SCHMITT INDUSTRIES INC
Form 10-Q
January 14, 2014

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: November 30, 2013

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	**(IRS Employer**
incorporation or organization)	**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 December 31, 2013

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)

	November 30, 2013	May 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,115,635	$ 1,909,071
Accounts receivable, net of allowance of $31,663 and $30,576 at November 30, 2013 and May 31, 2013, respectively	2,180,229	1,980,685
Inventories	4,665,685	5,054,087
Prepaid expenses	131,262	219,492
Income taxes receivable	21,609	48,095
	9,114,420	9,211,430
Property and equipment		
Land	299,000	299,000
Buildings and improvements	1,805,951	1,805,951
Furniture, fixtures and equipment	1,313,464	1,312,028
Vehicles	121,835	121,835
	3,540,250	3,538,814
Less accumulated depreciation and amortization	(2,311,911)	(2,203,924)
	1,228,339	1,334,890
Other assets		
Intangible assets, net	1,010,961	1,078,278
TOTAL ASSETS	$ 11,353,720	$ 11,624,598
LIABILITIES & STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 547,479	$ 918,094
Accrued commissions	203,251	273,307
Accrued payroll liabilities	100,126	131,772
Other accrued liabilities	319,650	286,307
Line of credit	400,000	0
Total current liabilities	1,570,506	1,609,480
Stockholders equity		
Common stock, no par value, 20,000,000 shares authorized, 2,990,910 shares issued and outstanding at both November 30, 2013 and May 31, 2013	10,394,456	10,369,524

Accumulated other comprehensive loss	(279,000)	(331,924)
Accumulated deficit	(332,242)	(22,482)
Total stockholders equity	9,783,214	10,015,118
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 11,353,720	$ 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 INCOME (LOSS)

FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2013 AND 2012

(UNAUDITED)

	Three Months Ended November 30, 2013	Three Months Ended November 30, 2012	Six Months Ended November 30, 2013	Six Months Ended November 30, 2012
Net sales	$ 3,143,052	$ 2,702,259	$ 6,042,499	$ 6,382,924
Cost of sales	1,675,184	1,160,031	3,243,509	2,966,748
Gross profit	1,467,868	1,542,228	2,798,990	3,416,176
Operating expenses:				
General, administration and sales	1,507,046	1,523,918	2,858,748	3,156,733
Research and development	112,096	131,365	238,860	246,674
Total operating expenses	1,619,142	1,655,283	3,097,608	3,403,407
Operating income (loss)	(151,274)	(113,055)	(298,618)	12,769
Other income (expense)	(9,546)	7,915	(6,093)	8,427
Income (loss) before income taxes	(160,820)	(105,140)	(304,711)	21,196
Provision (benefit) for income taxes	2,381	(536)	5,049	5,652
Net income (loss)	$ (163,201)	$ (104,604)	$ (309,760)	$ 15,544
Net earnings (loss) per common share:				
Basic	$ (0.05)	$ (0.03)	$ (0.10)	$ 0.01
Weighted average number of common shares, basic	2,990,910	2,990,910	2,990,910	2,990,910
Diluted	$ (0.05)	$ (0.03)	$ (0.10)	$ 0.01
Weighted average number of common shares, diluted	2,990,910	2,990,910	2,990,910	3,003,828
Comprehensive income (loss)				
Net income (loss)	$ (163,201)	$ (104,604)	$ (309,760)	$ 15,544
Foreign currency translation adjustment	49,324	(1,930)	52,924	9,443
Total comprehensive income (loss)	$ (113,877)	$ (106,534)	$ (256,836)	$ 24,987

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 SIX MONTHS ENDED NOVEMBER 30, 2013 AND 2012

(UNAUDITED)

