

SCHMITT INDUSTRIES INC  
Form 10-Q  
April 10, 2019  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended: February 28, 2019**

**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**

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 No

Indicate by check mark whether the registrant has submitted required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The number of shares of each class of common stock outstanding as of March 31, 2019

Common stock, no par value

4,032,878



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Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****SCHMITT INDUSTRIES, INC.****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	February 28, 2019	May 31, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,168,930	\$ 2,053,181
Restricted cash	56,835	58,352
Accounts receivable, net	2,078,116	2,047,032
Inventories	5,751,164	5,710,888
Prepaid expenses	193,326	148,924
Income taxes receivable	206	0
<b>Total current assets</b>	<b>9,248,577</b>	<b>10,018,377</b>
<b>Property and equipment, net</b>	<b>863,361</b>	<b>770,915</b>
<b>Other assets</b>		
Intangible assets, net	418,331	496,768
<b>TOTAL ASSETS</b>	<b>\$ 10,530,269</b>	<b>\$ 11,286,060</b>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 977,436	\$ 1,024,256
Accrued commissions	194,943	194,797
Accrued payroll liabilities	192,953	188,568
Other accrued liabilities	437,209	358,790
Income taxes payable	0	3,993
Current portion of long-term liabilities	21,424	0
<b>Total current liabilities</b>	<b>1,823,965</b>	<b>1,770,404</b>
<b>Long-term liabilities</b>	<b>35,601</b>	<b>0</b>
<b>Stockholders equity</b>		
Common stock, no par value, 20,000,000 shares authorized, 4,032,878 shares issued and outstanding at February 28, 2019 and 3,994,545 shares issued and	13,156,496	13,085,652

outstanding at May 31, 2018		
Accumulated other comprehensive loss	(509,826)	(536,307)
Accumulated deficit	(3,975,967)	(3,033,689)
<b>Total stockholders equity</b>	8,670,703	9,515,656
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 10,530,269</b>	<b>\$ 11,286,060</b>

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 NINE MONTHS ENDED FEBRUARY 28, 2019 AND 2018

(UNAUDITED)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2019	2018	2019	2018
Net sales	\$ 3,082,181	\$ 3,238,858	\$ 10,026,112	\$ 10,093,386
Cost of sales	2,069,798	1,916,345	6,310,824	5,645,372
Gross profit	1,012,383	1,322,513	3,715,288	4,448,014
Operating expenses:				
General, administration and sales	1,507,233	1,286,718	4,452,091	4,279,505
Research and development	20,532	75,790	116,693	253,007
Total operating expenses	1,527,765	1,362,508	4,568,784	4,532,512
Operating loss	(515,382)	(39,995)	(853,496)	(84,498)
Other income (expense), net	46,779	61,815	(69,468)	88,436
Income (loss) before income taxes	(468,603)	21,820	(922,964)	3,938
Provision for income taxes	6,586	6,267	19,314	19,235
Net income (loss)	\$ (475,189)	\$ 15,553	\$ (942,278)	\$ (15,297)
Net income (loss) per common share:				
Basic	\$ (0.12)	\$ 0.00	\$ (0.24)	\$ 0.00
Weighted average number of common shares, basic	4,000,990	3,706,050	3,996,670	3,230,022
Diluted	\$ (0.12)	\$ 0.00	\$ (0.24)	\$ 0.00
Weighted average number of common shares, diluted	4,000,990	3,769,814	3,996,670	3,230,022
<b>Comprehensive income (loss)</b>				
Net income (loss)	\$ (475,189)	\$ 15,553	\$ (942,278)	\$ (15,297)
Foreign currency translation adjustment	(47,256)	(51,983)	26,481	(51,543)
<b>Total comprehensive income (loss)</b>	\$ (522,445)	\$ (36,430)	\$ (915,797)	\$ (66,840)

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, 2019 AND 2018**  
**(UNAUDITED)**

	Nine Months Ended February 28,	
	2019	2018
<b>Cash flows relating to operating activities</b>		
Net loss	\$ (942,278)	\$ (15,297)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	139,424	156,326
(Gain) loss on disposal of property and equipment	0	619
Stock based compensation	5,678	42,167
Reserve for excess or obsolete inventories	407,730	0
(Increase) decrease in:		
Accounts receivable	(30,061)	291,273
Inventories	(447,717)	(1,218,520)
Prepaid expenses	(44,503)	(32,086)
Income taxes receivable	(206)	7,310
Increase (decrease) in:		
Accounts payable	(46,263)	(261,532)
Accrued liabilities and customer deposits	(77)	(69,917)
Income taxes payable	(3,993)	3,465
Net cash used in operating activities	(962,266)	(1,096,192)
<b>Cash flows relating to investing activities</b>		
Purchases of property and equipment	(4,674)	(8,467)
Proceeds from the sale of property and equipment	0	1,500
Net cash used in investing activities	(4,674)	(6,967)
<b>Cash flows relating to financing activities</b>		
Payments on long-term liabilities	(8,366)	0
Common stock issued on exercise of stock options	65,166	0
Proceeds from the rights offering, net of expenses	0	2,386,029
Net cash provided by financing activities	56,800	2,386,029
<b>Effect of foreign exchange translation on cash</b>	<b>24,372</b>	<b>(103,507)</b>
<b>Change in cash, cash equivalents and restricted cash</b>	<b>(885,768)</b>	<b>1,179,363</b>
<b>Cash, cash equivalents and restricted cash, beginning of period</b>	<b>2,111,533</b>	<b>867,607</b>

