goods Sold	3,568,174	3,558,356
Gross Profit	3,674,150	2,850,440
Operating Expenses		
Research and product development	717,816	804,405
Marketing and selling	1,801,941	1,840,872
General and administrative	1,071,636	1,122,964
Total Operating Expenses	3,591,393	3,768,241
Operating Income (Loss)	82,757	(917,801)
Other Income (Expense):		
Interest Expense	(10,214)	(5,560)
Interest Income	1,929	12,335
Other Income	5,661	9,584
Income (Loss) before Income Taxes	80,133	(901,442)
Income Tax Benefit (Expense)	1,543	(611,586)
Net Income (Loss)	$ 81,676	$ (1,513,028)
Basic Earnings (Loss) Per Share	$ .01	$ (.11)
Diluted Earnings (Loss) Per Share	$ .01	$ (.11)
Weighted Average Shares – Basic	14,414,969	14,381,857
Weighted Average Shares – Diluted	14,524,417	14,381,857

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

YEARS ENDED FEBRUARY 28, 2010 AND FEBRUARY 28, 2009

	Common Stock Par Value $.01		Additional Paid – In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance – February 29, 2008	14,361,091	$143,612	$ 8,343,880	$ (3,589,501)	$ 4,897,991
Stock issued for rent	21,813	218	8,943		9,161
Exercise of stock options	31,810	318	21,822	-	22,140
Stock based compensation expense	-	-	115,426	-	115,426
Net Loss	-	-	-	(1,513,028)	(1,513,028)
Balance – February 28, 2009	14,414,714	144,148	8,490,071	(5,102,529)	3,531,690
Exercise of stock options	22,797	228	(18)	-	210
Stock based compensation expense	-	-	56,871	-	56,871
Net Income	-	-	-	81,676	81,676
Balance – February 28, 2010	14,437,511	$144,376	$ 8,546,924	$ (5,020,853)	$ 3,670,447

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended February 28, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$ 81,676	$ (1,513,028)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	309,575	263,670
Stock based compensation expense	56,871	115,426
Shares issued for rent	-	9,161
Allowance for doubtful accounts	(2,500)	-
(Increase) Decrease in:		
Accounts receivable	(170,639)	(186,912)
Inventories	(93,579)	(61,063)
Prepaid expenses and other current assets	41,030	(29,773)
Deferred tax asset	-	611,586
(Decrease) Increase in:		
Accounts payable and accrued expenses	271,546	(1,365)
Net Cash Provided by (Used in) Operating Activities	493,980	(792,298)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furnishings and leasehold improvements	(290,301)	(367,399)
Sale of equipment	60,862	57,643
Patent application costs	(25,785)	(29,020)
Net Cash Used In Investing Activities	(255,224)	(338,776)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of options	210	22,140
Proceeds from note payable – Bank	-	17,590
Proceeds from line of credit – Bank	350,000	250,000
Repayment of line of credit	(250,000)	-
Repayment of long term debt	(23,504)	(26,152)
Net Cash Provided by Financing Activities	76,706	263,578
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:	315,462	(867,496)
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,472,054	2,339,550
End of year	$ 1,787,516	$ 1,472,054

See notes to consolidated financial statements.

NOTE 1: Business Description

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

NOTE 2: Significant Accounting Policies

Consolidation - The accompanying consolidated financial statements of Sono-Tek Corporation, a New York corporation (the "Company"), include the accounts of the Company and its wholly owned subsidiary, Sono-Tek Cleaning Systems, Inc., a New Jersey Corporation ("SCS"), whose operations have been discontinued. There have been no operations of this subsidiary since Fiscal Year Ended February 28, 2002.

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

Cash and Cash Equivalents - Cash and cash equivalents consist of money market mutual funds, short term commercial paper and short-term certificates of deposit with original maturities of 90 days or less. The Company occasionally has cash or cash equivalents on hand in excess of the $250,000 insurable limits at a given bank. At February 28, 2010 and 2009, the Company had $1,286,917 and $1,121,241 over the insurable limit, respectively.

Supplemental Cash Flow Disclosure -

	Years Ended February 28,	
	2010	2009
Interest paid	$ 10,214	$ 4,928
Income taxes paid	-	$ 6,250

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

Allowance for doubtful accounts - The Company records a bad debt expense/allowance based on 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 28, 2010 and 2009 was $32,470 and $5,196, respectively

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

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

Intangible Assets - Include costs of patent applications which are deferred and charged to operations over seventeen years for domestic patents and twelve years for foreign patents and the unamortized portion of deferred financing costs. The accumulated amortization of patents is $70,852 and $64,202 at February 28, 2010 and 2009, respectively. Annual amortization expense of such intangible assets is expected to be $6,700 per year for the next five years.

