UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: February 28, 2014

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from: ______ To: ______

Commission File Number: 000-23996

SCHMITT INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Oregon	**93-1151989**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**

2765 NW Nicolai Street, Portland, Oregon 97210-1818

(Address of principal executive offices) (Zip Code)

(503) 227-7908

(Registrant s telephone number, including area code)

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

Indicate by check mark 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares of each class of common stock outstanding as of March 31, 2014

Common stock, no par value	2,990,910

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SCHMITT INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	February 28, 2014	May 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,885,856	$ 1,909,071
Accounts receivable, net of allowance of $32,009 and $30,576 at February 28, 2014 and May 31, 2013, respectively	2,155,006	1,980,685
Inventories	4,539,207	5,054,087
Prepaid expenses	141,186	219,492
Income taxes receivable	17,943	48,095
	8,739,198	9,211,430
Property and equipment		
Land	299,000	299,000
Buildings and improvements	1,805,951	1,805,951
Furniture, fixtures and equipment	1,313,921	1,312,028
Vehicles	86,838	121,835
	3,505,710	3,538,814
Less accumulated depreciation and amortization	(2,328,075)	(2,203,924)
	1,177,635	1,334,890
Other assets		
Intangible assets, net	977,302	1,078,278
TOTAL ASSETS	$ 10,894,135	$ 11,624,598
LIABILITIES & STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 525,876	$ 918,094
Accrued commissions	242,648	273,307
Accrued payroll liabilities	108,515	131,772
Other accrued liabilities	279,318	286,307
Total current liabilities	1,156,357	1,609,480
Stockholders equity		
Common stock, no par value, 20,000,000 shares authorized, 2,990,910 shares issued and outstanding at both February 28, 2014 and May 31, 2013	10,411,566	10,369,524
Accumulated other comprehensive loss	(269,439)	(331,924)
Accumulated deficit	(404,349)	(22,482)

Total stockholders equity		9,737,778	10,015,118
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	10,894,135	$ 11,624,598

The accompanying notes are an integral part of these financial statements.

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SCHMITT INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 28, 2014 AND 2013

(UNAUDITED)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	2014	2013
Net sales	$ 3,066,163	$ 2,796,429	$ 9,108,662	$ 9,179,353
Cost of sales	1,608,233	1,438,831	4,851,742	4,405,579
Gross profit	1,457,930	1,357,598	4,256,920	4,773,774
Operating expenses:				
General, administration and sales	1,387,972	1,366,587	4,246,720	4,523,320
Research and development	151,613	164,693	390,473	411,367
Total operating expenses	1,539,585	1,531,280	4,637,193	4,934,687
Operating loss	(81,655)	(173,682)	(380,273)	(160,913)
Other income (expense)	11,497	(2,347)	5,404	6,080
Loss before income taxes	(70,158)	(176,029)	(374,869)	(154,833)
Provision for income taxes	1,949	15,075	6,998	20,727
Net loss	$ (72,107)	$ (191,104)	$ (381,867)	$ (175,560)
Net loss per common share:				
Basic	$ (0.02)	$ (0.06)	$ (0.13)	$ (0.06)
Weighted average number of common shares, basic	2,990,910	2,990,910	2,990,910	2,990,910
Diluted	$ (0.02)	$ (0.06)	$ (0.13)	$ (0.06)
Weighted average number of common shares, diluted	2,990,910	2,990,910	2,990,910	2,990,910
Comprehensive loss				
Net loss	$ (72,107)	$ (191,104)	$ (381,867)	$ (175,560)
Foreign currency translation adjustment	9,561	(24,648)	62,485	(15,205)
Total comprehensive loss	$ (62,546)	$ (215,752)	$ (319,382)	$ (190,765)

The accompanying notes are an integral part of these financial statements.

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SCHMITT INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED FEBRUARY 28, 2014 AND 2013

(UNAUDITED)

	Nine Months Ended February 28, 2014	Nine Months Ended February 28, 2013
Cash flows relating to operating activities		
Net loss	$ (381,867)	$ (175,560)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	254,291	260,379
Gain on disposal of property and equipment	(13,667)	0
Stock based compensation	42,042	67,255
(Increase) decrease in:		
Accounts receivable	(136,344)	393,466
Inventories	544,102	(772,380)
Prepaid expenses	80,283	29,870
Income taxes receivable	30,152	(7,021)
Increase (decrease) in:		
Accounts payable	(398,357)	(66,416)
Accrued liabilities and customer deposits	(65,706)	(3,966)
Net cash used in operating activities	(45,071)	(274,373)
Cash flows relating to investing activities		
Purchases of property and equipment	(1,893)	(152,010)
Proceeds from sale of property and equipment	19,500	0
Net cash provided by (used in) investing activities	17,607	(152,010)
Cash flows relating to financing activities		
Increase in line of credit	400,000	0
Payments on line of credit	(400,000)	0
Net cash provided by financing activities	0	0
Effect of foreign exchange translation on cash	4,249	(10,549)
Decrease in cash and cash equivalents	(23,215)	(436,932)
Cash and cash equivalents, beginning of period	1,909,071	2,776,817
Cash and cash equivalents, end of period	$ 1,885,856	$ 2,339,885
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for income taxes	$ 7,061	$ 35,248
Cash paid during the period for interest	$ 8,378	$ 0

The accompanying notes are an integral part of these financial statements.