<b>Cash, cash equivalents and restricted cash, end of period</b>	\$ 1,225,765	\$ 2,046,970
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period for income taxes	\$ 23,512	\$ 8,460
Cash paid during the period for interest	\$ 8,985	\$ 1,114
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Acquisition of property and equipment through financed payables	\$ 148,760	\$ 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, 2019**

**(UNAUDITED)**

	Shares	Amount	Accumulated other comprehensive loss	Accumulated deficit	Total
<b>Balance, May 31, 2018</b>	3,994,545	\$ 13,085,652	\$ (536,307)	\$ (3,033,689)	\$ 9,515,656
Stock options exercised net of related tax benefit of \$0	38,333	65,166	0	0	65,166
Stock-based compensation	0	5,678	0	0	5,678
Net loss	0	0	0	(942,278)	(942,278)
Other comprehensive income	0	0	26,481	0	26,481
<b>Balance, February 28, 2019</b>	4,032,878	\$ 13,156,496	\$ (509,826)	\$ (3,975,967)	\$ 8,670,703

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, 2019 and its results of operations and its cash flows for the periods presented. The consolidated balance sheet at May 31, 2018 has been derived from the Annual Report on Form 10-K for the fiscal year ended May 31, 2018. 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, 2018. 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, 2019.

**Revenue Recognition**

On June 1, 2018, the Company adopted Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) using the modified retrospective approach. The adoption of this standard did not have a material impact on the Company's consolidated financial statements or related disclosures.

The Company determines the amount of revenue it recognizes associated with the transfer of each product or service using the five-step model provided by Topic 606. For sales of products or delivery of monitoring services to all customers, including manufacturing representatives, distributors or their third-party customers, each transaction is evaluated to determine whether there is approval and commitment from both the Company and the customer for the transaction; whether the rights of each party are specifically identified; whether the transaction has commercial substance; whether collectability from the customer is probable at the inception of the contract and whether the transaction amount is defined. If a transaction to sell products or provide monitoring services meets all of the above criteria, revenue is recognized for the sales of product at the time of shipment or for monitoring services at the completion of the month in which monitoring services are provided.

The Company incurs commissions associated with the sales of products, which are accrued and expensed at the time the product is shipped. These amounts are recorded within general, administration and sales expense.

The Company also incurs costs related to shipping and handling of its products, the costs of which are expensed as incurred as a component of cost of sales. Shipping and handling fees billed to customers are recognized at the time of shipment as a component of net sales.

**Financial Instruments**

The carrying value of all other financial instruments potentially subject to valuation risk (principally consisting of cash and cash equivalents, accounts receivable and accounts payable) also approximates fair value because of their

short-term maturities.

**Restricted Cash**

Restricted cash consists of an amount received from a customer in December 2017 as part of an on-going contract. The timeline for services being provided under this contract has been extended and is expected to be completed during the second half of Fiscal 2019, at which time the restrictions on this payment will lapse.

The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported within the Consolidated Balance Sheets as of February 28, 2019 and May 31, 2018 to the sum of the same such amounts as shown in the Consolidated Statement of Cash Flows for the nine months ended February 28, 2019:

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	February 28, 2019	May 31, 2018
Cash and cash equivalents	\$ 1,168,930	\$ 2,053,181
Restricted cash	56,835	58,352
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statement of Cash Flows	\$ 1,225,765	\$ 2,111,533

**Accounts Receivable**

The Company maintains credit limits for all customers based upon several factors, including but not limited to financial condition and stability, payment history, published credit reports and use of credit references. Management performs various analyses to evaluate accounts receivable balances to ensure recorded amounts reflect estimated net realizable value. This review includes using accounts receivable agings, other operating trends and relevant business conditions, including general economic factors, as they relate to each of the Company's domestic and international customers. If these analyses lead management to the conclusion that potential significant accounts are uncollectible, a reserve is provided. The allowance for doubtful accounts was \$26,263 and \$95,207 as of February 28, 2019 and May 31, 2018, respectively.

