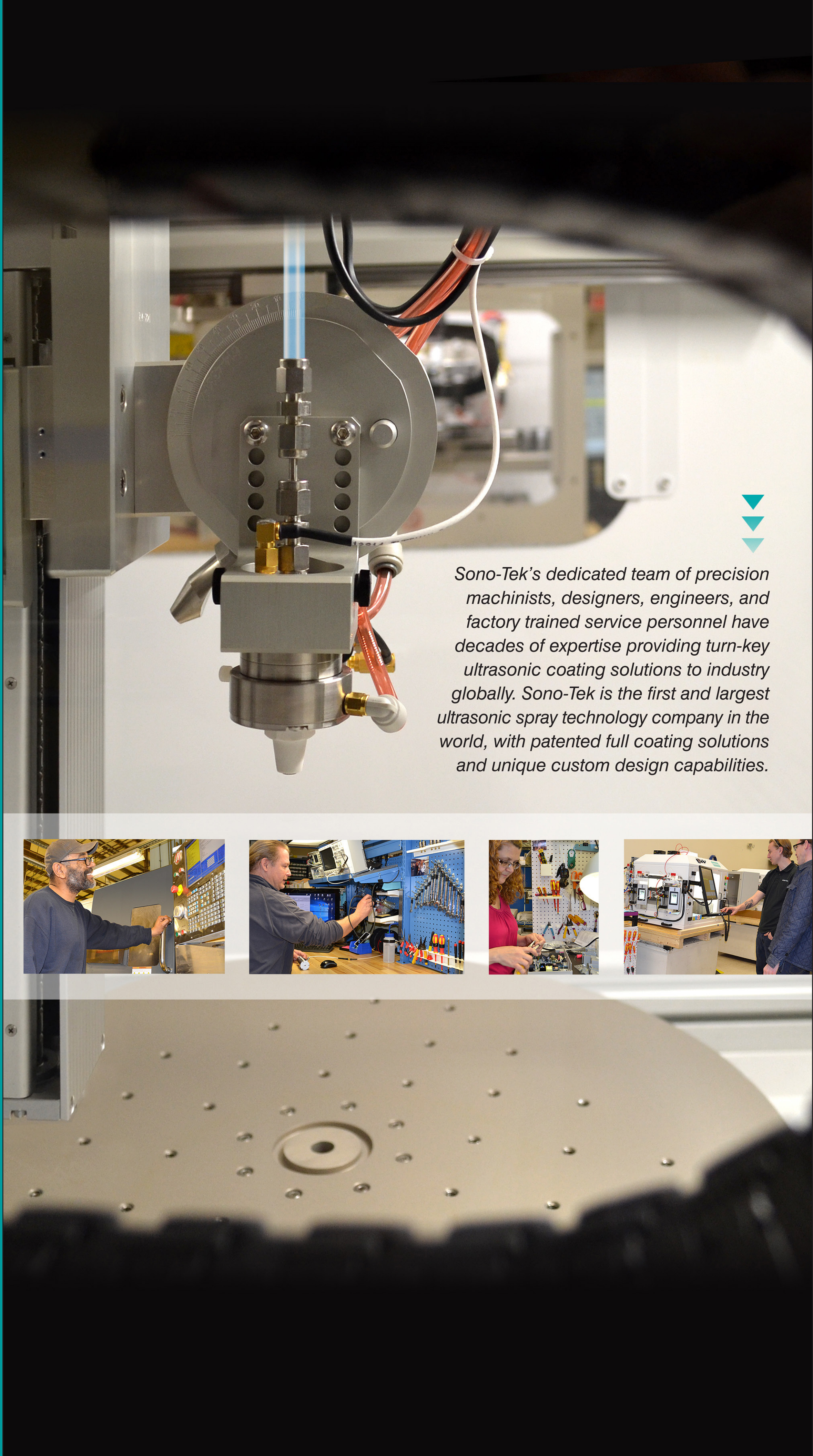
2016 Annual Report

New Products, New Opportunities

SONO•TEK Corporation

On the Cover:

Sono-Tek's New Product Development (NPD) team is solely focused on bringing new products to market, from concept to design, control, and systems integration. The NPD team successfully introduced three new products in FY2016, with more systems planned for FY2017. Sono-Tek's focus on continued innovation and new systems development enables the Company to pursue long term growth plans and entrance into new markets.