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SCHMITT INDUSTRIES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTHS ENDED FEBRUARY 28, 2014

(UNAUDITED)

	Shares	Amount	Accumulated other comprehensive loss	Accumulated deficit	Total
Balance, May 31, 2013	2,990,910	$ 10,369,524	$ (331,924)	$ (22,482)	$ 10,015,118
Stock-based compensation	0	42,042	0	0	42,042
Net loss	0	0	0	(381,867)	(381,867)
Other comprehensive income	0	0	62,485	0	62,485
Balance, February 28, 2014	2,990,910	$ 10,411,566	$ (269,439)	$ (404,349)	$ 9,737,778

The accompanying notes are an integral part of these financial statements.

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SCHMITT INDUSTRIES, INC.

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Note 1:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial information included herein has been prepared by Schmitt Industries, Inc. (the Company or Schmitt) and its wholly owned subsidiaries. In the opinion of management, the accompanying unaudited Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly its financial position as of February 28, 2014 and its results of operations and its cash flows for the periods presented. The consolidated balance sheet at May 31, 2013 has been derived from the Annual Report on Form 10-K for the fiscal year ended May 31, 2013. The accompanying unaudited financial statements and related notes should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2013. Operating results for the interim periods presented are not necessarily indicative of the results that may be experienced for the fiscal year ending May 31, 2014.

Revenue Recognition

The Company recognizes revenue for sales and billing for freight charges upon delivery of the product to the customer at a fixed and determinable price with a reasonable assurance of collection, passage of title to the customer as indicated by shipping terms and fulfilment of all significant obligations, pursuant to the guidance provided by Accounting Standards Codification (ASC) Topic 605. For sales to all customers, including manufacturer representatives, distributors or their third-party customers, these criteria are met at the time product is shipped. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. In addition, judgments are required in evaluating the credit worthiness of our customers. Credit is not extended to customers and revenue is not recognized until we have determined that collectability is reasonably assured.

Financial Instruments

The carrying value of all other financial instruments potentially subject to valuation risk (principally consisting of cash and cash equivalents, accounts receivable, accounts payable and the line of credit) also approximates fair value because of their short-term maturities.

Note 2:

INVENTORY

Inventory is valued at the lower of cost or market with cost determined on the average cost basis. Costs included in inventories consist of materials, labor and manufacturing overhead, which are related to the purchase or production of inventories. Write-downs, when required, are made to reduce excess inventories to their net realizable values. Such estimates are based on assumptions regarding future demand and market conditions. If actual conditions become less favorable than the assumptions used, an additional inventory write-down may be required. As of February 28, 2014 and May 31, 2013, inventories consisted of:

	February 28, 2014	May 31, 2013
Raw materials	$ 1,974,479	$ 2,225,295
Work-in-process	784,694	1,132,534
Finished goods	1,780,034	1,696,258
	$ 4,539,207	$ 5,054,087

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Note 3:

LINE OF CREDIT

The Company has a $2 million bank line of credit secured by U.S. accounts receivable, inventories, general intangibles and a depository account, which has been extended through September 1, 2014. The line of credit is subject to certain covenant requirements if draws on the line are executed. Interest is payable at the bank s prime rate (3.25% as of February 28, 2014) or LIBOR plus 2.0% (2.16% as of February 28, 2014). The outstanding balance on the line of credit was $0 at February 28, 2014 and May 31, 2013, respectively.

Note 4:

STOCK OPTIONS AND STOCK-BASED COMPENSATION

Stock-based compensation includes expense charges for all stock-based awards to employees and directors granted under the Company s stock option plan. Stock-based compensation recognized during the period is based on the portion of the grant date fair value of the stock-based award that will vest during the period, adjusted for expected forfeitures. Compensation cost for all stock-based awards is recognized using the straight-line method. The Company uses the Black-Scholes option pricing model as its method of valuation for stock-based awards. The Black-Scholes option pricing model requires the input of highly subjective assumptions, and other reasonable assumptions could provide differing results. These variables include, but are not limited to:

Risk-Free Interest Rate. The Company bases the risk-free interest rate on the implied yield currently available on U.S. Treasury issues with an equivalent remaining term approximately equal to the expected life of the award.

Expected Life. The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and pre-vesting and post-vesting forfeitures.

Expected Volatility. The Company estimates the volatility of its common stock at the date of grant based on the historical volatility of its common stock. The volatility factor the Company uses is based on its historical stock prices over the most recent period commensurate with the estimated expected life of the award. These historical periods may exclude portions of time when unusual transactions occurred.

Expected Dividend Yield. The Company does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of zero.

Expected Forfeitures. The Company uses relevant historical data to estimate pre-vesting option forfeitures. The Company records stock-based compensation only for those awards that are expected to vest.

The Company has computed, to determine stock-based compensation expense recognized for those options granted during the three and nine months ended February 28, 2014 and 2013, the value of all stock options granted using the Black-Scholes option pricing model. 35,000 options were issued during the nine months ended February 28, 2014. No options were issued during the nine months ended February 28, 2013.

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At February 28, 2014, the Company had a total of 286,666 outstanding stock options (204,998 vested and exercisable and 81,668 non-vested) with a weighted average exercise price of $3.74. The Company estimates that $56,921 will be recorded as additional stock-based compensation expense for all options that were outstanding as of February 28, 2014, but which were not yet vested.

