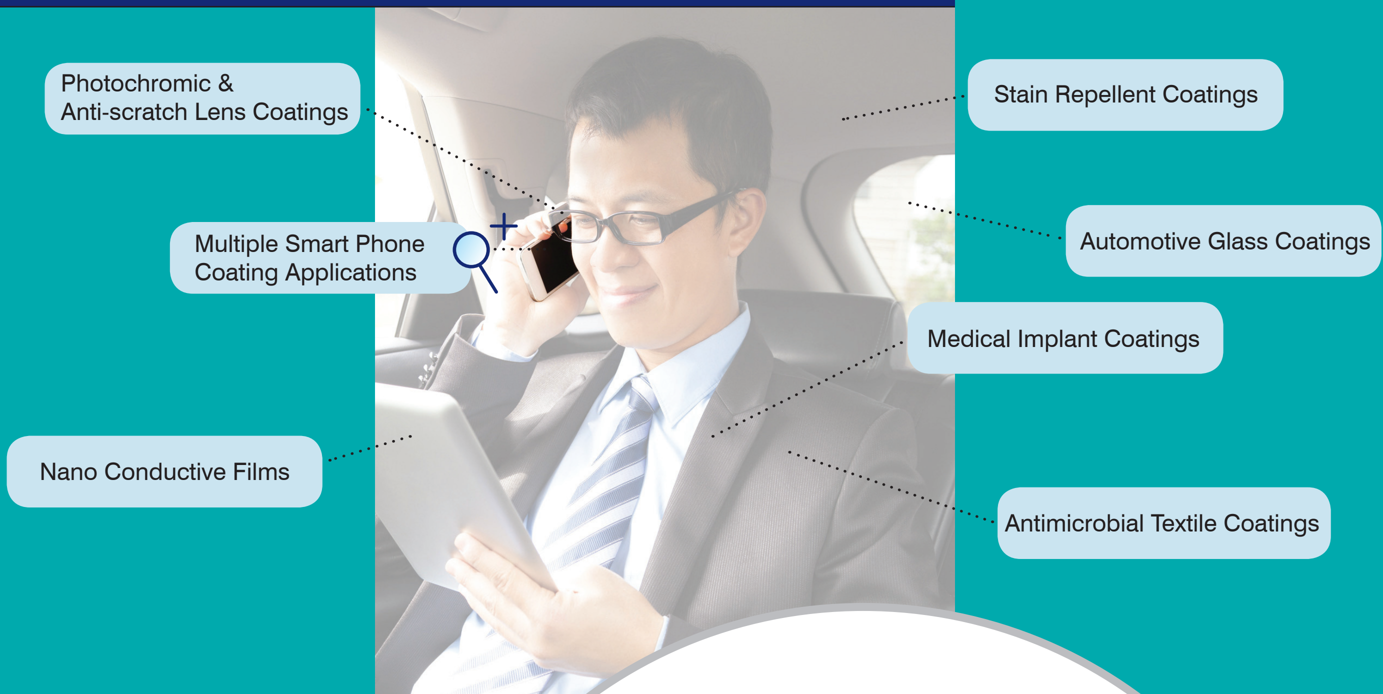
SONO•TEK Corporation

2014 Annual Report

Ultrasonic spray technology coatings for today and tomorrow

On the cover: *functional glass coatings, handheld electronics manufacturing, and antimicrobial coatings onto sliced meat are a few key coating applications where Sono-Tek saw growth in the past year.*

A snapshot of Sono-Tek ultrasonic technology coating applications

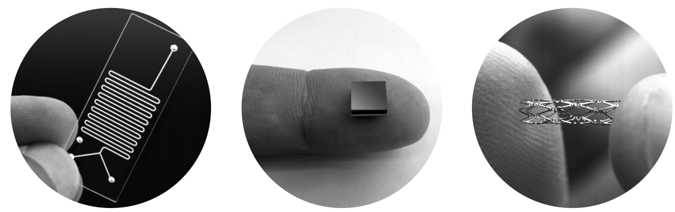


Sono-Tek's diversified markets and concentration on focused market applications continued to contribute to the Company's growth in fiscal year 2014. With anticipated expansion of smaller and more advanced electronics and functional glass and textile coating applications, Sono-Tek is poised to continue our growth in these and other applications. Devices such as smart phones alone may have as many as five different ultrasonic coating applications utilized during their manufacturing processes.

CONTENTS

2014 Corporate Highlights

- **Back on growth track**
- **Sales increased by 8%**
- **Income increased by 366%**
- **Increased cash reserves**
- **Set the stage for future growth**



Left to right: A rise in medical diagnostic rapid testing leads to opportunities for Sono-Tek in providing equipment to coat reagents onto microfluidic devices. Photoresist coating processes are driven by the growing market for MEMs sensors and other advanced point-of-care medical devices. Implantable drug eluting stents continue to be a strong niche market for Sono-Tek.

Recent Press Releases

Excerpt from February 2014 Press Release
In an online and print article dated February 26th, the *Wall Street Journal* featured an interview with Chris Coccio, Sono-Tek's CEO, regarding the challenges small businesses face in exporting goods overseas. The article noted that the majority of U.S. exporters are small companies (less than 500 employees). Sono-Tek is proud to be included in this group that is thriving in the global economy.

Excerpt from January 2014 Press Release
A recent article from pdd.net (*http://www.pddnet.com/news/2013/08/raising-iq-smart-windows*) detailed research done by *Lawrence Berkeley National Laboratory* in using novel materials including nanocrsytals to manufacture smart, or electrochromic glass. Shown in the article is Sono-Tek's *ExactaCoat* system, which has enabled *LBNL* to research new materials and methods in the fabrication of smart glass.

Excerpt from January 2104 Press Release
Sono-Tek announces a new relationship with world-reknowned premier laboratory spray dryer manufacturer, *BUCHI*, to provide ultrasonic nozzles as a new option added to BUCHI's extensive line of precision spray drying products. Sono-Tek ultrasonic spray drying nozzles will be available from BUCHI for retrofit into existing Spray Dryers as an Ultrasonic Package or as part of a complete package integrated into the new *Spray Drying System B-290 Large* (10-60 micron) from BUCHI.