Sono-Tek's dedicated team of precision machinists, designers, engineers, and factory trained service personnel have decades of expertise providing turn-key ultrasonic coating solutions to industry globally. Sono-Tek is the first and largest ultrasonic spray technology company in the world, with patented full coating solutions and unique custom design capabilities.

Corporate Highlights

- 9% growth in sales to nearly $12M.
- Net Income similar to last year, even after significant expenditures on new product developments for future growth.
- Cash and cash equivalents approximately same as last year, while investing nearly half a million dollars in new factory equipment, and upgrading our information technology platform for enhanced efficiency and cyber security.

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Fiscal Year 2016 (March 1,2015-February 29, 2016) was a year of continued profitable growth derived from our new product developments. The strong US dollar directly impacted equipment prices to our international customers. This, in combination with a decelerating economic climate in several key Asian, European, and South American countries, resulted in softening international sales for some of our more established product lines.

Sales to the advanced textiles, float glass and food safety markets enabled us to offset these geographic specific economic challenges, resulting in 9% growth, and allowed us to significantly outperform the US industrial growth rate and GNP this past year. These applications require complex assemblies of our ultrasonic nozzles, computerized control systems, and pumping systems for various liquids, combined with an in-depth knowledge of our customer's application needs.

Sono-Tek has moved well beyond supplying hardware alone to customers. We help them in the initial application evaluation stage in our laboratories to find the right system match for their needs, and then follow up at delivery with our service team to make sure their operators are well versed in the use of these systems.

This year we communicated our Vision 2020 to shareholders, a plan to increase our sales to $20M by that year based on continuing new product developments. These investments and expenditures will allow us to continue expanding the applications for our ultrasonic spraying and coating systems, and they are made possible by our profitability and the strength of our balance sheet.

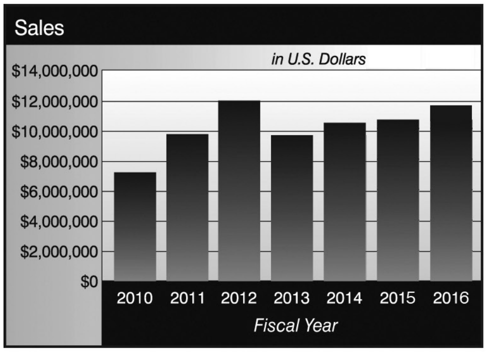
Significant Press Releases

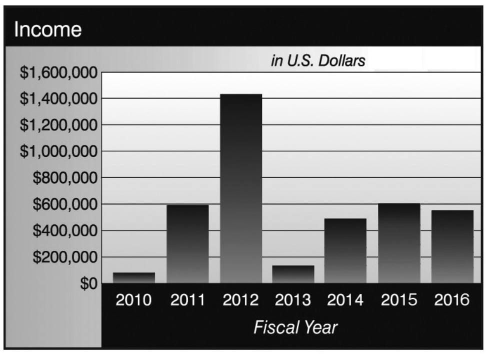
New Patents Awarded to Sono-Tek Corporation - Published February 19, 2016
Excerpt: "Sono-Tek is pleased to announce that it has been awarded three new patents for its ultrasonic spray technology. The patents relate to: Sono-Tek's flagship ECHO Multiband Ultrasonic Generator, a continuation in part for its unique SonicSyringe, and an ultrasonic spray process for applying coatings directly onto food products."

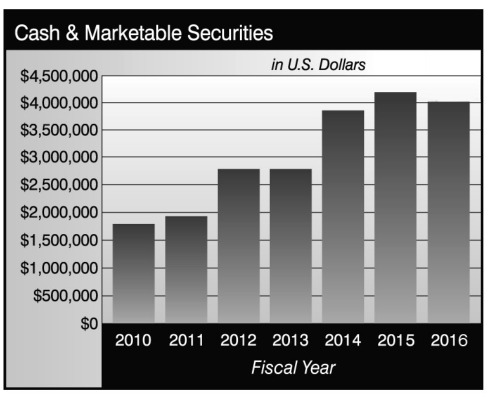
4,000 Fluxers in 40 Years! - Published December 14, 2015
Excerpt: "Sono-Tek Corporation, Milton, NY, is proud to announce the sale of its 4,000th fluxer to Jabil Circuit Inc. Established in 1975, this milestone has been achieved in Sono-Tek's 40th year in business."