Outstanding Options			Exercisable Options	
Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (yrs)	Number of Shares	Weighted Average Exercise Price
41,666	$ 2.30	0.3	41,666	$ 2.30
35,000	2.53	9.6	0	N/A
25,000	2.90	9.1	0	N/A
130,000	3.65	7.3	108,332	3.65
5,000	5.80	1.7	5,000	5.80
50,000	6.25	4.3	50,000	6.25
286,666	3.74	6.1	204,998	4.06

Options granted, exercised, and forfeited or canceled under the Company s stock option plan during the three and nine months ended February 28, 2014 are summarized as follows:

	Three Months Ended February 28, 2014		Nine Months Ended February 28, 2014	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding - beginning of period	286,666	$ 3.74	301,666	$ 4.06
Options granted	0	0	35,000	2.53
Options exercised	0	0	0	0
Options forfeited/canceled	0	0	(50,000)	4.82
Options outstanding - end of period	286,666	3.74	286,666	3.74

Note 5:

EPS RECONCILIATION

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2014	2013	2014	2013
Weighted average shares (basic)	2,990,910	2,990,910	2,990,910	2,990,910
Effect of dilutive stock options	0	0	0	0
Weighted average shares (diluted)	2,990,910	2,990,910	2,990,910	2,990,910

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed using the weighted average number of common shares outstanding, adjusted for dilutive incremental shares attributed to outstanding options to purchase common stock. Common stock equivalents for stock options are computed using the treasury stock method. In periods in which a net loss is incurred, no common stock equivalents are included since they are antidilutive and as such all stock options outstanding are excluded from the computation of diluted net loss in those periods.

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Note 6:

INCOME TAXES

The Company accounts for income taxes using the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Each year the Company files income tax returns in the various national, state and local income taxing jurisdictions in which it operates. These tax returns are subject to examination and possible challenge by the taxing authorities. Positions challenged by the taxing authorities may be settled or appealed by the Company. As a result, there is an uncertainty in income taxes recognized in the Company s financial statements in accordance with ASC Topic 740. The Company applies this guidance by defining criteria that an individual income tax position must meet for any part of the benefit of that position to be recognized in an enterprise s financial statements and provides guidance on measurement, de-recognition, classification, accounting for interest and penalties, accounting in interim periods, disclosure, and transition.

On June 1, 2007, the Company adopted the provisions of ACS Topic 740. Other long-term liabilities related to tax contingencies were $0 as of both February 28, 2014 and May 31, 2013. Interest and penalties associated with uncertain tax positions are recognized as components of the Provision for income taxes. The liability for payment of interest and penalties was $0 as of February 28, 2014 and May 31, 2013.

Several tax years are subject to examination by major tax jurisdictions. In the United States, federal tax years for Fiscal 2010 and after are subject to examination. In the United Kingdom, tax years for Fiscal 2012 and after are subject to examination. In Canada, tax years for Fiscal 2005 and after are subject to examination.

Effective Tax Rate

The effective tax rate on consolidated net loss was 2.0% for the nine months ended February 28, 2014. The effective tax rate on consolidated net loss differs from the federal statutory tax rate primarily due to the amount of income from foreign jurisdictions, changes in the deferred tax valuation allowance and certain expenses not being deductible for income tax reporting purposes. Management believes the effective tax rate for Fiscal 2014 will be approximately 2.7% due to the items noted above.

Note 7:

SEGMENTS OF BUSINESS

The Company has two reportable business segments: dynamic balancing systems for the machine tool industry (Balancer) and laser-based test and measurement systems (Measurement). The Company operates in three principal geographic markets: North America, Europe and Asia.

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Segment Information

	Three Months Ended February 28, 2014		2013	
	Balancer	Measurement	Balancer	Measurement
Gross sales	$ 2,201,178	$ 1,123,186	$ 2,023,483	$ 1,002,351
Intercompany sales	(231,317)	(26,884)	(213,564)	(15,841)
Net sales	$ 1,969,861	$ 1,096,302	$ 1,809,919	$ 986,510
Operating income (loss)	$ 4,345	$ (86,000)	$ 68,552	$ (242,234)
Depreciation expense	$ 32,786	$ 12,542	$ 35,448	$ 17,630
Amortization expense	$ 0	$ 33,659	$ 0	$ 33,659
Capital expenditures	$ 457	$ 0	$ 9,393	$ 0

	Nine Months Ended February 28, 2014		2013	
	Balancer	Measurement	Balancer	Measurement
Gross sales	$ 6,603,586	$ 3,316,516	$ 6,539,053	$ 3,288,795
Intercompany sales	(765,987)	(45,453)	(604,450)	(44,045)
Net sales	$ 5,837,599	$ 3,271,063	$ 5,934,603	$ 3,244,750
Operating income (loss)	$ (236,031)	$ (144,242)	$ 167,791	$ (328,704)
Depreciation expense	$ 108,933	$ 44,382	$ 105,662	$ 53,741
Amortization expense	$ 0	$ 100,976	$ 0	$ 100,976
Capital expenditures	$ 1,893	$ 0	$ 49,223	$ 102,787

Geographic Information-Net Sales by Geographic Area

	Three Months Ended February 28, 2014	2013	Nine Months Ended February 28, 2014	2013
North America	$ 1,763,223	$ 1,948,358	$ 5,455,496	$ 6,040,977
Europe	526,372	259,570	1,401,713	931,063
Asia	742,006	515,040	2,115,187	1,956,977
Other markets	34,562	73,461	136,266	250,336
Total Net Sales	$ 3,066,163	$ 2,796,429	$ 9,108,662	$ 9,179,353

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	Three Months Ended February 28, 2014		2013	
	United States	Europe	United States	Europe
Operating income (loss)	$ (185,597)	$ 103,942	$ (142,189)	$ (31,493)
Depreciation expense	$ 45,328	$ 0	$ 53,078	$ 0
Amortization expense	$ 33,659	$ 0	$ 33,659	$ 0
Capital expenditures	$ 457	$ 0	$ 9,393	$ 0

	Nine Months Ended February 28, 2014		2013	
	United States	Europe	United States	Europe
Operating income (loss)	$ (442,338)	$ 62,065	$ (96,811)	$ (64,102)
Depreciation expense	$ 153,315	$ 0	$ 159,403	$ 0
Amortization expense	$ 100,976	$ 0	$ 100,976	$ 0
Capital expenditures	$ 1,893	$ 0	$ 152,010	$ 0

Note Europe is defined as the European subsidiary, Schmitt Europe, Ltd.