Excerpt from September 2013 Press Release
Sono-Tek Corporation sold three ultrasonic spray coating systems for anti-microbial applications to a USA-based processed meat manufacturer. These three systems are ideal for spraying extremely small amounts of anti-microbial actives uniformly onto the surfaces of meat slices as they are descending off industrial slicers at high speeds. Such accurate low dose coating capability is unmatched by any air pressure assisted spraying system. Based on Sono-Tek's expertise and experience in FDA validated medical device coating applications, the Company now offers meat manufacturers and slicing equipment manufacturers a unique capability for enhancing safety with a clean label.

Company Overview

Sono-Tek, founded in 1975 and publicly traded on OTC Bulletin Board (OTCQB: SOTK), develops, manufactures and sells unique high-end ultrasonic spray coating systems to a broad portfolio of industries: ***Electronics, Advanced Energy, Medical Devices, Glass, Textiles*** and ***Food***.

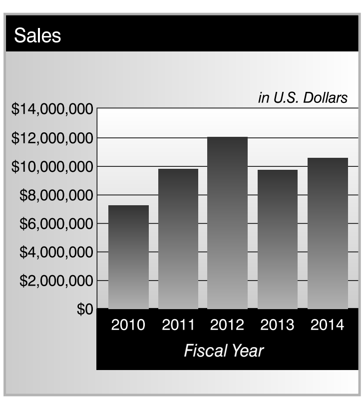
The Company is the world leader in the technology of ultrasonic atomization of liquids. Furthermore, the Company possesses comprehensive intellectual property, trade secrets and application expertise in this disruptive technology, which is replacing conventional spraying systems in diverse applications. Sono-Tek's ultrasonic spray nozzle systems atomize low to medium viscosity liquids by converting electrical energy into mechanical motion in the form of ultrasonic vibrations that break liquids into very small and uniform droplets that can be applied with precision to surfaces at a low velocity.

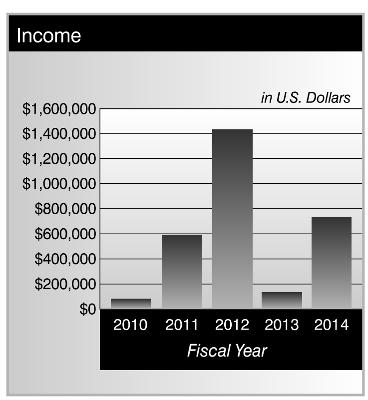
Drivers such as the increasing costs of expensive liquid coating materials in various industries have caused numerous manufacturers to adopt Sono-Tek ultrasonic spray nozzle systems. Sono-Tek's coating application technology is the preferred solution relative to that of its competitors because of its precise, controllable and environmentally friendly advantages. Sono-Tek ultrasonic spray nozzles, with their characteristic fine mist spray, dramatically reduce overspray, thereby saving costs and minimizing atmospheric contamination. The Company's ultrasonic systems have created a broad range of new applications that could not have been achieved with conventional spraying systems. Many additional application possibilities have been identified and remain to be pursued.

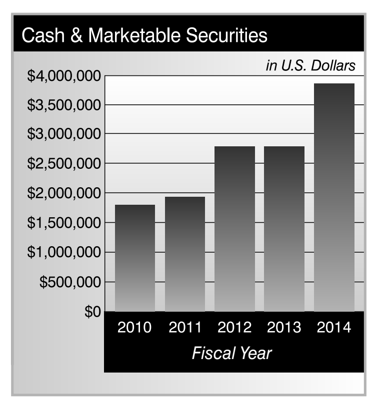
Technology Leadership

*Introduced in FY2014, the **ECHO** ultrasonic generator is a game changing technology for ultrasonic spray applications, offering ten times the precision, power and atomization control across the full spectrum of operating frequencies of all Sono-Tek ultrasonic nozzles, with a modern interface and user friendly encoder wheel function.*

The Sono-Tek Engineering team is responsible for a continuous new product pipeline which has been the primary driver behind the Company's organic growth strategy over the past five years. The pipeline provides existing and new customers with ever-improving equipment and processes. Joint development projects with leading high-tech companies and research institutions, as well as various defense, energy and health agencies of governments from around the world, have led to the production of a portfolio of next generation ultrasonic spray coating systems for electronics, energy, medical, industrial, nanotechnology and a wide range of thin film applications.







Highlights

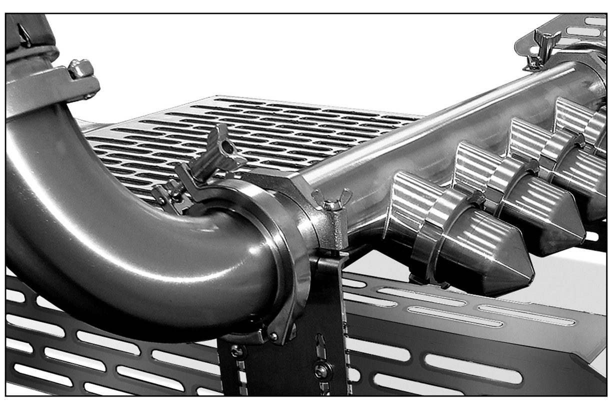
Fiscal Year 2014 (March 2013 - February 2014) was a solid and successful year for Sono-Tek. We turned around the solar energy driven decrease in last year's sales by pursuing other opportunities such as next generation balloon catheter medical device coatings, antimicrobial food coatings, WideTrack glass coating systems, high end intelligent circuit board fluxers, and advanced photoresist deposition applications. As a result, we resumed our growth track in revenue and earned substantially more operating income this year. We also increased our cash reserves to a record amount while refinancing our industrial park with a lower overall debt and reduced interest rate. The strong cash position will allow us to consider strategic additions to our business going forward should attractive opportunities arise.