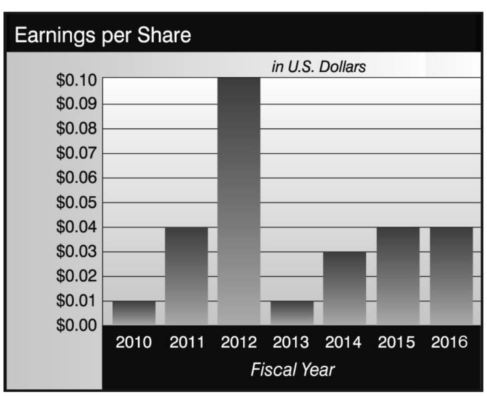
Sono-Tek Holds Worldwide Distributor Event - Published September 8, 2015
Excerpt: "Sono-Tek held a large worldwide distributor event at our Corporate Headquarters in Milton, NY the week of September 1st. The event included representatives from 14 countries: China, Hong Kong, Taiwan, Singapore, Korea, Turkey, Thailand, Israel, Denmark, France, Japan, Australia, Germany, and the US."

Sono-Tek Corp. Upgrades To OTCQX U.S. Premier - Published June 3, 2015
Excerpt: "Sono-Tek announced that it will begin trading today on the Premier tier of the OTCQX® Marketplace. U.S. investors can find current financial disclosure and Real-Time Level 2 quotes for the company at: www.otcmarkets.com/stock/SOTK/quote."









Company Overview

Sono-Tek, founded in 1975 and publicly traded on the OTC Bulletin Board (OTCQX: 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.

Our Company is the inventor and world leader in the technology of ultrasonic atomization of liquids. We possess comprehensive intellectual property, trade secrets and application expertise in this disruptive technology, which is continuously replacing conventional spraying systems. 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.

Concerns over increasing costs and excessive use of expensive liquid coating materials in various industries have led numerous manufacturers to adopt Sono-Tek ultrasonic spray nozzle systems. Sono-Tek's coating application technology is the preferred solution relative to alternatives because of its more precise, controllable and environmentally friendly advantages. Sono-Tek ultrasonic spray nozzles, with their characteristic fine mist spray, dramatically reduce overspray, save costs and minimize atmospheric contamination. Our ultrasonic nozzle technology has 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 as part of our future growth plans.

