

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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended: August 31, 2024

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934  
Commission File No.: 000-16035

# SONO•TEK Corporation

(Exact name of registrant as specified in its charter)

New York  
(State or other jurisdiction of  
incorporation or organization)

14-1568099  
(IRS Employer  
Identification No.)

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

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

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value per share	SOTK	NASDAQ

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

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

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

Large Accelerated Filer ☐  
Non-Accelerated Filer ☒

Accelerated Filer ☐  
Smaller reporting company ☒  
Emerging Growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

<u>Class</u>	<u>Outstanding as of October 14, 2024</u>
Common Stock, par value \$.01 per share	15,751,153

## SONO-TEK CORPORATION

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**SONO-TEK CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	August 31, 2024 (Unaudited)	February 29, 2024
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 5,852,801	\$ 2,134,786
Marketable securities	5,766,176	9,711,351
Accounts receivable (less allowance of \$ 12,225 )	1,879,464	1,470,711
Inventories	4,829,901	5,221,980
Prepaid expenses and other current assets	174,225	207,738
Total current assets	<u>18,502,567</u>	<u>18,746,566</u>
Land	250,000	250,000
Buildings, equipment, furnishings and leasehold improvements, net	2,691,523	2,832,156
Intangible assets, net	42,476	47,566
Deferred tax asset	<u>1,429,271</u>	<u>1,255,977</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 22,915,837</u></b>	<b><u>\$ 23,132,265</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 691,000	\$ 1,049,742
Accrued expenses	1,543,869	1,739,478
Customer deposits	3,225,273	3,419,706
Income taxes payable	96,395	414,807
Total current liabilities	<u>5,556,537</u>	<u>6,623,733</u>
Deferred tax liability	<u>311,750</u>	<u>229,534</u>
Total liabilities	<u>5,868,287</u>	<u>6,853,267</u>
Commitments and Contingencies (Note 9)		
Stockholders' Equity		
Common stock, \$ .01 par value; 25,000,000 shares authorized, 15,751,153 and 15,750,880 shares issued and outstanding as of August 31, 2024 and February 29, 2024, respectively	157,512	157,509
Additional paid-in capital	9,867,414	9,770,387
Accumulated earnings	<u>7,022,624</u>	<u>6,351,102</u>
Total stockholders' equity	<u>17,047,550</u>	<u>16,278,998</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 22,915,837</u></b>	<b><u>\$ 23,132,265</u></b>

See notes to unaudited condensed consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	Six Months Ended August 31,		Three Months Ended August 31,	
	2024	2023	2024	2023
Net Sales	\$ 10,192,820	\$ 9,242,135	\$ 5,161,782	\$ 5,639,117
Cost of Goods Sold	5,222,236	4,664,335	2,645,685	2,838,549
Gross Profit	4,970,584	4,577,800	2,516,097	2,800,568
Operating Expenses				
Research and product development costs	1,427,303	1,445,699	695,873	789,261
Marketing and selling expenses	1,885,608	1,745,310	988,418	944,526
General and administrative costs	1,133,387	912,549	545,816	500,923
Total Operating Expenses	4,446,298	4,103,558	2,230,107	2,234,710
Operating Income	524,286	474,242	285,990	565,858
Interest and Dividend Income	227,730	230,283	85,076	124,293
Net unrealized gain/(loss) on marketable securities	53,941	10,855	43,580	( 6,803)
Income Before Income Taxes	805,957	715,380	414,646	683,348
Income Tax Expense	134,435	120,701	73,961	142,075
Net Income	\$ 671,522	\$ 594,679	\$ 340,685	\$ 541,273
Basic Earnings Per Share	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.03
Diluted Earnings Per Share	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.03
Weighted Average Shares - Basic	15,750,895	15,742,571	15,750,910	15,743,069
Weighted Average Shares - Diluted	15,771,472	15,775,032	15,768,251	15,773,665

See notes to unaudited condensed consolidated financial statements.

**SONO-TEK CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Three and Six Months Ended August 31, 2024

	Common Stock Par Value \$.01		Additional Paid – In Capital	Accumulated Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance, February 29, 2024	15,750,880	\$ 157,509	\$ 9,770,387	\$ 6,351,102	\$ 16,278,998
Stock based compensation expense	—	—	54,231	—	54,231
Net Income	—	—	—	330,837	330,837
Balance, May 31, 2024 (Unaudited)	15,750,880	\$ 157,509	\$ 9,824,618	\$ 6,681,939	\$ 16,664,066
Stock based compensation expense	—	—	42,799	—	42,799
Cashless exercise of stock options	273	3	( 3)	—	—
Net Income	—	—	—	340,685	340,685
Balance, August 31, 2024 (Unaudited)	15,751,153	\$ 157,512	\$ 9,867,414	\$ 7,022,624	\$ 17,047,550

Three and Six Months Ended August 31, 2023

	Common Stock Par Value \$.01		Additional Paid – In Capital	Accumulated Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance, February 28, 2023	15,742,073	\$ 157,421	\$ 9,566,898	\$ 4,909,639	\$ 14,633,958
Stock based compensation expense	—	—	48,295	—	48,295
Net Income	—	—	—	53,406	53,406
Balance, May 31, 2023 (Unaudited)	15,742,073	\$ 157,421	\$ 9,615,193	\$ 4,963,045	\$ 14,735,659
Stock based compensation expense	—	—	46,394	—	46,394
Cashless exercise of stock options	1,410	14	( 14)	—	—
Net Income	—	—	—	541,273	541,273
Balance, August 31, 2023 (Unaudited)	15,743,483	\$ 157,435	\$ 9,661,573	\$ 5,504,318	\$ 15,323,326

See notes to unaudited condensed consolidated financial statements.

**SONO-TEK CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Six Months Ended August 31,	
	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 671,522	\$ 594,679
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	336,377	278,823
Stock based compensation expense	97,030	94,689
Inventory reserve	22,474	21,618
Unrealized gain on marketable securities	( 53,941)	( 10,855)
Deferred tax expense	( 91,078)	( 271,163)
Decrease (Increase) in:		
Accounts receivable	( 408,753)	200,189
Inventories	369,604	( 786,980)
Prepaid expenses and other current assets	33,513	121,952
(Decrease) Increase in:		
Accounts payable	( 358,742)	259,687
Accrued expenses	( 195,608)	( 35,254)
Customer deposits	( 194,433)	556,327
Income taxes payable	( 318,412)	83,072
Net Cash (Used in) Provided by Operating Activities	( 90,447)	1,106,784
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment, furnishings and leasehold improvements	( 190,654)	( 245,837)
Sale of marketable securities	9,438,113	8,772,633
Purchase of marketable securities	( 5,438,997)	( 9,533,924)
Net Cash Provided by (Used in) Investing Activities	3,808,462	( 1,007,128)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,718,015</b>	<b>99,656</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period	2,134,786	3,354,601
End of period	<u>\$ 5,852,801</u>	<u>\$ 3,454,257</u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE:</b>		
Interest paid	\$ —	\$ —
Income Taxes Paid	<u>\$ 543,814</u>	<u>\$ 308,942</u>

See notes to unaudited condensed consolidated financial statements.