Research and Product Development Expenses - Research and product development expenses represent engineering and other expenditures incurred for developing new products, for refining the Company's existing products and for developing systems to meet unique customer specifications for potential orders or for new industry applications and are expensed as incurred. Engineering costs directly applicable to the manufacture of existing products are included in cost of goods sold.

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

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

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

Advertising Expenses - The Company expenses the cost of advertising in the period in which the advertising takes place. Advertising expense for the years ended February 28, 2010 and 2009 was $138,676 and $281,181, respectively.

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

Recognition of Revenue - Sales are recorded at the time title passes to the customer, which, based on shipping terms, generally occurs when the product is shipped to the customer. Based on prior experience, the Company reasonably estimates its sales returns and warranty reserves. Sales are presented net of discounts and allowances. Discounts and allowances are determined when a sale is negotiated. The Company does not grant its customers or independent representatives the ability to return equipment nor does it grant price adjustments after a sale is complete.

Concentration of Credit Risk - The Company does not believe that it is subject to any unusual or significant risks, in the normal course of business. The Company does have cash in excess of the federal insurable limits as noted above. The Company also had one customer, which accounted for 6.8% of sales during the year ended February 28, 2010. One customer accounted for 10.1% of the outstanding accounts receivables at February 28, 2010.

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

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

New Accounting Pronouncements -

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.

NOTE 3: Segment Information

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

NOTE 4: Stock-Based Compensation

On March 1, 2006, the Company adopted ASC 718, "Share Based Payments." ASC 718 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:

	2010	2009
Expected life	4 years	4 years
Risk free interest rate	1.39% - 2.7%	1.07% - 3.13%
Expected volatility	66% - 96%	56% - 137%
Expected dividend yield	0%	0%

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

For the years ended February 28, 2010 and February 28, 2009, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated $56,871 and $115,426 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.

During the year ended February 28, 2009 the Company repriced an aggregate of 205,000 options with exercise prices ranging from $1.75 to $2.43 per share, to an exercise price of $0.74 per share. The Company also repriced an additional 100,000 options with an exercise price of $1.75 to an exercise price of $1.00. A total expense of $49,420 was recognized during the year due to these repricings.

NOTE 5: Inventories

Inventories consist of the following:

	February 28, 2010	February 28, 2009
Raw Materials	$ 477,845	$ 596,164
Work-in-process	527,553	553,447
Consignment	9,042	9,042
Finished Goods	951,671	811,119
Totals	1,966,111	1,969,772
Less: Allowance	(208,958)	(306,198)
	$ 1,757,153	$ 1,663,574

NOTE 6: Equipment, Furnishings, and Leasehold Improvements

Equipment, furnishings and leasehold improvements consist of the following:

	February 28, 2010	February 28, 2009
Laboratory equipment	$ 414,112	$ 371,049
Machinery and equipment	363,167	363,167
Leasehold improvements	126,529	126,529
Tradeshow and demonstration equipment	621,561	499,632
Furniture and fixtures	540,786	502,525
Totals	2,066,155	1,862,902
Less: accumulated depreciation	(1,551,532)	(1,274,793)
	$ 514,623	$ 588,109

Depreciation expense for the years ended February 28, 2010 and February 28, 2009 was $302,920 and $258,418, respectively.

NOTE 7: Accrued Expenses

Accrued expenses consist of the following:

	February 28, 2010	February 28, 2009
Accrued compensation	$ 235,980	$ 177,904
Estimated warranty costs	21,900	17,850
Accrued commissions	168,831	175,666
Professional fees	25,014	25,014
Customer deposits	73,954	73,380
Other accrued expenses	14,931	8,599
	$ 540,610	$ 478,413

NOTE 8: Revolving Line of Credit

The Company has a $500,000 revolving line of credit at prime which was 3.25% at February 28, 2010. The loan is collateralized by all of the assets of the Company. The line of credit is payable on demand and must be retired for a 30 day period once annually. As of February 28, 2010 and February 28, 2009, the Company had outstanding borrowings of $350,000 and $250,000, respectively, under the revolving line of credit.