**Inventories**

Inventories are valued at the lower of cost or net realizable value 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, 2019 and May 31, 2018, inventories consisted of:

	February 28, 2019	May 31, 2018
Raw materials	\$ 2,411,474	\$ 2,796,691
Work-in-process	1,056,251	1,009,424
Finished goods	2,283,439	1,904,773
	\$ 5,751,164	\$ 5,710,888

Inventories, as noted in the above table and on the Consolidated Balance Sheets as of February 28, 2019 and May 31, 2018, are presented net of inventory reserves of \$1,150,597 and \$742,900 as of February 28, 2019 and May 31, 2018.

Reserve adjustments of \$(407,558) and \$(6,555) for the three months ended February 28, 2019 and 2018, respectively, are included in cost of sales on the Consolidated Statements of Operations. Reserve adjustments of \$(407,730) and \$11,035 for the nine months ended February 28, 2019 and 2018, respectively, are included in cost of sales on the Consolidated Statements of Operations.

**Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over estimated useful lives of three to seven years for furniture, fixtures and equipment; three years for vehicles; and twenty-five years for buildings and improvements. As of February 28, 2019 and May 31, 2018, property and equipment consisted of:

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	February 28, 2019	May 31, 2018
Land	\$ 299,000	\$ 299,000
Buildings and improvements	1,814,524	1,814,524
Furniture, fixtures and equipment	1,406,725	1,252,598
Vehicles	44,704	44,704
	3,564,953	3,410,826
Less accumulated depreciation	(2,701,592)	(2,639,911)
	\$ 863,361	\$ 770,915

**Long-term liabilities and current portion of long-term liabilities**

Long-term liabilities consist of a financing arrangement executed for the purchase of certain property and equipment over a term of 36 months. Future minimum commitments under this agreement for the each of the years ending May 31 are as follows:

	Years ending May 31,
2019	\$ 4,218
2020	25,307
2021	25,307
2022	8,431
Total future minimum payments	63,263
Less: amount representing interest	(6,238)
Present value of minimum payments of long-term liabilities	\$ 57,025
Current portion of long-term liabilities	21,424
Long-term liabilities	35,601
	\$ 57,025

**Recent Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for most leases previously classified as operating leases. The ASU is required to be applied using a modified retrospective approach at the beginning of the earliest period presented, with optional practical expedients. The FASB recently proposed an optional transition alternative, which would allow for application of the guidance at the beginning of the period in which it is adopted, rather than at the beginning of the earliest comparative period presented. The Company will adopt the new standard on June 1, 2019.



The Company is currently evaluating the impact of this guidance, including reviewing the standard's provisions and gathering and analyzing data to support further evaluation of all real estate and non-real estate leases. The Company is also evaluating the impact of the accounting standard on the Company's financial statement disclosures, systems, processes and controls.

**NOTE 2:**

**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:

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*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 0.

*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.

To determine stock-based compensation expense recognized for those options granted during the nine months ended February 28, 2019, the Company has computed the value of all stock options granted using the Black-Scholes option pricing model as prescribed by ASC Topic 718 using the following assumptions:

	Nine Months Ended February 28, 2019
Risk-free interest rate	3.1%
Expected life	6.0 years
Expected volatility	46.3%

At February 28, 2019, the Company had a total of 266,166 outstanding stock options (243,665 vested and exercisable and 22,501 non-vested) with a weighted average exercise price of \$2.42. The Company estimates that \$897 will be recorded as additional stock-based compensation expense during the next fiscal quarter for all options that were outstanding as of February 28, 2019, 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
124,166	\$ 1.70	8.1	101,665	\$ 1.70

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15,000	2.53	4.6	15,000	2.53
82,000	2.82	5.8	82,000	2.82
45,000	3.65	2.3	45,000	3.65
266,166	2.42	6.2	243,665	2.49

Options granted, exercised, and forfeited or canceled under the Company's stock option plan during the nine months ended February 28, 2019 are summarized as follows:

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	Nine Months Ended February 28, 2019	
	Number of Shares	Weighted Average Exercise Price
Options outstanding - beginning of period	318,332	\$ 2.36
Options granted	27,000	2.55
Options exercised	(38,333)	1.70
Options forfeited/canceled	(40,833)	2.66
Options outstanding - end of period	266,166	2.42

**NOTE 3:****WEIGHTED AVERAGE SHARES AND RECONCILIATION**

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2019	2018	2019	2018
Weighted average shares (basic)	4,000,990	3,706,050	3,996,670	3,230,022
Effect of dilutive stock options	0	63,764	0	0
Weighted average shares (diluted)	4,000,990	3,769,814	3,996,670	3,230,022

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.