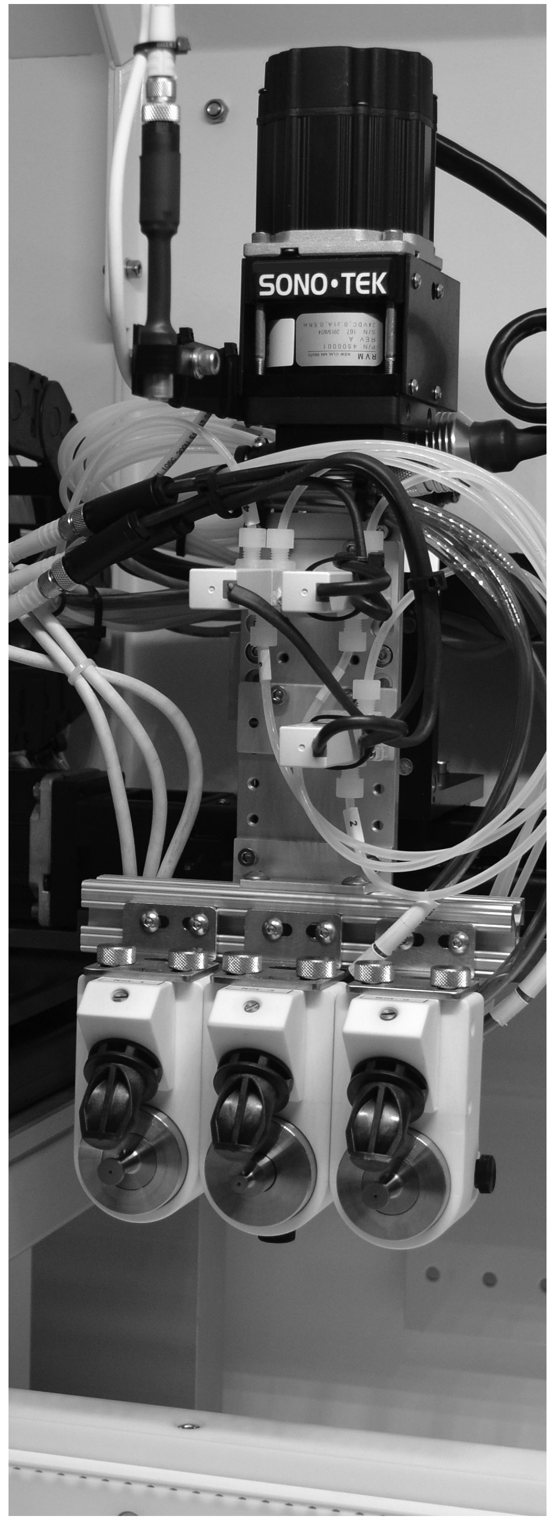
Technology Leadership

The Sono-Tek Engineering team is responsible for a continuous new product pipeline which has been the primary driver behind the Company's steady organic growth strategy over the past five years. This 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 produced a portfolio of next generation ultrasonic spray coating systems for electronics, energy, medical, industrial, nanotechnology and microencapsulation applications.

Highlights

Fiscal Year 2016 (March 2015-February 2016) was successful in achieving growth in revenues close to our 10% goal for the year. This year we chose to use a significant portion of our operating income for new product development and this resulted in our net income being slightly lower than the preceding year, rather than showing an increase. We believe this is a sound strategy, as we have numerous opportunities for organic growth based on developing new applications for ultrasonic spraying and coating. We now have three new product developments in our pipeline, with one being in the sales phase, one completing beta testing at a key customer site, and one in engineering development, scheduled for mid-year beta testing.

We also chose to use the excess cash generated above last year's closing figure to invest in new capital equipment for our factory, as well as a complete upgrade and overhaul of our information technology infrastructure. The first investment is contributing to our progress in streamlining our manufacturing platform towards a Lean approach. This will allow shorter delivery times with less inventory. The objective of the second investment was to provide a much more efficient and robust cyber security platform, and to reduce and avoid exposure to loss of intellectual property or financial transaction records.



Stock Price

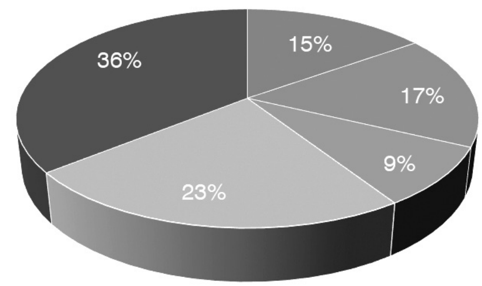
Sono-Tek has demonstrated the ability to grow revenues, profits, and cash reserves over the past decade. Today, we have a strong balance sheet, which provides the ability for us to choose investments in our future growth either organically or in terms of possible strategic additions from outside. The Company has a relatively small public float, and thus 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. We do take steps to bring our story to new investors, and will continue to do so in the future. We believe that the market responds over time to companies like ours that demonstrate sound financial results coupled with the proven ability to grow profitably.