**SONO-TEK CORPORATION**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED AUGUST 31, 2024 and 2023**

**NOTE 1: BUSINESS DESCRIPTION**

Sono-Tek Corporation (the “Company”, “Sono-Tek”, “We” or “Our”) was incorporated in New York on March 21, 1975. We are the world leader in the design and manufacture of ultrasonic coating systems for applying precise, thin film coatings to add functional properties, protect or strengthen surfaces on parts and components for the microelectronics/electronics, alternative energy, medical, industrial and emerging research & development and other markets. We design and manufacture custom-engineered ultrasonic coating systems incorporating our patented technology, in combination with strong applications engineering knowledge, to assist our customers in achieving their desired coating solutions.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information with the instructions for Form 10-Q and Article 8 of Regulation S-X. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company’s management, all adjustments considered necessary for a fair presentation, consisting of normal recurring adjustments, have been included. The results for the interim periods are not necessarily indicative of what the results will be for the fiscal year. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited Consolidated Financial Statements as of and for the fiscal year ended February 29, 2024 (“fiscal year 2024”) contained in the Company’s 2024 Annual Report on Form 10-K filed with the SEC on May 23, 2024. The Company’s current fiscal year ends on February 28, 2025 (“fiscal 2025”).

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

**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. At August 31, 2024, \$ 1,263,000 of the Company’s bank deposits exceeded the insured limit provided by the Federal Deposit Insurance Corporation.

**Consolidation** - The accompanying unaudited condensed consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiary, Sono-Tek Industrial Park, LLC ("SIP") in conformity with generally accepted accounting principles in the United States ("GAAP"). SIP operates as a real estate holding company for the Company's real estate operations. All intercompany accounts and transactions have been eliminated in consolidation.

**Fair Value of Financial Instruments** - The Company applies Accounting Standards Codification ("ASC") 820, *Fair Value Measurement* ("ASC 820"), which establishes a framework for measuring fair value and clarifies the definition of fair value within that framework. ASC 820 defines fair value as an exit price, which is the price that would be received for an asset or paid to transfer a liability in the Company's principal or most advantageous market in an orderly transaction between market participants on the measurement date. The fair value hierarchy established in ASC 820 generally requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect the assumptions that market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the entity's own assumptions based on market data and the entity's judgments about the assumptions that market participants would use in pricing the asset or liability and are to be developed based on the best information available in the circumstances.

The carrying amounts of financial instruments reported in the accompanying unaudited condensed consolidated financial statements for current assets and current liabilities approximate the fair value because of the immediate or short-term maturities of the financial instruments.

The valuation hierarchy is composed of three levels. The classification within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The levels within the valuation hierarchy are described below:

Level 1 — Assets with unadjusted, quoted prices listed on active market exchanges. Inputs to the fair value measurement are observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs to the fair value measurement are determined using prices for recently traded assets and liabilities with similar underlying terms, as well as direct or indirect observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 — Inputs to the fair value measurement are unobservable inputs, such as estimates, assumptions, and valuation techniques when little or no market data exists for the assets or liabilities.

The fair values of financial assets of the Company were determined using the following categories at August 31, 2024 and February 29, 2024, respectively:

	Level 1	Level 2	Level 3	Total
Marketable Securities – August 31, 2024	\$ 5,392,980	\$ 373,196	\$ —	\$ 5,766,176
Marketable Securities – February 29, 2024	\$ 9,711,351	\$ —	\$ —	\$ 9,711,351

Marketable Securities include certificates of deposit and US Treasury securities that are considered to be highly liquid and easily tradeable totaling \$ 5,766,176 and \$ 9,711,351 as of August 31, 2024 and February 29, 2024, respectively. US Treasury securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 and certificates of deposit are classified as Level 2 within the Company's fair value hierarchy. The Company's marketable securities are considered to be trading securities as defined under ASC 320 "Investments – Debt and Equity Securities."

**Income Taxes** - The Company accounts for income taxes under the asset and liability method. Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized. The Company uses a recognition threshold and a measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. As of August 31, 2024 and February 29, 2024, there were no accruals for uncertain tax positions.

**Inventories** - Inventories are stated at the lower of cost or net realizable value. 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. Management compares the cost of inventory with the net realizable value and, if applicable, an allowance is made for writing down the inventory to its net realizable value, if lower than cost. On an ongoing basis, inventory is reviewed for potential write-down for estimated obsolescence or unmarketable inventory based upon forecasts for future demand and market conditions.

**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.

At August 31, 2024 and February 29, 2024, the Company had land stated at cost of \$250,000 .

At August 31, 2024 and February 29, 2024, the Company had buildings, equipment, furnishings and leasehold improvements totaling, \$ 2,691,523 and \$ 2,832,156 , respectively, net of accumulated depreciation.

**Management Estimates** - The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP 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 unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Recent Accounting Pronouncements Not Yet Adopted** - In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*. This ASU requires greater disaggregation of information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. This ASU applies to all entities subject to income taxes and is intended to help investors better understand an entity's exposure to potential changes in jurisdictional tax legislation and assess income tax information that affects cash flow forecasts and capital allocation decisions. This ASU is effective for annual periods beginning after December 15, 2024, with early adoption permitted. This ASU should be applied on a prospective basis although retrospective application is permitted. The Company is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements and related disclosures.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting* (Topic 280): Improvements to Reportable Segment Disclosures. The amendments in this ASU require disclosures, on an annual and interim basis, of significant segment expenses that are regularly provided to the chief operating officer decision maker ("CODM"), as well as the aggregate amount of other segment items included in the reported measure of segment profit or loss. The ASU requires that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. Public entities will be required to provide all annual disclosures currently required by Topic 280 in interim periods, and entities with a single reportable segment are required to provide all the disclosures required by the amendments in this ASU and existing segment disclosures in Topic 280. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The amendments in this ASU should be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures, and does not expect the standard will have a material impact on the Company's consolidated financial statements and related disclosures.