**NOTE 4:****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. Management continues to review the level of the valuation allowance on a quarterly basis. There can be no assurance that the Company's future operations will produce sufficient earnings to allow for the deferred tax asset to be fully utilized. The Company currently maintains a full valuation allowance against net deferred tax assets.

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.

Other long-term liabilities related to tax contingencies were \$0 as of February 28, 2019 and May 31, 2018. 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, 2019 and May 31, 2018.

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Several tax years are subject to examination by major tax jurisdictions. In the United States, federal tax years ended May 31, 2015 and after are subject to examination. In the United Kingdom, tax years ended May 31, 2013 and after are subject to examination.

**Effective Tax Rate**

The effective tax rate on consolidated net loss was 2.1% for the nine months ended February 28, 2019. The effective tax rate on consolidated net loss differs from the federal statutory tax rate primarily due to 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 2019 will be approximately 3.2% due to the items noted above.

**NOTE 5:****SEGMENTS OF BUSINESS**

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

**Segment Information**

	Three Months Ended February 28,			
	2019		2018	
	Balancer	Measurement	Balancer	Measurement
Net sales	\$ 1,961,636	\$ 1,120,545	\$ 2,137,811	\$ 1,101,047
Operating income (loss)	\$(593,462)	\$ 78,080	\$ (39,720)	\$ (275)
Depreciation expense	\$ 10,346	\$ 9,000	\$ 16,300	\$ 9,235
Amortization expense	\$ 0	\$ 26,145	\$ 0	\$ 26,146
Capital expenditures	\$ 147,917	\$ 0	\$ 0	\$ 0

	Nine Months Ended February 28,			
	2019		2018	
	Balancer	Measurement	Balancer	Measurement
Net sales	\$ 6,501,448	\$ 3,524,664	\$ 6,439,054	\$ 3,654,332
Operating income (loss)	\$(1,199,680)	\$ 346,184	\$ (340,486)	\$ 255,988
Depreciation expense	\$ 33,989	\$ 26,998	\$ 49,670	\$ 28,218
Amortization expense	\$ 0	\$ 78,437	\$ 0	\$ 78,438

Capital expenditures	\$	153,434	\$	0	\$	8,467	\$	0
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Inventory reserve adjustments of \$(291,427) for the Balancer segment and \$(116,131) for the Measurement segment are included in operating income (loss) for the three and nine months ended February 28, 2019, respectively.

**Table of Contents****Geographic Information Net Sales by Geographic Area**

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2019	2018	2019	2018
North America	\$ 1,899,961	\$ 1,898,796	\$ 6,065,868	\$ 6,174,874
Europe	548,059	552,018	1,427,310	1,526,917
Asia	587,136	752,712	2,389,087	2,297,617
Other markets	47,025	35,332	143,847	93,978
<b>Total net sales</b>	<b>\$ 3,082,181</b>	<b>\$ 3,238,858</b>	<b>\$ 10,026,112</b>	<b>\$ 10,093,386</b>

	Three Months Ended February 28,			
	2019		2018	
	United States (2)	Europe (1)	United States (2)	Europe (1)
Operating income (loss)	\$ (565,426)	\$ 50,044	\$ (123,205)	\$ 83,210
Depreciation expense	\$ 19,346	\$ 0	\$ 25,535	\$ 0
Amortization expense	\$ 26,145	\$ 0	\$ 26,146	\$ 0
Capital expenditures	\$ 147,917	\$ 0	\$ 0	\$ 0

	Nine Months Ended February 28,			
	2019		2018	
	United States (2)	Europe (1)	United States (2)	Europe (1)
Operating income (loss)	\$ (959,525)	106,029	\$ (307,015)	222,517
Depreciation expense	\$ 60,987	\$ 0	\$ 77,888	\$ 0
Amortization expense	\$ 78,437	\$ 0	\$ 78,438	\$ 0
Capital expenditures	\$ 153,434	\$ 0	\$ 8,467	\$ 0

(1) Europe is defined in the above chart to include results from the European subsidiary, Schmitt Europe Ltd.

(2) United States is defined to include remainder of the results not included in the European subsidiary.

**Segment and Geographic Assets**



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	February 28, 2019	May 31, 2018
Segment assets to total assets		
Balancer	\$ 6,292,198	\$ 6,461,974
Measurement	3,012,100	2,712,553
Corporate assets	1,225,971	2,111,533
<b>Total assets</b>	<b>\$ 10,530,269</b>	<b>\$ 11,286,060</b>
Geographic assets to long-lived assets		
United States (2)	\$ 863,361	\$ 770,915
Europe (1)	0	0
<b>Total long-lived assets</b>	<b>\$ 863,361</b>	<b>\$ 770,915</b>
Geographic assets to total assets		
United States (2)	\$ 9,314,335	\$ 10,110,683
Europe (1)	1,215,934	1,175,377
<b>Total assets</b>	<b>\$ 10,530,269</b>	<b>\$ 11,286,060</b>

- (1) Europe includes assets held by the European subsidiary, Schmitt Europe Ltd.  
(2) United States includes remainder of the assets not held by the European subsidiary.