Meanwhile, our organic growth model will continue to be based on identifying high end coating applications where our ultrasonic spray technology could bring significant benefits. We select a number of these areas for focused development of system hardware and application knowledge to win customer orders and enhance our business. We have followed this path with spray fluxing printed circuit boards, coating medical implants with anti-restenosis drugs, coating solar and fuel cell active/functional layers, applying protective coatings for glass and functional coatings onto lenses, and most recently introduced coating systems for food and textile applications.

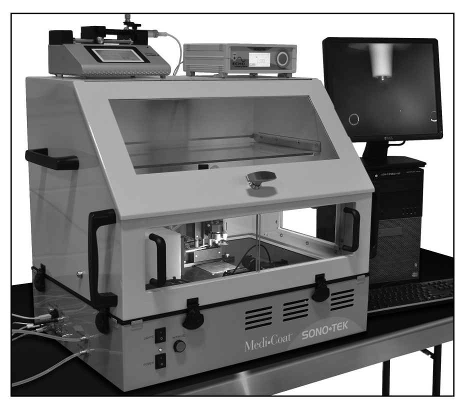
We believe we have a strong business development model and a strong team in place to implement it. We have seen our Company quadruple over the past decade, and we believe the best is yet to come as we continue to exploit the many potential opportunities we see for precision coating using the robotically controlled and conveyorized systems that we have developed in our past and current applications.

Stock Price

Given the relatively small size of Sono-Tek's public float, the Company has not been adequately followed by public market investors. Therefore, the Company's public market valuation at times does not necessarily reflect the value associated with its proprietary technology, unique products and substantial growth potential.

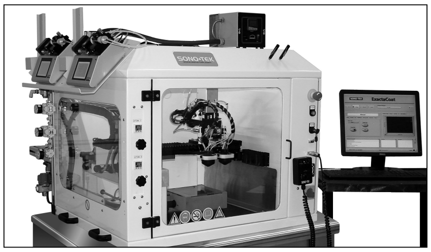


SonoCoat *systems apply antimicrobial coatings onto meat products, enabling manufacturers to use clean labeling practices.*



The ***MediCoat DES3000*** *stent coating system incorporates several next generation technologies developed by Sono-Tek.*

Market Overview



ExactaCoat *systems provide researchers with a way to test new applications and refine coating processes, including spraying aggressive chemistries, before scaling to production volume manufacturing.*

The Company markets and distributes its products through independent distributors, sales representative companies, OEMs and an in-house direct sales force. The Company's sales force proactively markets products directly to customers located around the world, including North America, Asia, Europe and Latin America. The distributor network has increased markedly in strength over the past several years and serves as one of the Company's primary distribution channels.

Sono-Tek's geographically diverse customer base includes leading domestic and international OEMs and other Tier One suppliers. Sono-Tek's outreach efforts have led to strong, long-term customer relationships. Sono-Tek maintains these relationships through in-house teams of sales managers and application and application/service engineers who regularly visit distributors and customers.

Markets/Products & Systems - 2014 Update

Electronics & Advanced Energy	
Spray Fluxing SonoFlux	• A core business for Sono-Tek. • Industry leading line of fluxers focused on North America, Europe and Asia. • Some growth in our consumer electronics market due to expansion into Latin America and North Africa and newer high end fluxer product.
Clean Energy (Fuel Cells/Solar Cells) ExactaCoat & FlexiCoat	• Both areas remain down due to industry overcapacity and reduced government funding. • Expect some improvement in 2015 as market forces come into balance. • New ChemCoat unit proceeding through beta testing at partner site.
Semiconductor	
MEMs Nozzle Systems	• Steady growth of both sales and application knowledge. • Increasing sales of nozzle systems in Europe and Asia. • Developing a full package solution in-house.
OLED Nozzle Systems	• Sales concentrated with a single major Asian customer that effectively controls majority of the market. • New ECHO generator being used in trials.
Flip Chip Fluxing Nozzle Systems	• Market exploration completed and initial product design developed.
Glass	
Float Glass Coating WideTrack	• Significant rebound in this market, with strong Asian sales.
Lens Coatings WideTrack	• Eyewear, sunglasses, camera lenses, microscopes, visors. • Anti-reflective, anti-scratch, anti-smudge, UV, photoresist. • Potential growth market.
Medical Devices	
Drug Coated Balloons & Balloon Catheters MediCoat BCC	• Similar customer base to that of stent coating products. • Heparin, Paclitaxel, Rapamycin, Aspirin, lubricious, hydrophobic coatings. • Introduction of two new machines has taken off.
Stent Coating MediCoat Series	• Cardiovascular, peripheral, sinus and other stents. • Capitalize on existing customers as they ramp up production. • Introduced new MediCoat DES3000 system to new and existing customers.
Other Medical MediCoat, ExactaCoat/ FlexiCoat & WideTrack	• Currently expanding into the following markets: blood collection tubes, syringe barrels, well plates, cell culture growth, protein, reagents, diagnostic devices, and spray drying nozzles. • New partnership with *BUCHI* having positive impact.
Food & Textiles	
Food Coatings WideTrack	• Antimicrobials, nutraceuticals, flavorings onto food products - meats and cereals. • Several development projects completed successfully. • New customer trials underway.
Textiles WideTrack	• Antimicrobials, water/oil repellent, fire retardant, fragrances. • Focus on a novel approach with a partner firm.

2014 Chairman's Message

Dr. Christopher Coccio
CEO

Steve Harshbarger
President

Everything we do at Sono-Tek is based on the core ultrasonic atomization nozzle technology that we invented and pioneered over the years since we were formed. We have demonstrated that ultrasonic spraying and coating provides many benefits to markets and customers unavailable using traditional pressure nozzle spraying and coating systems. First and foremost is the ability to produce very uniform and small spray droplets, which results in the ability to apply thin, precise coatings. Thin, precision coatings allow customers to attain higher quality control while using reduced amounts of expensive liquids and chemicals. Customers also avoid the wasteful overspray inherent in the use of pressure nozzle systems, and reduce or completely eliminate the resulting environmental impact.