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

**Revenue Recognition** - The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers, the core principle of which is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract

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- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, performance obligations are satisfied

### NOTE 3: REVENUE RECOGNITION

The Company's sales revenue is derived primarily from short term contracts with customers, which, on average, are in effect for less than twelve months. Sales revenue from manufactured equipment transferred at a single point in time accounts for a majority of the Company's revenue.

Sales revenue is recognized when control of the Company's manufactured equipment is transferred to its customers, in an amount that reflects the consideration the Company expects to receive based upon the agreed transaction price. The Company's performance obligations are satisfied when its customers take control of the purchased equipment, which is based on the contract terms. 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.

The Company does not capitalize any sales commission costs related to the acquisition of a contract. All commissions related to a performance obligation that are satisfied at a point in time are expensed when the customer takes control of the purchased equipment.

The Company applies the practical expedient in paragraph ASC 606-10-50-14 and does not disclose information about remaining



performance obligations that have original expected durations of one-year or less.

At August 31, 2024, the Company had received approximately \$ 3,225,000 in cash deposits, representing contract liabilities.

At February 29, 2024, the Company had received approximately \$ 3,420,000 in cash deposits, representing contract liabilities, and had issued Letters of Credit in the amount of \$ 72,000 to secure these cash deposits. During the six months ended August 31, 2024, the Company recognized \$ 2,641,000 of these deposits as revenue.

The Company's sales revenue by product line is as follows:

	Three Months Ended August 31,				Six Months Ended August 31,			
	2024	% of total	2023	% of total	2024	% of total	2023	% of total
Fluxing Systems	\$ 119,000	2 %	\$ 204,000	4 %	\$ 253,000	3 %	\$ 440,000	5 %
Integrated Coating Systems	2,023,000	39 %	853,000	15 %	2,770,000	27 %	1,162,000	12 %
Multi-Axis Coating Systems	1,931,000	38 %	2,923,000	52 %	4,595,000	45 %	4,686,000	51 %
OEM Systems	205,000	4 %	535,000	9 %	537,000	5 %	810,000	9 %
Spare Parts, Services and Other	884,000	17 %	1,124,000	20 %	2,038,000	20 %	2,144,000	23 %
TOTAL	<u>\$ 5,162,000</u>		<u>\$ 5,639,000</u>		<u>\$ 10,193,000</u>		<u>\$ 9,242,000</u>	

#### NOTE 4: INVENTORIES

Inventories consist of the following:

	August 31, 2024	February 29, 2024
Raw materials and subassemblies	\$ 2,218,204	\$ 2,270,567
Finished goods	1,725,525	1,785,952
Work in process	886,172	1,165,461
Total	<u>\$ 4,829,901</u>	<u>\$ 5,221,980</u>

The Company maintains an allowance for slow moving inventory for raw materials and finished goods. The recorded allowances at August 31, 2024 and February 29, 2024 totaled \$ 339,250 and \$ 380,400 , respectively.

#### NOTE 5: STOCK BASED COMPENSATION

**Stock Options** - Until June 2023, options were available to 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 Company's 2013 Stock Incentive Plan (the "2013 Plan"). Under the 2013 Plan options expire ten years after the date of grant. As of August 31, 2024, there were 212,202 options outstanding under the 2013 Plan, of which 185,300 are vested. No additional options may be granted under the 2013 Plan.

In August 2023, the Company's shareholders approved the Company's 2023 Stock Incentive Plan (the "2023 Plan") under which 2,500,000 options may be granted to officers, directors, consultants and employees of the Company and its subsidiaries. As of August 31, 2024, there were 219,558 options outstanding under the 2023 Plan, of which 8,808 are vested.

The Company accounts for stock based compensation under ASC 718, "Share Based Payments." which requires companies to expense the value of employee stock options and similar awards.

During the six months ended August 31, 2024, the Company granted options to acquire 134,657 shares to employees exercisable at prices ranging from \$ 4.12 to \$ 4.87 and options to acquire 26,667 shares to non-employee members of the board of directors with an exercise price of \$ 4.12 . The options granted to employees and directors vest over three years and expire ten years from the date of issuance. The options granted during the first six months of fiscal 2025 had a combined weighted average grant date fair value of \$ 2.54 per share.

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

	Six Months Ended August 31, 2024
Expected Life	5 - 8 years
Risk free interest rate	3.64 % - 4.39 %
Expected volatility	55.19 % - 60.34 %
Expected dividend yield	0 %

For the three and six months ended August 31, 2024, the Company recognized \$43,000 and \$ 97,000 in stock-based compensation expense, respectively. Such amounts are included in general and administration expenses on the unaudited condensed

consolidated statements of income. For the three and six months ended August 31, 2023, the Company recognized approximately \$ 46,000 and \$ 95,000 of stock-based compensation expense, respectively. Total compensation expense related to non-vested options not yet recognized as of August 31, 2024 was \$ 585,000 and will be recognized over the next three years based on vesting date. The amount of future stock option compensation expense could be affected by any future option grants or by any forfeitures.

The aggregate intrinsic value of the Company's vested and exercisable options at August 31, 2024 was approximately \$85,000 .

#### NOTE 6: EARNINGS PER SHARE

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

	Six Months Ended August 31,		Three Months Ended August 31,	
	2024	2023	2024	2023
Numerator for basic and diluted earnings per share	\$ 671,522	\$ 594,679	\$ 340,685	\$ 541,273
Denominator for basic earnings per share – weighted average	15,750,895	15,742,571	15,750,910	15,743,069
Effects of dilutive securities				
Stock options for employees, directors and outside consultants	20,577	32,461	17,341	30,596
Denominator for diluted earnings per share	15,771,472	15,775,032	15,768,251	15,773,665
Basic Earnings Per Share	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.03
Diluted Earnings Per Share	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.03

#### NOTE 7: REVOLVING LINE OF CREDIT

The Company has a \$1,500,000 revolving line of credit at prime which was 8.50 % at August 31, 2024 and February 29, 2024. The revolving credit line is collateralized by the Company's accounts receivable and inventory. The revolving credit line 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 August 31, 2024, \$0 of the Company's credit line was being utilized to collateralize Letters of Credit issued by the Company. As of August 31, 2024, there were no outstanding borrowings under the line of credit and the unused portion of the credit line was \$ 1,500,000 .

The Company has a \$ 750,000 equipment line of credit at prime plus 0.50 %, which was 9 % at August 31, 2024. At August 31, 2024, there were no outstanding borrowings under the equipment line of credit.