Market Overview

The Company markets and distributes its products through independent distributors, sales representatives, 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 application and service engineers who regularly visit distributors and customers. A brief summary of our current market segments and product offerings is shown below, highlighting NEW product introductions:

GEOGRAPHIC DIVERSIFICATION
Sales by Territory Fiscal Year 2016



15%	Mexico & Latin America
26%	Asia & Middle East
23%	Europe (Including Russia)
36%	US & Canada

EXPANDING SALES TO NEW MARKETS AND APPLICATIONS		
HVAC/ Automotive	*Flux Brazing - SonoBraze	*Automotive, industrial manufacturing for heating, ventilating, and air conditioning*
Semiconductor	*Photoresist - SPT200 (Spray Photoresist Tool)	*Advantageous alternative for semiconductor lithography, MEMs*
Food	*Medical Marijuana (Medibles)	*THC oil coatings, controlled dosage*
	Antimicrobials for Food Safety	*Direct protection onto sliced deli meat*
University/ Research	*Research and Development Coatings - SimCoat	*Tabletop R&D ultrasonic coating system for labs*
Medical	*Blood Collection Tube Coating - MedXT	*Heparin, Silica, anti-coagulent coatings*
	*Balloon Catheters	*Drug coated balloons*
	*Plastic Laser Welding Liquid Deposition	*Clearweld® coatings for clear-on-clear plastic welds for diagnostic, cell culture, sample collection vessels*
	Stents	*Anti-restenosis coatings for cardiac, peripheral stents*
	Diagnostic Devices	*Enzyme and reagent coatings onto microfluidics*
	Textiles & Bandages	*Antimicrobials, antibiotics*
Glass	Float Glass	*Wide area anti-corrosion coatings onto float glass*
	Lenses	*Functional layers - photochromic, CNTs, anti-smudge*
	Displays (Touch Screen, Panel)	*Transparent Conductive Oxides, anti-fingerprint, hard coatings*
Textiles	High Tech Performance Fabrics	*Next generation fabrics - stain repellent, antimicrobials*
Spray Drying	Partnership with *BUCHI*	*Ultrasonic nozzles for lab scale spray dry processes*
Printed Circuit Boards	Spray Fluxing	*Full line of systems for spraying flux onto printed circuit boards*
	EVS Solder Recovery Systems	*US distributor for solder recycling systems*
Alternative Energy	Fuel Cell	*Carbon Platinum coatings for PEM, SOFC manufacturing*
	Solar Cell	*Advanced coatings for thin film and silicon solar*
	Thin Film Battery	*Electrolytes, functional coatings*
Nanotechnology	Functional Nanolayers - Carbon Nanotubes (CNTs), Graphene, Nanowires	*R&D systems at worldwide labs, universities, and major industry for next generation applications*

* = New product introductions

2016 Chairman's Message

Sono-Tek has demonstrated a successful business approach to introducing a disruptive technology to various high tech and industrial spraying and coating markets. Many of our customers previously used pressure-based nozzles for their coating applications and came to accept waste and environmental control as a necessary evil in the processes. Our mission has been to educate them to the advantages of substituting ultrasonic atomization nozzles in their applications, reducing cost and the need for waste control. The list of successful applications gets longer every year, as we pioneer new applications for our technology. The first application, and still a core business, was for applying fluxes in circuit board manufacturing. Next came precision coating of implantable medical devices such as cardiovascular stents, an area that continues to grow in size and scope. We now have added glass coatings, clean energy device coatings, food safety coatings, and advanced textile coatings to the mix, and are far from finished.

Each of these applications has been successful through the marriage of our core technology, a total system design, and acquired application expertise. Customers need a complete solution in order to change to a new approach. The promise is there for them to increase quality and output, combined with a reduction in environmental emissions due to overspray associated with pressure based nozzles. Their life cycle cost is dramatically reduced and the payback can be in as little as one or two years with our ultrasonic spraying and coating systems.

We have grown as a result, tripling over the past decade. With the organic growth we've experienced over the past several years, we have announced "Vision 2020", our growth goal for Sono-Tek to reach $20 million in revenue in 2020. As we progress toward this goal, our continuing organic growth has called for investments in plant and facility, machine tools, and information technology. Of course our team has grown as well, and we are fortunate to have so many talented and dedicated people working here at creating the future. We look forward to the continued pursuit of our mission at Sono-Tek, and fully expect that it will lead to enhanced financial performance and valuation.