Our history is one of organic growth from one application and market to another, as we develop the necessary application engineering and understanding of unique customers needs in each new market. We now have penetrated six markets: printed circuit board manufacturing, semiconductor manufacturing, advanced energy systems, medical device coatings, glass coatings, and have initial entries into food and textile coatings.

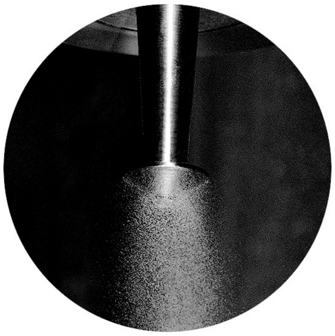
Beyond market diversity, Sono-Tek has also diversified in terms of geographical markets served. We now have a strong presence on three continents, North America, Europe, and Asia, and we are developing a greater presence in South America and Africa. We have long-term relationships with our distributors overseas, and we have five application laboratories located at key distributors to help them serve their customers more effectively. Market and geographical diversification have been and will continue to be a key element of our strategy to create a business that can take advantage of growth opportunities and yet is resilient when one market or geography experiences a downturn.

The Sono-Tek Team *– I would like to acknowledge and thank all of our team members for their performance this year, while looking forward to continued progress in developing more applications for our ultrasonic coating technology.*

Sincerely,

Christopher L. Coccio, Ph.D.
Chairman and CEO
July 14, 2014

The MediCoat BCC *balloon catheter coating system provided Sono-Tek with a successful entry into this emerging medical market.*



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, 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 four 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 operate.

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

A majority of our sales now originate 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 were introduced, the new markets that were penetrated, and the regions in which we now operate, are a strong foundation for our future sales growth and enhanced profitability.

Liquidity and Capital Resources

Working Capital – Our working capital increased $73,000 from a working capital of $4,680,000 at February 28, 2013 to $4,753,000 at February 28, 2014. The increase in working capital is due to: net income of $484,000 and cash proceeds of $1,600,000 from a note payable, offset by cash outflows of $57,000 for patent and other asset costs, $224,000 for the purchase of equipment and furnishings and $2,043,000 for the repayment of notes payable and $65,000 for an increase in the current maturities of our long term debt. In addition, we incurred non-cash expenses for depreciation and amortization expense of $344,000, stock based compensation expense of $18,000 and $15,000 from the write-off of impaired acquisition costs. The Company's current ratio was 3.6 to 1 at February 28, 2014 as compared to 5.3 to 1 at February 28, 2013.

Our customer deposits on hand increased $294,000 from $69,000 at February 28, 2013 to $363,000 at February 28, 2014.

Stockholders' Equity – Stockholders' equity increased $503,000 from $5,992,000 at February 28, 2013 to $6,495,000 at February 28, 2014. The increase in stockholders' equity is the result of the current year's net income of $484,000 and stock based compensation of $18,000.

Operating Activities – Our operating activities provided $1,668,000 of cash for the year ended February 28, 2014 as compared to providing $611,000 for the year ended February 28, 2013. During the year ended February 28, 2014, we had net income of $484,000, accounts receivable decreased $69,000, inventories decreased $159,000, prepaid expenses and other assets increased $81,000, accounts payable and accrued expenses increased $236,000, customer deposits increased $294,000 and income taxes payable increased $123,000. In addition, we incurred non-cash expenses of $344,000 for depreciation and amortization, $18,000 for stock based compensation expense, $(5,000) for inventory reserve, $12,000 for allowance for accounts receivable and $15,000 for the write-off of impaired assets costs.

Investing Activities – For the year ended February 28, 2014, our investing activities provided $65,000 as compared to using $1,106,000 for the year ended February 28, 2013. In 2014 and 2013, we used $224,000 and $352,000, respectively, for the purchase or manufacture of equipment, furnishings and leasehold improvements. In 2014 and 2013, we used $56,000 and $32,000, respectively, for patent application and other asset costs. In 2014, we had proceeds of $345,000 from the sale of marketable securities as compared to the use of $722,000 for the purchase of marketable securities in 2013.

Financing Activities – For the year ended February 28, 2014, we used $443,000 in our financing activities as compared to using $96,000 of cash for the year ended February 28, 2013. We had proceeds of $210 and $25,000 for stock option exercises in 2014 and 2013, respectively. In addition, we made repayments of notes payable of $2,043,000 and $121,000 in 2014 and 2013, respectively. During the year ended February 28, 2014, we had proceeds of a note payable for $1,600,000 for the refinancing of the industrial park in which our operations are located.

Net Increase in Cash – For the year ended February 28, 2014, our cash balance increased by $1,291,000 as compared to a decrease of $591,000 for the year ended February 28, 2013. During the year ended February 28, 2014, our operations provided $1,668,000 of cash, our investing activities provided $65,000 and we used $443,000 in our financing activities.

Net Decrease in Marketable Securities – For the year ended February 28, 2014, our marketable securities decreased to $631,000 from $976,000 at February 28, 2013. The decrease is due to the sale of our marketable securities during the year ended February 28, 2014.

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 28, 2014, we had no outstanding borrowings under the line of credit.

We had outstanding borrowings of $81,000 under the equipment facility at February 28, 2014. The borrowing has a repayment term of 48 months and bears interest at 2.12% per annum.

We had outstanding borrowings under a note payable of $1,589,000 at February 28, 2014. The note is payable over ten 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:

For the year ended February 28, 2014, our sales increased by $712,000 to $10,202,000 as compared to $9,491,000 for the year ended February 28, 2013, an increase of 7.5%. During the year ended February 28, 2014, we experienced an increase in sales of our nozzles and generators, WideTrack units, XYZ units, Servo units, lead solder recovery systems and spray dryer units. We did, however, see a decrease in sales of our stent coating units and a slight decrease in fluxers and fluxer related equipment.