#### NOTE 8: CUSTOMER CONCENTRATIONS AND FOREIGN SALES

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

	Six Months Ended August 31,		Three Months Ended August 31,	
	2024	2023	2024	2023
Asia Pacific (APAC)	\$ 880,000	\$ 1,109,000	\$ 368,000	\$ 538,000
Europe, Middle East, Asia (EMEA)	2,381,000	1,581,000	1,136,000	1,155,000
Latin America	345,000	985,000	163,000	747,000
	\$ 3,606,000	\$ 3,675,000	\$ 1,667,000	\$ 2,440,000

During the first half of fiscal 2025 and fiscal 2024, sales to foreign customers accounted for approximately \$3,606,000 and \$ 3,675,000 , or 35 % and 40 %, respectively, of total revenues.

During the second quarter of fiscal 2025 and fiscal 2024, sales to foreign customers accounted for approximately \$1,667,000 and \$ 2,440,000 , or 32 % and 43 %, respectively, of total revenues.

The Company had one customer which accounted for 21 % of total sales during the first half of fiscal 2025. The Company had two customers which accounted for 38 % of total sales during the second quarter of fiscal 2025. Three customers accounted for 65 % of the outstanding accounts receivable at August 31, 2024.

The Company had one customer which accounted for 14 % of total sales during the first half of fiscal 2024. The Company had one customer which accounted for 20 % of total sales during the second quarter of fiscal 2024. Two customers accounted for 26 % of the outstanding accounts receivable at February 29, 2024.

#### NOTE 9: COMMITMENTS AND CONTINGENCIES

The Company did not have any material commitments or contingencies as of August 31, 2024.



The Company is subject, from time to time, to claims by third parties under various legal disputes. The defense of such claims, or any adverse outcome relating to any such claims, could have a material adverse effect on the Company's liquidity, financial condition, and cash flows. As of August 31, 2024, the Company did not have any pending legal actions.

## **ITEM 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **FORWARD-LOOKING STATEMENTS**

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, news 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 and could cause actual results to differ materially. These factors include, among other considerations, general economic and business conditions; political, regulatory, tax, competitive and technological developments affecting our operations or the demand for our products; inflationary and supply chain pressures; the recovery of the Electronics/Microelectronics and Medical markets; rebound of sales to the industrial market in the second quarter of fiscal year 2025; maintenance of increased order backlog; the imposition of tariffs; timely development and market acceptance of new products and continued customer validation of our coating technologies; adequacy of financing; capacity additions, the ability to enforce patents; maintenance of operating leverage; consummation of order proposals; completion of large orders on schedule and on budget; continued sales growth in the medical and alternative energy markets; successful transition from primarily selling ultrasonic nozzles and components to a more complex business providing complete machine solutions and higher value subsystems; and realization of quarterly and annual revenues within the forecasted range of sales guidance.

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

### **Overview**

Founded in 1975, Sono-Tek Corporation is a global leader in designing and manufacturing ultrasonic coating systems that are shaping industries and driving innovation worldwide. Our ultrasonic coating systems are used to apply thin films onto parts used in diverse industries, including microelectronics, alternative energy, medical devices, advanced industrial manufacturing, and research and development sectors worldwide. Sono-Tek's move into the clean energy sector is showing transformative results in next-gen solar cells, fuel cells, green hydrogen generation, and carbon capture applications as we shape a sustainable future.

Our product line is rapidly evolving, transitioning from R&D to high-volume production machines with significantly higher average selling prices, showcasing our market leadership and adaptability. Over the last decade, we have shifted our business from primarily selling ultrasonic nozzles and components to providing complete machine solutions and higher-value subsystems to original equipment manufacturers (OEMs). This strategy has resulted in significant growth of our average unit selling price, with our larger machines often selling for over \$300,000 and system prices sometimes reaching over \$1,000,000. Consequently, we have broadened our addressable market and believe we can grow sales on a larger scale. We expect that we will experience wide variations in both order flow and shipments from quarter to quarter.

Our comprehensive suite of thin film coating solutions and application consulting services, provided by our expert applications engineers to guide our customers in developing the complete coating process, ensures unparalleled results for our clients and helps some of the world's most promising companies achieve technological breakthroughs and bring them to market. In anticipation of customer demands, our significant focus on R&D efforts allows us to keep pace with industry trends while continuously innovating. The company strategically delivers its products through a network of direct sales personnel, carefully chosen independent distributors, and experienced sales representatives located in North America, Latin America, Europe, and Asia, ensuring efficient market reach across diverse sectors around the globe. Approximately 35% of our sales were generated outside the United States and Canada in the first six months of fiscal year 2025.

We continue to expand our sales capabilities by increasing the size of our direct sales force and adding new distributors and sales representatives. In addition, we have established testing labs at our distribution partner sites in China, Taiwan, Germany, Turkey, Korea, and Japan, while also expanding our first testing lab co-located with our manufacturing facilities in New York. These labs provide significant value for demonstrating the capabilities of our equipment to prospective customers and enable us to develop custom solutions to meet their needs.

Our growth strategy is focused on leveraging our innovative technologies, proprietary know-how, unique talent and experience, and global reach to develop thin-film coating technologies that enable better outcomes for our customers' products and processes.

**Second Quarter Fiscal 2025 Highlights** (compared with the second quarter of fiscal 2024 unless otherwise noted) We refer to the three-month periods ended August 31, 2024 and 2023 as the second quarter of fiscal 2025 and fiscal 2024, respectively.

- Net Sales for the quarter decreased by 8% or \$477,000 to \$5,162,000 compared to the second quarter of fiscal 2024, which saw elevated sales due to the resolution of supply chain challenges, which had previously impacted our operations. Second quarter revenue increased 3% sequentially to \$5.2 million, meeting guidance of 2%-5% growth, driven by strong shipments to the clean energy and electronics markets.
- Gross Profit decreased 10% or \$285,000 to \$2,516,000 and the Gross Profit % decreased by 100 basis points to 48.7% due to product mix and the reallocation and recharacterization of specific labor expenses from the engineering department to cost of goods sold that started in the fourth quarter of fiscal year 2024 as an outcome of the completion of several successful R&D endeavors.
- Operating income decreased 49% or \$280,000, to \$286,000 primarily due to the decrease in gross profit.
- Interest income, dividend income and unrealized gain on marketable securities increased to \$129,000 due to the current high interest rate environment.
- Equipment related backlog on August 31, 2024 reached a record high of \$11,472,000, an increase of 7% compared with backlog of \$10,707,000 in the prior year period. Combined equipment and service-related backlog on August 31, 2024 was \$11,659,628, an increase of 7% compared to equipment and service-related backlog of \$10,927,590 in the prior year period. The increase in backlog resulted from the growing orders we have received from the clean energy sector, inclusive of two orders previously announced totaling \$5.9 million which are scheduled for delivery in the first half of FY 2026. Due to the increased number and frequency of high Average Selling Price "ASP" large platform machine orders, our revenue can be highly variable from quarter to quarter resulting in large fluctuations in backlog.
- The Alternative / Clean Energy and Electronics Market grew by 37% and 51% respectively. The Clean Energy market was positively impacted by the shipment of two high ASP production systems shipped to a large solar company, while the Electronics Market was positively impacted by the second shipment of a newly developed coating system with wafer shuttling capabilities directed at the semiconductor market.
- Medical sales decreased primarily as a result of lower demand for our stent and balloon coating systems. However, based on our current backlog and order activity, we project balloon coating system sales to recover in the second half of the year.