Segment and Geographic Assets

	February 28, 2014	May 31, 2013
Segment assets to total assets		
Balancer	$ 4,733,193	$ 5,489,976
Measurement	4,257,143	4,177,456
Corporate assets	1,903,799	1,957,166
Total assets	$ 10,894,135	$ 11,624,598
Geographic assets to long-lived assets		
United States	$ 1,177,635	$ 1,334,890
Europe	0	0
Total assets	$ 1,177,635	$ 1,334,890
Geographic assets to total assets		
United States	$ 9,862,422	$ 11,021,901
Europe	1,031,713	602,697
Total assets	$ 10,894,135	$ 11,624,598

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements

This Quarterly Report filed with the SEC on Form 10-Q (the Report), including Management s Discussion and Analysis of Financial Condition and Results of Operations in this Item 2, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding future events and the future results of Schmitt Industries, Inc. and its consolidated subsidiaries (the Company) that are based on management s current expectations, estimates, projections and assumptions about the Company s business. Words such as expects, anticipates, intends, plans, believes, sees, estimates and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to, those discussed in the Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Report as well as those discussed from time to time in the Company s other Securities and Exchange Commission filings and reports. In addition, such statements could be affected by general industry and market conditions. Such forward-looking statements speak only as of the date of this Report or, in the case of any document incorporated by reference, the date of that document, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Report. If we update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect to other forward-looking statements.

RESULTS OF OPERATIONS

Overview

Schmitt Industries, Inc. designs, manufactures and markets computer-controlled vibration detection and balancing equipment (the Balancer segment) to the worldwide machine tool industry and through its wholly owned subsidiary, Schmitt Measurement Systems, Inc., precision laser-based surface measurement products, laser-based distance measurement products and ultrasonic measurement systems (the Measurement segment) for a variety of industrial applications worldwide. The Company sells and markets its products in Europe through its wholly owned subsidiary, Schmitt Europe Ltd. (SEL), located in the United Kingdom. The Company is organized into two operating segments: the Balancer segment and the Measurement segment. The accompanying unaudited financial information should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended May 31, 2013.

SBS, SMS, Acuity, Xact , Lasercheck and AccuProfile are registered trademarks owned by the Company.

For the three months ended February 28, 2014, total sales increased $269,734, or 9.6%, to $3,066,163 from $2,796,429 in the three months ended February 28, 2013. For the nine months ended February 28, 2014, total sales decreased $70,691, or 0.8%, to $9,108,662 from $9,179,353 in the nine months ended February 28, 2013. Balancer segment sales focus throughout the world on end-users, rebuilders and original equipment manufacturers of grinding machines with the target geographic markets of North America, Asia, Europe and South America. Balancer segment sales increased $159,942, or 8.8%, to $1,969,861 for the three months ended February 28, 2014 compared to $1,809,919 for the three months ended February 28, 2013, primarily due to an increase in sales into Asia and Europe, offset by decreased sales in North America for the quarter. Balancer segment sales decreased $97,004, or 1.6%, to $5,837,599 for the nine months ended February 28, 2014 compared to $5,934,603 for the nine months ended February 28, 2013. The decrease in worldwide balancer sales for the nine month period ended February 28, 2014 is in part due to lower volumes of shipments into North America, offset by increased sales in Asia and Europe. The Measurement segment product line consists of laser-based light-scatter, distance measurement and dimensional sizing products and remote tank monitoring products. Total Measurement segment sales increased $109,792, or 11.1%, to $1,096,302 for the three months ended February 28, 2014 compared to $986,510 for the three months ended February 28, 2013, driven primarily by an increase in sales of laser-based light-scatter surface measurement products, offset by decreased sales of our laser-based distance measurement and dimensional sizing products. Total Measurement segment sales increased $26,313, or 0.8%, to $3,271,063 for the nine months ended February 28, 2014 compared to $3,244,750 for the nine months ended February 28, 2013. The increase in worldwide measurement system sales for the nine month period ended February 28, 2014 is primarily due to increases in sales of remote tank monitoring products and related services and laser-based light-scatter surface measurement products, offset by lower volumes of shipments of laser-based distance measurement and dimensional sizing products.

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Operating expenses increased $8,305, or 0.5%, to $1,539,585 for the three months ended February 28, 2014 from $1,531,280 for the three months ended February 28, 2013. Operating expenses decreased $297,494, or 6.0%, to $4,637,193 for the nine months ended February 28, 2014 from $4,934,687 for the nine months ended February 28, 2013. General, administration and sales expenses increased $21,385, or 1.6%, to $1,387,972 for the three months ended February 28, 2014 from $1,366,587 for the same period in the prior year. General, administration and sales expenses decreased $276,600, or 6.1%, to $4,246,720 for the nine months ended February 28, 2014 from $4,523,320 for the same period in the prior year. Research and development expenses decreased $13,080, or 7.9%, to $151,613 for the three months ended February 28, 2014 from $164,693 for the three months ended February 28, 2013. Research and development expenses decreased $20,894, or 5.1%, to $390,473 for the nine months ended February 28, 2014 from $411,367 for the nine months ended February 28, 2013. Net loss was $72,107, or $0.02 per fully diluted share, for the three months ended February 28, 2014 as compared to $191,104, or $0.06 per fully diluted share, for the three months ended February 28, 2013. Net loss was $381,867, or $0.13 per fully diluted share, for the nine months ended February 28, 2014 as compared to net loss of $175,560, or $0.06 per fully diluted share, for the nine months ended February 28, 2013.

Critical Accounting Policies

There were no material changes in our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended May 31, 2013.