For the year ended February 28, 2013, we were affected by the slowdown of solar energy projects due to an overcapacity in that industry, combined with a decrease in government incentives. This market remained slow in the year ended February 2014.

For the year ended February 28, 2014, sales to customers located in European countries increased by $597,000 or 47%, sales to customers located in Asian countries decreased by $74,000 or 2% and sales to other non-based US customers increased $270,000 or 54%. Sales to U.S. based customers decreased by $78,000 or 2%.

Our gross profit increased $201,000, to $4,733,000 for the year ended February 28, 2014 from $4,532,000 for the year ended February 28, 2013. Our gross profit margin percentage was 46% for the year ended February 28, 2014 compared to 48% for the year ended February 28, 2013. The decrease in the current year's gross profit margin is primarily due to a decrease in sales of our stent coating units.

Research and Product Development:

Research and product development costs decreased $9,000 to $885,000 for the year ended February 28, 2014 as compared to $894,000 for the year ended February 28, 2013. For the year ended February 28, 2014 we experienced decreases in engineering salaries, insurance and engineering materials.

During the year ended February 28, 2014, we expended approximately $552,000 for engineering personnel as compared to $572,000 for the year ended February 28, 2013. During the year ended February 28, 2014, we expended approximately $118,000 for additional research, materials and product development as compared to $128,000 for the year ended February 28, 2013. During the year ended February 28, 2014 we expended approximately $39,000 for insurance as compared to $47,000 for the year ended February 28, 2013. The decrease in the above costs was offset by an increase in depreciation expense. During the year ended February 28, 2014, depreciation expense was $89,000 as compared to $64,000 for the year ended February 28, 2013.

Marketing and Selling:

Marketing and selling costs decreased $257,000 to $1,958,000 for the year ended February 28, 2014 as compared to $2,215,000 for the year ended February 28, 2013. For the year ended February 28, 2014, we experienced decreases in international commission expense, travel and entertainment expense, advertising and trade show expenses and depreciation expense.

During the year ended February 28, 2014, we expended approximately $384,000 for commissions as compared to $652,000 for the year ended February 28, 2013, a decrease of $268,000. During the current year, our sales include four large orders that were shipped to Asia. Our international commission expense decreased because these Asian sales originated in house by our internal sales staff and, as such, no external commissions were incurred.

During the year ended February 28, 2014, we expended approximately $121,000 for travel and entertainment as compared to $139,000 for the year ended February 28, 2013, a decrease of $18,000. During the year ended February 28, 2014, we expended approximately $175,000 for advertising and trade show expenses as compared to $219,000 for the year ended February 28, 2013, a decrease of $44,000. During February 28, 2014, depreciation expense was $105,000 as compared to $126,000 for the year ended February 28, 2013. The decrease in the above costs was offset by an increase in salary expenses. During February 28, 2014, salary expenses were $1,044,000 as compared to $960,000 for the year ended February 28, 2013, an increase of $84,000.

General and Administrative:

General and administrative costs decreased $137,000 to $1,017,000 for the year ended February 28, 2014 as compared to $1,154,000, for the year ended February 28, 2013. For the year ended February 28, 2014, we experienced decreases in salary expense, stock based compensation expense, corporate expenses and outside consulting fees related to the consideration of strategic and enhanced growth opportunities.

During the year ended February 28, 2014, we expended approximately $608,000 for salaries as compared to $675,000 for the year ended February 28, 2013, a decrease of $67,000. During the year ended February 28, 2014, we expended $124,000 for corporate and consulting expenses as compared to $179,000 for the year ended February 28, 2013, a decrease of $55,000. Stock based compensation expense was $18,000 for the year ended February 28, 2014 as compared to $27,000 for the year ended February 28, 2013, a decrease of $9,000.

Rental Real Estate Operations:

Real estate operations expense are expenses for the operations of the Sono-Tek Industrial Park. All inter-company revenue is eliminated in consolidation. For the fiscal years ended 2014 and 2013, the results of our rental real estate operations are as follows:

	Fiscal Years Ended February 28,	
	2014	2013
Rental Income	$ 76,665	$ 51,790
Depreciation	60,118	59,241
Insurance	9,000	9,000
Utilities and Landscaping	12,305	6,012
Property taxes	44,115	40,979
Repairs & Maintenance	5,062	-
Snow Removal	6,163	3,089
Miscellaneous	3,009	238
Impaired Acquisition Costs	15,020	-
Total Rental Expense	$ 154,792	$ 118,559
Loss before Interest	(78,127)	(66,769)
Interest expense	107,740	110,385
Net Loss	$ (185,867)	$ (177,154)

Rental income for the industrial park increased $25,000 from $52,000 for the year ended February 28, 2013 to $77,000 for the year ended February 28, 2014. The increase in rental income is a result of leasing 10,000 square feet of the park to a new tenant. The lease is for a five year period and began in April 2013. In May 2014, we signed a two year lease with a new tenant for 4,000 square feet.

Rental expenses for the industrial park increased $36,000 from $119,000 for the year ended February 28, 2013 to $155,000 for the year ended February 28, 2014. During the year ended February 28, 2014, utilities and landscaping increased $6,000 and snow removal increased $3,000. These increases are due to the harsh winter we experienced in the north east and utility rate increases. Property taxes increased $3,000, repairs and maintenance increased $5,000 and miscellaneous expenses increased $3,000.

In addition to the increase in operating expenses, we had a $15,000 expense due to the write-off of impaired asset costs which were related to the original financing we obtained when we purchased the industrial park. The costs were considered to be impaired as a result of the refinancing of the industrial park that took place in December 2013.

For the years ended February 28, 2014 and 2013, net cash outflows related to the industrial park were $208,000 and $181,000, respectively. These cash outflows are net of rental income and depreciation expense and include the principal payments on the industrial park's mortgage and additional capitalized costs related to the refinancing of the parks mortgage. Prior to purchasing the industrial park in December 2010, we had rental expense of approximately $142,000. If we are able to lease additional vacant space, it will provide a positive cash flow for the park when compared to our prior rental payments.