**First Half Fiscal 2025 Highlights** (compared with the first half of fiscal 2024 unless otherwise noted) We refer to the six-month periods ended August 31, 2024 and 2023 as the first half of fiscal 2025 and fiscal 2024, respectively.

- Net Sales for the first half of fiscal 2025 increased by 10% or \$951,000 to \$10,193,000, strongly impacted by increased sales from the Alternative Energy Market due to the shipment of three high ASP systems to a large solar company totaling \$2,190,000.

- Gross Profit increased 9% to \$4,971,000 as a result of increased net sales, and the Gross Profit % decreased 70 basis points to 48.8% primarily due to product mix and a realignment of our organizational framework that started in the fourth quarter of fiscal 2024 as an outcome of completion of several successful R&D endeavors, which shifted some costs from R&D to COGS.
- Operating Income increased \$50,000 to \$524,000 due to the increase in gross profit.
- Interest income, dividend income and unrealized gain on marketable securities increased to \$282,000 due to the current high interest rate environment.
- As of August 31, 2024, the Company had no outstanding debt and had cash, cash equivalents and marketable securities totaling \$11.6 million.

## RESULTS OF OPERATIONS

### Sales:

#### Product Sales

	Three Months Ended		Change		Six Months Ended		Change	
	August 31,				August 31,			
	2024	2023	\$	%	2024	2023	\$	%
Fluxing Systems	\$ 119,000	\$ 204,000	(85,000)	(42%)	\$ 253,000	\$ 440,000	(187,000)	(43%)
Integrated Coating Systems	2,023,000	853,000	1,170,000	137%	2,770,000	1,162,000	1,608,000	138%
Multi-Axis Coating Systems	1,931,000	2,923,000	(992,000)	(34%)	4,595,000	4,686,000	(91,000)	(2%)
OEM Systems	205,000	535,000	(330,000)	(62%)	537,000	810,000	(273,000)	(34%)
Spare Parts, Services and Other	884,000	1,124,000	(240,000)	(21%)	2,038,000	2,144,000	(106,000)	(5%)
TOTAL	\$ 5,162,000	\$ 5,639,000	(477,000)	(8%)	\$ 10,193,000	\$ 9,242,000	951,000	10%

Total sales for the first half of fiscal year 2025 grew by 10%, and total sales for the second quarter of fiscal year 2025 decreased by 8%. The increase in revenue for the first half of fiscal year 2025 was strongly influenced by shipments to a substantial customer from the Alternative Energy Market that received shipment of three Integrated Coating Systems totaling \$2,190,000. Fluxing Systems and OEM Systems dipped for both the second quarter and first half of fiscal 2025, influenced by a softening of activity from the Printed Circuit Board Manufacturing sector and a continued decline of activity from our OEM partners located in China due to the struggling China Economy. Sales of our Multi-Axis Coating Systems decreased in the second quarter of fiscal 2025 primarily due to the timing of orders.

#### Market Sales

	Three Months Ended		Six Months Ended	
	August 31,	Change	August 31,	Change

	2024	2023	\$	%	2024	2023	\$	%
Electronics/Microelectronics	\$ 1,477,000	\$ 976,000	501,000	51%	\$ 3,045,000	\$ 2,351,000	694,000	30%
Medical	402,000	1,728,000	(1,326,000)	(77%)	1,259,000	2,111,000	(852,000)	(40%)
Alternative/Clean Energy	2,498,000	1,819,000	679,000	37%	4,780,000	2,652,000	2,128,000	80%
Emerging R&D and Other	30,000	37,000	(7,000)	(19%)	41,000	163,000	(122,000)	(75%)
Industrial	755,000	1,079,000	(324,000)	(30%)	1,068,000	1,965,000	(897,000)	(46%)
TOTAL	\$ 5,162,000	\$ 5,639,000	(477,000)	(8%)	\$ 10,193,000	\$ 9,242,000	951,000	10%

Sales to the Alternative / Clean Energy market recorded growth of 37% in the second quarter of fiscal 2025 and 80% for the first half of fiscal 2025, and continue to be influenced by a growing number of customers transitioning from our R&D systems to production scale systems that carry much higher ASPs. Electronics market revenue increased by 51% and 30%, respectively, for the second quarter of fiscal 2025 and the first half of fiscal 2025. Growth in the Electronics Market was strongly influenced by two different shipments of a newly developed coating system with wafer shuttling capability for the semiconductor market, with a total value of \$808,000. Medical systems sales declined by 77% and 40%, respectively, in the second quarter of fiscal year 2025 and the first half of fiscal 2025. Medical sales decreased primarily as a result of lower demand for our stent and balloon coating systems. However, based on our current backlog and order activity, we project balloon coating system sales to recover in the second half of the year. In contrast, stent coating system sales are likely to remain subdued as several customers in this market have reported slower business activity. Industrial sales declined by 30% and 46%, respectively, for the second quarter of fiscal 2025 and the first half of fiscal 2025. The reduction in industrial sales was strongly impacted by \$780,000 of sales to the float glass industry in the first half of fiscal year 2024 that did not repeat in fiscal year 2025. The businesses of our primary American based customers in this market have contracted due to China-based competition entering the market with inexpensive glass.