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**NOTE 6:**

**RESTRUCTURING AND RELATED CHARGES**

In November 2018 Schmitt announced a strategic reorganization following the appointment of two new board members. The reorganization will position the Company to better capitalize on the growing SBS Balancer business while streamlining the company and maximizing shareholder value through the disposition of non-core assets. The reorganization has involved a streamlining of contractors and services, and employee severance and termination benefits that have increased operating expenses in the third quarter. In conjunction with these efforts, an inventory adjustment of \$(407,558) was recorded during the three months ended February 28, 2019 that was the outcome of efforts to evaluate the types and levels of inventory maintained across the Company's three product lines.

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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 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. (Schmitt or the Company) designs, manufactures and sells high precision test and measurement products, solutions and services. We provide the products and services through our SBS®, Acuity® and Xact® Product lines, which are reported in two business segments, Balancer and Measurement:

**Balancer ( Balancer ) Segment.** Through our SBS products, the Balancer segment designs, manufactures and sells computer-controlled vibration detection, balancing and process control systems for the worldwide machine tool industry, particularly for grinding machines. The Company also provides sales and service for Europe and Asia through its wholly owned subsidiary, Schmitt Europe Limited (SEL), located in Coventry, England and through its sales representative office located in Shanghai, China.

**Measurement ( Measurement ) Segment.** The Measurement segment manufactures and sells products in two core product lines, Acuity and Xact:

Acuity sells products, solutions and services that includes laser and white light sensor distance, measurement and dimensional sizing products;

Xact product line includes ultrasonic-based remote tank monitoring products and related monitoring revenues for markets in the Internet of Things ( IoT ) environment. The products and services measure the fill levels of tanks holding propane, diesel and other tank-based liquids and the related monitoring services, which includes transmission of fill data from the tanks via satellite to a secure web site for display.

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, 2018.

### **Highlights of the Three and Nine Months Ended February 28, 2019**

Balancer segment sales decreased \$176,175, or 8.2%, to \$1,961,636 for the three months ended February 28, 2019 as compared to \$2,137,811 for the three months ended February 28, 2018. Balancer segment sales increased \$62,394, or 1.0%, to \$6,501,448 for the nine months ended February 28, 2019 as compared to \$6,439,054 for the nine months ended February 28, 2018.

Measurement segment sales increased \$19,498, or 1.8%, to \$1,120,545 for the three months ended February 28, 2019 as compared to \$1,101,047 for the three months ended February 28, 2018. Measurement segment sales decreased \$129,668, or 3.5%, to \$3,524,664 for the nine months ended February 28, 2019 as compared to \$3,654,332 for the nine months ended February 28, 2018.

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Within the Measurement segment, Xact monitoring revenues continued to grow, increasing 13.4% for the three months ended February 28, 2019 compared to the three months ended February 28, 2018. Xact monitoring revenues increased 15.7% for the nine months ended February 28, 2019 as compared to the same period in the prior year.

Operating expenses increased \$165,257, or 12.1%, to \$1,527,765 for the three months ended February 28, 2019 from \$1,362,508 for the three months ended February 28, 2018, and increased \$36,272, or 0.8%, to \$4,568,784 for the nine months ended February 28, 2019 compared to \$4,532,512 for the nine months ended February 28, 2018. These results include non-recurring reorganization, legal and other professional expenses of \$292,888 and \$637,447 incurred during the three-month and nine-month periods ended February 28, 2019, respectively, that were not incurred during the same periods in the prior year.

An inventory adjustment of \$(407,558) was recorded during the three months ended February 28, 2019 that was the outcome of efforts to evaluate the types and levels of inventory maintained across the Company's three product lines. This resulted in a direct adjustment to cost of sales, thereby reducing gross margin from 46.1% to 32.8% for the three months ended February 28, 2019 and from 41.1% to 37.1% for the nine months ended February 28, 2019.

**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, 2018, other than the adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) which the Company adopted on June 1, 2018. See Note 1 Revenue Recognition for further discussion and disclosures related to the adoption of ASU No. 2014-09.