Interest Income, Interest Expense and Income Taxes:

Interest income increased to $7,000 for the year ended February 28, 2014 when compared to $5,000 for the year ended February 28, 2013. 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 $110,000 for the year ended February 28, 2014 as compared to $114,000 for the year ended February 28, 2013.

We recorded income tax expense of $130,000 for the year ended February 28, 2014 as compared to a benefit of $74,000 for the year ended February 28, 2013. As of February 28, 2014, we have no net operating loss deductions available to carryforward. The details of the current year's tax benefit are explained in Note 12 in our financial statements.

For the year ended February 28, 2014, we had net income of $484,000 as compared to $132,000 for the year ended February 28, 2013. The increase in our net income is due to an increase in our sales volume combined with a decrease in our operating expenses.

For the years ended February 28, 2014 and 2013, we do not believe that our sales revenue or net income has been adversely affected by the impact of inflation or changing prices.

Off - Balance Sheet Arrangements

We do not have any Off - Balance Sheet Arrangements as of February 28, 2014.

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 28, 2014, 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.

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 28, 2014 and 2013 and the related consolidated statements of operations, 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit provides 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 28, 2014 and 2013, 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.

Liggett, Vogt & Webb, P.A.

LIGGETT, VOGT & WEBB, P.A.
Certified Public Accountants
New York, New York
May 23, 2014

CONSOLIDATED BALANCE SHEETS

	February 28, 2014	February 28, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,232,021	$ 1,940,906
Marketable securities	630,794	975,910
Accounts receivable (less allowance of $32,000 and $20,000, respectively)	860,296	941,032
Inventories, net	1,674,815	1,829,171
Prepaid expenses and other current assets	160,373	79,605
Total current assets	6,558,299	5,766,624
Land	250,000	250,000
Buildings, net	2,071,875	2,128,125
Equipment, furnishings and leasehold improvements, net	637,138	689,151
Intangible assets, net	171,828	142,523
Deferred tax asset	90,021	90,021
TOTAL ASSETS	$ 9,779,161	$ 9,066,444
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 556,194	$ 408,738
Accrued expenses	565,121	477,027
Customer deposits	362,846	68,846
Current maturities of long term debt	191,466	125,999
Income taxes payable	129,398	6,331
Total current liabilities	1,805,025	1,086,941
Long term debt, less current maturities	1,479,058	1,987,236
Total Liabilities	3,284,083	3,074,177
Commitments and Contingencies	-	-
Stockholders' Equity		
Common stock, $.01 par value; 25,000,000 shares authorized, 14,708,518 and 14,503,010 issued and outstanding, respectively	147,085	145,030
Additional paid-in capital	8,725,883	8,709,601
Accumulated deficit	(2,377,890)	(2,862,364)
Total stockholders' equity	6,495,078	5,992,267
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,779,161	$ 9,066,444

See notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended February 28, 2014	2013
Net Sales	$ 10,278,938	$ 9,542,354
Cost of Goods Sold	5,545,471	5,010,093
Gross Profit	4,733,467	4,532,261
Operating Expenses		
Research and product development	885,101	894,481
Marketing and selling	1,957,960	2,214,750
General and administrative	1,017,043	1,153,862
Real estate operations expense	154,792	118,559
Total Operating Expenses	4,014,896	4,381,652
Operating Income	718,571	150,609
Other Income (Expense):		
Interest Expense	(110,151)	(113,931)
Interest Income	6,544	5,166
Other Income	-	16,001
Income before Income Taxes	614,964	57,845
Income Tax Expense (Benefit)	130,490	(74,406)
Net Income	$ 484,474	$ 132,251
Basic Earnings Per Share	$ .03	$ .01
Diluted Earnings Per Share	$ .03	$ .01
Weighted Average Shares – Basic	14,541,869	14,484,200
Weighted Average Shares – Diluted	14,580,165	14,484,200

See notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED FEBRUARY 28, 2014 AND 2013

	Common Stock Par Value $.01		Additional Paid – In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance – February 29, 2012	14,455,444	$144,553	$8,657,629	$(2,994,615)	$5,807,567
Exercise of stock options	47,566	477	24,869	-	25,346
Stock based compensation expense	-	-	27,103	-	27,103
Net Income	-	-	-	132,251	132,251
Balance – February 28, 2013	14,503,010	145,030	8,709,601	(2,862,364)	5,992,267
Exercise of stock options	205,508	2,055	(1,845)	-	210
Stock based compensation expense	-	-	18,127	-	18,127
Net Income	-	-	-	484,474	484,474
Balance – February 28, 2014	14,708,518	$147,085	$8,725,883	$(2,377,890)	$6,495,078

See notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended February 28, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 484,474	$ 132,251
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	343,869	349,937
Stock based compensation expense	18,127	27,103
Inventory Reserve	(5,346)	6,554
Allowance for doubtful accounts	12,000	-
Write off of impaired acquisition costs	15,020	-
(Increase) Decrease in:		
Accounts receivable	68,736	(181,426)
Inventories	159,702	723,401
Prepaid expenses and other assets	(80,768)	32,787
Deferred tax asset	-	(3,854)
(Decrease) Increase in:		
Accounts payable and accrued expenses	235,550	(196,946)
Customer deposits	294,000	(247,400)
Income taxes payable	123,067	(30,919)
Net Cash Provided by Operating Activities	1,668,431	611,488
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furnishings and leasehold improvements	(224,354)	(352,212)
Sale (Purchase) of marketable securities	345,116	(721,923)
Patent application and other asset costs	(55,577)	(32,218)
Net Cash Provided by (Used In) Investing Activities	65,185	(1,106,353)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of options	210	25,346
Proceeds from note payable – Bank	1,600,000	-
Repayment of long term debt	(2,042,711)	(121,264)
Net Cash (Used In) Financing Activities	(442,501)	(95,918)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,291,115	(590,783)
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,940,906	2,531,689
End of year	$ 3,232,021	$ 1,940,906

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.