### Geographic Sales

	Three Months Ended				Six Months Ended			
	August 31,		Change		August 31,		Change	
	2024	2023	\$	%	2024	2023	\$	%
U.S. & Canada	\$ 3,495,000	\$ 3,199,000	296,000	9%	\$ 6,587,000	\$ 5,567,000	1,020,000	18%
Asia Pacific (APAC)	368,000	538,000	(170,000)	(32%)	880,000	1,109,000	(229,000)	(21%)
Europe, Middle East, Asia (EMEA)	1,136,000	1,155,000	(19,000)	(2%)	2,381,000	1,581,000	800,000	51%
Latin America	163,000	747,000	(584,000)	(78%)	345,000	985,000	(640,000)	(65%)
TOTAL	\$ 5,162,000	\$ 5,639,000	(477,000)	(8%)	\$ 10,193,000	\$ 9,242,000	951,000	10%

In the first half of fiscal 2025, approximately 35% of sales originated outside of the United States and Canada compared with 40% in the first half of fiscal 2024.

In the second quarter of fiscal 2025, approximately 32% of sales originated outside of the United States and Canada compared with 43% in the second quarter of fiscal 2024.

We continue to record strong sales from the U.S., growing 9% and 18%, respectively, in the second quarter of fiscal 2025 and the first half of fiscal 2025. U.S. government initiatives such as the CHIPS ACT and the Inflation Reduction Act have influenced these strong sales, as well as the continuing trend of onshoring for high technology products. Asia sales dropped 32% and 21%, respectively, for the second quarter of fiscal 2025 and the first half of fiscal 2025. This dip was influenced by continued decreased sales to China, while other areas of Asia remain more resilient. Latin America experienced decreased sales of 78% and 65%, respectively, for the second quarter of fiscal 2025 and the first half of fiscal 2025. The dip in Latin America sales was primarily attributable to a \$465,000 system sold for float glass coating into Mexico in the first half of Fiscal Year 2024 that did not repeat in the current period.

### Gross Profit:

	Three Months Ended		Change		Six Months Ended		Change	
	August 31,				August 31,			
	2024	2023	\$	%	2024	2023	\$	%
Net Sales	\$ 5,162,000	\$ 5,639,000	(477,000)	(8%)	\$ 10,193,000	\$ 9,242,000	951,000	10%
Cost of Goods Sold	2,646,000	2,838,000	(192,000)	(7%)	5,222,000	4,664,000	558,000	12%
Gross Profit	<u>\$ 2,516,000</u>	<u>\$ 2,801,000</u>	<u>(285,000)</u>	<u>(10%)</u>	<u>\$ 4,971,000</u>	<u>\$ 4,578,000</u>	<u>393,000</u>	<u>9%</u>
Gross Profit %	48.7%	49.7%			48.8%	49.5%		

For the second quarter of fiscal 2025, gross profit decreased by \$285,000, or 10%, compared with the prior year period. The gross profit margin was 48.7% compared with 49.7% for the prior year period. The decrease in the gross profit margin was influenced by product mix, inclusive of a decrease in OEM systems sales which typically have high profit margins, a decrease in Multi-Axis Coating Systems and the reallocation and recharacterization of specific labor expenses from the engineering department to cost of goods sold that started in the fourth quarter of fiscal year 2024 as an outcome of completion of several successful R&D endeavors. During the quarter, the decrease in gross profit was partially offset by favorable warranty expense reserves.

For the first half of fiscal 2025, gross profit increased by \$393,000, or 9%, to \$4,971,000 compared with \$4,578,000 in the first half of fiscal 2024. The gross profit margin was 48.8% compared with 49.5% for the prior year period. The decrease in the gross profit margin was influenced by product mix, inclusive of a decrease in OEM systems sales and spare parts sales which typically have high profit margins, and the reallocation and recharacterization of specific labor expenses from the engineering department to cost of goods sold that started in the fourth quarter of fiscal year 2024 as an outcome of completion of several successful R&D endeavors. During the first six months of fiscal 2025, the decrease in gross profit was partially offset by favorable warranty expense reserves and a decrease in outside installation costs.

#### **Operating Expenses:**

	Three Months Ended				Six Months Ended			
	August 31,		Change		August 31,		Change	
	2024	2023	\$	%	2024	2023	\$	%
Research and product development	\$ 696,000	\$ 789,000	(93,000)	(12%)	\$ 1,427,000	\$ 1,446,000	(19,000)	(1%)
Marketing and selling	988,000	945,000	43,000	5%	1,886,000	1,745,000	141,000	8%
General and administrative	546,000	501,000	45,000	9%	1,133,000	913,000	220,000	24%
Total Operating Expenses	<u>\$ 2,230,000</u>	<u>\$ 2,235,000</u>	<u>(5,000)</u>	<u>0%</u>	<u>\$ 4,446,000</u>	<u>\$ 4,104,000</u>	<u>342,000</u>	<u>8%</u>

#### **Research and Product Development:**

Research and product development costs decreased in the second quarter of fiscal 2025 due to a decrease in salary associated with the departure of a senior engineer, a decrease in research & development materials and the reallocation and recharacterization of specific labor expenses from the engineering department to cost of goods sold that started in the fourth quarter of fiscal year 2024 as an outcome of the completion of several successful R&D endeavors.

#### **Marketing and Selling:**

Marketing and selling expenses increased in both the second quarter and the first six months of fiscal 2025 due to increased commissions and travel and trade show expenses.

In the second quarter of fiscal 2025, we expended approximately \$211,000 for commissions as compared with \$164,000 for the prior year period, an increase of \$47,000. In the first six months of fiscal 2025, we expended approximately \$407,000 for commissions as compared with \$286,000 for the prior year period, an increase of \$121,000. The increase in commission expense is primarily the result of an increase in sales being generated by our external distributors, which are commissioned at a higher rate than our in-house sales team.

These increases were partially offset by a decrease in salary expense due to the reallocation of our Chief Executive Officer, Steve Harshbarger's salary to the General and Administrative category as described more fully below under the heading "General and Administrative".

#### **General and Administrative:**

General and administrative expenses increased in both the second quarter and first six months of fiscal 2025 due to increased salaries, legal and audit fees and other corporate expenses.

Effective January 1, 2024, Steve Harshbarger became our Chief Executive Officer, having previously served as President prior to such date. We reclassified the expenses related to Mr. Harshbarger's compensation in connection with this positional change. Prior to January 1, 2024, we classified Mr. Harshbarger's salary under sales expenses because of Mr. Harshbarger's instrumental role in that area. Upon becoming Chief Executive Officer, we reallocated the costs associated with Mr. Harshbarger's compensation to the G&A category ensuring a more precise representation of resource allocation in our financial statements. For the first six months of fiscal year 2025, the total reallocated amount of Mr. Harshbarger's salary was approximately \$145,000.