NOTE 9: Long-Term Debt

Long-term debt consists of the following:

	February 28,	
	2010	2009
Equipment loan, bank, collateralized by related production equipment, payable in monthly installments of principal and interest of $832 through March 2010. Interest rate 6.51%. 60 month term.	$ 830	$ 10,283
Equipment loan, bank, collateralized by related office equipment, payable in monthly installments of principal and interest of $529 through September 2011. Interest rate 5.22%. 36 month term.	9,632	15,306
Equipment loan, bank, collateralized by related engineering equipment, payable in monthly installments of principal and interest of $770 through February 2011. Interest rate 6.54%. 60 month term.	8,887	17,264
Total long term debt	19,349	42,853
Due within one year	15,727	23,633
Due after one year	$ 3,622	$ 19,220

Long-term debt is payable as follows:

Fiscal Year ending February 28, 2012	$ 3,622

NOTE 10: Commitments and Contingencies

Leases – Total rent expense was approximately $142,094 and $137,927, for the years ended February 28, 2010 and 2009, respectively.

At February 28, 2010, the Company leases its facilities on a month to month basis. The future rental expense is not expected to materially change from the current year.

NOTE 11: Income Taxes

The annual provision (benefit) for income taxes differs from amounts computed by applying the maximum U.S. Federal income tax rate of 35% to pre-tax income (loss) as follows:

	February 28, 2010	February 28, 2009
Expected federal income tax (benefit)	$ 28,587	$ (315,505)
State tax (benefit), net of federal	3,430	(37,861)
Permanent timing difference	22,748	7,392
(Decrease) in valuation allowance	(53,222)	(265,612)
Income tax (expense) benefit	$ 1,543	$ (611,586)

The net deferred tax asset is comprised of the following:

	February 28, 2010	February 28, 2009
Inventory	$ 110,000	$ 147,079
Accrued expenses and other	34,000	37,340
Net operating losses	870,000	896,257
Deferred tax asset	1,014,000	1,080,676
Deferred tax liability	(141,000)	(46,777)
Valuation allowance	(873,000)	(1,033,899)
Net deferred tax asset	$ -	$ -

The change in the valuation allowance was $53,000 for the year ended February 28, 2010. This represents a $53,000 decrease in the net operating loss valuation allowance in addition to a $94,000 change in depreciable timing differences.

At February 28, 2010, the Company has available net operating loss carryforwards of approximately $2,176,000 for income tax purposes, which expire between fiscal 2019 and fiscal 2029. The net operating loss carryforwards generated by a subsidiary are subject to limitations under Section 382 of the Internal Revenue Code.

During the year ended February 28, 2009, the Company increased the valuation reserve of its deferred tax asset resulting in the recognition of tax expense of $611,586. The increase in the valuation reserve is a non cash expense item. The increase in the valuation reserve is based on the Company's estimate of its ability to utilize the current net operating loss carryforwards.

At February 28, 2009, the Company had available net operating loss carryforwards of approximately $2,137,000 for income tax purposes, which expire between fiscal 2019 and fiscal 2029. The net operating loss carryforwards generated by a subsidiary are subject to limitations under Section 382 of the Internal Revenue Code.

NOTE 12: Stockholders' Equity

Stock Options – The Company has two stock option plans, the 1993 Stock Incentive Plan, as Amended ("1993 Plan") and the 2003 Stock Incentive Plan ("2003 Plan"). Under each Plan, options can be granted to officers, directors, consultants and employees of the Company and its subsidiaries to purchase up to 1,500,000 of the Company's common shares. Options granted under the 1993 Plan expire on various dates through 2013. The 1993 Plan expired in October 2003 and no further options can be granted under the 1993 Plan. A total of 62,500 options remain outstanding under the 1993 Plan. Under the 2003 Plan options expire at various dates through 2020. A total of 1,167,268 options are outstanding under the 2003 Plan.

During Fiscal Year 2010, the Company granted options for 50,000 shares exercisable at $1.04 to an officer of the Company, options for 5,500 shares exercisable at prices from $.53 to $1.04 to independent consultants and options for 17,500 shares exercisable at prices from $.54 to $1.03 to employees of the Company.

During Fiscal Year 2009, the Company granted options for 115,000 shares exercisable at $.74 to officers of the Company, options for 40,000 shares exercisable at $.74 to directors of the Company and options for 172,500 shares exercisable at prices from $.42 to $1.10 to employees of the Company.

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

A summary of the activity of both plans for the years ended February 28, 2010 and February 28, 2009 is as follows:

	Stock Options		Weighted Average Exercise Price		Fair Value
	Outstanding	Exercisable	Outstanding	Exercisable	Vested
Balance – February 29, 2008	972,375	840,950	$ 1.54	$ 1.60	$ .20
Granted	327,500		.73		
Exercised	(31,810)		(.70)		
Cancelled	(62,500)		(1.07)		
Balance – February 28, 2009	1,205,565	920,906	1.10	1.08	.33
Granted	73,000		.98		
Exercised	(47,797)		(.74)		
Cancelled	(1,000)		(.42)		
Balance – February 28, 2010	1,229,768	1,018,418	$ 1.11	$ 1.06	$ .34

The intrinsic value of the Company's options exercised during the years ended February 28, 2010 and 2009 was $31,356 and $5,375, respectively.