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

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.

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.

Supplemental Cash Flow Disclosure –

	Years Ended February 28,	
	2014	2013
Interest paid	$ 110,151	$113,931
Income taxes paid	$ 2,485	$ 38,848

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, 2014 and 2013 was $12,000 and $9,620, 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.

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.

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. The accumulated amortization of patents is $105,585 and $95,634 at February 28, 2014 and 2013, respectively. Annual amortization expense of such intangible assets is expected to be $9,600 per year for the next five years.

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

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, 2014 and 2013 was $234,798 and $218,279, 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 had one customer, which accounted for 10% of sales during the year ended February 28, 2014. Three customers accounted for 27% of the outstanding accounts receivables at February 28, 2014.

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 28, 2014 and 2013, respectively:

	Quoted Prices in Active Markets (Level 1)	
	February 28,	
	2014	2013
Marketable Securities	$ 630,794	$ 975,910

Marketable Securities include mutual funds of $630,794, that are considered to be highly liquid and easily tradeable as of February 28, 2014. 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.

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.

In July 2013, the FASB issued Accounting Standards Update "ASU" 2013-11 on "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". The amendments in this ASU are to improve the current U.S. GAAP because they are expected to reduce diversity in practice by providing guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted.

• *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. For the twelve months ended February 28, 2014 and 2013, segment information is as follows:

	Twelve Months Ended February 28,							
	2014				2013			
	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated	Ultrasonic Spraying	Rental Real Estate Operations	Eliminations	Consolidated
Net Sales	$10,202,273	$ 217,453	$ 140,788	$10,278,938	$ 9,490,564	$ 187,531	$ 135,741	$ 9,542,354
Rental Expense	$ 140,788	$ 154,792	$ (140,788)	$ 154,792	$ 135,741	$ 118,559	$ (135,741)	$ 118,559
Interest Expense	$ 2,411	$ 107,740		$ 110,151	$ 3,546	$ 110,385		$ 113,931
Net Income (Loss)	$ 529,553	$ (45,079)		$ 484,474	$ 173,664	$ (41,413)		$ 132,251
Assets	$ 7,268,871	$ 2,510,290		$ 9,779,161	$ 6,574,429	$ 2,492,015		$ 9,066,444
Debt	$ 81,165	$ 1,589,360		$ 1,670,525	$ 140,619	$ 1,972,616		$ 2,113,235

• *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:

	2014	2013
Expected life	8 years	3 - 8 years
Risk free interest rate	.7%	.35% - .37%
Expected volatility	53.92%	88.5%
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, 2014 and February 28, 2013, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated $18,127 and $27,103 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 28, 2014	February 28, 2013
Raw Materials	$ 1,022,496	$ 1,073,492
Work-in-process	402,377	385,092
Consignment	25,639	9,728
Finished Goods	419,396	561,298
Totals	1,869,908	2,029,610
Less: Allowance	(195,093)	(200,439)
Total Inventories	$ 1,674,815	$ 1,829,171

• *NOTE 6:* BUILDINGS, EQUIPMENT, FURNISHINGS AND LEASEHOLD IMPROVEMENTS

Equipment, furnishings and leasehold improvements consist of the following:

	February 28, 2014	February 28, 2013
Buildings	$ 2,250,000	$ 2,250,000
Laboratory equipment	708,899	651,562
Machinery and equipment	646,983	639,102
Leasehold improvements	228,860	207,979
Trade show and demonstration equipment	999,758	908,819
Furniture and fixtures	674,489	654,151
Totals	5,508,988	5,311,613
Less: accumulated depreciation	(2,799,975)	(2,494,337)
	$ 2,709,013	$ 2,817,276

Depreciation expense for the years ended February 28, 2014 and 2013 was $332,617 and $339,318, respectively.

• *NOTE 7:* ACCRUED EXPENSES

Accrued expenses consist of the following:

	February 28, 2014	February 28, 2013
Accrued compensation	$ 201,676	$ 121,275
Estimated warranty costs	30,900	27,750
Accrued commissions	156,964	232,920
Professional fees	44,692	33,000
Other accrued expenses	130,889	62,082
	$ 565,121	$ 477,027

• *NOTE 8:* REVOLVING LINE OF CREDIT

The Company has a $750,000 revolving line of credit at prime which was 3.25% at February 28, 2014. 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 28, 2014, 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 28, 2014	February 28, 2013
Note payable, individual, collateralized by land and buildings, payable in monthly installments of principal and interest of $14,446 through January 2031. Interest rate 5.5%. 20 year term.	$ 0	$1,972,617
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.	81,164	140,618
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.	1,589,360	0
Total long term debt	1,670,524	2,113,235
Due within one year	191,466	125,999
Due after one year	$1,479,058	$1,987,236

Long-term debt is payable as follows:

Fiscal Year ending February 28,	
2015	$ 191,466
2016	$ 158,014
2017	$ 143,388
2018	$ 149,698
2019	$ 156,119
Thereafter	$ 871,839

• *NOTE 10:* BANK GUARANTEES

As of February 28, 2014, $26,729 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 their 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 2014.

• *NOTE 11:* COMMITMENTS AND CONTINGENCIES

The Company does not have any material commitments or contingencies as of February 28, 2014.

• *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 28, 2014	February 28, 2013
Expected federal income tax	$ 208,088	$ 47,155
State tax, net of federal	12,100	6,736
Permanent timing difference	(6,771)	19,409
State tax credits	-	(76,137)
Utilization of net operating loss carryforwards and research and development tax credits	(82,927)	(71,569)
Income tax (benefit)	$ 130,490	$ (74,406)

	February 28, 2014	February 28, 2013
Current federal and state income taxes	$ 130,490	$ 5,585
Recognition of deferred tax assets	-	(3,854)
State tax credits	-	(76,137)
Income tax (benefit)	$ 130,490	$ (74,406)

The net deferred tax asset is comprised of the following:

	February 28, 2014	February 28, 2013
Inventory	$ 103,000	$ 129,000
Allowance for accounts receivable	13,000	8,000
Accrued expenses and other	59,000	111,000
Research tax credits	117,000	100,000
Deferred tax asset	292,000	348,000
Deferred tax liability	(202,000)	(258,000)
Net deferred tax asset	$ 90,000	$ 90,000

At February 28, 2014 and 2013, the Company had no net operating loss carryforwards remaining but has $117,000 and $100,000 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 28, 2014, there were 135,500 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 28, 2014, there were 811,073 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 2014, the Company granted options for 135,500 shares exercisable at prices from $1.05 to $1.20 to employees of the Company.