Sincerely,

Christopher L. Coccio, Ph.D.
Chairman and CEO
July 25, 2016

Dr. Christopher Coccio
CEO

Stephen Harshbarger
President

Forward-Looking Statements

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

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

Overview

We have developed a unique and proprietary series of ultrasonic atomizing nozzles and systems, which are being used in an increasing variety of electronics, advanced energy (solar and fuel cells), medical device, glass, textiles and food applications. These nozzles are electrically driven and create a fine, uniform, low velocity spray of atomized liquid particles, in contrast to common pressure nozzles. These characteristics create a series of commercial applications that benefit from the precise, uniform, thin coatings that can be achieved. When combined with significant reductions in liquid waste and less overspray than can be achieved with ordinary pressure nozzle systems, there is lower environmental impact and lower energy use.

Market Diversity

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

Results of Operations

Ultrasonic Spraying – Sales and Gross Profit:

Sales:

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

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

Gross Profit:

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

Export Sales:

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

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

Operating Expenses:

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

Research and Product Development:

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

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

Marketing and Selling:

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

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

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

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

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

General and Administrative:

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

Operating Income – Ultrasonic Spraying:

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

Rental Real Estate Operations:

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

A summary of our real estate operations is as follows:

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

	Twelve Months Ended February 29, 2016	Twelve Months Ended February 28 2015
Statements of Cash Flows		
Net Loss	$ (122,000)	$ (134,000)
Adjustments to reconcile net loss to net cash used in real estate operations:		
Depreciation	73,000	69,000
Capital Improvements	-	(72,000)
Repayment of long term debt	(138,000)	(132,000)
Net Cash (Used) in Real Estate Operations	$ (187,000)	$ (269,000)
Cash Used Per Square Foot Cost Based on 50,000 sq. feet	$ 3.74	$ 5.38

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

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

Interest Income, Interest Expense and Income Taxes:

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

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

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

Net Income:

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

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

Other Comprehensive Loss:

Net unrealized loss on marketable securities:

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

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

Off - Balance Sheet Arrangements

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

Critical Accounting Policies

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

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

Stock-Based Compensation

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

Impact of New Accounting Pronouncements

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

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Sono-Tek Corporation

We have audited the accompanying consolidated balance sheets of Sono-Tek Corporation as of February 29, 2016 and February 28, 2015 and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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 audits 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 29, 2016 and February 28, 2015, and the results of its operations and cash flows for each of the years then ended, in conformity with generally accepted accounting principles in the United States.

Liggett & Webb P.A.

LIGGETT & WEBB, P.A.
Certified Public Accountants
New York, New York 10016
May 25, 2016

SONO-TEK CORPORATION

CONSOLIDATED BALANCE SHEETS

	February 29, 2016	February 28, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,388,355	$ 2,562,782
Marketable securities	1,695,689	1,652,485
Accounts receivable (less allowance of $46,000 and $43,047, respectively)	1,214,713	1,029,250
Inventories, net	1,945,383	2,059,177
Prepaid expenses and other current assets	109,954	94,487
Deferred tax asset	154,914	241,000
Total current assets	7,509,008	7,639,181
Land	250,000	250,000
Buildings, net	1,939,714	2,015,625
Equipment, furnishings and leasehold improvements, net	796,788	661,411
Intangible assets, net	174,027	175,412
TOTAL ASSETS	$10,669,537	$10,741,629
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 475,297	$ 584,963
Accrued expenses	746,036	691,937
Customer deposits	201,478	462,168
Current maturities of long term debt	143,388	158,184
Income taxes payable	87,660	229,927
Total current liabilities	1,653,859	2,127,179
Deferred tax liability	171,719	150,979
Long term debt, less current maturities	1,176,349	1,319,737
Total Liabilities	3,001,927	3,597,895
Commitments and Contingencies	-	-
Stockholders' Equity		
Common stock, $.01 par value; 25,000,000 shares authorized, 14,955,400 and 14,933,107 issued and outstanding, respectively	149,554	149,331
Additional paid-in capital	8,812,224	8,766,160
Accumulated deficit	(1,224,028)	(1,771,757)
Accumulated other comprehensive loss	(70,140)	-
Total stockholders' equity	7,667,610	7,143,734
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$10,669,537	$10,741,629

See notes to consolidated financial statements.