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Discussion of Operating Results

	Three Months Ended February 28, 2014		2013	
Balancer sales	$ 1,969,861	64.2%	$ 1,809,919	64.7%
Measurement sales	1,096,302	35.8%	986,510	35.3%
Total sales	3,066,163	100.0%	2,796,429	100.0%
Cost of sales	1,608,233	52.5%	1,438,831	51.5%
Gross profit	1,457,930	47.5%	1,357,598	48.5%
Operating expenses:				
General, administration and sales	1,387,972	45.3%	1,366,587	48.9%
Research and development	151,613	4.9%	164,693	5.9%
Total operating expenses	1,539,585	50.2%	1,531,280	54.8%
Operating income (loss)	(81,655)	-2.7%	(173,682)	-6.2%
Other income (expense)	11,497	0.4%	(2,347)	-0.1%
Income (loss) before income taxes	(70,158)	-2.3%	(176,029)	-6.3%
Provision (benefit) for income taxes	1,949	0.1%	15,075	0.5%
Net income (loss)	$ (72,107)	-2.4%	$ (191,104)	-6.8%

	Nine Months Ended February 28, 2014		2013	
Balancer sales	$ 5,837,599	64.1%	$ 5,934,603	64.7%
Measurement sales	3,271,063	35.9%	3,244,750	35.3%
Total sales	9,108,662	100.0%	9,179,353	100.0%
Cost of sales	4,851,742	53.3%	4,405,579	48.0%
Gross profit	4,256,920	46.7%	4,773,774	52.0%
Operating expenses:				
General, administration and sales	4,246,720	46.6%	4,523,320	49.3%
Research and development	390,473	4.3%	411,367	4.5%
Total operating expenses	4,637,193	50.9%	4,934,687	53.8%
Operating income (loss)	(380,273)	-4.2%	(160,913)	-1.8%
Other income (expense)	5,404	0.1%	6,080	0.1%
Income (loss) before income taxes	(374,869)	-4.1%	(154,833)	-1.7%
Provision (benefit) for income taxes	6,998	0.1%	20,727	0.2%
Net income (loss)	$ (381,867)	-4.2%	$ (175,560)	-1.9%

Sales Sales in the Balancer segment increased $159,942, or 8.8%, to $1,969,861 for the three months ended February 28, 2014 compared to $1,809,919 for the three months ended February 28, 2013. This increase is primarily due to higher unit sales in Asia and Europe, offset by lower unit sales volumes in North America. Sales in Asia increased $199,835, or 45.2%, for the three months ended February 28, 2014 as compared to the three months ended February 28, 2013. North American sales decreased $50,786, or 4.5%, in the three months ended February 28, 2014 compared to the same period in the prior year. European sales increased $23,755, or 11.6%, in the third quarter of Fiscal 2014 compared to the third quarter of Fiscal 2013. Sales in other regions of the world decreased $12,862, or 28.7%, in the third quarter of Fiscal 2014 as compared to the same quarter in the prior year. The levels of demand for our Balancer products in any of the geographic markets cannot be forecasted with any certainty given the volatility experienced in these markets.

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Sales in the Balancer segment decreased $97,004, or 1.6%, to $5,837,599 for the nine months ended February 28, 2014 compared to $5,934,603 for the nine months ended February 28, 2013. This decrease is primarily due to lower unit sales in North America, offset by increases in sales in both Asia and Europe. Sales in Asia increased $107,337, or 6.1%, for the nine months ended February 28, 2014 as compared to the nine months ended February 28, 2013. North American sales decreased $223,210, or 6.7%, in the nine months ended February 28, 2014 compared to the same period in the prior year. European sales increased $68,827, or 9.7%, during the first three quarters of Fiscal 2014 compared to the same period of Fiscal 2013. Sales in other regions of the world decreased $49,958, or 33.5%, in the nine months ended February 28, 2014 as compared to the nine months ended February 28, 2013. The levels of demand for our Balancer products in any of the geographic markets cannot be forecasted with any certainty given the volatility experienced in these markets.

Sales in the Measurement segment increased $109,792, or 11.1%, to $1,096,302 in the three months ended February 28, 2014 compared to $986,510 in the three months ended February 28, 2013. Sales of remote tank monitoring products and services increased $21,744, or 12.4%, to $197,804 during the three months ended February 28, 2014 as compared to $176,060 for the same period in the prior year. Sales of light-scatter laser-based surface measurement products in the three months ended February 28, 2014 increased $195,127, or 714.6%, as compared to the same period in the prior year primarily due to the delivery and acceptance of one of our CASI products during the quarter ended February 28, 2014. Sales of laser-based distance measurement and dimensional sizing products decreased $83,398, or 11.5%, to $643,730 as compared to $727,128 for the same period in the prior year. Given the volatility in these markets, future sales of laser-based measurement products cannot be forecasted with any certainty.

Sales in the Measurement segment increased $26,313, or 0.8%, to $3,271,063 in the nine months ended February 28, 2014 compared to $3,244,750 in the nine months ended February 28, 2013. Sales of remote tank monitoring products and services increased $165,320, or 29.3%, to $729,488 for the nine months ended February 28, 2014 as compared to $564,168 for the same period in the prior year. Sales of light-scatter laser-based surface measurement products in the nine months ended February 28, 2014 increased $258,142, or 80.1%, as compared to the same period in the prior year. These increases were offset by the decrease in sales of laser-based distance measurement and dimensional sizing products in the amount of $405,578, or 18.2% for the nine months ended February 28, 2014 as compared to the same period in the prior year. Given the volatility in these markets, future sales of laser-based measurement products cannot be forecasted with any certainty.