On November 8, 2012, the Company granted 840,718 options to officers, and one person who became an officer subsequent to that date, and 140,000 options to directors, at an exercise price of $0.61. These options vest as follows: 33.33% on the date of grant, 33.33% one year from the date of grant and 33.33% two years from the date of grant. The options expire ten years from the date of grant. In exchange for the newly issued options, the officers and directors surrendered their outstanding options and these were cancelled. The surrendered options were set to expire at various dates from 2014 to 2021 and had an average strike price of $0.95.

During Fiscal Year 2013, the Company also granted options for 115,000 shares exercisable at prices from $.48 to $.61 to officers of the Company and options for 10,000 shares exercisable at $.48 to an employee of the Company.

A summary of the activity of both plans for the years ended February 28, 2014 and 2013 is as follows:

	Stock Options		Weighted Average Exercise Price		Fair Value
	Outstanding	Exercisable	Outstanding	Exercisable	Vested
Balance – February 29, 2012	1,318,460	1,204,660	1.10	1.11	.36
Granted	1,105,718		.60		
Exercised	(47,566)		(.79)		
Cancelled	(1,053,894)		(.93)		
Balance – February 28, 2013	1,322,718	549,425	$ .67	$ .77	$ .39
Granted	135,500		1.06		
Exercised	(501,645)		(.60)		
Cancelled	(10,000)		(1.11)		
Balance – February 28, 2014	946,573	435,714	$ .76	$ .82	$ .41

The intrinsic value of the Company's options exercised during the years ended February 28, 2014 and 2013 was $157,427 and $4,891, respectively.

Information, at date of issuance, regarding stock option grants for the years ended February 28, 2014:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Year ended February 28, 2014:			
Exercise price exceeds market price	-	-	-
Exercise price equals market price	135,500	$ 1.06	$ .50
Exercise price is less than market price	-	-	-

The aggregate intrinsic value of the Company's outstanding options at February 28, 2014 and 2013 was $369,659 and $459,966, respectively.

The following table summarizes information about stock options outstanding and exercisable at February 28, 2014:

	Number Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Number Exercisable
Range of exercise prices:				
$.42 to $.50....	63,500	7.74	$ .47	36,000
$.51 to $1.00....	630,573	8.3	$ .63	275,214
$1.01 to $1.95	252,500	6.05	$ 1.16	124,500
	946,573			435,714

• *NOTE 14:* EARNINGS PER SHARE

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

	February 28, 2014	February 28, 2013
Numerator for basic and diluted earnings per share	$ 484,474	$ 132,251
Denominator:		
Denominator for basic earnings per share-weighted average shares	14,541,869	14,484,200
Effects of dilutive securities:		
Stock options for employees, directors and outside consultants	38,296	-
Denominator for diluted earnings per share	14,580,165	14,484,200
Basic Earnings Per Share	$ .03	$ .01
Diluted Earnings Per Share	$ .03	$ .01

• *NOTE 15:* SIGNIFICANT CUSTOMERS AND FOREIGN SALES

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

	February 28, 2014	February 28, 2013
Western Europe	$ 1,817,000	$ 1,261,000
Far East	3,328,000	3,399,000
Other	1,302,000	497,000
	$ 6,447,000	$ 5,157,000

During Fiscal Years 2014 and 2013, sales to foreign customers accounted for approximately $6,447,000 and $5,157,000, or 63% and 54% respectively, of total revenues.

One customer accounted for 10% of the Company's sales for Fiscal Year ended February 28, 2014.

• *NOTE 16:* SUBSEQUENT EVENTS

The Company has evaluated subsequent events for disclosure purposes.

Common Stock

Our common stock trades on the over-the-counter QB platform. 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, 2014		2013	
	HIGH	LOW	HIGH	LOW
First Quarter	$ 0.75	$ 0.48	$ 1.12	$ 0.80
Second Quarter	0.90	0.72	1.17	0.75
Third Quarter	1.09	0.83	0.91	0.50
Fourth Quarter	1.17	0.90	0.74	0.46

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 28, 2014, there were 187 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

R. Stephen Harshbarger - President

Joseph Riemer, Ph.D. - Vice President, Food Business Development

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 The Bronx Project, Inc., past President of the West Point Society of New York.

Eric Haskell, CPA - Audit Committee, former Executive Vice President and Chief Financial Officer of SunCom Wireless Holdings, Inc., former Chief Financial Officer of Systems & Computer Technology Corp.

Philip A. Strasburg, CPA - Chairman of the Audit Committee, Compensation Committee, Certified Public Accountant in New York State, retired partner from the accounting firm of Anchin Block and Anchin, LLP.

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

Executive Officers

Christopher L. Coccio, Ph.D. - Chairman and CEO
R. Stephen Harshbarger - President
Joseph Riemer, Ph.D. - Vice President, Food Business Development
Stephen J. Bagley, CPA - Chief Financial Officer
Robb Engle - Vice President, Engineering

Corporate Headquarters

2012 Route 9W
Milton, NY 12547 USA
Phone: 845.795.2020
Fax: 845.795.2720

Corporate Website

http://www.sono-tek.com

Corporate E-mail

info@sono-tek.com

SONO·TEK CORPORATION

2012 Route 9W Milton, NY USA T (845)795.2020 F (845)795.2720 Email: info@sono-tek.com Internet: www.sono-tek.com