SONO-TEK CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

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

See notes to consolidated financial statements.

SONO-TEK CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

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

See notes to consolidated financial statements.

SONO-TEK CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended February 29, 2016	Fiscal Year Ended February 28, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 547,729	$ 606,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	476,528	407,795
Stock based compensation expense	43,402	42,523
Inventory reserve	(119,924)	99,535
Allowance for doubtful accounts	2,953	11,047
Deferred tax expense	106,826	-
(Increase) Decrease in:		
Accounts receivable	(188,416)	(180,001)
Inventories	233,718	(483,897)
Prepaid expenses and other assets	(15,467)	65,886
(Decrease) Increase in:		
Accounts payable and accrued expenses	(55,568)	155,585
Customer deposits	(260,690)	99,322
Income taxes payable	(142,267)	100,529
Net Cash Provided by Operating Activities	628,824	924,457
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furnishings and leasehold improvements	(465,427)	(357,050)
(Purchase) of marketable securities	(164,825)	(1,021,691)
Patent application and other asset costs	(17,700)	(22,352)
Net Cash (Used In) Investing Activities	(647,952)	(1,401,093)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of options	2,885	-
Repayment of long term debt	(158,184)	(192,603)
Net Cash (Used In) Financing Activities	(155,299)	(192,603)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(174,427)	(669,239)
CASH AND CASH EQUIVALENTS:		
Beginning of year	2,562,782	3,232,021
End of year	$ 2,388,355	$ 2,562,782
Supplemental Cash Flow Disclosure:		
Interest Paid	$ 58,447	$ 64,527
Income Taxes Paid	$ 230,289	$ 127,046

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015

NOTE 1: BUSINESS DESCRIPTION

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

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Concentration of Credit Risk – The Company does not believe that it is subject to any unusual or significant risks, in the normal course of business. The Company had one customer, which accounted for 7% of sales during the year ended February 29, 2016. Four customers accounted for 40% of the outstanding accounts receivables at February 29, 2016. The Company had one customer, which accounted for 7% of sales during the year ended February 28, 2015. Two customers accounted for 25% of the outstanding accounts receivables at February 28, 2015.

Consolidation – The accompanying consolidated financial statements of Sono-Tek Corporation, a New York corporation (the "Company"), include the accounts of the Company and its wholly owned subsidiaries, Sono-Tek Cleaning Systems Inc. and Sono-Tek Industrial Park, LLC. Sono-Tek Cleaning Systems, Inc., a New Jersey Corporation ("SCS"), ceased operations during the Fiscal Year Ended February 28, 2002. Sono-Tek Industrial Park, LLC ("SIP"), operates as a real estate holding company for the Company's real estate operations.

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

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

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

Level 1: Quoted prices in active markets.

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

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

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

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

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

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

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

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

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

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

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

New Accounting Pronouncements – All new accounting pronouncements issued but not yet effective have been deemed to be not applicable to the Company. Hence, the adoption of these new accounting pronouncements once effective are not expected to have an impact on the Company.

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

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

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

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

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

NOTE 3: SEGMENT INFORMATION

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

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

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

NOTE 4: STOCK-BASED COMPENSATION

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

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

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

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

For the years ended February 29, 2016 and February 28, 2015, net income and earnings per share reflect the actual deduction for stock-based compensation expense. The impact of applying ASC 718 approximated $43,402 and $42,523 in additional compensation expense for the years then ended, respectively. Such amount is included in general and administrative expenses on the statement of operations. The expense for stock-based compensation is a non-cash expense item.