In the fourth quarter of fiscal 2024, we were notified by the State of California that we were required to collect sales tax on our shipments to customers in California. For taxable sales, we collected approximately \$86,000 of delinquent sales tax from our customers in the first six months of fiscal 2025. As of February 29, 2024, on the basis of a preliminary analysis of our sales to our California customers since April 1, 2019, we recorded an accrual in the amount of \$138,000 for the estimated sales tax, penalties and interest that we may have been required to remit to the State of California.

In the second quarter of fiscal 2025, we filed all necessary sales tax returns with the State of California. Our net expense for sales tax and interest amounted to \$72,000. In the second quarter of fiscal 2025, we reversed the remaining accrual of \$66,000, this reversal is recorded in general and administrative expenses.

#### **Operating Income:**

In the second quarter of fiscal 2025, operating income decreased \$280,000, or 49%, to \$286,000 compared with \$566,000 for the second quarter of fiscal 2024. Operating margin for the quarter decreased to 6% compared with 10% in the prior year period. In the second quarter of fiscal 2025, decreases in revenue and gross profit, partially offset by the reversal of the sales tax accrual were key factors in the decrease of operating income.

In the first half of fiscal 2025, operating income increased by \$50,000, to \$524,000, compared with \$474,000 for the first half of fiscal 2024. Operating margin for the first half of fiscal 2025 and fiscal 2024 was 5%. In the first half of fiscal 2025, an increase in gross profit, partially offset by an increase in operating expenses were key factors in the increase of operating income.

**Interest, Dividend Income and Unrealized Gain:**

Interest and dividend income decreased by \$39,000 to \$85,000 in the second quarter of fiscal 2025 as compared with \$124,000 for the second quarter of fiscal 2024 resulting from decreased cash balances. In the first half of fiscal 2025 interest and dividend income decreased by \$2,000 to \$228,000 as compared with \$230,000 for the first half of fiscal 2024. Our present investment policy is to invest excess cash in highly liquid, lower risk US Treasury securities. At August 31, 2024, the majority of our holdings are rated at or above investment grade.

Net unrealized gain increased \$51,000 to \$44,000 in the second quarter of fiscal 2025 as compared to a loss of \$7,000 in the second quarter of fiscal 2024. In the first half of fiscal 2025, unrealized gain increased \$43,000 to \$54,000 as compared with \$11,000 in the first half of fiscal 2025.

**Income Tax Expense:**

We recorded income tax expense of \$74,000 for the second quarter of fiscal 2025 compared with \$142,000 for the second quarter of fiscal 2024. For the first half of fiscal 2025, we recorded income tax expense of \$134,000 compared with \$121,000 for the first half of fiscal 2024.

The decrease in income tax expense in the second quarter fiscal 2025 is due to the decrease in income before income taxes partially offset by an increase in permanent timing differences and then the further reduction of taxes due to the application of available research and development tax credits from this quarter's increase in research and development expenditures. The deferred tax asset increased approximately \$173,000, to \$1,429,000 at August 31, 2024 from \$1,256,000 at February 29, 2024. Additionally, the deferred tax liability increased approximately \$82,000, to \$312,000 at August 31, 2024 from \$230,000 at February 29, 2024. The net increase in the deferred tax asset and liability was approximately \$91,000 for the first half of fiscal 2025. This increase is primarily due to an increase in capitalized research and development expenses for tax purposes, partially offset by a decrease in other deferred tax assets and an increase in deferred tax liabilities related to timing differences for depreciation.

**Net Income:**

Net income decreased by \$200,000 to \$341,000 for the second quarter of fiscal 2025 compared with \$541,000 for the second quarter of fiscal 2024. The decrease in net income during the second quarter is primarily a result of a decrease in gross profit.

Net income increased by \$77,000 to \$672,000 for the first half of fiscal 2025 compared with \$595,000 for the first half of fiscal 2024. The increase in net income during the first half of fiscal 2025 is primarily a result of an increase in gross profit partially offset by an increase in operating expenses.

**Liquidity and Capital Resources**

**Working Capital** – Our working capital increased \$823,000 to \$12,946,000 at August 31, 2024 from \$12,123,000 at February 29, 2024. The increase in working capital was mostly the result of the current period's net income and noncash charges partially offset by purchases of equipment.

We aggregate cash and cash equivalents and marketable securities in managing our balance sheet and liquidity. For purposes of the following analysis, the total is referred to as "Cash." At August 31, 2024 and February 29, 2024, our working capital included:

	August 31, 2024	February 29, 2024	Cash Increased (Decrease)
Cash and cash equivalents	\$ 5,853,000	\$ 2,135,000	\$ 3,718,000
Marketable securities	5,766,000	9,712,000	(3,946,000)
Total	<u>\$ 11,619,000</u>	<u>\$ 11,847,000</u>	<u>\$ (228,000)</u>

The following table summarizes the accounts and the major reasons for the \$228,000 decrease in "Cash":

	Impact on Cash	Reason
Net income, adjusted for non-cash items	\$ 1,036,000	To reconcile increase in cash.
Accounts receivable increase	(409,000)	Timing of cash receipts.
Inventories decrease	370,000	Decrease in inventory due to sales.
Customer deposits decrease	(195,000)	Deposits released due to shipments.
		Timing of disbursements.
Accounts payable decrease	(359,000)	
Accrued expenses decrease	(196,000)	Timing of disbursements.
Prepaid and Other Assets decrease	34,000	Decreased prepaid expenses.
Income tax payable decrease	(318,000)	Timing of disbursements.
Equipment purchases	(191,000)	Equipment and facilities upgrade.
Net decrease in cash	<u>\$ (228,000)</u>	

**Stockholders' Equity** – Stockholders' Equity increased \$769,000 from \$16,279,000 at February 29, 2024 to \$17,048,000 at August 31, 2024. The increase is a result of the current period's net income of \$672,000 and \$97,000 in additional equity related to stock-based compensation awards.



**Operating Activities** – We used \$90,000 of cash in our operating activities in the first half of fiscal 2025 compared to our operating activities providing \$1,107,000 of cash in the first half of fiscal 2024, a decrease of \$1,197,000. The decrease was mostly the result of decreases in accounts payable, accrued expenses, customer deposits, income taxes payable and an increase accounts receivable. These uses of cash were partially offset by a decrease in inventories.

**Investing Activities**– Our investing activities provided \$3,808,000 of cash in the first half of fiscal 2025 compared with using \$1,007,000 in the first half of fiscal 2024. For the first halves of fiscal years 2025 and 2024, we used \$191,000 and \$246,000, respectively, for the purchase or manufacture of equipment, furnishings and leasehold improvements.