	Six Months Ended November 30, 2013	2012
Cash flows relating to operating activities		
Net income (loss)	$ (309,760)	$ 15,544
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	175,304	173,642
Stock based compensation	24,932	45,102
(Increase) decrease in:		
Accounts receivable	(171,220)	398,602
Inventories	410,457	(439,232)
Prepaid expenses	89,619	48,849
Income taxes receivable	26,486	(15,702)
Increase (decrease) in:		
Accounts payable	(376,035)	(181,015)
Accrued liabilities and customer deposits	(73,194)	(10,482)
Net cash provided by (used in) operating activities	(203,411)	35,308
Cash flows relating to investing activities		
Purchase of property and equipment	(1,436)	(142,617)
Net cash used in investing activities	(1,436)	(142,617)
Cash flows relating to financing activities		
Borrowings on line of credit	400,000	0
Net cash provided by financing activities	400,000	0
Effect of foreign exchange translation on cash	11,411	(7,187)
Increase (Decrease) in cash and cash equivalents	206,564	(114,496)
Cash and cash equivalents, beginning of period	1,909,071	2,776,817
Cash and cash equivalents, end of period	$ 2,115,635	$ 2,662,321
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for income taxes	$ 5,064	$ 21,353
Cash paid during the period for interest	$ 7,178	$ 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 SIX MONTHS ENDED NOVEMBER 30, 2013

(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	24,932	0	0	24,932
Net loss	0	0	0	(309,760)	(309,760)
Other comprehensive income	0	0	52,924	0	52,924
Balance, November 30, 2013	2,990,910	$ 10,394,456	$ (279,000)	$ (332,242)	$ 9,783,214

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 November 30, 2013 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) 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 November 30, 2013 and May 31, 2013, inventories consisted of:

	November 30, 2013	May 31, 2013
Raw materials	$ 2,014,146	$ 2,225,295
Work-in-process	924,904	1,132,534
Finished goods	1,726,635	1,696,258
	$ 4,665,685	$ 5,054,087

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Note 3:

LINE OF CREDIT

In February 2012, the Company extended its bank line of credit secured by U.S. accounts receivable, inventories and general intangibles through March 1, 2014 and raised the lending limit from $1.0 million to $2.0 million. Interest is payable at the bank s prime rate (3.25% as of November 30, 2013) or LIBOR plus 2.0% (2.17% as of November 30, 2013). The outstanding balance on the line of credit was $400,000 and $0 at November 30, 2013 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 six months ended November 30, 2013 and 2012, the value of all stock options granted using the Black-Scholes option pricing model. 35,000 options were issued during the six months ended November 30, 2013. No options were issued during the six months ended November 30, 2012.

At November 30, 2013, 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 $74,030 will be recorded as additional stock-based compensation expense for all options that were outstanding as of November 30, 2013, but which were not yet vested.

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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	0.5	41,666	$ 2.30
35,000	2.53	9.8	0	N/A
25,000	2.90	9.4	0	N/A
130,000	3.65	7.5	108,332	3.65
5,000	5.80	1.9	5,000	5.80
50,000	6.25	4.5	50,000	6.25
286,666	3.74	6.3	204,998	4.06

Options granted, exercised, and forfeited or canceled under the Company s stock option plan during the three and six months ended November 30, 2013 are summarized as follows:

	Three Months Ended November 30, 2013		Six Months Ended November 30, 2013	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding - beginning of period	251,666	$ 3.91	301,666	$ 4.06
Options granted	35,000	2.53	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 November 30,		Six Months Ended November 30,	
	2013	2012	2013	2012
Weighted average shares (basic)	2,990,910	2,990,910	2,990,910	2,990,910
Effect of dilutive stock options	0	0	0	12,918
Weighted average shares (diluted)	2,990,910	2,990,910	2,990,910	3,003,828

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 uncertain tax positions were $0 as of both November 30, 2013 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 November 30, 2013 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 income (loss) was 1.7% for the six months ended November 30, 2013. The effective tax rate on consolidated net income 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 6.2% 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 November 30, 2013		2012	
	Balancer	Measurement	Balancer	Measurement
Gross sales	$ 2,233,836	$ 1,182,514	$ 2,081,866	$ 854,077
Intercompany sales	(267,914)	(5,384)	(220,205)	(13,479)
Net sales	$ 1,965,922	$ 1,177,130	$ 1,861,661	$ 840,598
Operating income (loss)	$ (127,360)	$ (23,914)	$ 6,380	$ (119,435)
Depreciation expense	$ 37,848	$ 15,218	$ 35,252	$ 18,083
Amortization expense	$ 0	$ 33,658	$ 0	$ 33,658
Capital expenditures	$ 1,093	$ 0	$ 0	$ 87,428