**Discussion of Operating Results**

	Three Months Ended			
	February 28, 2019		February 28, 2018	
Balancer sales	\$ 1,961,636	63.6%	\$ 2,137,811	66.0%
Measurement sales	1,120,545	36.4%	1,101,047	34.0%
<b>Total net sales</b>	<b>3,082,181</b>	<b>100.0%</b>	<b>3,238,858</b>	<b>100.0%</b>
Cost of sales	2,069,798	67.2%	1,916,345	59.2%
<b>Gross profit</b>	<b>1,012,383</b>	<b>32.8%</b>	<b>1,322,513</b>	<b>40.8%</b>
Operating expenses:				
General, administration and sales	1,507,233	48.9%	1,286,718	39.7%
Research and development	20,532	0.7%	75,790	2.3%
<b>Total operating expenses</b>	<b>1,527,765</b>	<b>49.6%</b>	<b>1,362,508</b>	<b>42.1%</b>
Operating loss	(515,382)	(16.7%)	(39,995)	(1.2%)
Other income (expense), net	46,779	1.5%	61,815	1.9%

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Income (loss) before income taxes	(468,603)	(15.2%)	21,820	0.7%
Provision for income taxes	6,586	0.2%	6,267	0.2%
Net income (loss)	\$ (475,189)	(15.4%)	\$ 15,553	0.5%

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	Nine Months Ended			
	February 28, 2019		February 28, 2018	
Balancer sales	\$ 6,501,448	64.8%	\$ 6,439,054	63.8%
Measurement sales	3,524,664	35.2%	3,654,332	36.2%
<b>Total net sales</b>	<b>10,026,112</b>	<b>100.0%</b>	<b>10,093,386</b>	<b>100.0%</b>
Cost of sales	6,310,824	62.9%	5,645,372	55.9%
<b>Gross profit</b>	<b>3,715,288</b>	<b>37.1%</b>	<b>4,448,014</b>	<b>44.1%</b>
Operating expenses:				
General, administration and sales	4,452,091	44.4%	4,279,505	42.4%
Research and development	116,693	1.2%	253,007	2.5%
<b>Total operating expenses</b>	<b>4,568,784</b>	<b>45.6%</b>	<b>4,532,512</b>	<b>44.9%</b>
Operating loss	(853,496)	(8.5%)	(84,498)	(0.8%)
Other income (expense), net	(69,468)	(0.7%)	88,436	0.9%
Income (loss) before income taxes	(922,964)	(9.2%)	3,938	0.0%
Provision for income taxes	19,314	0.2%	19,235	0.2%
Net loss	\$ (942,278)	(9.4%)	\$ (15,297)	(0.2%)

**Net Sales** Total net sales for the Company decreased \$156,677, or 4.8%, to \$3,082,181 for the three months ended February 28, 2019 from \$3,238,858 for the three months ended February 28, 2018. Total net sales for the Company decreased \$67,274, or 0.7%, to \$10,026,112 for the nine months ended February 28, 2019 from \$10,093,386 for the nine months ended February 28, 2018.

**Balancer Segment** The Balancer segment focuses its sales efforts on end-users, rebuilders and original equipment manufacturers of grinding machines within the worldwide machine tool industry, with our primary target geographic markets being North America, Asia, and Europe.

Balancer segment sales decreased \$176,175, or 8.2%, to \$1,961,636 for the three months ended February 28, 2019 as compared to \$2,137,811 for the three months ended February 28, 2018. The decrease in the three-month results was primarily attributed to weaker sales in Asia, which was impacted by tariffs and the pending trade negotiations between the U.S. and China, and a decrease in sales into Europe driven primarily by an OEM customer's shift in project schedule. These decreases were offset by increased sales in North America.

Balancer segment sales increased \$62,394, or 1.0%, to \$6,501,448 for the nine months ended February 28, 2019 as compared to \$6,439,054 for the nine months ended February 28, 2018. The increase in the nine-month results was primarily driven by stronger sales in Asia which occurred in the first half of Fiscal 2019, offset by decreased sales in the European market.

Sales by geographic markets for the Balancer segment for the three and nine months ended February 28, 2019 and 2018 were as follows:

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	Three Months Ended		Variance	
	February 28,			
	2019	2018		
North America	\$ 929,389	\$ 888,238	\$ 41,151	4.6%
Asia	506,294	672,431	(166,137)	(24.7%)
Europe	490,288	545,815	(55,527)	(10.2%)
Other	35,665	31,327	4,338	13.8%
<b>Total Balancer segment sales</b>	<b>\$ 1,961,636</b>	<b>\$ 2,137,811</b>	<b>\$ (176,175)</b>	<b>(8.2%)</b>

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	Nine Months Ended February 28,		Variance	
	2019	2018		
North America	\$ 2,801,985	\$ 2,801,118	\$ 867	0.0%
Asia	2,225,387	2,049,900	175,487	8.6%
Europe	1,360,840	1,514,173	(153,333)	(10.1%)
Other	113,236	73,863	39,373	53.3%
<b>Total Balancer segment sales</b>	<b>\$ 6,501,448</b>	<b>\$ 6,439,054</b>	<b>\$ 62,394</b>	<b>1.0%</b>

The levels of demand for our Balancer products in any of these geographic markets cannot be forecasted with any certainty given current economic trends and the historical volatility experienced in this market.