In the first half of fiscal 2025, we liquidated approximately \$4,200,000 of our treasury bill investments. At August 31, 2024, the balance of \$4,200,000 is recorded as cash on our balance sheet with approximately \$1,800,000 invested in cash equivalents.

**Net Changes in Cash and Cash Equivalents** – In the first half of fiscal 2025, our cash balance increased by \$3,718,000 as compared to an increase of \$100,000 in the first half of 2024. In the first half of fiscal 2025, our operating activities used \$90,000 of cash, our marketable securities provided \$3,999,000 of cash and we used \$191,000 for the purchase or manufacture of equipment, furnishings and leasehold improvements.

### **Critical Accounting Estimates**

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

Management's estimates and judgments are continually evaluated and are based on historical experience and expectations regarding future events that are believed to be reasonable under the specific circumstances.

Critical accounting estimates are defined as those that are reflective of significant judgments and uncertainties and may potentially result in materially different results under different assumptions and conditions. The Company believes that critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies see Note 2 to the Company's consolidated financial statements included in Form 10-K for the year ended February 29, 2024.

### **Accounting for 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. We use a recognition threshold and a measurement attribute for financial statement recognition and measurement tax positions taken or expected to be taken in a return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. As of August 31, 2024 and August 31, 2023, there were no uncertain tax provisions.

### **Revenue Recognition**

The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers, the core principle of which is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to receive in exchange for those goods or services.

Judgement is required when determining at what point in time control of the Company's manufactured equipment is transferred to its customers. Management's judgement is based on each customer contract and the transfer of control of the equipment to the customer. The sales revenue to be recorded is based on each contract.

### **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. The Company currently uses a Black-Scholes option pricing model to calculate the fair value of its stock options. The Company primarily uses historical data to determine the assumptions to be used in the Black-Scholes model and has no reason to believe that future data is likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility and future stock award exercise experience could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards. ASC 718 requires the recognition of the fair value of stock compensation in net income.



## **Impact of New Accounting Pronouncements**

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting* (Topic 280): Improvements to Reportable Segment Disclosures. The amendments in this ASU require disclosures, on an annual and interim basis, of significant segment expenses that are regularly provided to the chief operating officer decision maker ("CODM"), as well as the aggregate amount of other segment items included in the reported measure of segment profit or loss. The ASU requires that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. Public entities will be required to provide all annual disclosures currently required by Topic 280 in interim periods, and entities with a single reportable segment are required to provide all the disclosures required by the amendments in this ASU and existing segment disclosures in Topic 280. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The amendments in this ASU should be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures, and does not expect the standard will have a material impact on the Company's consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*. This ASU requires greater disaggregation of information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. This ASU applies to all entities subject to income taxes and is intended to help investors better understand an entity's exposure to potential changes in jurisdictional tax legislation and assess income tax information that affects cash flow forecasts and capital allocation decisions. This ASU is effective for annual periods beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements and related disclosures.

Other than ASU 2023-07 and ASU 2023-09 discussed above, accounting pronouncements issued but not yet effective have been deemed to be not applicable or the adoption of such accounting pronouncements is not expected to have a material impact on the financial statements of the Company.

## **ITEM 3 - Quantitative and Qualitative Disclosures about Market Risk**

The Company does not issue or invest in financial instruments or derivatives for trading or speculative purposes. Substantially all of the operations of the Company are conducted in the United States, and, as such, are not subject to material foreign currency exchange rate risk. All of our sales transactions are completed in US dollars.

Although the Company's assets included \$5,853,000 in cash and \$5,766,000 in marketable securities, the market rate risk associated with changing interest rates in the United States is not material.

## **ITEM 4 – Controls and Procedures**

The Company has established and maintains "disclosure controls and procedures" (as those terms are defined in Rules 13a –15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act")). R. Stephen Harshbarger, Chief Executive Officer (principal executive) and Stephen J. Bagley, Chief Financial Officer (principal accounting officer) of the Company, have evaluated the Company's disclosure controls and procedures as of August 31, 2024. Based on this evaluation, they have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to Management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding timely disclosure.

In addition, there were no changes in the Company's internal controls over financial reporting during the second fiscal quarter of fiscal year 2025 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None

### **Item 1A. Risk Factors**

There are no material changes from risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended February 29, 2024.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

None

**Item 5. Other Information**

(a) None

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's board of directors.

(c) During the quarter ended August 31, 2024, no director or officer of the Company adopted or terminated any contract, instruction or written plan for the purchase or sale of securities of the Company intended to satisfy the affirmative defense conditions of Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended.

**Item 6. Exhibits and Reports**

[31.1](#) – [31.2](#) Rule 13a - 14(a)/15d – 14(a) Certification

[32.1](#) – [32.2](#) Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

101.INS Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File as its XBRL tags are embedded within the Inline XBRL document

101.SCH Inline XBRL Taxonomy Extension Schema

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase

101.LAB Inline XBRL Taxonomy Extension Label Linkbase

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase

104 Cover page formatted as Inline XBRL and contained in Exhibit 101

**SIGNATURES**

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

Dated: October 15, 2024

SONO-TEK CORPORATION  
(Registrant)

By: /s/ R. Stephen Harshbarger  
R. Stephen Harshbarger  
Chief Executive Officer

By: /s/ Stephen J. Bagley  
Stephen J. Bagley  
Chief Financial Officer

**RULE 13a-14/15d – 14(a) CERTIFICATION**

I, R. Stephen Harshbarger, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sono-Tek Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for the periods presented in this report;
4. Sono-Tek Corporation's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d – 15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. Sono-Tek Corporation's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: October 15, 2024

/s/ R. Stephen Harshbarger  
R. Stephen Harshbarger  
Chief Executive Officer

**RULE 13a-14/15d – 14(a) CERTIFICATION**

I, Stephen J. Bagley, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sono-Tek Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for the periods presented in this report;
4. Sono-Tek Corporation's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d – 15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. Sono-Tek Corporation's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: October 15, 2024

/s/ Stephen J. Bagley  
Stephen J. Bagley  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sono-Tek Corporation (the "Company") on Form 10Q for the period ended August 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, R. Stephen Harshbarger, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: October 15, 2024

/s/ R. Stephen Harshbarger  
R. Stephen Harshbarger  
Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sono-Tek Corporation (the "Company") on Form 10Q for the period ended August 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Stephen J. Bagley, Chief Financial Officer, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) and 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: October 15, 2024

/s/ Stephen J. Bagley  
Stephen J. Bagley  
Chief Financial Officer