	Six Months Ended November 30, 2013		2012	
	Balancer	Measurement	Balancer	Measurement
Gross sales	$ 4,402,408	$ 2,193,330	$ 4,515,570	$ 2,286,444
Intercompany sales	(534,670)	(18,569)	(390,886)	(28,204)
Net sales	$ 3,867,738	$ 2,174,761	$ 4,124,684	$ 2,258,240
Operating income (loss)	$ (240,376)	$ (58,242)	$ 99,239	$ (86,470)
Depreciation expense	$ 76,147	$ 31,840	$ 70,214	$ 36,111
Amortization expense	$ 0	$ 67,317	$ 0	$ 67,317
Capital expenditures	$ 1,436	$ 0	$ 39,830	$ 102,787

Geographic Information

	Three Months Ended November 30, 2013	2012	Six Months Ended November 30, 2013	2012
North America	$ 1,811,421	$ 1,701,398	$ 3,692,273	$ 4,092,619
Europe	566,210	380,988	875,341	671,493
Asia	695,396	514,866	1,373,181	1,441,937
Other markets	70,025	105,007	101,704	176,875
Total Net Sales	$ 3,143,052	$ 2,702,259	$ 6,042,499	$ 6,382,924

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	Three Months Ended November 30, 2013		2012	
	United States	Europe	United States	Europe
Operating income (loss)	$ (127,149)	$ (24,125)	$ (105,732)	$ (7,323)
Depreciation expense	$ 53,066	$ 0	$ 53,335	$ 0
Amortization expense	$ 33,658	$ 0	$ 33,658	$ 0
Capital expenditures	$ 1,093	$ 0	$ 87,428	$ 0

	Six Months Ended November 30, 2013		2012	
	United States	Europe	United States	Europe
Operating income (loss)	$ (256,741)	$ (41,877)	$ 45,378	$ (32,609)
Depreciation expense	$ 107,987	$ 0	$ 106,325	$ 0
Amortization expense	$ 67,317	$ 0	$ 67,317	$ 0
Capital expenditures	$ 1,436	$ 0	$ 142,617	$ 0

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

Segment and Geographic Assets

	November 30, 2013	May 31, 2013
Segment assets to total assets		
Balancer	$ 4,944,091	$ 5,489,976
Measurement	4,272,386	4,177,456
Corporate assets	2,137,243	1,957,166
Total assets	$ 11,353,720	$ 11,624,598
Geographic assets to long-lived assets		
United States	$ 1,228,339	$ 1,334,890
Europe	0	0
Total assets	$ 1,228,339	$ 1,334,890
Geographic assets to total assets		
United States	$ 10,262,117	$ 11,021,901
Europe	1,091,603	602,697
Total assets	$ 11,353,720	$ 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. (the Company), an Oregon corporation, designs, manufactures and sells high precision test and measurement products for two main business segments: the Balancer Segment and the Measurement Segment. The Company designs, manufactures and sells computer-controlled vibration detection, balancing and process control systems for the worldwide machine tool industry, particularly for grinding machines (the Balancer Segment). Through its wholly owned subsidiary, Schmitt Measurement Systems, Inc. (SMS), an Oregon corporation, the Company designs, manufactures and sells laser and white light sensors for distance, dimensional and area measurement for a wide variety of commercial applications, laser-based microroughness measurement products for the semiconductor wafer and hard disk drive industries and for other industrial applications, laser-based surface analysis and measurement products for a variety of scientific applications, and ultrasonic measurement products that accurately measure the liquid levels of propane tanks and transmit that data via satellite to a secure web site for display (the Measurement Segment). The Company also provides sales and service for Europe and parts of Asia through its wholly owned subsidiary, Schmitt Europe Limited (SEL), located in Coventry, England and through its sales representative office located in Shanghai, China. The Company s corporate office is located at 2765 N.W. Nicolai Street, Portland, Oregon.