**Measurement Segment** The Measurement segment includes two main product lines: the Acuity product line, which includes laser-based distance measurement and dimensional sizing laser sensors; and the Xact product line, which includes ultrasonic-based remote tank monitoring products and related monitoring revenues for markets in the IoT environment.

Measurement segment sales increased \$19,498, or 1.8%, to \$1,120,545 for the three months ended February 28, 2019 as compared to \$1,101,047 for the three months ended February 28, 2018. This increase was due to strong Acuity sales realized in the third quarter of Fiscal 2019 and increases in Xact monitoring revenues, which increased 13.4% as product previously sold was deployed and measurements began. These increases were offset by decreases in Xact product sales.

Measurement segment sales decreased \$129,668, or 3.5%, to \$3,524,664 for the nine months ended February 28, 2019 from \$3,654,332 for the nine months ended February 28, 2018. This decrease is primarily driven by a one-time large contract in Acuity that was realized in the second quarter of Fiscal 2018 and softer sales that occurred for Acuity during the first quarter of Fiscal 2019 as compared to the same period in the prior year. This decrease was offset by the increases in Xact product sales and monitoring revenues. The increase in Xact product sales was driven by strong results experienced in the first quarter of Fiscal 2019. Xact monitoring revenues increased 15.7% in the nine months ended February 28, 2019 as compared to the same period in the prior year as product previously sold was deployed and measurements began.

Sales by product line for the Measurement segment for the three and nine months ended February 28, 2019 and 2018 were as follows:

	Nine Months Ended February 28,		Variance	
	2019	2018		
North America	\$ 2,801,985	\$ 2,801,118	\$ 867	0.0%
Asia	2,225,387	2,049,900	175,487	8.6%
Europe	1,360,840	1,514,173	(153,333)	(10.1%)
Other	113,236	73,863	39,373	53.3%
<b>Total Balancer segment sales</b>	<b>\$ 6,501,448</b>	<b>\$ 6,439,054</b>	<b>\$ 62,394</b>	<b>1.0%</b>

	Nine Months Ended		Variance	
	February 28,			
	2019	2018		
Acuity	\$ 1,578,521	\$ 1,905,397	\$ (326,876)	(17.2%)
Xact - product sales	927,867	795,372	132,495	16.7%
Xact - monitoring revenues	1,004,654	868,056	136,598	15.7%
Lasercheck	0	64,140	(64,140)	(100.0%)
SMS	13,622	21,367	(7,745)	
Total Measurement segment sales	\$ 3,524,664	\$ 3,654,332	\$ (129,668)	(3.5%)

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**Gross Margin** Gross margin for the three months ended February 28, 2019 decreased to 32.8% as compared to 40.8% for the three months ended February 28, 2018. Gross margin for the nine months ended February 28, 2019 decreased to 37.1% as compared to 44.1% for the nine months ended February 28, 2018. The decreases in gross margin experienced between the periods presented were primarily influenced by efforts that occurred in the third quarter of Fiscal 2019 to evaluate the types and levels of inventory maintained across the Company's three product lines. This resulted in a direct adjustment to cost of sales, thereby reducing gross margin from 46.1% to 32.8% for the three months ended February 28, 2019 and from 41.1% to 37.1% for the nine months ended February 28, 2019. In addition, margins were also influenced by the mix of products sold during the respective periods across the Company's three product lines, decreases in overall product costs incurred, and the shift in SBS product sales between the European, North American and Asian markets.

**Operating Expenses** Operating expenses increased \$165,257, or 12.1%, to \$1,527,765 for the three months ended February 28, 2019 from \$1,362,508 for the three months ended February 28, 2018. These results include non-recurring reorganization and legal expenses of \$292,888 incurred during the three-month period ended February 28, 2019, that are not expected to be incurred in future periods.

Other items that impacted operating expenses for the three months ended February 28, 2019 include:

Decrease in trade show expenses in the amount of \$29,188, or 65.2%, due to timing of certain trade shows for our three product lines; and

Decrease in research and development expense in the amount of \$55,258, or 72.9%, as a result of the shift of engineering resources towards support of existing product initiatives rather than research and development. Operating expenses increased \$36,272, or 0.8%, to \$4,568,784 for the nine months ended February 28, 2019 from \$4,532,512 for the nine months ended February 28, 2018. These results include non-recurring reorganization, legal and other professional expenses in the amount of \$637,447 incurred during the nine-month period ended February 28, 2019, that are not expected to be incurred in future periods.

Other items that impacted operating expenses for the nine months ended February 28, 2019 include:

Decrease in commission expense in the amount of \$148,131, or 20.8%, as a result of the restructuring of the Company's sales commissions programs that occurred during Fiscal 2018;

Decrease in research and development expense in the amount of \$136,314, or 53.9%, as a result of the shift of engineering resources towards support of existing product initiatives rather than research and development.