Gross profit Gross profit for the three months ended February 28, 2014 decreased to 47.5% as compared to 48.5% for the three months ended February 28, 2013. For the nine months ended February 28, 2014, gross profit decreased to 46.7% as compared to 52.0% for the nine months ended February 28, 2013. These overall decreases in gross profit are primarily due to shifts in the product sales mix involving our five product lines and the impact of increased costs associated with the products sold.

Operating expenses Operating expenses increased $8,305, or 0.5%, to $1,539,585 for the three months ended February 28, 2014 as compared to $1,531,280 for the three months ended February 28, 2013. General, administrative and selling expenses increased $21,385, or 1.6%, for the three months ended February 28, 2014 as compared to the same period in the prior year primarily due to increased consulting and professional expenses, offset by lower sales and marketing and travel and entertainment expenses. Research and development expenses decreased $13,080, or 7.9%, as compared to the same period in the prior year due to the completion of development projects within our existing product lines. Operating expenses decreased $297,494, or 6.0%, to $4,637,193 for the nine months ended February 28, 2014 as compared to $4,934,687 for the nine months ended February 28, 2013. General, administrative and selling expenses decreased $276,600, or 5.1%, for the nine months ended February 28, 2014 as compared to the same period in the prior year primarily due to lower personnel costs, lower sales and marketing expenses and slightly lower stock based compensation, offset by higher consulting and professional expenses. Research and development expenses decreased $20,894, or 5.1%, as compared to the same period in the prior year due to the completion of development projects within our existing product lines.

Other income Other income consists of interest income (expense), foreign currency exchange gain (loss) and other income (expense). Interest income (expense), net was $(1,165) and $247 for the three months ended February 28, 2014 and 2013, respectively. Interest income (expense), net was $(7,968) and $1,080 for the nine months ended February 28, 2014 and 2013, respectively. Interest expense increased for the three and nine months ended February 28, 2014 as a result of the draw on the line of credit in June 2013. The line was paid in full in February 2014. Foreign currency exchange losses were $855 and $2,593 for the three months ended February 28, 2014 and 2013, respectively. Foreign currency exchange gains were $302 and $5,004 for the nine months ended February 28, 2014 and 2013, respectively. The changes in the gain (loss) are due to fluctuations of foreign currencies against the US dollar during the current period. Also included in other income for the quarter ended February 28, 2014 is a $13,667 gain on the sale of a fixed asset.

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Income taxes The Company s effective tax rate on consolidated net loss was 2.0% for the nine months ended February 28, 2014. The Company s effective tax rate on consolidated net loss differs from the federal statutory tax rate primarily due to the amount of income from foreign jurisdictions and certain expenses not being deductible for income tax reporting purposes offset by changes in the deferred tax valuation allowance and tax credits related to research and experimentation expenses. Management believes the effective tax rate for Fiscal 2014 will be 2.7% due to the items noted above.

Net loss Net loss was $72,107, or $0.02 per diluted share, for the three months ended February 28, 2014 as compared to a net loss of $191,104, or $0.06 per diluted share, for the three months ended February 28, 2013. Net loss for the third quarter of Fiscal 2014 decreased as compared to the same period in the prior year primarily driven by the increase in sales in Asia and Europe, offset by softer sales in North America and slightly lower margins. Net loss was $381,867, or $0.13 per diluted share, for the nine months ended February 28, 2014 as compared to a net loss of $175,560, or $0.06 per diluted share, for the nine months ended February 28, 2013. The increase in net loss in Fiscal 2014 as compared to Fiscal 2013 was impacted by lower gross profits realized during the first nine months of the current fiscal year as compared to the same period in the prior year.

LIQUIDITY AND CAPITAL RESOURCES

The Company s working capital remained consistent at $7,582,841 as of February 28, 2014 as compared to $7,601,950 as of May 31, 2013. Cash and cash equivalents decreased $23,215 to $1,885,856 as of February 28, 2014 from $1,909,071 as of May 31, 2013.

Cash used in operating activities totaled $45,071 for the nine months ended February 28, 2014 as compared to $274,373 for the nine months ended February 28, 2013. The decrease in cash used in operating activities was primarily impacted by the planned reduction of cash used to acquire inventory, offset by the increased net loss in the comparative periods. Changes in accounts receivable and accounts payable also impacted the total cash used and the changes are the result of timing of receipts and payments.

At February 28, 2014, the Company had accounts receivable of $2,155,006 as compared to $1,980,685 at May 31, 2013. The increase in accounts receivable of $174,321 was due to timing of receipts. Inventories decreased $514,880 to $4,539,207 as of February 28, 2014 compared to $5,054,087 at May 31, 2013 due to the implementation of an inventory purchasing program. At February 28, 2014, total current liabilities decreased $453,123 to $1,156,357 as compared to $1,609,480 at May 31, 2013. The decrease was primarily due to decreases in accounts payable.

During the nine months ended February 28, 2014, net cash provided by investing activities was $17,607, which was primarily due to the sale of one of the Company s vehicles.

The Company has a $2.0 million bank line of credit agreement secured by U.S. accounts receivable, inventories, general intangibles and a depository account, which has been extended through September 1, 2014. The line of credit is subject to certain covenant requirements if draws on the line are executed. Interest is payable at the bank s prime rate (3.25% as of February 28, 2014), or LIBOR plus 2.0% (2.16% as of February 28, 2014). The outstanding balance on the line of credit was $0 at February 28, 2014 and May 31, 2013.

We believe that our existing cash and cash equivalents combined with the cash we anticipate to generate from operating activities and our available line of credit and financing available from other sources will be sufficient to meet our cash requirements for the foreseeable future. We do not have any significant commitments nor are we aware of any significant events or conditions that are likely to have a material impact on our liquidity or capital resources.