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

For the three months ended November 30, 2013, total sales increased $440,793, or 16.3%, to $3,143,052 from $2,702,259 in the three months ended November 30, 2012. For the six months ended November 30, 2013, total sales decreased $340,425, or 5.3%, to $6,042,499 from $6,382,924 in the six months ended November 30, 2012. Balancer segment sales focus throughout the world on end-users, rebuilders and original equipment manufacturers of grinding machines with the target geographic markets in North America, South America, Asia and Europe. Balancer segment sales increased $104,261, or 5.6%, to $1,965,922 for the three months ended November 30, 2013 compared to $1,861,661 for the three months ended November 30, 2012, primarily due to an increase in sales into Asia and to a lesser extent Europe for the quarter. Balancer segment sales decreased $256,946, or 6.2%, to $3,867,738 for the six months ended November 30, 2013 compared to $4,124,684 for the six months ended November 30, 2012. The decrease in worldwide balancer sales for the six month period ended November 30, 2013 is due in part to lower volumes of shipments into Asia, and to a lesser extent into North America. 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 $336,532, or 40.0%, to $1,177,130 for the three months ended November 30, 2013 compared to $840,598 for the three months ended November 30, 2012, primarily due to an increase in sales of remote tank monitoring products and services and laser-based light-scatter surface measurement products. Total Measurement segment sales decreased $83,479, or 3.7%, to $2,174,761 for the six months ended November 30, 2013 compared to $2,258,240 for the six months ended November 30, 2012. The decrease in worldwide measurement system sales for the six month period ended November 30, 2013 is primarily due to lower volumes of shipments of laser-based distance measurement and dimensional sizing products offset by increases in sales of remote tank monitoring products and related services and laser-based light-scatter surface measurement products.

Operating expenses have decreased $36,141, or 2.2%, to $1,619,142 for the three months ended November 30, 2013 from $1,655,283 for the three months ended November 30, 2012. Operating expenses have decreased $305,799, or 9.0%, to $3,097,608 for the six months ended November 30, 2013 from $3,403,407 for the six months ended November 30, 2012. General, administration and sales expenses have decreased

$16,872, or 1.1%, to $1,507,046 for the three months ended November 30, 2013 from $1,523,918 for the same period in the prior year. General, administration and sales expenses have decreased $297,985, or 9.4%, to $2,858,748 for the six months ended November 30, 2013 from $3,156,733 for the same

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period in the prior year. Research and development expenses have decreased $19,269, or 14.7%, to $112,096 for the three months ended November 30, 2013 from $131,365 for the three months ended November 30, 2012. Research and development expenses have decreased $7,814, or 3.2%, to $238,860 for the six months ended November 30, 2013 from $246,674 for the six months ended November 30, 2012. Net loss was $163,201, or $0.05 per fully diluted share, for the three months ended November 30, 2013 as compared to $104,604, or $0.03 per fully diluted share, for the three months ended November 30, 2012. Net loss was $309,760, or $0.10 per fully diluted share, for the six months ended November 30, 2013 as compared to net income of $15,544, or $0.01 per fully diluted share, for the six months ended November 30, 2012.

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 November 30, 2013		2012	
Balancer sales	$ 1,965,922	62.5%	$ 1,861,661	68.9%
Measurement sales	1,177,130	37.5%	840,598	31.1%
Total sales	3,143,052	100.0%	2,702,259	100.0%
Cost of sales	1,675,184	53.3%	1,160,031	42.9%
Gross profit	1,467,868	46.7%	1,542,228	57.1%
Operating expenses:				
General, administration and sales	1,507,046	47.9%	1,523,918	56.4%
Research and development	112,096	3.6%	131,365	4.9%
Total operating expenses	1,619,142	51.5%	1,655,283	61.3%
Operating income (loss)	(151,274)	-4.8%	(113,055)	-4.2%
Other income (expense)	(9,546)	-0.3%	7,915	0.3%
Income (loss) before income taxes	(160,820)	-5.1%	(105,140)	-3.9%
Provision (benefit) for income taxes	2,381	0.1%	(536)	0.0%
Net income (loss)	$ (163,201)	-5.2%	$ (104,604)	-3.9%