**Other Income (Expense)** Other income (expense) consists of foreign currency exchange gain (loss), interest income (expense) and other income (expense). Foreign currency exchange gains were \$50,725 and \$58,725 for the three months ended February 28, 2019 and 2018, respectively. The shifts in the foreign currency exchange are related to significant fluctuations of foreign currencies against the U.S. dollar during the current period of Fiscal 2019. Interest income (expense), net was \$(3,957) and \$3,090 for the three months ended February 28, 2019 and 2018, respectively. Other income (expense) was \$11 for the first quarter of Fiscal 2019 as compared to \$0 for the same period in the prior

year.

Foreign currency exchange gains (losses) were \$(79,397) and \$85,913 for the nine months ended February 28, 2019 and 2018, respectively. The shifts in the foreign currency exchange are related to significant fluctuations of foreign currencies against the U.S. dollar during the current period of Fiscal 2019. Interest income (expense), net was \$9,890 and \$3,122 for the nine months ended February 28, 2019 and 2018, respectively. Other income (expense) was \$39 for the first half of Fiscal 2019 as compared to \$(599) for the same period in the prior year.

**Income Taxes** The Company's effective tax rate on consolidated net loss was 2.1% for the nine months ended February 28, 2019. The effective tax rate on consolidated net loss differs from the federal statutory tax rate primarily due to 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 2019 will be approximately 3.2% due to the items noted above.

**Net Income (Loss)** Net loss was \$475,189, or \$(0.12) per fully diluted share, for the three months ended February 28, 2019 as compared to net income of \$15,553, or \$0.00 per fully diluted share, for the three months ended February 28, 2018. Net loss was \$942,278, or \$(0.24) per fully diluted share, for the nine months ended February 28, 2019 as compared to net loss of \$15,297, or \$0.00 per fully diluted share, for the nine months ended February 28, 2018.

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**LIQUIDITY AND CAPITAL RESOURCES**

The Company's working capital decreased \$823,361 to \$7,424,612 as of February 28, 2019 as compared to \$8,247,973 as of May 31, 2018.

Cash, cash equivalents and restricted cash decreased \$885,768 to \$1,225,765 as of February 28, 2019 from \$2,111,533 as of May 31, 2018. Cash used in operating activities totaled \$962,266 for the nine months ended February 28, 2019 as compared to cash used in operating activities of \$1,096,192 for the nine months ended February 28, 2018. The net loss of \$942,278, along with slight increases in inventories and accounts receivable, primarily impacted the total cash used in operating activities for the nine months ended February 28, 2019. The changes in inventories had the largest impact on the cash used in operating activities for the nine-month period ended February 28, 2018.

At February 28, 2019, the Company had accounts receivable of \$2,078,116 as compared to \$2,047,032 at May 31, 2018. The increase in accounts receivable of \$31,084 was due to timing of receipts. Inventories increased \$40,276 to \$5,751,164 as of February 28, 2019 as compared to \$5,710,888 at May 31, 2018. At February 28, 2019, total current liabilities increased \$53,561 to \$1,823,965, as compared to \$1,770,404 at May 31, 2018. The increase in current liabilities is primarily due to the timing of payments to our vendors and sales representatives and the financing of the purchase of a new accounting and operational software system and a replacement of switches for the Company's server.

We believe that our existing cash and cash equivalents combined with the cash we anticipate generating from operating activities 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.

**Risk Factors**

Please refer to the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2018 for a listing of 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.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

There have been no material changes from the information previously reported under Item 7A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2018.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

As of February 28, 2019, 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, 2019 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

**Table of Contents****PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

On April 1, 2019, Schmitt Industries, Inc. (the Company) and plaintiffs North American Satellite Corp., Insite Platform Partners, and Rick Humphreys settled the lawsuit brought by the plaintiffs on January 8, 2019. Though the terms of the settlement agreement are confidential, the settlement amount is immaterial to the Company.

**Item 6. Exhibits**

Exhibit	Description
3.1	<u>Second Restated Articles of Incorporation of Schmitt Industries, Inc. [Form 10-K for the fiscal year ended May 31, 1998, Exhibit 3(i)].</u>
3.2	<u>Second Restated Bylaws of Schmitt Industries, Inc. [Form 10-K for the fiscal year ended May 31, 1998, Exhibit 3(ii)].</u>
4.1	See <u>Exhibits 3.1</u> and <u>3.2</u> for provisions of the Articles of Incorporation and Bylaws defining the rights of security holders.
31.1	<u>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.</u>
31.2	<u>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.</u>
32.1	<u>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.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

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**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 10, 2019

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

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