Business Risks

The following are important factors that could cause actual results or events to differ materially from those contained in any forward-looking statements made by or on behalf of the Company (see the forward-looking statements disclaimer at the beginning of Item 2 in this Report). In addition, the risks and uncertainties described below are not the only ones that the Company faces. Unforeseen risks could arise and problems or issues that the Company now views as minor could become more significant. If the Company were unable to adequately respond to known or unknown risks, the Company s business, financial condition or results of operations could be materially adversely affected. In addition, the Company cannot be certain that any actions taken to reduce known or unknown risks and uncertainties will be effective.

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The general economic conditions and uncertainties may adversely affect the Company s business, operating results and financial condition

The Company s operations and performance depend significantly on worldwide economic conditions, particularly in the manufacturing and automotive sectors in the U.S. and Asia, and their impact on levels of capital investment, which have deteriorated significantly in the past and may become depressed, or be subject to further deterioration. Economic factors that could adversely influence demand for the Company s products include uncertainty about global economic conditions leading to reduced levels of investment, customers and suppliers access to credit, unemployment and other macroeconomic factors affecting commercial and industrial spending behavior.

The past distress in the global financial markets and global economy has resulted in reduced liquidity and a tightening of credit markets. As a result of these conditions, the Company could experience several potential adverse effects, including the inability of customers to obtain credit to finance purchases of the Company s products, the insolvency of customers resulting in reduced sales and bad debts, and the insolvency of key suppliers resulting in product development and production delays.

The Company s primary markets are volatile and unpredictable

The Company s business depends on the demand for our various products in a variety of commercial and industrial markets. In the past, demand for our products in these markets has fluctuated due to a variety of factors, some of which are beyond our control, including: general economic conditions, both domestically and internationally, the timing, number and size of orders from, and shipments to, our customers as well as the relative mix of those orders and variations in the volume of orders for a particular product line in a particular quarter.

The Company s efforts to accelerate growth of the Xact Tank Monitoring System may not be successful

In May 2009, the Company announced the introduction of the Xact Tank Monitoring System for measuring fill levels of industrial liquefied propane tanks and communicating that data via satellite to a secure web site. Although the initial acquisition and further development of the Xact product have negatively impacted recent operating results, the product should allow the Company to enter new measurement markets and is expected to add sales and profits to the Company in future years. However, the rate of growth of Xact sales has not been as rapid as initially forecasted. The Company s efforts to accelerate the growth of Xact may not be successful, anticipated market demand for the product may not materialize, and additional product or market opportunities may not be identified and developed and brought to market in a timely and cost-effective manner. Also, the Company may not be able to meet the manufacturing requirements of large orders in a timely and cost-effective manner. All of this could continue to negatively impact future operating results and result in large and immediate write-offs of recorded intangible asset balances.

New products may not be developed to satisfy changes in consumer demands

The failure to develop new products or enhance existing products or react to changes in existing technologies, could materially delay development of new products, which could result in decreased revenues and a loss of market share to competitors. Financial performance depends on the ability to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. New product opportunities may not be identified and developed and brought to market in a timely and cost-effective manner. Products or technologies developed by other companies may render products or technologies obsolete or noncompetitive, or a fundamental shift in technologies in the product markets could have a material adverse effect on the Company s competitive position within historic industries.

Competition is intense and the Company s failure to compete effectively would adversely affect its business

Competition in the markets for the Company s products is intense. The speed with which companies can identify new applications for the Company s various technologies, develop products to meet those needs and supply commercial quantities at low prices to those new markets are important competitive factors. The principal competitive factors in the Company s markets are product features, performance, reliability and price. Many of the Company s competitors have greater financial, technical, research and development and marketing resources. No assurance can be given that the Company will be able to compete effectively in the future, and the failure to do so would have a material adverse effect on the Company s business, financial condition and results of operations.

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Production time and the overall cost of products could increase if any of the primary suppliers are lost or if a primary supplier increased the prices of raw materials

Manufacturing operations depend upon obtaining adequate supplies of raw materials on a timely basis. The results of operations could be adversely affected if adequate supplies of raw materials cannot be obtained in a timely manner or if the costs of raw materials increased significantly.

The Company may not be able to ramp up manufacturing to satisfy increasing orders, which may lead to the loss of significant revenue opportunities

The Company manufactures several different product lines, all of which involve complicated technology and individual attention for each product made. The production time for each product can vary, depending on a variety of circumstances, including component availability, timing of delivery of components from suppliers and employee availability. Should the Company receive a large increase in orders, an increase in the size of orders or a shortening of the required delivery time on existing orders, the Company may not be able to ramp up manufacturing to satisfy customer expectations, which may lead to the loss of significant revenue opportunities.

The Company maintains a significant investment in inventories in anticipation of future sales

The Company believes it maintains a competitive advantage by shipping product to its customers more rapidly than its competitors. As a result, the Company has a significant investment in inventories. These inventories are recorded using the lower of cost or market method, which requires management to make certain estimates. Management evaluates the recorded inventory values based on customer demand, market trends and expected future sales, and changes these estimates accordingly. A significant shortfall of sales may result in carrying higher levels of inventories of finished goods and raw materials thereby increasing the risk of inventory obsolescence and corresponding inventory write-downs. As a result, the Company may not carry adequate reserves to offset such write-downs.

The Company s existing cash and credit facilities may not be sufficient to fund future growth

The Company had an operating line of credit of $2.0 million and a cash balance of $1.9 million as of February 28, 2014; as of that date, the Company had a $0 balance on its line of credit. The Company believes that its existing cash and investments combined with the cash from operating activities will be sufficient to meet its cash requirements for the near term. However, if sales continue to weaken and the Company is unable to reduce its operating costs in a timely manner, the Company may have to continue to reduce its cash balance or draw on its line of credit, both of which could significantly impact the liquidity or operations of the Company.