Information, at date of issuance, regarding stock option grants for the years ended February 28, 2010:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Year ended February 28, 2010:			
Exercise price exceeds market price	-	-	-
Exercise price equals market price	73,000	$ .98	$ .55
Exercise price is less than market price......	-	-	-

The aggregate intrinsic value of the Company's outstanding options at February 28, 2010 was $157,152 and the intrinsic value of options exercisable at February 28, 2010 was $132,445.

The following table summarizes information about stock options outstanding and exercisable at February 28, 2010:

	Number Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Number Exercisable
Range of exercise prices:				
$.25 to $.50	88,500	6.2	$ .39	72,000
$.51 to $1.00	609,893	6.4	$ .83	488,568
$1.01 to $1.75	458,875	5.5	$ 1.45	385,350
$1.76 to $2.30	65,000	5.5	$ 2.15	65,000
$2.31 to $3.00	7,500	5.1	$ 2.58	7,500

NOTE 13: Earnings Per Share

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

	February 28, 2010	February 28, 2009
Numerator for basic and diluted earnings per share	$ 81,676	$ (1,513,028)
Denominator:		
Denominator for basic earnings per share-weighted average shares	14,414,969	14,381,857
Effects of dilutive securities:		
Stock options for employees, directors and outside consultants	109,448	-
Denominator for diluted earnings per share	14,524,417	14,381,857
Basic Earnings (Loss) Per Share	$ .01	$ (.11)
Diluted Earnings (Loss) Per Share	$ .01	$ (.11)

The effect of stock options for the year ended February 28, 2009 is not used in the calculation of diluted earnings per share because the inclusion of stock options in the calculation would have an anti-dilutive effect.

NOTE 14: Significant Customers and Foreign Sales

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

	February 28, 2010	February 28, 2009
Western Europe	$ 1,324,000	$ 1,069,000
Far East	2,304,000	1,868,000
Other	1,108,000	848,000
	$ 4,736,000	$ 3,785,000

During Fiscal Years 2010 and 2009, sales to foreign customers accounted for approximately $4,736,000 and $3,785,000, or 65% and 59% respectively, of total revenues.

Note 15: Subsequent Events

The Company has evaluated subsequent events through May 18, 2010 for disclosure purposes.

COMMON STOCK

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

	Years Ended February 28,			
	2010		2009	
	HIGH	LOW	HIGH	LOW
First Quarter	$ 0.55	$ 0.40	$ 1.15	$ 0.74
Second Quarter	0.72	0.42	1.15	0.75
Third Quarter	1.25	0.62	0.89	0.40
Fourth Quarter	1.40	0.97	0.65	0.26

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

As of May 10, 2010, there were 221 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.

Corporate Directory

Directors

Christopher L. Coccio, Ph.D. - Chairman and CEO

Joseph Riemer, Ph.D. - President

Samuel Schwartz - Chairman Emeritus and former Chairman of the Board, retired Chairman and CEO of Krystinel Corporation.

Edward J. Handler, Esq. - Compensation and Audit Committees, retired partner from Kenyon and Kenyon intellectual property law firm, President and COO of Storm Bio, Inc., past President of the West Point Society of New York.

Philip A. Strasburg, CPA - Certified Public Accountant in New York State, retired partner from Anchin Block and Anchin accounting firm, Chairman of the Audit Committee, member of the Westchester Public/Private Partnership for Aging Services Board of Directors.

Donald F. Mowbray, Ph.D. - Chairman of Compensation Committee, Independent Consultant, Retired head of General Electric's Corporate R&D Mechanical Engineering Laboratory.

Eric Haskell, CPA - Compensation Committee, former Executive Vice President and Chief Financial Officer of SunCom Wireless Holdings, Inc., former Chief Financial Officer of Systems & Computer Technology Corp., and current Finance Committee Chairman for Philadelphia Ronald McDonald House.

Executive Officers

Christopher L. Coccio, Ph.D. - Chairman and CEO
Joseph Riemer, Ph.D. - President
Stephen J. Bagley, CPA - Chief Financial Officer
R. Stephen Harshbarger - Vice President and Director of Electronics & Advanced Energy

Corporate Headquarters

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