	Six Months Ended November 30, 2013		2012	
Balancer sales	$ 3,867,738	64.0%	$ 4,124,684	64.6%
Measurement sales	2,174,761	36.0%	2,258,240	35.4%
Total sales	6,042,499	100.0%	6,382,924	100.0%
Cost of sales	3,243,509	53.7%	2,966,748	46.5%
Gross profit	2,798,990	46.3%	3,416,176	53.5%
Operating expenses:				
General, administration and sales	2,858,748	47.3%	3,156,733	49.5%
Research and development	238,860	4.0%	246,674	3.9%
Total operating expenses	3,097,608	51.3%	3,403,407	53.3%
Operating income (loss)	(298,618)	-4.9%	12,769	0.2%
Other income (expense)	(6,093)	-0.1%	8,427	0.1%
Income (loss) before income taxes	(304,711)	-5.0%	21,196	0.3%
Provision (benefit) for income taxes	5,049	0.1%	5,652	0.1%
Net income (loss)	$ (309,760)	-5.1%	$ 15,544	0.2%

Sales Sales in the Balancer segment increased $104,261, or 5.6%, to $1,965,922 for the three months ended November 30 2013 compared to $1,861,661 for the three months ended November 30, 2012. This increase is primarily due to higher unit sales in Asia and Europe, offset by the continued lower unit sales volumes in North America. Sales in Asia increased $154,652, or 36.8%, for the three months ended November 30, 2013 as compared to the three months ended November 30, 2012. North American sales decreased $79,816, or 7.3%, in the three months ended November 30, 2013 compared to the same period in the prior year. European sales increased $41,337, or 14.8%, in the second quarter of Fiscal 2014 compared to the second quarter of Fiscal 2013. Sales in other regions of the world decreased $11,912, or 18.2%, in the second quarter of Fiscal 2014 as compared to the same quarter in the prior year.

Sales in the Balancer segment decreased $256,946, or 6.2%, to $3,867,738 for the six months ended November 30 2013 compared to $4,124,684 for the six months ended November 30, 2012. This decrease is primarily due to lower unit sales in Asia and North America. Sales in Asia decreased $92,498, or 7.0%, for the six months ended November 30, 2013 as compared to the six months ended November 30, 2012. North American sales decreased $172,424, or 7.9%, in the six months ended November 30, 2013 compared to the same period in the prior year. European sales increased $45,072, or 8.9%, in the first half of Fiscal 2014 compared to the first half of Fiscal 2013. Sales in other regions of the world decreased $37,095, or 35.5%, in the six months ended November 30, 2013 as compared to the same period 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 recent volatility in the global economy and the historical volatility experienced in these markets.

Sales in the Measurement segment increased $336,532, or 40.0%, to $1,177,130 in the three months ended November 30, 2013 compared to $840,598 in the three months ended November 30, 2012. Sales of remote tank monitoring products and services increased $120,521, or 119.8%, to $221,158 during the second quarter of Fiscal 2014 as compared to $100,637 for the same period in the prior year. Sales of light-scatter laser-based surface measurement products in the three months ended November 30, 2013 increased $235,261, or 338.2%, 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 November 30, 2013. Sales of laser-based distance measurement and dimensional sizing products were relatively flat as compared to the same period in the prior year, decreasing only $21,648, or 3.5%.

Sales in the Measurement segment decreased $83,479, or 3.7%, to $2,174,761 in the six months ended November 30, 2013 compared to $2,258,240 in the six months ended November 30, 2012. Sales of remote tank monitoring products and services increased $143,576, or 37.0%, to $531,684 during the first half of Fiscal 2014 as compared to $388,108 for the same period in the prior year. Sales of light-scatter laser-based surface measurement products in the six months ended November 30, 2013 increased $63,015, or 21.4%, 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 $322,180, or 21.4%, for the six months ended November 30, 2013 as compared to the same period in the prior year. Given the recent 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 November 30, 2013 decreased to 46.7% as compared to 57.1% for the three months ended November 30, 2012. For the six months ended November 30, 2013, gross profit decreased to 46.3% as compared to 53.5% for the six months ended November 30, 2012. These overall decreases in gross profit for both the three and six month periods ended November 30, 2013 as compared to the prior periods are primarily due to shifts in product sales mix involving five product lines and the impact of increased costs associated with the products sold.