Fluctuations in quarterly and annual operating results make it difficult to predict future performance

Quarterly and annual operating results are likely to fluctuate in the future due to a variety of factors, some of which are beyond management s control. As a result of quarterly operating fluctuations, it is important to realize quarter-to-quarter comparisons of operating results are not necessarily meaningful and should not be relied upon as indicators of future performance.

The Company may not be able to reduce operating costs quickly enough if sales decline

Operating expenses are generally fixed in nature and largely based on anticipated sales. However, should future sales decline significantly and rapidly, there is no guarantee management could take actions that would further reduce operating expenses in either a timely manner or without seriously impacting the operations of the Company.

Future success depends in part on attracting and retaining key management and qualified technical and sales personnel

Future success depends on the efforts and continued services of key management, technical and sales personnel. Significant competition exists for such personnel and there is no assurance key technical and sales personnel can be retained or that other highly qualified technical and sales personnel as required can be attracted, assimilated and retained. There is also no guarantee that key employees will not leave and subsequently compete against the Company. The inability to attract and retain key personnel could adversely impact the business, financial condition and results of operations.

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Changes in the effective tax rate may have an adverse effect on the Company s results of operations

The Company s future effective tax rate may be adversely affected by a number of factors including: the jurisdictions in which profits are determined to be earned and taxed; the resolution of issues arising from future, potential tax audits with various tax authorities; changes in the valuation of our deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; increases in expenses not deductible for tax purposes; changes in available tax credits; changes in stock-based compensation expense; changes in tax laws or the interpretations of such tax laws and changes in generally accepted accounting principles.

Failure to protect intellectual property rights could adversely affect future performance and growth

Failure to protect existing intellectual property rights may result in the loss of valuable technologies or paying other companies for infringing on their intellectual property rights. The Company relies on patent, trade secret, trademark and copyright law to protect such technologies. There is no assurance any of the Company s U.S. patents will not be invalidated, circumvented or challenged by, or licensed to other companies.

Changes in securities laws and regulations have increased and could continue to increase Company expenses

Changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules promulgated by the Securities and Exchange Commission, have increased and will continue to increase Company expenses as the Company devotes resources to ensure compliance with all applicable laws and regulations. In addition, the NASDAQ Capital Market, on which the Company s common stock is listed, has also adopted comprehensive rules and regulations relating to corporate governance. These laws, rules and regulations have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices. The Company may be required to hire additional personnel and use outside legal, accounting and advisory services to address these laws, rules and regulations. The Company also expects these developments to make it more difficult and more expensive for the Company to obtain director and officer liability insurance in the future, and the Company may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. Further, the Company s board members, Chief Executive Officer and Chief Financial Officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified board members and executive officers, which would adversely affect the Company.

The Company faces risks from international sales and currency fluctuations

The Company markets and sells its products worldwide and international sales have accounted for and are expected to continue to account for a significant portion of future revenue. International sales are subject to a number of risks, including: the imposition of governmental controls; trade restrictions; difficulty in collecting receivables; changes in tariffs and taxes; difficulties in staffing and managing international operations; political and economic instability; general economic conditions; and fluctuations in foreign currencies. No assurances can be given that these factors will not have a material adverse effect on future international sales and operations and, consequently, on business, financial condition and results of operations.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The Company did not have any derivative financial instruments as of February 28, 2014. However, the Company could be exposed to interest rate risk at any time in the future and, therefore, employs established policies and procedures to manage its exposure to changes in the market risk of its marketable securities.

The Company s interest income and expense are most sensitive to changes in the general level of U.S. and European interest rates. In this regard, changes in U.S. and European interest rates affect the interest earned on the Company s interest bearing cash equivalents and short term investments. The Company has a variable rate line of credit facility with a bank with an outstanding balance of $0 as of February 28, 2014. There is no other long-term obligation whose interest rates are based on variable rates that may fluctuate over time based on economic changes in the environment. A 10% change in the interest rates would not have a material effect on the Company s results from operations.

Foreign Currency Risk

The Company markets and sells its products worldwide and international sales have accounted for and are expected to continue to account for a significant portion of future revenue. The Company operates a subsidiary in the United Kingdom and acquires certain materials and services from vendors transacted in foreign currencies. Therefore, the Company s business and financial condition is sensitive to currency exchange rates or any other restrictions imposed on their currencies. For the three months ended February 28, 2014 and 2013, results of operations included losses on foreign currency translation of $855 and $2,593, respectively. For the nine months ended February 28, 2014 and 2013, results of operations included gains on foreign currency translation of $302 and $5,004, respectively.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of February 28, 2014, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act). Based on the evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Report, the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed in the Company s Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to the Company s management, including the Company s Chief Executive Officer and the Company s Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure, There are inherent limitations to the effectiveness of any system of disclosure controls and procedures including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company s internal control over financial reporting that occurred during the Company s fiscal quarter ended February 28, 2014 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 6. Exhibits

Exhibit	Description
3.1	Second Restated Articles of Incorporation of Schmitt Industries, Inc. (the Company). Incorporated by reference to Exhibit 3(i) to the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 1998.
3.2	Second Restated Bylaws of the Company. Incorporated by reference to Exhibit 3(ii) to the Company s Annual Report on Form 10-K for the fiscal year ended May 31, 1998.
4.1	See exhibits 3.1 and 3.2 for provisions of the Articles of Incorporation and Bylaws defining the rights of security holders.
31.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

SCHMITT INDUSTRIES, INC.
(Registrant)

Date: April 11, 2014

/s/ Ann M. Ferguson
Ann M. Ferguson, Chief Financial Officer and Treasurer