NOTE 5: INVENTORIES

Inventories consist of the following:

	February 29, 2016	February 28, 2015
Raw materials and subassemblies	$1,452,566	$ 1,692,202
Finished goods	549,106	441,026
Work in process	118,415	220,577
Total	2,120,087	2,353,805
Less: Allowance	(174,704)	(294,628)
Total Inventories	$1,945,383	$2,059,177

NOTE 6: BUILDINGS, EQUIPMENT, FURNISHINGS AND LEASEHOLD IMPROVEMENTS

Equipment, furnishings and leasehold improvements consist of the following:

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

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

NOTE 7: ACCRUED EXPENSES

Accrued expenses consist of the following:

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

NOTE 8: REVOLVING LINE OF CREDIT

The Company has a $750,000 revolving line of credit at prime which was 3.50% at February 29, 2016 and 3.25% at February 28, 2015. The line of credit is collateralized by all of the assets of the Company, except for the land and buildings. The line of credit is payable on demand and must be retired for a 30 day period once annually. If the Company fails to perform the 30 day annual pay down or if the bank elects to terminate the credit line, the bank may at its option convert the outstanding balance to a 36 month term note with payments including interest in 36 equal installments. As of February 29, 2016 and February 28, 2015, the Company's outstanding balance was $0, and the unused credit line was $750,000.

NOTE 9: LONG-TERM DEBT

Long-term debt consists of the following:

	February 29, 2016	February 28, 2015
Equipment loan, bank, collateralized by related production equipment, payable in monthly installments of principal and interest of $5,158 through June 2015. Interest rate 2.12%. 48 month term.	-	$ 20,542
Note payable, bank, collateralized by land and buildings, payable in monthly installments of principal and interest of $16,358 through January 2024. Interest rate 4.15%. 10 year term.	1,319,737	1,457,379
Total long term debt	1,319,737	1,477,921
Due within one year	143,388	158,184
Due after one year	$1,176,349	$1,319,737

Long-term debt is payable as follows:

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

NOTE 10: BANK GUARANTEES

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

NOTE 11: COMMITMENTS AND CONTINGENCIES

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

NOTE 12: INCOME TAXES

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

	February 29, 2016	February 28, 2015
Expected federal income tax	$ 252,321	$ 288,945
State tax, net of federal	39,059	31,371
Research and development tax credits	(135,904)	(155,110)
Overaccrual of prior year taxes	(67,579)	-
Deferred tax expense	106,826	-
Permanent timing difference	-	54,218
Income tax	$ 194,723	$ 219,424

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

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

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

NOTE 13: STOCKHOLDERS' EQUITY

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

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

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

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

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

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

	Stock Options		Weighted Average Exercise Price $		Fair Value
	Outstanding	Exercisable	Outstanding	Exercisable	Vested
Balance – February 28, 2014	946,573	435,714	$ 0.76	$ 0.82	$ 0.41
Granted	67,600		1.20		
Exercised	(478,739)		(0.64)		
Cancelled	(46,500)		(1.04)		
Balance – February 28, 2015	489,434	353,934	$ 0.97	$ 0.86	$ 0.32
Granted	73,500		1.16		
Exercised	(41,334)		(0.61)		
Cancelled	(57,500)		(1.08)		
Balance – February 29, 2016	464,100	349,820	$ 0.91	$ 0.83	$ 0.39

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

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

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

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

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

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

NOTE 14: EARNINGS PER SHARE

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

	February 29, 2016	February 28, 2015
Numerator for basic and diluted earnings per share	$ 547,729	$ 606,133
Denominator for basic earnings per share - weighted average	14,943,018	14,737,204
Effects of dilutive securities:		
Stock options for employees, directors and outside consultants	86,583	109,604
Denominator for diluted earnings per share	15,029,601	14,846,808
Basic Earnings Per Share – Weighted Average	$ 0.04	$ 0.04
Diluted Earnings Per Share – Weighted Average	$ 0.04	$ 0.04

NOTE 15: SIGNIFICANT CUSTOMERS AND FOREIGN SALES

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

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

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

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

NOTE 16: SUBSEQUENT EVENTS

The Company has evaluated subsequent events for disclosure purposes.

Common Stock

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

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

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

As of February 29, 2016, there were 165 shareholders of record of our Common Stock, according to our stock transfer agent. We estimate that we have between 1,000 and 1,400 beneficial shareholders of our common stock. The difference between the shareholders of record and the total shareholders is due to stock being held in street names at our transfer agent.

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

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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

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Corporate E-mail

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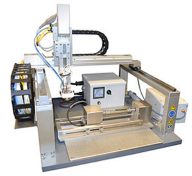





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