Operating expenses Operating expenses decreased $36,141, or 2.2%, to $1,619,142 for the three months ended November 30, 2013 as compared to $1,655,283 for the three months ended November 30, 2012. General, administrative and selling expenses decreased $16,872, or 1.1%, for the three months ended November 30, 2013 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 professional fees. Research and development expenses decreased $19,269, or 14.7%, 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 $305,799, or 9.0%, to $3,097,608 for the six months ended November 30, 2013 as compared to $3,403,407 for the six months ended November 30, 2012. General, administrative and selling expenses decreased $297,985, or 9.4%, for the six months ended November 30, 2013 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 professional fees. Research and development expenses decreased $7,814, or 3.2%, 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) was $(5,120) and $0 for the three months ended November 30, 2013 and 2012, respectively. Interest income (expense) was $(6,083) and $833 for the six months ended November 30, 2013 and 2012, respectively. Interest expense increased for the three and six months ended November 30, 2013 as a result of the draw in the amount of $400,000 on the line of credit in June 2013. Foreign currency exchange gains (losses) were $(3,979) and $7,518 for the three months ended November 30, 2013 and 2012, respectively. Foreign currency exchange gains were $1,157 and $7,597 for the six months ended November 30, 2013 and 2012, respectively. The changes in the gain (loss) are due to fluctuations of foreign currencies against the US dollar during the current period.

Income taxes The Company s effective tax rate on consolidated net income (loss) was 1.7% for the six months ended November 30, 2013. The Company s effective tax rate on consolidated net income 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 development expenses. Management believes the effective tax rate for Fiscal 2014 will be 6.2% due to the items noted above.

Net income Net loss was $163,201, or $0.05 per diluted share, for the three months ended November 30, 2013 as compared to a net loss of $104,604, or $0.03 per diluted share, for the three months ended November 30, 2012. Net loss increased as compared to the same period in the prior year primarily due to the decrease in gross profit realized during the three months ended November 30, 2013. Net loss was $309,760, or $0.10 per diluted share, for the six months ended November 30, 2013 as compared to a net income of $15,544, or $0.01 per diluted share, for the six months ended November 30, 2012. Net loss increased as compared to the same period in the prior year primarily due to the decrease in gross profit realized during the six months ended November 30, 2013.

LIQUIDITY AND CAPITAL RESOURCES

The Company s working capital remained consistent at $7,543,914 as of November 30, 2013 as compared to $7,601,950 as of May 31, 2013. Cash and cash equivalents increased $206,564 to $2,115,635 as of November 30, 2013 from $1,909,071 as of May 31, 2013.

Cash used in operating activities totaled $203,411 for the six months ended November 30, 2013 as compared to cash provided by operating activities of $35,308 for the six months ended November 30, 2012. The decrease was primarily due to the decreases in net income and accounts payable and increases in accounts receivable offset by decreases in inventory.

At November 30, 2013, the Company had accounts receivable of $2,180,229 as compared to $1,980,685 at May 31, 2013. The increase in accounts receivable of $199,544 was due to timing of receipts. Inventories decreased $388,402 to $4,665,685 as of November 30, 2013 compared to $5,054,087 at May 31, 2013. At November 30, 2013, total current liabilities decreased $38,974 to $1,570,506 as compared to $1,609,480 at May 31, 2013. The decrease was primarily due to decreases in accounts payable and other payroll accrued liabilities offset by the draw on the line of credit that occurred in June 2013.

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During the six months ended November 30, 2013, net cash used in investing activities was $1,436, which consisted of additions to property and equipment.

The Company has a $2.0 million bank line of credit agreement secured by U.S. accounts receivable, inventories and general intangibles. Interest is payable at the bank s prime rate (3.25% as of November 30, 2013), or LIBOR plus 2.0% (2.17% as of November 30, 2013), and the agreement expires on March 1, 2014. The outstanding balance on the line of credit was $400,000 and $0 at November 30, 2013 and May 31, 2013, respectively.

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.

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.

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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.

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 $2.1 million as of November 30, 2013; as of that date, the Company had a $400,000 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 further 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.

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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.

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 November 30, 2013. 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 $400,000 as of November 30, 2013. 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 November 30, 2013 and 2012, results of operations included gains (losses) on foreign currency translation of $(3,979) and $7,518, respectively. For the six months ended November 30, 2013 and 2012, results of operations included gains (losses) on foreign currency translation of $1,157 and $7,597, respectively.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of November 30, 2013, 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 November 30, 2013 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: January 14, 2014

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